Denizbank A.Ş.
and Its Subsidiaries

Consolidated Financial Statements
30 June 2005
With Independent Auditors'
Review Report Thereon

Akis Serbest Muhasebeci ve
Mali Müşavirlik Anonim Şirketi
3 August 2005
This report contains 60 pages.

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Independent Auditors' Review Report

To the Board of Directors of Denizbank A.Ş.

We have reviewed the accompanying consolidated balance sheet of Denizbank Anonim Şirketi and its subsidiaries ("the Bank") as of 30 June 2005 and the related consolidated statements of income, changes in equity and cash flows for the six-month period then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these financial statements based on our review. We did not review the financial statements of certain consolidated companies as of 30 June 2005, which statements reflect total assets constituting 14 percent; and total interest and commission income constituting 10 percent after elimination of intercompany balances and transactions as of and for the six-month period ended 30 June 2005 of the related consolidated totals. Those statements were reviewed by other auditors whose reports have been furnished to us, and our report, insofar as it relates to the amounts included for those companies is based solely on the review reports of the other auditors.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of the personnel of the Bank and its subsidiaries and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not give a true and fair view in accordance with International Financial Reporting Standards.

As discussed in Significant Accounting Policies note to the consolidated financial statements, the Bank and its subsidiaries changed the accounting policies, in accordance with the amendments on International Financial Reporting Standards (IFRS) at the beginning of the year 2005.

Istanbul
3 August 2005

Denizbank A.Ş. And Its Subsidiaries

Consolidated Income Statement

For the six-month period ended 30 June 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

	Note	30 June 2005	30 June 2004
Interest and similar income	2	470,851	516,797
Interest expense and similar charges	2	(215,763)	(344,287)
Net interest income		255,088	172,510
Fee and commission income	3	88,025	82,532
Fee and commission expense	3	(19,518)	(20,720)
Net fee and commission income		68,507	61,812
Net gain/(loss) on trading and investment securities	4	(7,474)	11,849
Other operating income	5	50,694	32,865
Operating income		366,815	279,036
General and administrative expenses	6	(163,938)	(132,873)
Impairment losses on loans and advances	13	(19,028)	(116)
Foreign currency exchange loss, net		(4,885)	(18,189)
Other operating expenses	7	(10,532)	(19,290)
Operating expenses		(198,383)	(170,468)
Profit from operations		168,432	108,568
Loss on net monetary position, net		(9,962)	(15,231)
Profit before tax		158,470	93,337
Income tax expense	22	(32,547)	(14,434)
Net profit for the period		125,923	78,903
Net profit for the period attributable to:			
Equity holders of the Bank		125,899	78,898
Minority interest		24	5
		125,923	78,903
Weighted average number of shares with a face value of YTL 1 each		316.1 million	202.0 million
Basic and diluted earnings per share (full YTL amount per YTL 1 face value each)		0.398	0.391

Denizbank A.Ş. And Its Subsidiaries
Consolidated Balance Sheet
As at 30 June 2005
(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

	Note	30 June 2005	31 December 2004
Assets			
Cash and balances with Central Bank	10	585,767	806,852
Due from banks	11	1,651,639	1,700,634
Financial assets at fair value through profit or loss	12	343,636	422,500
Loans and advances to customers	13	5,319,483	3,305,322
Investment securities	15	1,770,413	1,728,737
Other assets	16	142,900	90,704
Deferred tax assets	22	22,764	14,191
Bank premises and equipment	17	122,925	124,888
Intangible assets	18	15,367	16,943
Total assets		9,974,894	8,210,771
Liabilities			
Deposits from banks	19	807,229	629,412
Deposits from customers	20	5,867,630	5,267,056
Funds borrowed	21	1,830,588	1,056,961
Deferred tax liabilities	22	351	461
Current tax liabilities		19,082	1,270
Other liabilities	23	451,974	347,187
Total liabilities		8,976,854	7,302,347
Equity			
Share capital	24	559,594	559,594
Share premium		100,137	100,137
Unrealized gains on available-for-sale securities		73,653	112,099
Translation reserves		(4,013)	(6,152)
Retained earnings		268,578	142,679
Total equity attributable to equity holders of the parent		997,949	908,357
Minority interest		91	67
Total equity		998,040	908,424
Total liabilities and equity		9,974,894	8,210,771
Commitments and contingencies	25		

Denizbank A.Ş. And Its Subsidiarie

Consolidated Statement of Changes in Equity

For the six-month period ended 30 June 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 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		491,975	-	150,803	(3,481)	586	2,011	641,894
Net gains on available-for-sale assets transferred to the income statement on disposal		-	-	(3,411)	-	-	-	(3,411)
Loss from change in fair value of available-for-sale securities (AFS)		-	-	(58,325)	-	-	-	(58,325)
Foreign exchange differences arising from translation of the financial statements of foreign operations		-	-	-	655	-	-	655
Purchase from minority		-	-	-	-	1,950	(1,950)	-
Net profit for the six-month period		-	-	-	-	78,898	5	78,903
Balances at 30 June 2004		491,975	-	89,067	(2,826)	81,434	66	659,716
Balances at 1 July 2004		491,975	-	89,067	(2,826)	81,434	66	659,716
Issue of share capital		67,619	100,137	-	-	-	-	167,756
Net gains on available-for-sale assets transferred to the income statement on disposal		-	-	(12,379)	-	-	-	(12,379)
Gain from change in fair value of available-for-sale securities (AFS)		-	-	35,411	-	-	-	35,411
Foreign exchange differences arising from translation of the financial statements of foreign operations		-	-	-	(3,326)	-	-	(3,326)
Net profit for the six-month period		-	-	-	-	61,245	1	61,246
Balances at 31 December 2004		559,594	100,137	112,099	(6,152)	142,679	67	908,424
Balances at 1 January 2005		559,594	100,137	112,099	(6,152)	142,679	67	908,424
Net gains on available-for-sale assets transferred to the income statement on disposal	4	-	-	(26,401)	-	-	-	(26,401)
Loss from change in fair value of available-for-sale securities (AFS)		-	-	(12,045)	-	-	-	(12,045)
Foreign exchange differences arising from translation of the financial statements of foreign operations		-	-	-	2,139	-	-	2,139
Net profit for the six-month period		-	-	-	-	125,899	24	125,923
Balances at 30 June 2005	24	559,594	100,137	73,653	(4,013)	268,578	91	998,040

Denizbank A.Ş. and Its Subsidiaries

Consolidated Statement of Cash Flows

For the six-month period ended 30 June 2005

(Currency: Thousands of New Turkish Lira (YTL) as adjusted for the effects of inflation in YTL units current at 30 June 2005 pursuant to IAS 29)

	Note	30 June 2005	30 June 2004
Operating activities			
Net profit for the period		125,923	78,903
Adjustments for non-cash items:			
Depreciation and amortizatior	17 and 18	18,511	14,167
Change in accrued interest expens		39,274	(10,558)
Change in accrued interest incom		(15,956)	62,520
Impairment losses on loans and advance	13	19,028	116
Impairment losses on goodwil		2,878	-
Reserve for employee severance indemnit		(402)	2,273
Taxation charge	22	32,547	14,434
Effect of the restatement of non-cash item		(2,516)	(12,959)
Effect of available for sale portfolic		(9,209)	(85,400)
Effect of currency translatior		2,139	655
Changes in operating assets and liabilities:			
Money and equity market instrument		(62,043)	249,486
Loans and advances to banks		(160,403)	2,922
Loans and advances to customer		(2,005,972)	(629,105)
Other operating assets		(48,619)	(16,365)
Deposits from banks		174,893	(119,055)
Deposits from customers		596,859	797,105
Funds borrowed		770,155	259,599
Other operating liabilities		76,584	73,545
Taxes payable		(23,649)	(29,163)
Cash flows from operating activities		(469,977)	653,120
Investing activities			-
Proceeds from sale of investment		17,192	-
Proceeds from sale of bank premises and equipmen		2,402	1,427
Purchase of bank premises and equipmen	17	(15,446)	(19,996)
Proceeds from sale of intangible asset		-	242
Purchase of intangible assets	18	(4,806)	(1,509)
Cash flows from investing activities		(658)	(19,836)
Financing activities			-
Proceeds from issuance of common stoc		-	-
Dividends paid		-	-
Cash flows from financing activities		-	-
Net (decrease) / increase in cash and cash equivalents		(470,635)	633,284
Cash and cash equivalents at 1 January		2,470,293	1,454,073
Cash and cash equivalents at the end of the period	9	1,999,658	2,087,357

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 Shares and Global Depositary Shares. The domestically held shares commenced trading on 1 October 2004 in the Istanbul Stock Exchange.

Denizbank currently has 205 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 21 large-scale industrial concerns and three energy plants which it reports employ approximately 30,000 people. In 2004, Zorlu Holding companies realized revenues of (unaudited) USD 4 billions and an export volume of (unaudited) USD 3 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 30 June 2005, Denizbank AG has seven branches and its head office is located in Vienna.

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

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

Denizbank, together with Deniz Yatırım, acquired 78.01% of the shares of Ekspres Yatırım Menkul Değerler A.Ş. ("Ekspres Yatırım") from the SDIF at the end of 2002. With subsequent acquisitions, Denizbank and Deniz Yatırım's share increased to 99.80% as of 30 June 2005. Ekspres Yatırım, located in Istanbul, is engaged in trading of and investing in securities, stocks, treasury bills and government bonds provided from capital markets.

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

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 30 June 2005. The accompanying consolidated financial statements are authorized for issue by the directors on 3 August 2005.

b) Basis of preparation

Starting from 1 January 2005, the currency unit is set as the New Turkish Lira 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 30 June 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. Recognized assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortized cost or historical cost.

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

c) Changes in accounting policies

<u>Goodwill</u>

On 31 March 2004, the IASB issued IFRS 3 "*Business Combinations*" and revised IAS 36 "*Impairment of Assets*". On 1 January 2005, Denizbank and its subsidiaries prospectively adopted the standards for goodwill existing at 31 March 2004, whereas goodwill recognized from business combinations entered into after 31 March 2004 were accounted for immediately in accordance with IFRS 3. Goodwill is no longer amortized, but instead reviewed annually for impairment.

Significant accounting policies (continued)

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.

Financial Instruments

Denizbank and its subsidiaries had already exercised its option to early adopt the revised versions of IAS 32 "*Financial Instruments: Disclosure and Presentation*" and IAS 39 "*Financial Instruments: Recognition and Measurement*" in the consolidated financial statements in 2004 before their effective date of 1 January 2005.

Changes in accounting policies did not have any effect on prior period consolidated financial statements.

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 relevant balance sheet items. Accordingly, accrued interest income on banks (including reserve deposits), loans and investment securities which had balances of YTL 5,082, YTL 43,842, YTL 70,199, respectively, as of 31 December 2004; and accrued interest expense on deposits from banks, deposits from customers and funds borrowed, which had balances of YTL 820, YTL 32,796 and YTL 9,830, respectively, as of 31 December 2004, were reclassified to relevant balance sheet items.

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 New Turkish Lira)

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**	**30 June 2005**	**31 December 2004**	**30 June 2004**
Denizbank AG	Banking	Austria	99.99	99.99	99.99
Eurodeniz	Banking	Cyprus	99.88	99.88	99.88
Denizbank Moscow	Banking	Russia	100.00	100.00	100.00
Deniz Yatırım	Securities	Turkey	99.95	99.95	99.95
Ekspres Yatırım	Securities	Turkey	99.80	99.80	99.80
Tariş Yatırım	Securities	Turkey	100.00	100.00	100.00
Deniz Portföy	Investment	Turkey	98.38	98.38	98.38
Deniz Factoring	Factoring	Turkey	100.00	--	--
Deniz Leasing	Leasing	Turkey	100.00	--	--
Intertech	Technology	Turkey	100.00	100.00	100.00
Deniz Kültür Sanat	Art	Turkey	100.00	100.00	--
AKK (sold in 2004)	Credit cards	Turkey	--	--	99.98
Destek (sold in 2004)	Car rental	Turkey	--	--	98.40
DFS Funding Corp. **(a)**	SPC	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 New Turkish Lira)

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 30 June 2005, the cumulative three-year inflation rate in Turkey has been 53.67%, based on the countrywide wholesale price indices announced by the Turkish State Institute of Statistics (SIS), not meeting the 100% criterion in IAS 29. However, there are other indicators of high inflation in IAS 29, such as preference of people to keep their savings in foreign currency, prices of various services and goods being in foreign currency; correlation of interest rates, wages and prices to general price index level, application of interest on accounts even for short term maturity to offset the decrease in purchasing power. Accordingly, the consolidated financial statements of the entities located in Turkey are restated for the changes in the general purchasing power of the Turkish Lira as at 30 June 2005 based on IAS 29.

The restatements were calculated by means of conversion factors derived from the wholesale price indices. Such indices announced by SIS and conversion factors used to restate the consolidated financial statements at 30 June 2005, 31 December 2004 and 30 June 2004 are given below:

Dates	Index	Conversion Factors
30 June 2005	8,562.5	1.000
31 December 2004	8,403.8	1.019
30 June 2004	7,982.7	1.073
31 December 2003	7,382.1	1.160

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

- Monetary assets and liabilities, which are carried at amounts current at the balance sheet date, are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date (30 June 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 (30 June 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 are recorded in YTL, which represents its functional currency. 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 an 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.

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 derivative contracts that are not designated as effective hedging instruments. All trading derivatives in a net receivable position (positive fair value) are reported as financial assets at fair value through profit or loss. All trading derivatives in a net payable position (negative fair value) are reported as trading liabilities.

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 to 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.

Significant accounting policies (continued)

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 instruments 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 is reported as interest income. Interest earned whilst holding held to maturity assets is reported as interest income.

vi) Specific instruments

- *Cash and cash equivalents*

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

- *Investments*

Investments that the Bank holds for the purpose of short-term profit taking are classified as 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 originated by the Bank are classified as originated loans and receivables, and are reported net of allowances to reflect the estimated recoverable amounts.

- *Financial lease receivables*

Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as financial 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.

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

Significant accounting policies (continued)

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 assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

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

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.

(Currency-Thousands of New Turkish Lira)

Significant accounting policies (continued)

m) Income and expense recognition

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

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/(loss) 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 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 30 June 2005 and 31 December 2004 are as follows;

	30 June 2005 %	**31 December 2004 %**
Discount rate	10	10
Expected rate of salary/limit increase	16	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 30 June 2005 is YTL 1,649; 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 period/year in respect of current and deferred tax.

Deferred tax liabilities and assets are recognized for the tax effects attributable to differences between the tax and book bases of assets and liabilities (i.e. future deductible or taxable temporary differences) and tax losses carried forward, using the liability method. 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.

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 Share issued are regarded as issued shares.

Additionally, considering the fact that the 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.

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.

Significant accounting policies (continued)

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 the consolidated financial statements

1 Segment reporting

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

1.1 Business segments

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

(Currency-Thousands of Turkish Lira)

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 30 June 2005, 31 December 2004 and 30 June 2004 are as follows:

30 June 2005	Turkey	Austria	Russia	Cyprus	Combined	Eliminations	Total
Interest and similar income	426,473	26,298	3,727	30,364	486,862	(16,011)	470,851
Interest expense and similar charges	(195,542)	(17,750)	(1,180)	(17,330)	(231,802)	16,039	(215,763)
Fee and commission income	93,371	2,658	446	151	96,626	(8,601)	88,025
Fee and commission expense	(27,610)	(364)	(142)	(3)	(28,119)	8,601	(19,518)
Dividend income	12,177	-	-	-	12,177	(12,177)	-
Net gain/(loss) on trading and investment sec.	(7,930)	987	205	(739)	(7,477)	3	(7,474)
Other operating income	58,984	11	-	-	58,995	(8,301)	50,694
General and administrative expenses	(155,712)	(6,143)	(1,861)	(359)	(164,075)	137	(163,938)
Impairment losses on loans and advances	(18,736)	(55)	(237)	-	(19,028)	-	(19,028)
Foreign exchange gain, net	(13,216)	(216)	(1)	8,837	(4,596)	(289)	(4,885)
Other operating expenses	(7,790)	(210)	-	(1)	(8,001)	(2,531)	(10,532)
Loss on net monetary position, net	(11,977)	-	-	-	(11,977)	2,015	(9,962)
Income tax expense	(28,393)	(1,273)	(328)	(427)	(30,421)	(2,126)	(32,547)
Net profit for the period	124,099	3,943	629	20,493	149,164	(23,241)	125,923

(Currency-Thousands of Turkish Lira)

1 Segment reporting (continued)

30 June 2004	Turkey	Austria	Russia	Cyprus	Combined	Eliminations	Total
Interest and similar income	464,979	24,982	1,656	35,859	527,476	(10,679)	516,797
Interest expense and similar charges	(320,909)	(12,728)	(326)	(21,003)	(354,966)	10,679	(344,287)
Fee and commission income	81,516	596	190	238	82,540	(8)	82,532
Fee and commission expense	(20,661)	(27)	(40)	-	(20,728)	8	(20,720)
Dividend income	29,390	-	-	-	29,390	(29,390)	-
Net gain/(loss) on trading and investment sec.	12,003	-	(323)	169	11,849	-	11,849
Other operating income	30,405	2,239	-	221	32,865	-	32,865
General and administrative expenses	(125,685)	(5,179)	(1,618)	(352)	(132,834)	(39)	(132,873)
Impairment losses on loans and advances	(10)	-	(106)	-	(116)	-	(116)
Foreign exchange gain, net	(41,024)	130	1,190	21,515	(18,189)	-	(18,189)
Other operating expenses	(18,818)	(257)	-	(29,767)	(48,842)	29,552	(19,290)
Loss on net monetary position, net	(27,125)	-	-	-	(27,125)	11,894	(15,231)
Income tax expense	(12,192)	(1,450)	(77)	(715)	(14,434)	-	(14,434)
Net profit for the period	51,869	8,306	546	6,165	66,886	12,017	78,903

(Currency-Thousands of Turkish Lira)

1 Segment reporting (continued)

30 June 2005	Turkey	Austria	Russia	Cyprus	Combined	Eliminations	Total
Segment assets	8,166,955	1,171,202	102,379	1,045,274	10,485,810	(510,916)	9,974,894
Segment liabilities	7,144,457	1,086,833	89,785	1,017,545	9,338,620	(361,766)	8,976,854

31 December 2004	Turkey	Austria	Russia	Cyprus	Combined	Eliminations	Total
Segment assets	6,950,872	1,088,305	77,008	439,105	8,555,290	(344,519)	8,210,771
Segment liabilities	6,031,949	1,003,319	64,842	431,664	7,531,774	(229,427)	7,302,346

(Currency-Thousands of New Turkish Lira)

2 Net interest income

	30 June 2005	30 June 2004
Interest and similar income		
Interest and similar income arise from:		
Loans	291,155	194,794
Trading and investing securities	134,684	284,851
Deposits in banks	15,941	31,170
Factoring services	12,101	-
Lease business	7,103	-
Other	9,867	5,982
	470,851	516,797
Interest expense and similar charges		
Interest expense and similar charges arise from:		
Deposits from banks and customers	182,194	331,417
Funds borrowed	33,513	12,020
Other	56	850
	215,763	344,287
Net interest income	255,088	172,510

3 Net fee and commission income

	30 June 2005	30 June 2004
Fee and commission income		
Non-cash loans	36,621	12,162
Credit card commissions	27,633	14,837
Cash loans	5,206	4,578
Factoring service income	1,005	-
Brokerage fees and other banking service income	17,560	50,955
	88,025	82,532
Fee and commission expense		
Credit card commission expense	12,986	5,009
Cash loans	2,535	1,606
Brokerage fees and other banking service expense	3,997	14,105
	19,518	20,720
Net fee and commission income	68,507	61,812

(Currency-Thousands of New Turkish Lira)

4 Net gain/(loss) on trading and investment securities

	30 June 2005	30 June 2004
Net trading income/(loss)		
Net trading gain/(loss) arise from:		
Equity instruments	(10,987)	(3,975)
Debt instruments and related derivatives	(6,371)	6,604
Foreign exchange rate fluctuations and related derivatives	(20,035)	7,166
	(37,393)	9,795
Net gain on disposal of investment securities		
Net gain/(loss) on disposal	3,518	(1,357)
Transfer from unrealized gains (equity)	26,401	3,411
	29,919	2,054
Net gain/(loss) on trading and investment securities	(7,474)	11,849

5 Other operating income

	30 June 2005	30 June 2004
Income from lawsuit against Tax Office	26,858	-
Negative goodwill on purchase of subsidiaries	4,067	-
Credit card income from AKK	-	11,761
Other	19,769	21,104
	50,694	32,865

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 26,858. 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 Local Tax Office and the Bank recorded the amount as other operating income.

(Currency-Thousands of New Turkish Lira)

6 General and administrative expenses

	30 June 2005	30 June 2004
Salaries and employee benefits	84,914	63,416
Depreciation and amortization	18,511	14,167
Rent expense	11,006	10,106
Communication expenses	8,941	6,962
Advertising and promotion expenses	8,455	8,133
Taxes other than on income	5,548	7,142
Stationery expenses	3,436	1,970
Other administrative expenses	23,127	20,977
	163,938	132,873

7 Other operating expenses

	30 June 2005	30 June 2004
Premium paid to the SDIF	3,311	2,505
Cost of credit card operations of AKK	-	9,112
Other	7,221	7,673
	10,532	19,290

8 Related parties

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

	30 June 2005	31 December 2004
Outstanding balances		
Loans	96,708	23,576
Non-cash loans	213,914	234,724
Factoring receivables	17,430	-
Financial lease receivables (net)	6,109	-
Deposits from customers	691,751	597,011
Derivative transactions	-	10,796

	30 June 2005	30 June 2004
Transactions		
Interest income	709	82
Interest expense	2,915	1,614

(Currency-Thousands of New Turkish Lira)

8 Related parties (continued)

Key management costs for the six-month period ended 30 June 2005 amount to YTL 3,939 on a consolidated basis. Within this total, individual key management costs of Denizbank and its subsidiaries amount to YTL 2,387 and YTL 1,552, 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 securities with original maturity periods of less than three months. Cash and cash equivalents included in the accompanying consolidated cash flow statements are as follows:

	30 June 2005	30 June 2004
Cash and balances with Central Bank	563,001	502,904
Deposits at banks	1,280,765	1,459,776
Financial assets at fair value through profit or loss	155,892	124,677
	1,999,658	2,087,357

10 Cash and balances with Central Bank

	30 June 2005	31 December 2004
Cash on hand	146,746	238,377
Balances with Central Bank other than reserve deposits	147,092	169,621
Reserve deposits at Central Bank	268,541	300,249
Interbank money market placements	20,000	95,310
	582,379	803,557
Accrued interest on reserve deposits	3,388	3,295
	585,767	806,852

Reserve deposits represent the minimum cash reserve maintained with the Central Bank of Turkey (the Central Bank), as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the Central Bank. At 30 June 2005 and 31 December 2004, reserve deposit ratios for Turkish Lira and foreign currency deposits are 6% and 11%, respectively. These reserve deposit ratios are applicable to both time and demand deposits. At 30 June 2005, TL funds sold to interbank money market earned interest at the rates of 14% (31 December 2004: 18%) with maturities within 7 days (31 December 2004: 3 days).

(Currency-Thousands of New Turkish Lira)

11 Due from banks

	30 June 2005	31 December 2004
Due from banks-demand	140,439	48,772
Due from banks-time	1,508,748	1,650,075
	1,649,187	1,698,847
Accrued interest on due from banks	2,452	1,787
	1,651,639	1,700,634

Due from banks-time represent short-term placements, maturing within one year, with interest rates ranging from 14.55% to 27% (31 December 2004: 16% to 23.6%) for the Turkish Lira denominated placements and from 1.80% to 4.65% (31 December 2004: 2.02% to 7.01%) for the foreign currency denominated placements.

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

	30 June 2005	31 December 2004
Carrying amount	1,651,639	1,700,634
Fair value	1,651,479	1,700,691

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

Currencies	30 June 2005	31 December 2004
Turkish lira	14.0%-27.0%	18.0%-27.0%
Foreign currencies	1.0%-5.75%	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 New Turkish Lira)

12 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss as of 30 June 2005 and 31 December 2004 comprise:

30 June 2005	**Face value**	**Book value**	**Interest range (%)**	**Latest maturity**
Trading portfolio				
Debt instruments:				
Government bonds	140,322	141,361	15.31-19.30	2010
Private sector bonds	44,900	47,209	6.84-7.52	2014
Treasury bills	12,970	12,166	13.95-16.18	2006
Turkish government Eurobonds	11,726	12,639	3.32-7.76	2030
Foreign currency government bonds	11,129	11,014	2.23-5.21	2008
Foreign government Eurobonds	6,067	6,426	2.65-8.50	2015
Private sector Eurobonds	4,983	5,944	3.63-8.65	2014
Foreign government bonds	4,409	4,777	5.49-7.11	2009
Other	2,969	2,969	--	--
	239,475	244,505		
Equity instruments:				
Listed		99,131		
Total financial assets at fair value through profit or loss		343,636		

31 December 2004	**Face value**	**Book value**	**Interest range (%)**	**Latest maturity**
Trading portfolio				
Debt instruments:				
Government bonds	264,333	248,005	17.66-24.15	2007
Private sector bonds	23,540	24,164	10.00-15.00	2010
Foreign government Eurobonds	21,211	24,257	5.00-15.00	2030
Turkish government Eurobonds	9,586	10,817	4.00-9.50	2034
Foreign currency government bonds	9,239	8,951	3.00-3.96	2007
Treasury bills	7,090	6,400	16.46-19.31	2005
Private sector Eurobonds	4,562	5,358	8.00-12.75	2010
Foreign government bonds	2,689	2,930	4.50-5.50	2008
	342,250	330,882		
Equity instruments:				
Listed		91,618		
Total financial assets at fair value through profit or loss		422,500		

(Currency-Thousands of New Turkish Lira)

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/(loss) on trading and investment securities" account.

All gains and losses on foreign currency contracts are recognized in the consolidated income statement. As of 30 June 2005, 45% of the net consolidated balance sheet foreign currency open position was hedged through the use of foreign currency contracts (31 December 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.

30 June 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	-	-	-	-	10,884	10,884
Sales	-	-	-	-	10,884	10,884
Currency Derivatives						
Forward exchange contracts						
Purchases	1,544,016	77,452	18,178	266	36,150	1,676,062
Sales	1,529,728	86,669	18,524	288	37,266	1,672,475
Currency/cross currency swaps						
Purchases	36,677	34,556	215,024	6,669	26,674	319,600
Sales	37,764	34,553	263,884	7,800	33,260	377,261
Options						
Purchases	523,075	105,788	-	-	-	628,863
Sales	517,383	105,709	-	-	-	623,092
Foreign currency futures						
Purchases	-	8,240	-	-	-	8,240
Sales	-	8,240	-	-	-	8,240
Forward agreements on gold						
Purchases	-	-	-	-	-	-
Sales	-	559	-	-	-	559
Subtotal Purchases	2,103,768	226,036	233,202	6,935	73,708	2,643,649
Subtotal Sales	2,084,875	235,730	282,408	8,088	81,410	2,692,511
Total of Transactions	4,188,643	461,766	515,610	15,023	155,118	5,336,160

(Currency-Thousands of New Turkish Lira)

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	-	-	-	12,500	-	12,500
Sales	-	-	-	12,500	-	12,500
Currency Derivatives						
Forward exchange contracts						
Purchases	1,041,929	50,076	1,008	22,799	-	1,115,812
Sales	1,032,503	49,343	1,082	22,903	-	1,105,831
Currency/cross currency swaps						
Purchases	19,424	-	-	254,442	-	273,866
Sales	19,391	-	-	303,881	-	323,272
Options						
Purchases	226,053	-	-	-	-	226,053
Sales	224,525	-	-	-	-	224,525
Foreign currency futures						
Purchases	458	-	-	-	-	458
Sales	458	-	-	-	-	458
Forward agreements on gold						
Purchases	8,165	-	-	-	-	8,165
Sales	8,165	-	-	-	-	8,165
Subtotal Purchases	1,296,029	50,076	1,008	289,741	-	1,636,854
Subtotal Sales	1,285,042	49,343	1,082	339,284	-	1,674,751
Total of Transactions	2,581,071	99,419	2,090	629,025	-	3,311,605

(Currency-Thousands of New Turkish Lira)

13 Loans and advances to customers

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

	30 June 2005	31 December 2004
Consumer loans and credit cards	925,011	548,383
Chemicals	593,357	75,957
Finance	584,263	325,665
Construction, glass and mining	502,854	367,406
Tourism and transportation	374,223	215,655
Textile and leather	354,386	291,590
Food	328,600	273,734
Metal and machinery	297,417	234,376
Press and other public media	144,114	148,417
Consumer durables	122,297	272,071
Electronics and IT	90,272	185,730
Others	635,135	322,088
Total performing loans	4,951,929	3,261,072
Non-performing loans	136,898	118,455
Total gross loans	5,088,827	3,379,527
Accrued interest income on loans	68,871	43,842
Financial lease receivables, net of unearned income (Note14)	144,629	-
Factoring receivables	155,479	-
Specific allowance for possible losses	(120,704)	(105,167)
General allowance for possible losses	(17,619)	(12,880)
Loans and advances to customers	5,319,483	3,305,322

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 New Turkish Lira)

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 474,530) 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 capital decrease processes in the related country, 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 February 2006. Deposit and loan accounts will be closed prior to their maturities after the completion of capital decrease procedures in the related country.

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

	30 June 2005	31 December 2004
Balances, beginning of the period/year	118,047	97,719
Reversal of the provision	(10,890)	(32,209)
Restatement of the beginning balance and of the current period/year provision for the effect of inflation	(2,162)	(11,880)
Provision for the period/year	32,783	64,417
Addition of provision from newly acquired subsidiary	545	-
Balances, end of the period/year	138,323	118,047

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

	30 June 2005	31 December 2004
Carrying amount	5,319,483	3,305,322
Fair value	5,323,547	3,309,559

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

Currencies	30 June 2005	31 December 2004
Turkish lira	16.3%-18.8%	20.2%-22.0%
Foreign currencies	3.75%-5.0%	4.75%-6.25%

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

	30 June 2005	30 June 2004
Specific and general provision on non-performing loans	21,893	(7,121)
Provision for non-cash loans (Note 23)	(2,865)	7,237
Impairment losses on loans and advances	19,028	116

(Currency-Thousands of New Turkish Lira)

14 Financial lease receivables

The financial 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 financial lease receivables:

	30 June 2005
Financial lease receivables, net of unearned income (Note 13)	144,629
Less: allowance for possible losses from lease receivables	(545)
	144,084
Analysis of net financial lease receivables	
Due within 1 year	68,569
Due between 1 and 5 years	99,726
Financial lease receivables, gross	168,295
Unearned income	(24,211)
Financial lease receivables, net	144,084
Analysis of net financial lease receivables, net	
Due within 1 year	66,879
Due between 1 and 5 years	77,205
Financial lease receivables, net	144,084

(Currency-Thousands of New Turkish Lira)

15 Investment securities

Investment securities as of 30 June 2005 comprise:

	Face value	Book value	Interest range (%)	Latest maturity
Available for sale portfolio				
Debt instruments:				
Government bonds-floating rate	865,599	876,372	14.77-19.96	2010
Foreign currency government bonds and treasury bills	295,133	293,210	1.18-5.50	2020
Turkish government Eurobonds	156,431	179,647	4.37-7.76	2030
Private sector Eurobonds	92,048	92,958	2.42-8.65	2020
Foreign government Eurobonds	40,908	48,722	5.49-9.07	2040
Treasury bills	20,000	18,337	15.96	2007
	1,470,119	1,509,246		
Equity instruments:				
Listed		92,805		
Unlisted		6,687		
		99,492		
Total available for sale portfolio		1,608,738		
Held to maturity portfolio				
Foreign currency private sector bonds	79,513	79,222	2.12-8.39	2014
Turkish government Eurobonds	50,684	49,464	2.32-9.88	2011
Foreign currency indexed government bonds	24,115	24,115	5.60	2006
Foreign government Eurobonds	2,470	2,470	8.00	2007
	156,782	155,271		
Accrued interest on held to maturity portfolio		6,404		
Total held to maturity portfolio		161,675		
Total investment securities		1,770,413		

(Currency-Thousands of New Turkish Lira)

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-floating rate	852,142	780,737	7.60-24.96	2006
Foreign currency government bonds and treasury bills	326,145	321,223	3.88-6.92	2025
Turkish government Eurobonds	141,227	163,423	2.14-11.90	2034
Private sector Eurobonds	124,199	132,346	2.40-12.75	2018
Foreign government Eurobonds	15,585	16,296	7.43-9.49	2040
	1,459,298	1,414,025		
Equity instruments:				
Listed		126,915		
Unlisted		6,639		
		133,554		
Total available for sale portfolio		1,547,579		
Held to maturity portfolio				
Foreign currency private sector bonds	87,234	87,079	4.10-4.80	2014
Turkish government Eurobonds	57,965	56,558	2.32-9.88	2011
Foreign currency indexed government bonds	24,570	24,570	5.60	2006
Foreign government Eurobonds	2,850	2,850	8.00	2007
	172,619	171,057		
Accrued interest on held to maturity portfolio		10,101		
Total held to maturity portfolio		181,158		
Total investment securities		1,728,737		

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

	30 June 2005	31 December 2004
Carrying amount	161,675	181,158
Fair value	171,743	193,219

(Currency-Thousands of New Turkish Lira)

15 Investment securities (continued)

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

	30 June 2005		31 December 2004	
	Nominal value	Book value	Nominal value	Book value
Deposited at Central Bank	254,104	258,660	237,845	231,957
Deposited at ISE **(a)**	71,600	73,943	22,314	22,314
Deposited at IGE **(b)**	525	556	535	535
Deposited at CH **(c)**	140,000	144,099	96,489	96,489
Others	34,799	36,630	815	625
	501,028	513,888	357,998	351,920

(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:

	30 June 2005		31 December 2004	
	Amount	%	Amount	%
Available-for-sale securities	92,249	25.4	126,855	29.5
Trading securities	66,222	18.2	72,043	16.8
	158,471	43.6	198,898	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 30 June 2005, the Bank has 35,617,500,000 Class (B) Zorlu Enerji shares (31 December 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 New Turkish Lira)

16 Other assets

Other assets comprised the following items:

	30 June 2005	31 December 2004
Receivables related to credit cards	32,684	17,429
Accrued interest and foreign exchange gain on derivatives	20,960	17,383
Assets held for sale	17,059	18,520
Prepaid expenses	16,686	9,895
Other	55,511	27,477
	142,900	90,704

17 Bank premises and equipment

Movement in bank premises and equipment is as follows:

	Building	Motor Vehicles	Furniture Fixture	Leased Assets	Leasehold Improvement	Accumulated Depreciation	Carrying Amount
As of 1 January 2004	47,264	16,176	53,336	48,815	21,722	(80,103)	107,210
Additions	4,759	2,092	4,319	20,920	13,943	-	46,033
Transfers and disposals	-	(2,344)	(5,295)	(80)	-	3,137	(4,582)
Depreciation expense						(23,773)	(23,773)
As of 31 December 2004	52,023	15,924	52,360	69,655	35,665	(100,739)	124,888
As of 1 January 2005	52,023	15,924	52,360	69,655	35,665	(100,739)	124,888
Additions	217	754	2,669	5,551	6,255	-	15,446
Transfers and disposals	-	(3,244)	(39)	-	(400)	1,281	(2,402)
Depreciation expense						(15,007)	(15,007)
As of 30 June 2005	52,240	13,434	54,990	75,206	41,520	(114,465)	122,925

Depreciation is calculated on the restated cost amounts. Such depreciation expenses for the six-month periods ended 30 June 2005 and 30 June 2004 amount to YTL 15,007 and YTL 11,616, respectively.

(Currency-Thousands of New Turkish Lira)

18 Intangible assets

Movement in intangible assets is as follows:

	Rights	Goodwill	Other	Accumulated Amortization	Carrying Amount
As of 1 January 2004	29,671	2,704	2,457	(16,538)	18,294
Additions	3,069	174	1,234	-	4,477
Transfers and disposals	(240)	-	(181)	145	(276)
Amortization expense				(5,552)	(5,552)
As of 31 December 2004	32,500	2,878	3,510	(21,945)	16,943
As of 1 January 2005	32,500	2,878	3,510	(21,945)	16,943
Additions	4,806	-	-	-	4,806
Transfers and disposals	-	-	-	-	-
Impairment in value of goodwill	-	(2,878)	-	-	(2,878)
Amortization expense				(3,504)	(3,504)
As of 30 June 2005	37,306	-	3,510	(25,449)	15,367

Amortization for intangible assets is calculated on the restated cost amounts. Such amortization expenses for the six-month periods ended 30 June 2005 and 30 June 2004 amount to YTL 3,504 and YTL 2,551, respectively.

Impairment losses are provided for decreases in the value of consolidated entities by way of assessing their internal and external sources. As of 30 June 2005, goodwill on consolidated entities has been fully impaired.

(Currency-Thousands of New Turkish Lira)

19 Deposits from banks

Deposits from banks comprised the following:

	30 June 2005	31 December 2004
Payable on demand	12,792	37,848
Term deposits	409,651	256,665
Obligations under repurchase agreements	380,867	334,079
	803,310	628,592
Accrued interest on deposits from banks	3,919	820
	807,229	629,412

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

	30 June 2005	31 December 2004
Carrying amount	807,229	629,412
Fair value	807,302	629,928

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

Currencies	30 June 2005	31 December 2004
YTL	14.0%-15.75%	16.0%-18.0%
Foreign currencies	2.5%-4.5%	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.

(Currency-Thousands of New Turkish Lira)

20 Deposits from customers

Deposits from customers comprised the following:

	30 June 2005	31 December 2004
Payable on demand:		
Foreign currency	779,258	689,004
Savings	146,560	136,088
Commercial	414,896	229,439
	1,340,714	1,054,531
Term deposits:		
Foreign currency	2,937,248	2,884,714
Savings	1,013,460	833,116
Commercial	534,917	433,161
Obligations under repurchase agreements	4,961	28,738
	4,490,586	4,179,729
	5,831,300	5,234,260
Accrued interest on deposits from customers	36,330	32,796
	5,867,630	5,267,056

The proceeds from the sale of securities that are the subject of repurchase agreements are treated as liabilities and recorded as obligations for repurchase agreements. As of 30 June 2005, the maturities of the deposits from customers are within 30 days with interest rates ranging between 10% and 20% (31 December 2004: 14% and 24%) for Turkish Lira denominated deposits; and within 60 days for foreign currency denominated deposits with interest rates ranging between 0.25% and 5.25% (31 December 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 474,530). These deposits are collateralized against the loan from the Bank. The latest maturity date of both the loans and deposits is 9 February 2006. Deposit and loan accounts will be closed prior to their maturities.

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

	30 June 2005	31 December 2004
Carrying amount	5,867,630	5,267,056
Fair value	5,869,203	5,267,977

(Currency-Thousands of New Turkish Lira)

20 Deposits from customers (continued)

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

Currencies	30 June 2005	31 December 2004
Turkish lira	10.0%-20.0%	19.0%20.75%
Foreign currencies	1.0%-4.10%	1.0%-3.75%

21 Funds borrowed

Funds borrowed comprised the following:

	30 June 2005	31 December 2004
Foreign currency borrowings from foreign banks	1,652,579	973,202
Turkish Lira borrowings from domestic banks	98,474	48,669
Turkish Lira borrowings from foreign banks	40,463	-
Foreign currency borrowings from domestic banks	25,770	25,260
	1,817,286	1,047,131
Accrued interest on funds borrowed	13,302	9,830
	1,830,588	1,056,961

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

	30 June 2005	31 December 2004
Carrying amount	1,830,558	1,056,961
Fair value	1,830,957	1,056,961

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

Currencies	30 June 2005	31 December 2004
US$	1.25%-5.84%	1.35%-5.47%
Euro	1.6%-4.4%	1.60%-4.39%
YTL	14.0%-15.75%	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 New Turkish Lira)

21 Funds borrowed (continued)

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

	30 June 2005	31 December 2004
Short-term	1,304,026	1,047,131
Long-term	513,260	-
Short-term portion of long-term debt	*1,361*	-
Medium and long-term portion of long-term debt	*511,899*	-
	1,817,286	1,047,131
Accrued interest on funds borrowed	13,302	9,830
	1,830,588	1,056,961

Long-term debts comprise the following:

	30 June 2005					
	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	-	200,055
DPR Securitization-Series B	6.04	2012	USD	80,000,000	-	106,696
DPR Securitization-Series C	6.37	2010	USD	70,000,000	-	93,359
Others					1,361	111,789
					1,361	511,899

(*) 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.

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 and onwards will be 30% as stated in the law No. 4842.

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

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

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

In Turkey, until 31 December 2004, the corporation tax was calculated considering the effects of inflation. Therefore, tax base financial statements were restated in terms of the measuring unit current at the balance sheet date. All inflation adjustments computed as of 1 January 2004 (for balance sheet of 31 December 2003) were treated as non-taxable.

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

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

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

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 will not be applied for tax purposes in 2005 because of the decrease in inflation rates below the rates specified in the law.

(Currency-Thousands of New Turkish Lira)

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:

	30 June 2005	%	30 June 2004	%
Taxes on income per statutory tax rate	47,554	30.00	30,801	33.00
Permanent differences related to the restatement of equity items per IAS 29	4,343	2.74	8,493	9.10
Effect of different tax rates in foreign entities	(5,697)	(3.59)	(10,959)	(11.74)
Effect of valuation of investments	(11,603)	(7.33)	(9,858)	(10.56)
Tax disallowable items	(2,315)	(1.46)	(4,529)	(4.85)
Investment incentives	(1,398)	(0.88)	-	-
Other	1,663	1.05	486	0.52
Provision for taxes on income	32,547	20.53	14,434	15.47

Income tax expense comprised the following:

	30 June 2005	30 June 2004
Current taxes	43,730	23,938
Deferred taxes	(11,183)	(9,504)
Income tax expense	32,547	14,434

(Currency-Thousands of New Turkish Lira)

22 **Taxation** (continued)

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

	30 June 2005	31 December 2004
Deferred tax assets		
Valuation difference between tax base and reported base of investments	5,548	-
Allowance for loan losses	8,989	12,267
Reserve for employee severance indemnity	908	1,041
Accrued interest on derivatives	10,813	5,808
Statutory tax losses	524	90
Bonus provisions	212	-
Others	881	824
Total deferred tax assets	27,875	20,030
Deferred tax liabilities		
Effect of change in leasing regulation	2,704	2,067
Effect of corrections to fixed assets	1,788	3,775
Restatement effect on non-monetary assets per IAS 29	970	-
Others	-	458
Total deferred tax liabilities	5,462	6,300
Net deferred tax assets	22,413	13,730

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

	30 June 2005	31 December 2004
Deferred tax assets	22,764	14,191
Deferred tax liabilities	(351)	(461)
Net deferred tax assets	22,413	13,730

(Currency-Thousands of New Turkish Lira)

23 Other liabilities

The principal components of this caption are as follows:

	30 June 2005	31 December 2004
Remittances payable	163,322	70,368
Payables related to credit cards	112,393	104,464
Accrued interest and foreign exchange loss on derivatives	57,435	28,272
Allowance for losses on non-cash loans	26,701	30,124
Factoring payables	16,871	-
Taxes withheld and duties payable	15,759	19,625
Cash guarantees and collaterals received	7,056	10,989
Payables to leasing suppliers	6,816	-
Forfeiting payables	4,444	4,429
Reserve for severance pay	3,657	3,752
Obligations under financial leases	-	17,263
Others	37,520	57,901
	451,974	347,187

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

	30 June 2005	31 December 2004
Balances, beginning of the period/year	30,124	23,999
Reversal of the provision	(3,449)	(2,403)
Restatement of the beginning balance and of the current period/year provision for the effect of inflation	(558)	(2,917)
Provision for the period/year	584	11,445
Balances, end of the period/year	26,701	30,124

24 Share capital

The authorized nominal share capital of Denizbank amounted to 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 was restated for the effects of inflation (refer to accounting policy (d)) in the accompanying consolidated financial statements. However, the transfers from revaluation surplus on fixed assets for statutory purposes and transfers from statutory retained earnings have been eliminated. Accordingly, the share capital is reflected as YTL 559,594 (31 December 2004: YTL 559,594) 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 at 30 June 2005 net minority interest amounts to YTL 91 (31 December 2004: YTL 67).

(Currency-Thousands of New Turkish Lira)

25 Commitments and contingent liabilities

25.1 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:

	30 June 2005	31 December 2004
Letters of guarantee	1,664,391	1,439,243
Letters of credit	804,915	719,960
Acceptance credits	169,254	256,881
Other guarantees and endorsements	97,778	126,986
	2,736,338	2,543,070

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

	30 June 2005	31 December 2004
Construction, glass and mining	513,261	483,679
Metal and machinery	342,876	319,284
Tourism and transportation	277,040	175,521
Textile and leather	229,762	239,231
Chemicals	166,237	120,916
Consumer durables	155,930	170,206
Electronics and IT	148,025	205,047
Finance	144,145	186,929
Food	128,920	138,702
Press and other public media	48,008	52,502
Others	582,134	451,053
	2,736,338	2,543,070

(Currency-Thousands of New Turkish Lira)

25 Commitments and contingent liabilities (continued)

25.2 Derivative contracts

As of 30 June 2005, commitments for purchase and sale of foreign currencies under forward agreements, swap, option and future contracts amounted to YTL 5,326,624 (31 December 2004: YTL 3,311,605). The breakdown of such commitments outstanding, by types is as follows:

	30 June 2005		31 December 2004	
	Purchase	Sale	Purchase	Sale
Forward agreements for customer dealing activities	285,900	282,857	258,493	243,468
Forward agreements for trading purposes	1,390,162	1,389,618	857,319	862,363
Currency swap contracts	319,600	377,261	273,866	323,272
Options	628,863	623,092	226,053	224,525
Forward agreements on gold	-	559	8,165	8,165
Currency future contracts	8,240	8,240	458	458
Interest rate swap contracts	10,884	10,884	12,500	12,500
	2,643,649	2,692,511	1,636,854	1,674,751

26 Risk management disclosures

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

26.1 Derivative financial instruments

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

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

26 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 future contract values are settled daily. Therefore, credit risk is limited to the net positive change in the market value for a single day. Futures contracts have little credit risk because the counterparties are futures exchanges. Forward contracts result in credit exposure to the counterparty. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

(iii) Options

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

26.2 Trading activities

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

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

26 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.

26.3 Non-trading activities

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

(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 New Turkish Lira)

26 **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 30 June 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	315,166	260,372	10,229	-	-	-	585,767
Due from banks	1,493,700	66,567	68,424	21,617	1,331	-	1,651,639
Financial assets at fair value through profit or loss	3,856	9,098	146,185	62,239	20,859	101,399	343,636
Loans and advances to customers	1,357,474	582,144	1,950,908	1,330,069	98,593	295	5,319,483
Investment securities	8,380	185,797	704,735	522,156	249,853	99,492	1,770,413
Other assets	3,023	341	-	16,166	-	284,426	303,956
	3,181,599	1,104,319	2,880,481	1,952,247	370,636	485,612	9,974,894
Liabilities							
Deposits from banks	578,807	97,608	118,512	12,302	-	-	807,229
Deposits from customers	4,193,915	652,557	917,461	102,969	728	-	5,867,630
Funds borrowed	180,667	130,204	1,006,457	406,566	106,694	-	1,830,588
Other liabilities	19,406	9,292	31,797	2,035	-	408,877	471,407
	4,972,795	889,661	2,074,227	523,872	107,422	408,877	8,976,854

(Currency-Thousands of New Turkish Lira)

26 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	772,774	26,166	7,683	156	73	-	806,852
Due from banks	223,715	1,380,150	78,998	17,771	-	-	1,700,634
Financial assets at fair value through profit or loss	6,237	2,989	54,448	235,822	31,386	91,618	422,500
Loans and advances to customers	95,529	1,260,212	1,182,190	691,751	75,232	408	3,305,322
Investment securities	8,355	18,873	488,532	849,080	230,343	133,554	1,728,737
Other assets	35,026	299	10,617	5,036	7,412	188,336	246,726
	1,141,636	2,688,689	1,822,468	1,799,616	344,446	413,916	8,210,771
Liabilities							
Deposits from banks	484,951	97,754	35,322	6,462	4,923	-	629,412
Deposits from customers	4,190,699	521,671	495,933	58,753	-	-	5,267,056
Funds borrowed	103,701	172,681	780,579	-	-	-	1,056,961
Other liabilities	325,792	445	12,869	3,147	-	6,665	348,918
	5,105,143	792,551	1,324,703	68,362	4,923	6,665	7,302,347

(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 New Turkish Lira)

26 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 30 June 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	271,930	-	-	-	-	313,837	585,767
Due from banks	1,326,039	166,041	14,965	4,155	-	140,439	1,651,639
Financial assets at fair value through profit or loss	120,815	55,776	24,977	19,673	20,996	101,399	343,636
Loans and advances to customers	2,003,097	2,213,752	672,917	383,937	45,485	295	5,319,483
Investment securities	323,865	927,665	320,883	76,080	22,428	99,492	1,770,413
Monetary liabilities							
Deposits from banks	668,088	118,085	7,323	941	-	12,792	807,229
Deposits from customers	3,430,952	990,698	71,445	33,081	740	1,340,714	5,867,630
Funds borrowed	287,869	981,513	52,135	509,071	-	-	1,830,588

(Currency-Thousands of New Turkish Lira)

26 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	453,321	-	-	-	-	353,531	806,852
Due from banks	1,474,535	158,707	15,439	3,181	-	48,772	1,700,634
Financial assets at fair value through profit or loss	161,499	57,227	71,574	9,396	31,186	91,618	422,500
Loans and advances to customers	1,632,890	997,730	333,949	319,988	867	19,898	3,305,322
Investment securities	796,745	275,450	111,520	165,808	245,660	133,554	1,728,737
Monetary liabilities							
Deposits from banks	567,124	16,929	5,417	2,094	-	37,848	629,412
Deposits from customers	3,471,764	623,209	64,951	52,454	147	1,054,531	5,267,056
Funds borrowed	283,331	773,630	-	-	-	-	1,056,961

Equity price risk

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

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

Currency risk

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

(Currency-Thousands of New Turkish Lira)

26 Risk management disclosures (continued)

As of 30 June 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	338,897	75,356	125	8,293	422,671
Due from banks	988,034	284,799	986	52,102	1,325,921
Financial assets at fair value through profit or loss	21,404	14,276	-	54,770	90,450
Loans and advances to customers	2,169,993	760,863	-	9,876	2,940,732
Investment securities	462,349	313,599	-	-	775,948
Other assets	13,527	2,905	-	664	17,096
	3,994,204	1,451,798	1,111	125,705	5,572,818
Foreign currency denominated liabilities					
Deposits from banks	183,970	97,452	608	1,262	283,292
Deposits from customers	2,150,379	1,531,083	3,242	47,422	3,732,126
Funds borrowed	1,579,849	113,902	-	1,454	1,695,205
Other liabilities	86,931	26,971	-	1,342	115,244
	4,001,129	1,769,408	3,850	51,480	5,825,867
Net on-balance sheet position	(6,925)	(317,610)	(2,739)	74,225	(253,049)
Net off-balance sheet position	(157,222)	291,169	2,709	(21,967)	114,689
Net (short) / long position	**(164,147)**	**(26,441)**	**(30)**	**52,258**	**(138,360)**

(Currency-Thousands of New Turkish Lira)

26 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	438,725	101,695	151	13,632	554,203
Due from banks	1,027,042	450,582	2,357	28,343	1,508,324
Financial assets at fair value through profit or loss	23,504	26,453	-	27,752	77,709
Loans and advances to customers	1,262,913	516,575	-	4,869	1,784,357
Investment securities	454,131	336,757	-	-	790,888
Other assets	14,162	34,062	-	1,726	49,950
	3,220,477	1,466,124	2,508	76,322	4,765,431
Foreign currency denominated liabilities					
Deposits from banks	134,764	105,355	12	3,500	243,631
Deposits from customers	2,269,166	1,283,030	2,687	38,875	3,593,758
Funds borrowed	979,513	25,339	-	3,547	1,008,399
Other liabilities	85,967	19,334	-	422	105,723
	3,469,410	1,433,058	2,699	46,344	4,951,511
Net on-balance sheet position	(248,933)	33,066	(191)	29,978	(186,080)
Net off-balance sheet position	166,891	(49,796)	-	5,651	122,746
Net (short) / long position	**(82,042)**	**(16,730)**	**(191)**	**35,629**	**(63,334)**

(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.

26 Risk management disclosures (continued)

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

26.4 Hedging

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

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

26.5 Risk measurement and control

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

(i) Interest rate sensitivity

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

(ii) Value at risk

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

26 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.