

AKSIGORTA A.Ş.

**CONDENSED INTERIM FINANCIAL STATEMENTS
AT 30 JUNE 2004
TOGETHER WITH AUDITOR'S REVIEW REPORT**

AUDITOR'S REVIEW REPORT

To the Board of Directors of
Aksigorta A.Ş.

1. We have reviewed the accompanying condensed interim balance sheet of Aksigorta A.Ş. ("the Company") at 30 June 2004 and the related condensed interim statements of income and of cash flows for the six-month period then ended, all expressed in the equivalent purchasing power of the Turkish lira as of 30 June 2004. These condensed interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these condensed interim financial statements based on our review. The financial statements of the Company at 31 December 2003, prior to the restatement explained in Note 3.2.1 and Note 3.2.2 to the financial statements, were audited by another auditor whose report dated 27 February 2004 expressed an unqualified opinion on those financial statements.
2. We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance about whether the condensed interim financial statements are free of material misstatement. A review is limited primarily to inquires of company personnel 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.
3. As explained in Note 3 to the financial statements, the accompanying condensed interim statement of income for the three-month period ended 30 June 2004 does not include information for the comparative three-month period ended 30 June 2003 as required by International Accounting Standard No 34 "Interim Financial Reporting" ("IAS 34").
4. Based on our review, except for the absence of comparative information as described in paragraph 3, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements at 30 June 2004 have not been properly prepared, in all material respects, in accordance with IAS 34.

We would like to draw attention to the following matters:

5. As explained in Note 3.1 to the financial statements, prior to 1 January 2004, the Company discounted its receivables and payables using the rates announced by the Central Bank of Turkey. In 2004, the Company's management decided to reverse the amount of rediscount on receivables and payables. The effect of this change in the accounting policy amounts to TL 2,831,197 million, net of taxes, and is included in the determination of the net income for the current year.

6. As explained in Note 3.2.1 to the financial statements, an error related to the restatement of the Company's share capital in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" was discovered in previous years. Due to this error, the total paid-in capital was understated by TL 67,505,566 million and retained earnings were overstated by the same amount in the financial statements of the Company at 31 December 2003, with no impact on total shareholders' equity. The impact of correction related with this respective error has been recognized as a separate component of shareholders' equity.
7. As explained in Note 3.2.2 an error related to the restatement of the Company's property and equipment in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" was discovered in previous years. Due to this error, total property and equipment was overstated by TL 2,707,989 million and retained earnings were understated by the same amount in the financial statements of the Company at 31 December 2003. The impact of correction has been recognized as a separate component of shareholders' equity.

Başaran Nas Serbest Muhasebeci
Mali Müşavirlik Anonim Şirketi
a member of
PricewaterhouseCoopers

DRAFT

Cansen Başaran Symes, SMMM

Istanbul, 1 August 2004

AKSIGORTA A.Ş.

INTERIM CONDENSED FINANCIAL STATEMENTS AT 30 JUNE 2004

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CONDENSED BALANCE SHEET AT 30 JUNE 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 30 June 2004 unless otherwise indicated)

	Notes	30 June 2004	Restated* 31 December 2003
ASSETS			
Current assets			
Cash and cash equivalents	4	27,447,707	42,727,189
Investment securities			
-Held-to-maturity investments	5	-	73,923,470
-Available-for-sale investments	5	159,063,026	22,489,897
Premiums receivable, net		129,432,926	116,537,977
Due from insurance and reinsurance companies		3,649,272	2,536,570
Deferred commission expense		24,415,654	22,219,481
Other receivables		12,619,120	569,475
Total current assets		356,627,705	281,004,059
Non-current assets			
Investment securities			
- Held-to-maturity investments	5	-	58,798,375
-Available-for-sale equity investments	5	594,482,931	697,362,548
Investment in associate	6	10,857,300	8,838,386
Property and equipment, net	7	44,503,447	45,251,236
Deferred tax assets	9	4,012,094	3,425,817
Total non-current assets		653,855,772	813,676,362
Total assets		1,010,483,477	1,094,680,421

* As explained in Note 3, the balance sheet of the Company at 31 December 2003 has been restated.

The accompanying notes form an integral part of these financial statements.

AKSIGORTA A.Ş.

CONDENSED BALANCE SHEET AT 30 JUNE 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 30 June 2004 unless otherwise indicated)

	Notes	30 June 2004	Restated* 31 December 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Due to insurance and reinsurance companies		22,648,092	15,068,859
Other liabilities		13,609,082	15,854,071
Income taxes payable		1,065,108	2,482,887
Total current liabilities		37,322,282	33,405,817
Insurance reserves			
Unearned premium reserve	8	80,404,419	68,411,293
Claims provision	8	21,219,547	23,404,379
Life reserves	8	40,189,935	42,468,715
Total insurance reserves, net of reinsurance	8	141,813,901	134,284,387
Non-current liabilities			
Provision for employment termination benefits		2,080,780	2,127,028
Total liabilities		181,216,963	169,817,232
Shareholders' equity			
Share capital	10	153,000,000	153,000,000
Adjustment to share capital		172,683,637	172,683,637
Retained earnings		352,406,186	324,488,775
Unrealized gain		151,176,691	274,690,777
Total shareholders' equity		829,266,514	924,863,189
Total liabilities and shareholders' equity		1,010,483,477	1,094,680,421

* As explained in Note 3, the balance sheet of the Company at 31 December 2003 has been restated.

The accompanying notes form an integral part of these financial statements.

AKSIGORTA A.Ş.**CONDENSED STATEMENT OF DEPARTMENTAL REVENUES
INSURANCE BUSINESS
FOR THE SIX MONTH INTERIM PERIOD ENDED 30 JUNE 2004**

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 30 June 2004 unless otherwise indicated)

	1 January 2004- 30 June 2004	1 April 2004- 30 June 2004	1 January 2003- 30 June 2003
Earned premiums, net of reinsurance	78,460,362	40,373,314	66,496,679
- Gross premiums written	220,246,213	86,651,021	218,494,508
- Outward reinsurance premiums	(134,773,851)	(46,707,566)	(149,749,594)
- Change in reserve for unearned premiums, net of reinsurance	(7,012,000)	429,859	(2,248,235)
Claims incurred, net of reinsurance	(59,453,122)	(32,216,164)	(47,276,383)
- Claims paid - gross amount	(134,353,482)	(62,581,024)	(124,414,590)
- Claims paid - reinsurers' share	74,269,366	32,762,384	80,137,380
- Change in claims provision	630,994	(2,397,524)	(2,999,173)
Change in mathematical reserves-net	(1,053,185)	398,136	(1,695,092)
Commissions, net	(4,260,548)	(4,101,147)	1,294,479
Other income, net	4,274,454	1,144,525	7,467,178
Income from insurance business	17,967,961	5,598,664	26,286,861

The accompanying notes form an integral part of these financial statements

AKSİGORTA A.Ş.**CONDENSED STATEMENT OF INCOME****FOR THE SIX MONTH INTERIM PERIOD ENDED 30 JUNE 2004**

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 30 June 2004 unless otherwise indicated)

	1 January 2004- 30 June 2004	1 April 2004- 30 June 2004	1 January 2003- 30 June 2003
Income			
Income from insurance business	17,967,961	5,598,664	26,286,861
Interest on marketable securities, net	22,288,910	12,020,879	13,523,167
Dividend income	53,828,092	3,421	45,196,701
Foreign exchange gains	5,077,389	2,873,484	772,880
Rental Income	242,778	104,926	258,191
Other income	7,947,971	417,520	1,197,637
Total income	107,353,101	21,018,894	87,235,437
Expenses			
General and administrative expenses	(15,948,743)	(8,438,974)	(10,720,538)
Provision for overdue and doubtful receivables	(3,995,616)	(3,850,704)	-
Foreign exchange losses	(7,276,429)	(3,382,433)	-
Interest expense	(1,280)	(190)	-
Other expenses and losses	(1,002,591)	(596,615)	(8,517,454)
Loss on net monetary position	(19,758,258)	(5,535,559)	(17,862,526)
Total expenses	(47,982,917)	(21,804,475)	(37,100,518)
Income before taxation	59,370,184	(785,581)	50,134,919
Taxation on income	(992,978)	(468,345)	(5,628,196)
Net income/(loss) for the year	58,377,206	(1,253,926)	44,506,723

The accompanying notes form an integral part of these financial statements.

AKSIGORTA A.Ş.**CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTH INTERIM PERIOD ENDED 30 JUNE 2004**

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 30 June 2004 unless otherwise indicated)

	Share capital	Adjustment to share capital	Retained earnings	Fair value reserves	Total
Balance at 31 December 2003					
-as previously reported	153,000,000	105,178,071	394,702,330	274,690,777	927,571,178
Correction in the restatement of share capital	-	67,505,566	(67,505,566)	-	-
Correction of property and equipment	-	-	(2,707,989)	-	(2,707,989)
Balance at 31 December 2003					
-as restated	153,000,000	172,683,637	324,488,775	274,690,777	924,863,189
Dividends paid	-	-	(30,459,795)	-	(30,459,795)
Net loss on available for-sale investments	-	-	-	(123,514,086)	(123,514,086)
Net income for the period	-	-	58,377,206	-	58,377,206
Balance at 30 June 2004	153,000,000	172,683,637	352,406,186	151,176,691	829,266,514

The accompanying notes form an integral part of these financial statements.

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CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTH INTERIM PERIOD ENDED 30 JUNE 2003

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 30 June 2004 unless otherwise indicated)

	Share capital	Adjustment to share capital	Retained earnings	Fair value reserves	Total
Balance at 31 December 2002					
- as previously reported	90,000,000	107,827,415	349,739,432	-	547,566,847
Restatement due to IAS 39 application correction and accounting treatment for earthquake reserve	-	-	13,738,099	89,068,286	102,806,385
Balance at 31 December 2002 -as restated	90,000,000	107,827,415	363,477,531	89,068,286	650,373,232
Dividends paid	-	-	(15,325,431)	-	(15,325,431)
Net loss on available for-sale investments	-	(46,632,171)	-	-	(46,632,171)
Net income for the period	-	-	44,506,723	-	44,506,723
Balance at 30 June 2003	90,000,000	61,195,244	392,658,823	89,068,286	632,922,353

The accompanying notes form an integral part of these financial statements.

AKSIGORTA A.Ş.**CONDENSED STATEMENT OF CASH FLOWS
FOR THE SIX MONTH INTERIM PERIOD ENDED 30 JUNE 2004**

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 30 June 2004 unless otherwise indicated)

	30 June 2004	30 June 2003
Cash flows from operating activities		
Cash used in operations (Note 12)	(23,664,918)	(28,524,512)
Taxes paid	(7,195,183)	(2,405,352)
Employment termination benefits paid	(99,016)	(206,551)
Inflation effect on non-operating activities	268,190	11,579,850
Net cash used in operating activities	(30,690,927)	(19,556,565)
Cash flows from investing activities		
Purchase of property and equipment	(517,780)	(755,456)
Proceeds from sale of property and equipment	128,896	131,803
Increase/(decrease) in investments	90,509,144	(78,841,010)
Increase in associated investments	(2,018,914)	(2,941,597)
Interest received	30,808,099	16,692,205
Dividends received	53,828,092	45,196,700
Net cash provided by investing activities	172,737,537	(20,517,355)
Cash flows from financing activities		
Dividends paid	(30,459,795)	(15,325,431)
Unrealized gain	(123,514,086)	42,436,115
Net cash used in financing activities	(153,973,881)	27,110,684
Net decrease in cash and cash equivalents	(11,927,271)	(12,963,236)
Inflation effect on cash and cash equivalents	(3,352,212)	(4,648,394)
Cash and cash equivalents at beginning of year	42,727,190	61,755,780
Cash and cash equivalents at end of year (Note 4)	27,447,707	44,144,150

The accompanying notes form an integral part of these financial statements.

AKSIGORTA A.Ş.

NOTES TO FINANCIAL STATEMENTS

30 JUNE 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 30 June 2004 unless otherwise indicated)

NOTE 1 - NATURE OF OPERATIONS

Aksigorta A.Ş. ("the Company") is registered in Istanbul, Turkey and was established in 25 April 1960. The Company is a subsidiary of Hacı Ömer Sabancı Holding A.Ş., which owns approximately 57.4% of the total shares as of 30 June 2004. Certain shares of the Company are listed on the Istanbul Stock Exchange since 1994. As of 30 June 2004, 42.6% of the Company's shares are publicly traded (2003: 42.6%).

The address of the registered office is as follows:

Meclis-i Mebusan Cad. No: 147
Fındıklı 34427 Istanbul, Turkey

NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company maintains its books of account and prepares its statutory financial statements ("Statutory Financial Statements") in accordance with accounting principles issued by the Turkish Commercial Code (the "TCC"), Insurance Supervisory Law and tax legislation (collectively, "Turkish Practices"). The accompanying financial statements are based on the statutory records, which are maintained under the historical cost convention, (except for the revaluation of property and equipment) with adjustments and reclassifications including restatement for the changes in the general purchasing power of the Turkish lira for the purpose of fair presentation in accordance with Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board.

The condensed interim financial statements are prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". The accounting policies used in the preparation of the interim condensed financial statements are consistent with those used in the annual financial statements at 31 December 2003. These interim condensed financial statements should be read in conjunction with the 2003 annual financial statements.

The restatement for the changes in the general purchasing power of the Turkish lira as of 30 June 2004 is based on IAS 29 "Financial Reporting in Hyperinflationary Economies" which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that 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%. Such restatement was calculated by means of conversion factors derived from the Turkish countrywide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS"). The indices and conversion factors used to restate these accompanying financial statements during the current and prior years are given below:

<u>Dates</u>	<u>Index</u>	<u>Conversion factors</u>
30 June 2004	7,983	1.000
31 December 2003	7,382	1.081
31 December 2002	6,479	1.232

NOTES TO FINANCIAL STATEMENTS

30 JUNE 2004

(Amounts expressed in millions of Turkish lira (“TL”) in terms of the purchasing power of the TL as at 30 June 2004 unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES

The accompanying condensed interim statement of income for the three-month period ended 30 June 2003 does not include information for the comparative three-month period ended 30 June 2003 as required by International Accounting Standard No 34 “Interim Financial Reporting”.

3.1 Change in accounting policy

Prior to 1 January 2004, the Company discounted its receivables and payables using the rates announced by the Central Bank of Turkey. In 2004, the Company’s management decided to reverse the amount of rediscount on receivables and payables. The effect of this change in the accounting policy amounts to TL 2,831,197 million, net of taxes, and is included in the determination of the net income for the current year (Note 3.3).

3.2. Correction of errors

- 3.2.1 An error related to the restatement of the Company’s share capital in accordance with IAS 29 “ Financial Reporting in Hyperinflationary Economies” was discovered in previous years. Due to this error, the total paid-in capital was understated by TL 67,505,566 million and retained earnings were overstated by the same amount in the financial statements of the Company at 31 December 2003, with no impact on total shareholders’ equity. The impact of correction related with this respective error has been recognized as a separate component of shareholders’ equity (Note 3.4).
- 3.2.2 An error related to the restatement of the Company’s property and equipment in accordance with IAS 29 “ Financial Reporting in Hyperinflationary Economies” was discovered in previous years. Due to this error, total property and equipment was overstated by TL 2,707,989 million and retained earnings were understated by the same amount in the financial statements of the Company at 31 December 2003. The impact of correction has been recognized as a separate component of shareholders’ equity (Note 3.4).
- 3.2.3 Prior to 1 January 2004, investment in associate, Ak Emeklilik A.Ş., was carried at cost less any impairment in value. In accordance with IAS 28 “Accounting for Investments in Associates” the associated company should have been accounted for under the equity method method. Due to this error, the balance of investment in associate was understated by TL 2,406, 071 million in the financial statements of the Company at 31 December 2003. The correction of the respective error is included in the determination of net income for the period (Note 3.3).

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NOTES TO FINANCIAL STATEMENTS

30 JUNE 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 30 June 2004 unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (Continued)

3.3 Restated pro forma information

Restated pro forma information for 2004 is presented below and as if the new accounting policy, as explained in Note 3.1 had been applied at 31 December 2003, as if the error related to the restatement of property and equipment as explained in Note 3.2.2 had been corrected in 2003 and as if the error related to accounting for investment in associate as explained in Note 3.2.3 had been corrected in 2003.

Statement of Changes in Shareholders' Equity:

	2004	<u>Pro forma</u> 2004
Opening retained earnings (*)	327,196,764	327,196,764
Change in accounting policy (Note 3.1)	-	2,831,197
Correction of error (Note 3.2.2)	(2,707,989)	-
Correction of error (Note 3.2.3)	-	2,406,071
<hr/>		
Opening retained earnings as restated	324,488,775	332,434,032
Dividends paid	(30,459,795)	(30,459,795)
Net income for the period	58,377,206	50,431,949
<hr/>		
Closing retained earnings	352,406,186	352,406,186

(*) After the restatement relating to the restatement of share capital.

3.4 Comparatives and restatement of balance sheet at 31 December 2003

When necessary, comparative figures of balance sheet have been adjusted and reclassified to conform with changes in presentation in the current period.

The comparative figures have been adjusted to take into account the correction of error in the restatement of paid-in capital (Note 3.2.1) and property and equipment (Note 3.2.2).

The effects of the restatement are stated below:

	31 December 2003 restated	31 December 2003 previously reported
Adjustment to share capital	172,683,637	102,833,118
Correction of property and equipment	(2,707,989)	-
Retained earnings	327,196,764	394,702,330
<hr/>		
	497,172,412	497,535,448

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NOTES TO FINANCIAL STATEMENTS

30 JUNE 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 30 June 2004 unless otherwise indicated)

NOTE 3 - SUMMARY OF SIGNIFICANT RELEVANT ACCOUNTING POLICIES (Continued)

3.5 Investment securities

The Company classified its investment securities into the following two categories: held-to-maturity and available-for-sale investments. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Held-to-maturity securities are carried at amortized cost using the effective yield method, less any provision for impairment.

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale; and are included in non-current assets unless management has expressed intention of hold in of the investment for less than 12 months from the balance sheet date.

Available-for-sale debt and equity investment securities are subsequently re-measured at fair value based on quoted bid prices, prices quoted by the İstanbul Stock Exchange ("ISE"). Investments in equity instruments which do not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are clearly inappropriate or unworkable are carried at cost less any impairment.

Unrealized gain and losses arising from changes in the fair value of securities classified as available-for-sale are recognized in equity (Note 5).

3.6 Investment in associate

Investments in associated companies are accounted for by the equity method of accounting. These are undertakings in which the Company has between 20% and 50% of the voting rights, and over which the Company exercises significant influence, but which it does not control.

Equity accounting involves recognizing in the income statement the Company's share of the associate's profit or loss for the year. The Company's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate.

Dividends received from the associates are deducted from the carrying amount of the associate at the date when dividends are received.

Effective from 1 January 2004, Ak Emeklilik A.Ş. is accounted for by the equity method of accounting. Prior to this date, the associated investment was carried at cost, less any provision for impairment (Note 3.2.3, Note 6).

NOTE 4 - CASH AND CASH EQUIVALENTS

	30 June 2004	31 December 2003
Cash in hand	10,890	3,197
Bank deposits	23,431,797	38,074,986
Loan to banks	4,005,020	4,649,006
	27,447,707	42,727,189

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NOTES TO FINANCIAL STATEMENTS

30 JUNE 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 30 June 2004 unless otherwise indicated)

NOTE 4 - CASH AND CASH EQUIVALENTS (Continued)

Bank deposits are further analysed as follows:

	30 June 2004	31 December 2003
Foreign currency denominated bank deposits		
- demand deposits	2,387,660	299,838
- time deposits	-	4,150,847
	2,387,660	4,450,685
Bank deposits in Turkish lira		
- demand deposits	4,784,466	8,753,045
- time deposits	16,259,671	24,871,256
	21,044,137	33,624,301

Foreign currency denominated time deposits are as follows:

	<u>Amount in original currency</u>		<u>TL million Equivalent</u>	
	30 June 2004	31 December 2003	30 June 2004	31 December 2003
US\$	-	2,750,000	-	4,150,847

Time deposits have maturities less than one year and their interest rates are as follows:

	<u>Interest rate per annum (%)</u>	
	30 June 2004	31 December 2003
TL	22.00	28.00-24.00
US\$	-	1.75

Foreign currency denominated demand deposits are as follows:

	<u>Amount in original currency</u>		<u>TL million Equivalent</u>	
	30 June 2004	31 December 2003	30 June 2004	31 December 2003
US\$	647,488	133,176	962,110	207,504
EURO	677,281	29,044	1,223,757	61,295
GBP	62,732	8,341	169,722	22,337
SWFR	23,514	4,132	27,769	4,989
JY	314,796	263,488	4,302	3,713
			2,387,660	299,838

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NOTES TO FINANCIAL STATEMENTS

30 JUNE 2004

(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 30 June 2004 unless otherwise indicated)

NOTE 5 - INVESTMENT SECURITIES

The analysis of held-to-maturity investments is as follows:

	30 June 2004	31 December 2003
Current:		
Government bonds	-	73,923,470
Total current	-	73,923,470
Non-current:		
Government bonds	-	42,054,917
Eurobonds	-	16,743,458
Total non-current	-	58,798,375
Total held-to-maturity investments	-	132,721,845

Blocked:

Held-to-maturity securities

	30 June 2004		31 December 2003	
	Amortised cost	Interest rate (%)	Amortised cost	Interest rate (%)
Government bonds	-	-	59,439,943	24.84-29.49
	-	-	59,439,943	24.84-29.49

Free

Held-to-maturity securities

	30 June 2004		31 December 2003	
	Amortised cost	Interest rate (%)	Amortised cost	Interest rate (%)
Held-to-maturity securities				
Government bonds	-	-	56,538,444	28.60-35.43
Eurobonds	-	-	16,743,458	7.95-9.87
	-		73,281,902	
Total held-to-maturity securities	-		132,721,845	

The Company does not have any held-to-maturity securities as of 30 June 2004. (The Company has TL 59,439,943 million blocked investments in favour of the Undersecretariat of Treasury as of 31 December 2003. Market values of total held-to-maturity securities amount to TL 132,721,845 million as of 31 December 2003).

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NOTES TO FINANCIAL STATEMENTS

30 JUNE 2004

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NOTE 5 - INVESTMENT SECURITIES (Continued)

The analysis of the held-to-maturity securities by maturities is as follows:

30 June 2004						
	0 - 1 month	1 - 3 months	3 - 6 months	6 months-1 year	Over One year	Total
Eurobonds	-	-	-	-	-	-
Government bonds	-	-	-	-	-	-
	-	-	-	-	-	-
31 December 2003						
	0 - 1 month	1 - 3 months	3 - 6 months	6 months-1 year	Over One year	Total
Eurobonds	-	-	-	-	16,743,458	16,743,458
Government bonds	-	38,653,850	-	35,269,620	42,054,917	115,978,387
	-	38,653,850	-	35,269,620	58,798,375	132,721,845

The analysis of available-for-sale investments is as follows:

	30 June 2004	31 December 2003
Current:		
Government bonds	137,530,709	-
Mutual Funds	21,532,317	22,489,897
Total current	159,063,026	22,489,897
Non-current:		
Equity investments	594,482,931	697,362,548
Total non-current	594,482,931	697,362,548
Total available-for-sale investments	753,545,957	719,852,445

The analysis of available-for-sale investments is as follows:

Blocked

	30 June 2004		31 December 2003	
	Carrying value	Interest rate (%)	Carrying value	Interest rate (%)
sGovernment bonds	53,888,135	24.84-29.49	-	-
	53,888,135		-	

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NOTE 5 - INVESTMENT SECURITIES (Continued)

Free

	30 June 2004		31 December 2003	
	Carrying value	Interest rate (%)	Carrying value	Interest rate (%)
Government bonds	83,642,574	22.42-30.75	-	-
Mutual Funds	21,532,317	-	22,489,897	-
Equity Investment	594,482,931	-	697,362,548	-
	699,657,822		719,852,445	
Total available-for-sale securities	753,545,957			

The Company has TL 53,888,135 million blocked investments (2003: None) in favour of the Undersecretariat of Treasury.

	30 June 2004					Total
	0 - 1 month	1 - 3 months	3 - 6 months	6 months-1 year	Over One year	
Government bonds	-	-	40,503,049	97,027,660	-	137,530,709
Mutual Funds	21,532,317	-	-	-	-	21,532,317
						159,063,026

	31 December 2003					Total
	0 - 1 month	1 - 3 months	3 - 6 months	6 months-1 year	Over One year	
Eurobonds	-	-	-	-	-	-
Government bonds	-	-	-	-	-	-
						-

At 7 April 2004 the Company sold government bonds and Eurobonds held under held-to-maturity investments as of 31 March 2004 and 31 December 2003. At 31 March 2004, the amortized costs of these government bonds and Eurobonds amount to TL 23,939,744 million and TL 13,936,294 million and the fair values amount to TL 24,803,646 million and TL 15,721,030 million, respectively (Note 5). The Company recorded a gain of TL 1,724,818 million from the sale of these securities. In accordance with IAS 39, the Company will not classify any of its financial assets as held-to-maturity for two full financial years beginning from the date of sale.

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NOTE 5 - INVESTMENT SECURITIES (Continued)

The breakdown of available-for-sale equity investments is as follows:

	30 June 2004	
	Carrying value	Shareholding %
Listed equity securities carried at fair value		
Akbank T.A.Ş. (Akbank)	541,186,194	7.87
Akçansa Çimento San. ve Tic. A.Ş. (Akçansa)	37,337,631	7.48
Çimsa Çimento San. ve Tic. A.Ş. (Çimsa)	8,887,280	2.57
Yünsa Yünlü San. ve Tic. A.Ş. (Yünsa)	548,816	1.49
	587,959,921	
Unlisted securities carried at cost		
Türsa (*)	4,168,527	2.60
Temsa	2,344,522	2.75
Ak Menkul	7,711	-
BNP	1,540	-
Dönkasan	710	-
	6,523,010	
Total available-for-sale equity investments	594,482,931	
	31 December 2003	
	Carrying value	Shareholding %
Listed equity securities carried at fair value		
Akbank	625,032,740	7.87
Akçansa	53,349,337	7.48
Çimsa	11,441,363	2.57
Yünsa	775,745	1.49
	690,599,185	
Unlisted securities carried at cost		
Türsa (*)	4,408,880	2.57
Temsa	2,344,522	2.70
Ak Menkul	7,711	-
BNP	1,540	-
Dönkasan	710	-
	6,763,363	
Total available-for-sale equity investments	697,362,548	

Unlisted securities above are carried at cost since they do not have quoted market prices in active markets and other methods of reasonably estimating fair value are unworkable.

(*) As of 30 June 2004, the Company set an impairment provision for its investment in Türsa in the amount of TL 11,607,547 million (2003: TL 11,367,195 million) and related amount is reflected in the income statement.

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NOTES TO FINANCIAL STATEMENTS

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NOTE 6 - INVESTMENT IN ASSOCIATE

	30 June 2004	Shareholding %	31 December 2003	Shareholding %
Ak Emeklilik A.Ş.	10,857,300	26.00	8,838,386	26.00
	10,857,300		8,838,386	

As of 30 June 2004, Ak Emeklilik A.Ş. is accounted for by the equity method of accounting. As of 31 December 2003, the associated investment was carried at cost less any provision for impairment (Note 3.2).

NOTE 7 - PROPERTY AND EQUIPMENT

	Previously Reported 31 December 2003	Correction	1 January 2004	Additions	Disposals	30 June 2004
Cost						
Land	5,773,873	(655,983)	5,117,890	65,799	-	5,183,689
Buildings	42,626,067	(2,102,856)	40,523,211	-	-	40,523,211
Vehicles	1,325,057	338,682	1,663,739	37,000	(343,182)	1,357,557
Furniture and fixtures	15,234,070	77,034	15,311,104	414,982	-	15,726,086
Special Cost	-	485,400	485,400	-	-	485,400
	64,959,067	(1,857,723)	63,101,344	517,781	(343,182)	63,275,943
Accumulated depreciation						
Buildings	(8,121,328)	226,302	(7,895,026)	(405,232)	-	(8,300,258)
Vehicles	(364,686)	(332,018)	(696,704)	(124,348)	316,351	(504,701)
Furniture and fixtures	(8,513,829)	(273,564)	(8,787,393)	(706,494)	-	(9,493,887)
Special Cost	-	(470,986)	(470,986)	(2,664)	-	(473,650)
	(16,999,843)	(850,266)	(17,850,109)	(1,238,738)	316,351	(18,772,496)
Net book value	47,959,224	(2,707,989)	45,251,235			44,503,447

An error related to the restatement of the Company's property and equipment in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" was discovered in previous years. Due to this error, total property and equipment was overstated by TL 2,707,989 million and retained earnings were understated by the same amount in the financial statements of the Company at 31 December 2003. The impact of correction has been recognized as a separate component of shareholders' equity.

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NOTES TO FINANCIAL STATEMENTS

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NOTE 8 - INSURANCE TECHNICAL RESERVES

	30 June 2004	31 December 2003
Unearned premium reserve	178,552,965	158,102,222
Reinsurers' share in unearned premium reserve	(98,148,546)	(89,690,929)
Unearned premium reserve, net	80,404,419	68,411,293
Outstanding claim reserve	70,289,801	80,884,253
Reinsurers' share in outstanding claims reserve	(49,070,254)	(57,479,874)
Outstanding claim reserve, net	21,219,547	23,404,379
Life-mathematical reserve	13,140,661	12,796,715
Life-profit share reserve	25,982,867	28,450,400
Life-claims reserve, net	1,066,407	1,221,600
Life reserves, net	40,189,935	42,468,715
	141,813,901	134,284,387

NOTE 9 - TAXES ON INCOME

Taxes on income is recognised based on the best estimate of the annual income tax rate expected for the full financial year. Corporation tax rate on the total income of fiscal year 2004 will be 33%. Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2004 under the liability method using a principal tax rate of 33% at 30 June 2004. The rate for other temporary differences is 30%.

Effective from 1 January 2004, a new tax law (Law no 5024) was enacted on 30 December 2003 which requires that statutory financial statements are prepared by adjusting the non-monetary assets and liabilities for the changes in the general purchasing power of the Turkish lira. In line with the above mentioned tax law, if the increase in the price index in the last three periods -including the current period- (last 36 months) is more than 100% or is more than 10% for the current period (last 12 months), financial statements should be prepared by adjusting the non-monetary assets and liabilities. Corporate tax will be calculated upon the adjusted financial statements. Whether the above-mentioned conditions are met will be checked at the end of the three months temporary tax period. If inflationary adjustment is required for a temporary tax period, the related adjustment will be held for the whole year, including retrospective effects.

As at 30 June 2004, the last 36 months wholesale price index ("WPI") increase is 159.05%. For the last 12 months the related increase is 7.97%. At April 2004, above-mentioned increases become 132.53% and 8.91% consequently. The Company calculated its corporate tax provision in line with the inflationary adjustments taking into account that the realization of the application conditions in 2004 is highly probable.

Provision for taxes for the six month period ended 30 June 2004 is summarized as follows:

	30 June 2004
Current	(1,579,255)
Deferred	586,277
Taxes on income, net	(992,978)

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NOTES TO FINANCIAL STATEMENTS

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(Amounts expressed in millions of Turkish lira ("TL") in terms of the purchasing power of the TL as at 30 June 2004 unless otherwise indicated)

NOTE 9 - TAXES ON INCOME (Continued)

The deferred tax assets and liabilities represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return, in accordance with the applicable tax law.

The breakdown of cumulative temporary differences and the resulting deferred tax assets/liability provided at 30 June 2004 and 31 December 2003 using the enacted tax rates as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	30 June 2004	31 December 2003	30 June 2004	31 December 2003
Reserve for unearned premiums, reinsurers' share	9,893,229	-	(3,264,766)	-
Difference for the carrying value of the government bonds	16,577	-	(5,470)	-
Property and equipment	-	3,107,198	-	(932,159)
Deferred tax liabilities	9,909,806	3,107,198	(3,270,236)	(932,159)

	Cumulative temporary differences		Deferred tax assets	
	30 June 2004	31 December 2003	30 June 2004	31 December 2003
Reserve for unearned premiums, gross	(16,086,298)	-	5,308,478	-
Rediscounts on receivables and payables	(2,975,742)	(6,032,533)	981,995	1,990,735
Difference for the carrying value of the government bonds	-	(2,928,153)	-	966,290
Property and equipment	(220,565)	-	66,170	-
Incurred but not reported claims	(913,493)	-	301,453	-
Provision for employment termination benefits	(2,080,780)	(2,127,030)	624,234	638,108
Provision for receivables	-	(2,542,803)	-	762,843
Deferred tax assets	22,276,878	(13,630,519)	7,282,330	4,357,976
Deferred tax assets - net			4,012,094	3,425,817

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NOTE 10 - SHARE CAPITAL

Nominal capital of the Company at 30 June 2004 is TL 153,000,000 million (31 December 2003: TL 153,000,000 million) and is held as follows:

	30 June 2004		31 December 2003	
	TL	%	TL	%
H. Ömer Sabancı Holding A.Ş.	87,818,033	57.40	87,818,033	57.40
Publicly traded	65,181,967	42.60	65,181,967	42.60
	153,000,000	100.00	153,000,000	100.00

At 30 June 2004, the restated capital of the Company amounts to TL 325,683,637 million (31 December 2003: TL 258,178,071 million).

NOTE 11 - LEGAL RESERVES

	30 June 2004	31 December 2003
First legal reserve	9,325,171	7,374,982
Second legal reserve	7,230,690	5,072,256
	16,555,861	12,447,238

Legal reserves are required by the Turkish Commercial Law and may only be distributed up on liquidation of the Company.

The first legal reserve is appropriated from statutory profits at the rate of 5% until the total reserve is equal to 20% of the issued and fully paid capital.

The second legal reserve is appropriated at the rate of 10% of distributions in excess of 5% of issued share capital and has no limit. It may be used to absorb losses.

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NOTES TO FINANCIAL STATEMENTS

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NOTE 12 - SUPPLEMENTARY CASH FLOW INFORMATION

	30 June 2004	30 June 2003
Net income	58,377,206	44,506,723
Adjustments for		
Reserve for unearned premiums and deferred commissions	11,000,112	(8,081,807)
Change in provision for doubtful and overdue receivables	(331,799)	(4,111,737)
Depreciation and amortisation charges	1,238,738	1,226,125
Dividend income	(53,828,092)	(45,196,700)
Interest income	(22,288,910)	(13,523,167)
Change in life reserves	(3,345,188)	113,905
Change in claims provision, net	(2,321,586)	(2,607,391)
Provision for employment termination benefits	(215,424)	146,899
Loss on disposal of property and equipment and intangible assets	(102,065)	-
Taxes on income	992,977	5,628,196
Provision for impairment in available for sale securities	-	9,169,741
	(10,824,031)	(12,729,213)
Changes in working capital:		
Premiums receivables	(12,563,149)	(22,057,513)
Other receivables and liabilities	(15,712,409)	(4,136,861)
Due from insurance and reinsurance companies	(1,112,702)	-
Due to insurance and reinsurance companies and premium reserves	7,579,234	5,750,682
Inflation effect on operating activities	8,968,139	4,648,393
Cash used in operations	(23,664,918)	(28,524,512)

NOTE 13 - RELATED PARTY BALANCES AND TRANSACTIONS

Balances and transactions with related parties are as follows:

	30 June 2004	31 December 2003
<u>Bank deposits</u>		
Bank deposits and reverse repurchase transactions in Akbank branches	27,417,171	42,723,558
Akbank - mutual funds	21,532,317	22,489,897

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NOTE 13 - RELATED PARTY BALANCES AND TRANSACTIONS

	30 June 2004		31 December 2003	
	Due from	Due to	Due from	Due to
BNP-AK-DRESDNER Finansal Kiralama	757,322	-	63,132	-
Akçansa	411,924	-	-	-
Carrefour-SA	342,689	-	-	-
Akbank	337,618	-	812,164	-
Temsa	320,324	-	102,979	-
Marsa Kraft Jacobs Suchard Sabancı İşletmeleri T.A.Ş. (Marsa)	209,342	-	21,560	-
Sasa Dupont Sabancı	185,388	-	-	-
Ak Emeklilik A.Ş.	183,850	-	-	-
Bossa Ticaret ve Sanayi İşletmeleri T.A.Ş. (Bossa)	163,434	-	32,435	-
Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. (Brisa)	159,419	-	171,804	-
Danonesa	132,351	-	-	-
Beksa Çelik Kord Sanayi ve Ticaret A.Ş.	131,399	-	-	588
Çimsa Çimento	110,538	-	-	-
Toyota Sabancı Otomotiv Sanayi Türkiye A.Ş. (Toyotasa)	105,115	-	222,235	-
I-Bimsa	104,016	-	-	-
Pilsa Plastik	103,692	-	-	-
Exsa Export Mam. Sat. ve Ara A.Ş. (Exsa)	58,611	-	539	-
Kordsa Kord Bezi Sanayi ve Ticaret A.Ş. (Kordsa)	57,971	-	25,662	-
Dia-SA	53,930	-	-	-
H.Ö. Sabancı Holding A.Ş. (Holding)	51,785	-	122,256	-
Sabancı Telekomünikasyon	46,450	-	-	-
Gıda-SA	42,371	-	-	-
Ak Yatırım Menkul	40,363	-	-	-
Olmuksa Muvakka Sanayi ve Ticaret A.Ş. (Olmuksa)	33,247	-	-	8,249
Oysa İskenderun Çimento San. ve Tic. A.Ş. (Oysa)	31,537	-	4,532	-
Enerjisa A.Ş.	22,741	-	2,416	-
Sakosa Sabancı End. İplik ve Kord Bezi San. ve Tic. A.Ş. (Sakosa)	22,431	-	66,759	-
Akkardansa Sanayi ve Ticaret A.Ş. (Akkardansa)	20,094	-	16,733	-
Philip Morris SA	14,028	-	-	-
Ak Hayat Sigorta A.Ş.	11,477	-	-	-
İnsa İst. Merlon Naylon San. A.Ş. (İnsa)	11,248	-	444	-
Ak Portföy Yönetimi	6,600	-	-	-
Sapeksa Men. ve Toprak Mah. Tic. A.Ş. (Sapeksa)	6,106	-	-	2,444
Sabancı Üniversitesi	6,070	-	-	-
Vaksa	4,069	-	-	-
Vista Turizm	4,059	-	-	-
Hilton International	3,398	-	-	-
Tursa	3,375	-	-	-
Dönkasan	369	-	-	-
Teknosa İç ve Dış Tic. A.Ş. (Teknosa)	-	16,396	60	-
Yünsa	-	20,805	12,045	-
BNP - Ak Dresdner Bank A.Ş. (BNP Bank)	-	-	8,087	4,384
Ak Çimento Sanayi	-	-	-	-
Sasa Suni ve Sentetik Elyaf Sanayi A.Ş. (Sasa)	-	-	92,333	-
Emekli Sandığı	-	-	205	-
Exsa Export San. A.Ş. (Exsa Export)	-	-	-	1,666
	4,310,751	37,201	1,778,380	17,331

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NOTE 13 - RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Written Premiums

	30 June 2004	30 June 2003
Sasa Dupont Sa	7,059,807	1,890,606
Brisa A.Ş.	5,077,227	1,071,590
Bossa Tic.	2,589,024	634,830
Kordsa Sabanci	2,558,123	401,508
Carrefour-Sa	2,476,519	-
Toyotasa Toyota-Saba	2,335,305	217,639
Enerjisa Enerji	2,154,070	1,123,838
Akçansa Çimento San.	2,131,468	-
Akbank T.A.Ş.	1,907,405	1,263,951
Çimsa Çimento San.	1,896,841	-
Temsa San.Ve A.Ş.	1,864,669	652,864
H.Ö.Sabanci Holding	1,564,656	235,134
BNP-Ak Dresdner Fin.	1,228,477	366,750
Olmuxsa Oluklu	1,220,089	101,472
Pilsa Plastik San. A.Ş.	1,035,194	-
Beksa	762,169	-
Yünsa Yünlü San.	698,804	170,574
Philsa Philip Morris	691,357	-
Exsa Export San.Mam.	577,554	59,267
Teknosa İç Ve Dış	343,160	181,080
Tursa Sabanci Tur.	337,052	-
Marsa Kraft	325,588	293,550
Diasa Dia Super Mar	318,314	-
Ak Emeklilik A.Ş.	318,064	-
Insa A.Ş.	297,489	42,460
Akyatirim Menkul Değ	174,471	-
Akkardansa Sanayi Ve	162,764	152,875
Oysa Çimento Sanayi	162,206	84,390
I-Bimsa	157,629	-
Sabanci Telekom	146,009	-
Gidasa Sabanci	129,686	-
Sakosa Sabanci	84,267	56,516
Akportföy Yönetimi	44,047	-
Sabanci Üniversitesi	39,361	-
Vista Seyahat A.Ş.	26,392	-
Dönkasan	24,404	-
Akhayat Sigorta A.Ş.	16,654	-
Hilton International	5,114	-
Vaksa Haci Öme	4,124	-
Sapeksa	(3,087)	761,521
Danonesa Danone	(7,270)	-
BNP Bank	-	21,908
Emekli Sandığı	-	720
Total	42,935,196	9,785,043

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NOTE 13 - RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Rent expense

	30 June 2004	30 June 2003
Holding	4,766	118,583

Rent income

	30 June 2004	30 June 2003
Ak Emeklilik	127,155	164,218
Sabancı Üniversitesi	70,475	81,306
Holding	26,630	-
Brisa	7,170	-
Teknosa	6,095	-
Akbank	4,814	2,778
	242,339	248,302

Interest income on time deposits and loan to banks

	30 June 2004	30 June 2003
Akbank	2,055,215	10,227,338

	30 June 2004	30 June 2003
<u>Dividend income</u>		
Akbank	51,642,377	42,871,873
Akçansa	1,516,395	1,325,401
Çimsa	665,014	892,607
Akyatırım	3,296	-
BNP-AK-Dresdner	965	643
Dönkasan	45	67
Yünsa	-	106,110
	53,828,092	45,196,701

Dividends paid

	30 June 2004	30 June 2003
Holding	17,483,132	8,564,585

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NOTE 14 - SUBSEQUENT EVENT

The ceiling of employment termination benefits was increased to 1,574,740,000 TL effective from 1 July 2004.

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