YAPI KREDİ BANK ANNUAL REPORT

2004

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YAPI KREDİ IN BRIEF

Yapı Kredi is a top-tier, full-service financial institution with core businesses in corporate, commercial, retail, international and investment banking.

Founded in 1944, Yapı Kredi provides a large variety of products and services to millions of corporate, commercial and retail customers through 423 domestic branches, 1,452 ATMs, a Call Center, the Internet as well as an offshore banking branch in Bahrain, four overseas representative offices and subsidiaries in Germany, the Netherlands and the Russian Federation.

Strong business lines and a reputation for excellence and innovation make Yapı Kredi a leading player in the Turkish banking sector. Services provided include customer deposit-taking, consumer and corporate lending, foreign trade transactions, investment banking and mutual fund management, credit and debit cards, telephone and internet banking and payment services.

The Bank's ordinary shares have been listed on the Istanbul Stock Exchange since 1987 and its shares in the form of Global Depository Receipts have been listed on the London Stock Exchange since 1997.

The Bank has established or acquired financial subsidiaries active in life and non-life insurance, leasing, factoring and investment banking, that complement its business.

BOARD OF DIRECTORS

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Sedat Altunay
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Chief Executive Officer and Member

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Ömer Kemal Gürer
Vice Chairman

Selçuk Tamer
Vice Chairman

Lokman Gündüz
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Associate Prof. Osman Reha Yolalan
Chief Executive Officer and Member

Ömer Kemal Gürer
Vice Chairman

Mehmet Çekinmez
Chairman

Selçuk Tamer
Vice Chairman

MESSAGE FROM THE BOARD OF DIRECTORS

Yapı Kredi marked its 60th anniversary in 2004, a year of positive worldwide and domestic economic developments.

The world economy posted the highest growth rate in the past 30 years in 2004, a trend that started in the second half of 2003. The growth of 5% in 2004 was mainly driven by emerging economies led by China and the industrialized countries. In the European Union, the economy showed some signs of improvement, although this was not very strong and in some countries, Germany in particular, stemmed from external demand. Despite the generally positive trend of the world economy, rising petroleum prices and signs of economic slowdown in the United States, the EU and Japan in the second half of 2004 may negatively affect the coming period.

The positive developments seen in the Turkish economy in 2004 signal that the country has recovered from the 2001 crisis. The economy grew by 8.9% in 2004, bringing cumulative growth over the last three years to above 24%. At the same time, success was attained in combating chronic inflation, the biggest economic problem of Turkey over the past 30 years, and inflation fell from 73% in 2002 to 9.3% in 2004. Tight fiscal policies and structural reforms brought the budget deficit down from 16% in 2001 to 7% at the end of 2004. Political stability and reforms, combined with positive progress in relations with the EU and IMF, made Turkish Lira investments more attractive for both local and foreign investors in 2004, pushing interest rates down and leading to the appreciation of the TL against major foreign currencies. On the negative side, rapid economic growth and the appreciation of the TL encouraged imports, resulting in the widening of the current account deficit.

In recent years, the global financial services industry has transformed as a result of new technologies, liberalization and globalization. Consequently, margins on traditional banking activities narrowed and competition accelerated. While trying to adapt to these changing conditions, banks also had to improve their efficiencies and provide competitive services in the most profitable areas. The search to obtain optimum size led to a rapid increase in bank mergers with both local and international partners.

Turkey is currently experiencing a period similar to that following the 2001 crisis. Improvements in the macroeconomic environment have reduced uncertainty and increased business volumes. However, lower inflation and interest rates have put pressure on profitability, compelling banks to develop new lines of business. The increasing competition and rapid growth seen in consumer loans and credit cards in 2004 is a direct result of this quest for higher margin businesses. Turkish banks, which for decades operated in a protected environment secured by high inflation, are transitioning to a new environment in which efficiency and optimization of size are the most important elements. The recent mergers and acquisitions among banks and the increase in the share of international banks in the sector can be analyzed in this context.

In addition to the changing competitive environment, Yapı Kredi also had to confront difficulties related to its shareholding structure since June 2002. In accordance with the agreements made between our main shareholder the Çukurova Group, the Banking Regulation and Supervision Agency (BRSA) and the Savings Deposit Insurance Fund (SDIF), the Çukurova Group started the sale process of the Bank in November 2004. The sale process of Çukurova Group shares will inaugurate a new era for our Bank.

In the past period of uncertainty, Yapı Kredi has amply demonstrated that it is one of the rare institutions in Turkey that succeeded establishing itself as an "international brand". Yapı Kredi is a strong player in the swiftly expanding banking market due to its widespread, well-placed branch network, leadership in the credit card market, broad retail customer base, deep rooted credit culture, advanced technological infrastructure and well-qualified human resources. The resolution of its ownership problem will enable the Bank to reintegrate with the local and international markets effectively and forcefully in 2005 and

Chairman of the Board, Mehmet Çekinmez, speaking at Yapı Kredi's 60th Anniversary Celebration.

beyond. We have complete confidence that Yapı Kredi will continue to be at the forefront of the Turkish banking system also during the period of ownership change.

Despite difficulties stemming from the Bank's ownership problem, Yapı Kredi continued its traditional market effectiveness, retaining its importance in the sector with its market shares in all banking products. The Bank has a 6.3% share in TL time deposits, 9.7% in foreign currency deposits and 9.8% in total loans. In credit cards, Yapı Kredi remained the sector leader with 25% market share in terms of volume.

Total consolidated assets at end-2004 stood at YTL 25.8 billion and total shareholders' equity at YTL 3.3 billion, giving Yapı Kredi a consolidated capital adequacy ratio of 19.8%. Total customer deposits reached YTL 15.2 billion and foreign currency transaction volume amounted to USD 30 billion.

Yapı Kredi shares once again had the highest transaction volume in the Istanbul Stock Exchange with a volume of YTL 21.3 billion.

Fee and commission income increased to YTL 716 million as a result of high service quality, modern banking approach, and leadership in credit cards. Operational expenses decreased on a real basis compared to the previous year due to successful cost cutting efforts. The Bank was adversely affected by four events this year, namely the unsuccessful attempt of the controlling shareholder to redeem its debts early, the offering for sale of the controlling shareholder's stake, the required sale of non-financial subsidiaries and non-operational fixed assets, and the non-interest earning Fiskobirlik receivable. These developments negatively affected the Bank's operating results. The losses and provisions related to the sale of fixed assets and subsidiaries, resulted in a net loss of YTL 31 million in 2004. However, when the effect of these items is eliminated, the Bank's net income for the year amounted to YTL 548 million.

We extend our thanks and appreciation to all the employees of Yapı Kredi for their dedication and efforts during the year, which was characterized by uncertainty over the sale of the controlling stake in the Bank. The new period will be more promising and productive for Yapı Kredi employees. We are grateful to our shareholders for their support during this period and are confident that 2005 will be a better year for our country and our Bank.

Abdülmecid Efendi Köşkü, an important example of Ottoman civil architecture, was restored by Yapı Kredi and opened for the first time to host the Bank's 60th anniversary celebrations.

SUMMARY FINANCIAL STATEMENTS

SUMMARY BALANCE SHEETS

(USD millions)

	2004	2003
ASSETS		
Cash, due from banks, short-term placements	1,289	954
Reserve deposits	865	854
Securities	4,970	5,352
Originated loans and advances, net	8,629	7,992
Investments in associates and subsidiaries	565	593
Premises and equipment	1,694	1,837
Others	1,193	1,379
Total assets	**19,205**	**18,961**

	2004	2003
LIABILITIES AND EQUITY		
Customer deposits	11,330	12,048
Deposits from banks and money market deposits	2,498	1,970
Funds borrowed and notes issued	882	837
Insurance technical reserves	571	551
Others	1,385	1,035
Total liabilities	**16,666**	**16,441**
Minority interest	78	88
Total equity	2,461	2,432
Total liabilities and equity	**19,205**	**18,961**

SUMMARY INCOME STATEMENTS

(USD millions)

	2004	2003
Interest income	2,286	2,214
Interest expense	-1,652	-2,225
Net interest income / (expense)	634	-11
Provision for possible losses on loan, lease and factoring receivables	-95	5
Foreign exchange gain	34	25
Net interest income after foreign exchange gain and provision for possible losses on loan, lease and factoring receivables	573	19
Non-interest income	1,019	1,397
Non-interest expense	-1,763	-1,472
Loss from operating activities	-171	-56
Income / (loss) from associates and joint ventures	9	-20
Income tax benefit	51	61
Monetary gain	87	108
Net (loss) / profit from ordinary activities	-24	93
Minority interest	1	-12
Net (loss) / profit	**-23**	**81**

DISCUSSION OF RESULTS

The Bank's unconsolidated inflation adjusted financial statements are presented in the Appendix of the financial statements. The major subsidiaries whose results are included in the consolidated financial statements are:

Yapı Kredi Leasing, a listed company, ranks among the leaders of the Turkish leasing sector and serves an extensive portfolio of companies ranging from small and medium-sized enterprises to major firms.

Yapı Kredi Faktoring, with a 10% market share, is a full member of Factors Chain International.

Yapı Kredi Sigorta, is a leading provider of non-life and health insurance products (7% market share) and is listed on the ISE.

Yapı Kredi Emeklilik, is the sector leader in private pension system, in terms of number of contracts and participants (with a market share of 20% in both) as well as amount of contributions and size of pension funds (with a market share of 18% in both). In life insurance, Yapı Kredi Emeklilik is the second largest life insurance company with a 16% market share in terms of the size of life funds managed.

Yapı Kredi Yatırım, the full service investment banking and brokerage arm of Yapı Kredi, serves corporate clients and institutional and retail investors in Turkey and abroad.

Yapı Kredi Koray, as a listed real estate investment company, is well positioned in the market in terms of reputation, funding and access to investment opportunities.

Yapı Kredi Deutschland, focuses on corporate banking, foreign trade and treasury businesses in European markets.

Yapı Kredi Moscow provides services to Turkish and multinational corporations and individuals, with an emphasis on fee-based business in Russia.

Yapı Kredi Bank Nederland, established in 2001, provides trade finance, treasury, individual banking and corporate banking services.

Banque de Commerce et de Placement concentrates on the financing of commercial transactions in international trade and portfolio management services for private banking clients.

DISCUSSION OF RESULTS
EVALUATION OF FINANCIAL PERFORMANCE

Total assets of Yapı Kredi increased by 1% and amounted to USD 19,205 million at the end of 2004. The almost flat growth of the balance sheet is attributable to the disparity between inflation and devaluation rates in 2004. In inflation accounting application, the financial statements of the prior year were restated in their entirety to the measuring unit current on December 31, 2004 by using the 2004 WPI rate of 13.8%. However, during the same period, the decrease in the US dollar rate was 2.7%. Since approximately 43% of the balance sheet is denominated in currencies other than Turkish Lira, there is an overstatement of the previous year's figures. If the previous year's figures are directly converted into US dollars using 2003 year-end exchange rate without being restated with the current year inflation, the increase in the balance sheet is computed as 19%.

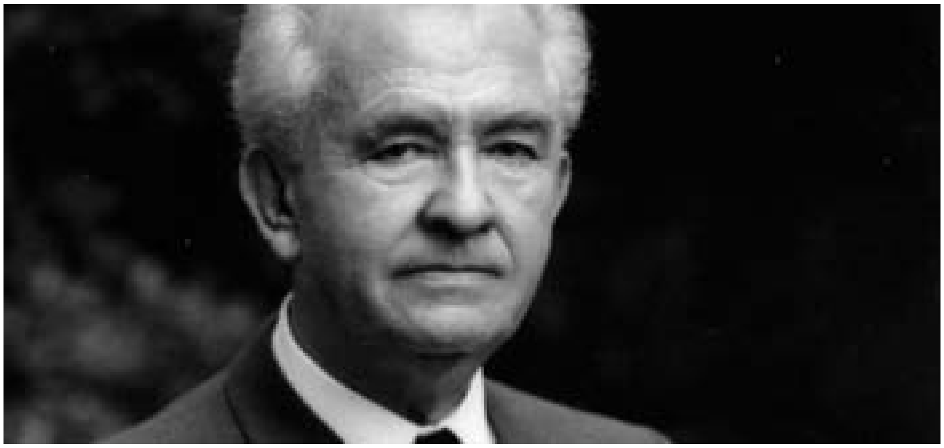
At the end of 2004, customer deposits reached USD 11,330 million and made up 68% of liabilities. The real decrease that is observed in deposits is attributable to the difference in the 2004 inflation and devaluation rates, as explained above. Actually, foreign currency deposits amounted to USD 6,578 million, 11% over 2003's figure of USD 5,946 million. Turkish Lira deposits increased by 6% in nominal terms and amounted to USD 4,752 million. As a result, foreign currency deposits made up 58% of total customer deposits. The contribution of savings deposits and commercial deposits to total customer deposits were 57% and 43%, respectively; demand deposits made up 18% of total deposits. Bank deposits and other money market deposits, including obligations under repurchase agreements, amounted to USD 2,498 million and constituted 15% of total liabilities whereas funds borrowed reached USD 882 million and made up 5% of total funding.

Shareholders' equity totaled USD 2,461 million at the end of 2004. The Bank's capital adequacy ratio on a consolidated basis and in line with the requirements of the BRSA was 19.8% as of December 31, 2004.

Due to the increasing loan demand, originated loans and advances increased by 8% in real terms to reach USD 8,629 at the end of 2004. Consequently, originated loans and advances to total assets ratio improved from 42% at the end of 2003 to 45%. Consumer lending, including credit card receivables, accounted for 34% of the performing loan portfolio; and the rest of the loan book was made up of corporate loans and loans to the government including securities directly purchased from the Treasury. Non-performing loans to total loans ratio fell to 6.8% and the coverage ratio reached 87%. Securities amounted to USD 4,970 million and made up 26% of the balance sheet at the end of 2004.

Yapı Kredi had a net loss of USD 23 million in 2004. One of the reasons of the net loss is the one-off losses and provisions amounting to USD 239 million related to the sale of fixed assets and subsidiaries. Further, the Bank's Fiskobirlik receivable continued to be a non-earning asset. Had the Bank applied interest in 2004 using the simple interest rates of debt securities announced by State Planning Organization, the net income would increase by USD 192 million. When the effects of these two issues are taken into consideration, the profitability of the Bank reaches USD 408 million.

Yapı Kredi generated USD 534 million in fees, commissions and income from banking services in 2004. The high level of fee and commission income is a result of the Bank's leadership in credit cards and also its high service quality and broad customer base. In line with effective cost management efforts during 2004, operational expenses including fees and commissions paid were almost flat at USD 811 million.



1944
The foundation of the first privately owned bank in Turkey was spearheaded by Kâzım Taşkent.

TREASURY & CAPITAL MARKETS

For Turkey, 2004 was a very important year from both political and economic perspectives. In a very competitive environment formed by heavy interest in Turkish markets, Yapı Kredi Treasury Management continued to shape money markets and enhance its leadership in the Turkish banking system in 2004, with the help of its expert staff and powerful infrastructure.

In terms of increased transaction volume, market shares and profitability, 2004 was a positive year both for interbank markets and customer transactions.

Yapı Kredi maintained its position as a market maker in foreign currency pricing, serving as a reference for many local and foreign banks. The volume of customer foreign currency transactions rose by 30% over the previous year from USD 23 billion to USD 30 billion, giving Yapı Kredi 11.5% of the market according to Central Bank statistics. When interbank transactions are included, Yapı Kredi's total foreign currency volume amounted to USD 53 billion, an increase of 30% over last year.

Yapı Kredi is recognized as a leader and market maker in the pricing of Treasury Bills, Government bonds and Turkish Treasury Eurobonds. In 2004, once again it had the highest transaction volume in government securities trading. In this period, it had a total transaction volume of YTL 92.2 billion, YTL 50 billion on the exchange and YTL 42.2 billion in interbank OTC trading and customer transactions. Yapı Kredi ranks among 12 banks chosen to participate in the Turkish Treasury's market-making system and holds a market-maker license. Meanwhile, Yapı Kredi is one of 14 banks active in the TR LIBOR market.

In the highly competitive mutual funds market, Yapı Kredi offers its customers a broad range of options with mutual funds structured according to a variety of risk categories. Yapı Kredi mutual funds increased by 12% to YTL 1.85 billion at end-2004 compared to YTL 1.66 billion in the previous year. Mutual fund services are available to customers at all branches during working hours and 24 hours a day via alternative delivery channels.

1945
With the opening of the İstanbul Bahçekapı branch, Yapı Kredi started the era of "Branch Banking" in Turkey.

In addition to mutual funds, Yapı Kredi customers may buy and sell equities, government bonds, Eurobonds, treasury bills, foreign bills and repos through more than 420 branches and other channels such as Teletel, Teleweb and Tele24.

Yapı Kredi is one of the leading banks in Turkey in terms of the volume of deposits and number of deposit customers. At year-end 2004, the Bank's YTL customer deposits amounted to YTL 6.4 billion, of which more than YTL 1.0 billion was demand. When USD 6.6 billion in foreign currency deposits is included, total customer deposits amounted to YTL 15.2 billion. Thus Yapı Kredi has a market share of 6.3% in YTL time deposits and 9.7% in foreign currency deposits, evidence of the high degree of customer confidence the Bank commands and its excellent service quality.

1945
The first children’s magazine Doğan Kardeş was published.

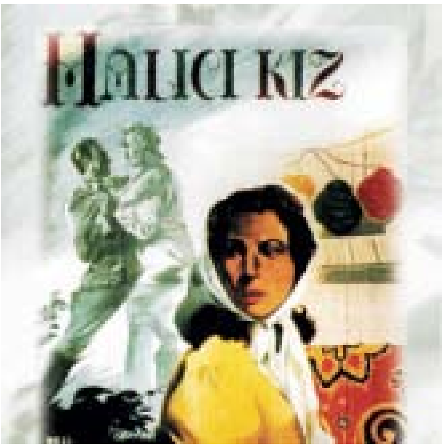
1951
Yapı Kredi sponsored the opening of the first privately owned theatre of the Republican era: “Küçük Sahne” (Small Stage).

FINANCIAL INSTITUTIONS

In 2004, Yapı Kredi reinforced its name as a respected and reliable bank in its international banking operations. Yapı Kredi continued to be a major portal to the Turkish market, thanks to its market penetration, efficiency and professionalism.

The Bank continued working with all major banks and export credit agencies all over the world. Yapı Kredi ranks among the top three banks in terms of total transaction volume with export credit agencies of Turkey's major trading partners.

In a highly competitive market with more than 30 active commercial banks, Yapı Kredi has approximately 15% share of the country’s total foreign trade transactions - further evidence of the importance that the Bank gives to international business and trade finance. Yapı Kredi’s experience in foreign trade transactions and its strong correspondent network put the Bank in a solid position to increase its business volumes and extend further support to the international activities of its customers.



1952
Yapı Kredi and its children's magazine Doğan Kardeş sponsored the first technicolor, feature length Turkish film "Halıcı Kız".

CORPORATE BANKING

Yapı Kredi delivers solutions to its customers to facilitate their business life. Serving companies of all sizes in all sectors, the Bank meets the needs of businesses with its products and services.

In line with its strategy to develop long-term relationships with its customers, Yapı Kredi has designed fast, quality solutions to general and specific requirements of corporate customers. By deepening relationships with existing customers and adding new customers to the portfolio, the Bank fortified its position in the banking sector. In addition, it broadened its cash management solutions in order to reach more customers, raising cash management transaction volume by four times and tripling the number of customers using this product.

Thanks to the special solutions designed for companies with extensive dealership networks, Yapı Kredi increased transaction volume of guaranteed collections. The Bank considers these customers as business partners and by meeting their requirements for collections, guarantees and financing, has made a positive contribution to their operational efficiency.

Yapı Kredi continued data accumulating and analysis efforts to strengthen the corporate memory in regard to commercial customers. In this context, campaigns for basic commercial products and services were organized to support the sales teams. In addition, the

1985
Corporate banking began as "Wholesale Commercial Banking", a first in Turkey.

Commercial Customer Monitoring System that was introduced last year was enriched with a warning system in 2004.

In 2004, Yapı Kredi was successful in increasing the percentage of corporate customers, which use the corporate internet banking system "Business Teleweb" by 80%. During the year, the flexible system was enriched and updated with new features in order to increase the efficiency of customers' work processes and to fully meet their needs.

In 2004, increasing number of Yapı Kredi customers used TRIO card, a unique card based payment platform that combines all services related to checks, promissory notes, letters of guarantee and cash payments. TRIO enables cardholders to purchase goods with flexible repayment periods, meets their financing needs when necessary, thus eliminates their short-term cash flow problems and guarantees their collections. Yapı Kredi increased the number of TRIO users sharply during the year.

The number of customers using "Flexible Commercial Loan Program" in which they have the opportunity to set payment dates according to their cash flow, which was first served by Yapı Kredi, increased by 70% compared to previous year.

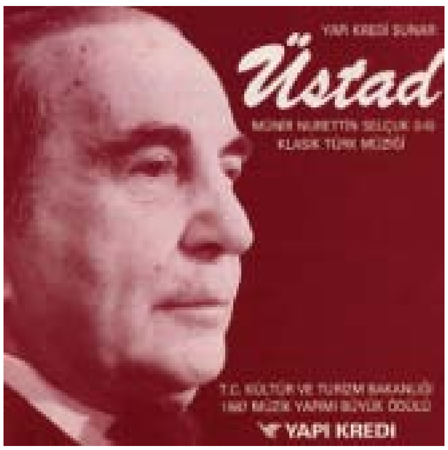
1983
Yapı Kredi opened a branch in Bahrain, inaugurating Turkish off-shore banking.

COMMERCIAL BANKING

In 2004, Yapı Kredi continued to be one of the leading institutions in commercial lending, working with companies in a wide variety of sectors including services, textiles, automotives, consumer durables, construction, tourism, trade, energy and agriculture with its customer focused, innovative approach to banking.

For many years, Yapı Kredi has supported small and medium sized enterprises. It remained a major player in this area in 2004 due to its innovative customer and market focused approach, broad customer base, diversified loan portfolio and local know-how. At the same time, it deepened relationships with larger companies by securing financing for their important projects. Yapı Kredi handles a significant proportion of Turkey's foreign trade by securing financing for exports and imports.

The Bank continued to act as a business partner in major infrastructure and construction projects both in Turkey and abroad, drawing on its expertise and market knowledge in



1988
Turkey's first music CD was issued.

contracting. In a similar fashion, Yapı Kredi was active in financing the needs of the construction industry related to dams, motorways, waste processing and industrial facilities, natural gas distribution and recycling systems and shipbuilding projects locally and internationally.

Yapı Kredi works with many hotels and tourism agencies. In 2004, it remained active in the sector with seasonal loans as well as financial support for tourism projects such as hotel renovation and capacity increase, thus maintaining its position as one of the most important banks in intermediation of tourism inflows.

Emphasis was given during the year to developing cash management systems for small and medium sized enterprises. Yapı Kredi further strengthened its database in regard to commercial customers, adding a new early warning mechanism, and enhancing its ability to conduct successful sales campaigns directed towards specific customer groups and market segments.

1989

Yapı Kredi became the first bank in Turkey to give car loans.

RETAIL BANKING

Yapı Kredi started a new era in retail banking in 2004 with the introduction of the "My Money" system, which was promoted with the slogan "Work more with Yapı Kredi and earn more".

Thanks to the My Money system, Yapı Kredi customers started to benefit from countless advantages such as priority service at branches, emergency health service and Worldpoint bonuses. The system awards customers for doing more business with Yapı Kredi by introducing them more benefits as their transaction volumes with the Bank increases. As the first such program in Turkish banking system, it gained 250,000 customers in the first seven months and continues to grow rapidly.

During the year, Yapı Kredi also enriched its Personal Banking services to high-income customers. In addition to advantages such as three fold increase in daily withdrawal limits at ATMs, personal portfolio manager, a bimonthly Gold Style magazine and complimentary emergency health service for the cardholder as well as for one relative, new benefits were added with the My Money program.

As an extension of the Personal Banking program, Yapı Kredi started the Personal Banking Investment Centers project. The first center was opened in the Head Office to service customers interested in all types of investment products who prefer to handle all their transactions over the phone.

Yapı Kredi considers university students as important future customers. University Banking, which focuses on serving university students,

Abdülmecid Efendi Köşkü, was built by Egyptian Khedive İsmail Paşa in the 1880's as a hunting lodge and was used by Abdülmecid Efendi for artistic and literary gatherings.

was enhanced with a number of events during the year. A Film Festival traveled to 18 universities in 11 cities. University Telecard holders or applicants for a card won free entry to all films on campus. The festival drew a total audience of 32,000 students and received a great deal of press coverage, contributing to Yapı Kredi's image among university students and meeting sales targets. The Bank further enhanced its image among university students by adding a University Webcard for internet purchases. The card enables Yapı Kredi customers to transfer funds from their current account to their webcard in order to make secure online purchases.

2004 was a very successful year for Yapı Kredi for cultivating the Customer Relationship Management infrastructure, which was established during the preceding three years. Using the data effectively in sales campaigns, Yapı Kredi reached over three million customers and conducted these campaigns faultlessly with the help of the Campaign Management software. This infrastructure has been further developed by changing the database refresh period from a monthly to a daily basis.

Last year, Yapı Kredi cooperated with a leading automotive company to give car loans to customers directly through the dealers. This system enabled customers who want to buy a car to fill out an online application form at the dealers and receive approval in a matter of minutes. With the help of this program, Yapı Kredi gained an important share in the car loan market by meeting the financing requirements of customers at the time and place they need it.

1991
Yapı Kredi became the first bank in Turkey to introduce a point reward system for credit cards.

CREDIT CARDS

Yapı Kredi maintained its leadership in the credit card market in 2004 by enhancing the features of its World System .

Throughout the year, joint campaigns were conducted that created special opportunities for both World merchants and Worldcard holders. Agreements with leading retailers delivered a wider platform of shopping priviledges to Worldcard holders.

Yapı Kredi developed a unique "Extra Installment" program through which Worldcard holders started to benefit from additional installments on top of those offered by merchants without any additional cost.

The Nilson Report, based on 34 years of research on "Consumer Payment Systems" and news sources, ranked Yapı Kredi 20th in Europe and 54th in the world for credit and bank card transaction volume.

Many new features such as personal loan on credit card, deferred installments, money transfers from credit cards were added to Worldcard in 2004, taking into account the needs of cardholders. Also the necessary infrastructure was formed for cardholders to pay their utility bills with their Worldcard.

While completing all preparations for migrating credit card portfolio to EMV standards, a Virtual Worldcard was introduced in order to increase security for telephone and internet purchases.

A campaign launched in November 2003 enabled Worldcard holders to exchange their Worldpoints for air time on the Turkcell GSM network. After the major success of this campaign, this application became a product feature that remains unique in the sector. At year-end 2004, more than 1.7 Worldcard holders used this opportunity, a clear indication of the success of this campaign.

The training program, which started in 2002 to train the merchants' sales force continued in 2004 and the total number of participants in three years reached 18,000.

Taken together, these products and services played a key role in Yapı Kredi's continued dominance in the Turkey's very competitive credit card market. Credit card issuing volume rose to USD 11.5 billion in 2004. The Bank enjoyed 25% market share in terms of issuing volume and a 17% market share in terms of number of credit cards. With more than 4.3 million cards at the end of 2004, Yapı Kredi has the largest and most popular credit card portfolio in the country.

Being the market leader since 2000, Yapı Kredi maintained 25% market share in credit card acquiring volume. In 2004, POS terminals at more than 130,000 merchants generated volumes of almost USD 10.4 billion. World is Turkey's biggest merchant program with over 70,000 members.

1991
The first Call Center in Turkey, AloBanka, started serving customers.

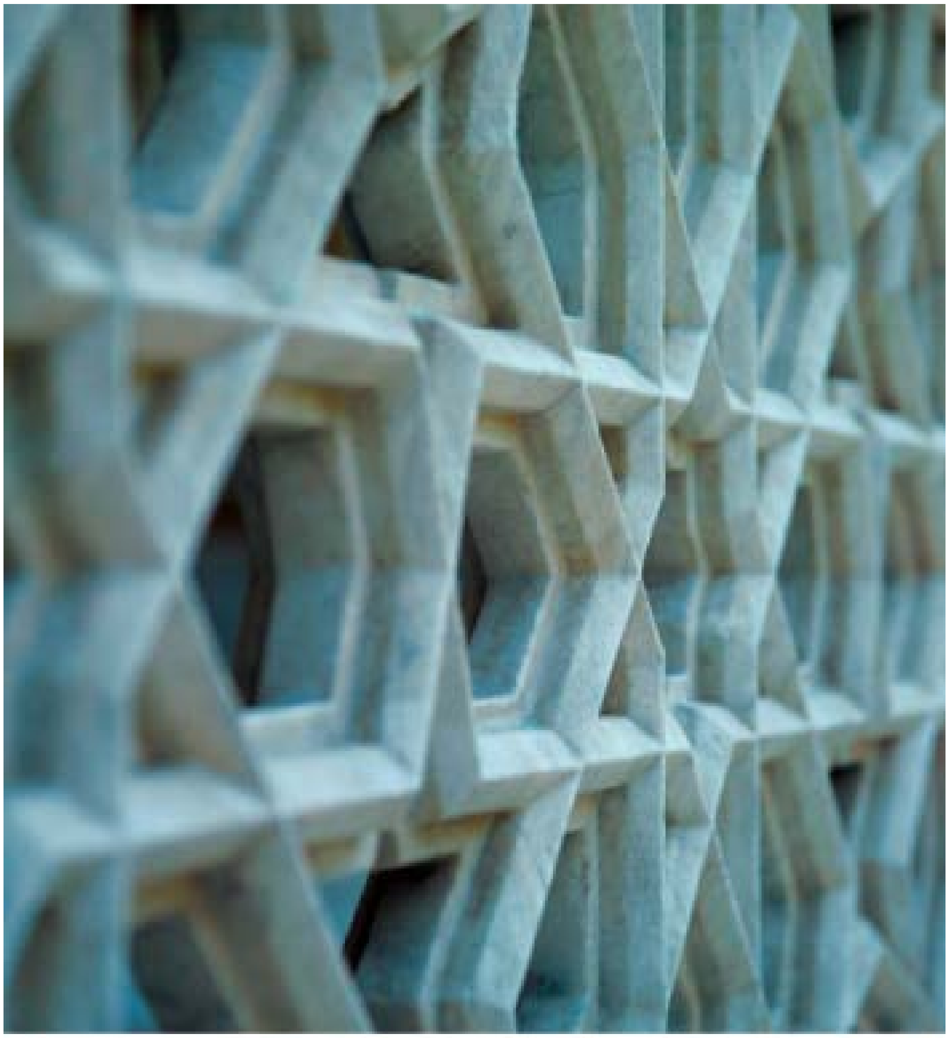
CREDIT RISK MANAGEMENT

The importance of credit risk management is continuously increasing in today's modern banking system. In 2004, Credit Risk Management continued to contribute to the Bank's performance, helping Yapı Kredi achieve its key objectives. The Bank has a deep-rooted credit culture, assessment and underwriting principles and keeps a close and continuous watch on its loan portfolio. An early-warning system is used to spot loans that may become potentially problematic.

Proactive systems alert the Bank to changes in conditions on a daily basis while the Risk Monitoring System and the Commercial Loan Scoring Model enable the analysis of the entire portfolio.

Work to develop a credit scoring system and integrated loan decision models for small and medium sized enterprises that constitute a dynamic and distinct part of the Yapı Kredi customer portfolio and the Turkish economy was completed during this year. This puts the necessary infrastructure that enables the Bank to judge the credibility of companies in this segment in a sounder manner and to reduce operational costs by shortening the time needed to make loan decisions.

A detail from Abdülmecid Efendi Köşkü, one of the finest examples of Ottoman architecture and decorative arts.



BANK RISK COMMITTEE

During 2004, Yapı Kredi Bank Risk Management Committee continued efforts to develop strategies to deal with current and possible risks of the Bank, to analyse, measure and monitor risks, to determine and implement risk management policies and processes, to calculate VAR and CAR for market and operational risks and to determine capital reserves needed to cover risks and to execute capital adequacy studies in compliance with Basel II.

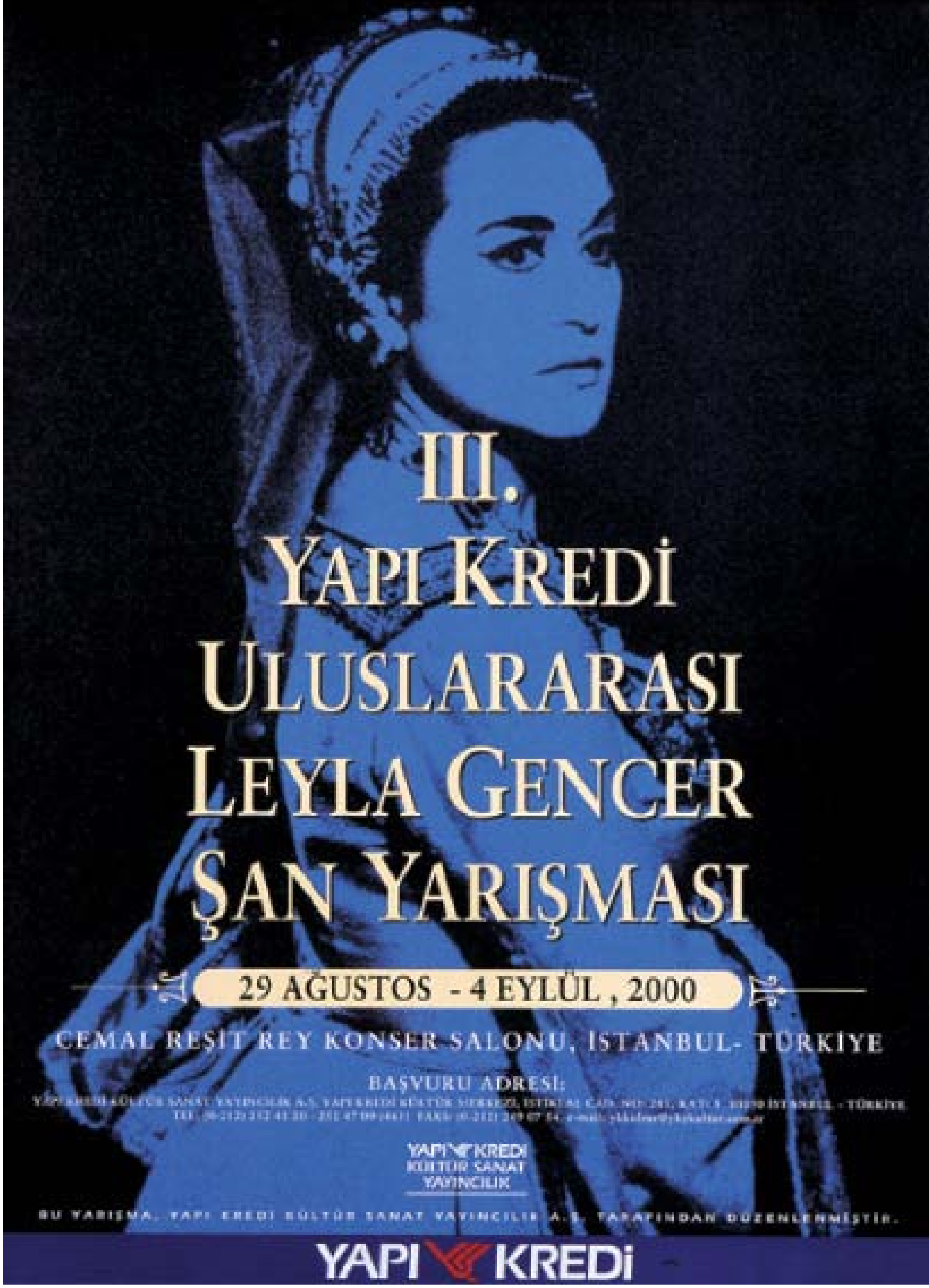
Work was completed to finetune the software purchased from a specialist organization with the aim of measuring market risks and analyzing assets and liabilities and analysis reporting commenced.

Regarding credit risk, loan portfolio was analyzed at macro level and the portfolio was classified under various criteria such as sector, geographic region and scoring. In addition, quantitative impact studies were conducted to calculate capital requirements according to Basel II approaches in order to harmonize with international standards. These developments were reported regularly, establishing a loan risk profile.

In regard to Operational Risk Management, the Basel II Compliance Project, aiming to ensure achievement of world standards, was initiated. Operational risks throughout all the business lines were identified and operational risk policies were published. A road map was put in action by finalizing tools, which are going to be used both for risk management, calculation of capital requirements and quantification of operational risks with advanced measurement approaches.

Reports sent to BRSA concerning capital adequacy and other risk parameters were prepared under the supervision of the committee, which continued to do vital work regarding changes to be made in international regulations regarding capital adequacy.

1995
The International Leyla Gencer Opera Singing Competition was inaugurated.



INTERNAL AUDIT BOARD

The Internal Audit Board carries out the technology, legal and regulatory audits of Yapı Kredi Head Office, branches and subsidiaries at international standards.

The Board, with an expert team of 94 people, completed a risk-focused audit of all branches, six Head Office departments and ten subsidiaries during 2004.

The Central Auditing and Early Warning System implemented at the end of 2002, in compliance with the Regulation on Banks' Internal Control and Risk Management Systems, provided the audit of the accounting and deposit transactions of Head Office and branches to


TÜV CERT

SERTİFİKA

DAR

TÜV-Zertifizierungsgemeinschaft e.V.
işbu belge ile

YAPI VE KREDİ BANKASI A.Ş.
İstanbul - Türkiye

şirketinin, aşağıda belirtilen geçerlilik alanında

Bireysel Bankacılık
ve Tüm Şubeler

bir kalite yönetim sistemini yürürlüğe koyduğunu
ve uygulamakta olduğunu teyid eder.
595157 rapor sayılı bir inceleme ile

EN ISO 9001
şartlarının sağlanmış olduğu kanıtlanmıştır.
İşbu sertifika
Eylül 1998
tarihine kadar geçerlidir.
Sertifika Kayıt No:
041005312

Bonn, 04.09.1995
TÜV CERT Başkanlığı

RWTÜV

Essen, 04.09.1995
RWTÜV
TÜV CERT Sertifikasyon Bölümü

1995
Yapı Kredi became the first bank in Turkey to receive the ISO 9001 Quality Certificate.

be collected in one data pool .

Besides this, with the assistance of thorough research concerning customers and employees, efforts continued to determine employee abuse of authority quickly.

In regard to the Early Warning System, new projects were developed to make the auditing process more effective. At the same time, research and development activities were accelerated to raise the quality of audit.

Computer World "Best Practices in Business Intelligence 2004", Visa "Continuous Leadership in Credit Cards", European Call Centre Awards "Certificate of Excellence".

INTERNAL CONTROL CENTER

In 2004, the Internal Control Center, established with the aim of designing, directing and the guidance of Yapı Kredi's internal control activities, continued to audit compliance with all decisions and applications with the legal requirements, restrictions, Bank policies and implementation methods set forth by the Banking Law and other regulations regarding banking.

In addition, the Center made various suggestions to improve and correct the internal control system taking into account the effectiveness of business processes and procedures.

Within the context of the "Improving Internal Control Function Project" started with the consultancy of an international company specialized in corporate risk services and ran by the existing internal control employees, the main processes for credit cards and expenses/payments were examined. By determining the risks and controls of these workflows, the principles of internal control applications and the work program of the internal control center were formulated and auditing started.

Auditing of treasury and loan processes continued with new additions to business programs. These developments were shared with the internal audit departments of Yapı Kredi's financial subsidiaries, contributing to the success of auditing activities in these subsidiaries and creating synergies with them.

1995
Nasuh Mahruki, the first Turk to climb Everest, was sponsored by Yapı Kredi.

OPERATIONS

In 2004, Yapı Kredi's Operations Management continued to serve internal and external customers, not only at branches but also in operation centers and central Head Office managements. The total number of transactions processed in the branches rose to a very high level of 136 million.

The objective of Yapı Kredi Operations Management in 2004 was once again to meet and exceed the expectations of internal and external customers. In order to achieve this goal, Yapı Kredi Operations Management continued to make new investments to improve service quality and operational efficiency. Priority was given to further improving the Bank's ability to deliver fast, uninterrupted, error-free services.

Centralization of all credit and foreign trade operations was completed. Supported by Yapı Kredi's powerful technological infrastructure, the Bank achieved a notable increase in service quality and improved the efficiency, speed and security of back-office operations. Annual transaction volume per operations employee has increased from 18,000 in 1999 when the centralization project was initiated to 32,000 in 2004, while reducing the workforce by 800 people.

During 2004, it became possible to handle all foreign trade transactions on a web-based system. This system brought up a robust and dynamic environment that allows the Bank to develop solutions according to customers' changing needs and expectations, which directly leads to higher customer satisfaction.

Turkey adopted a new currency on January 1, 2005. To ensure a smooth transition to the New Turkish Lira (YTL), the infrastructure of all currency counting machines and all systems used in relation to cash were readjusted to the new currency.

Technological investments to improve work processes achieved a noticeable development in the service quality and efficiency of Operations Management as business volumes rose.

Yapı Kredi Operations Center won the "Millenium Award" from the United Kingdom Design Council.

TECHNOLOGY

Yapı Kredi has been a pioneer and leader in exploiting technology to create business opportunities since the 1980's. In 2004, Yapı Kredi continued to use this sophisticated level of competency to introduce new banking products and services that surpasses that of many of the world's more developed markets.

The Bank's project management experience, a service approach focused on customer satisfaction, superiority in information technology, successful vendor management and familiarity with high transaction volume systems serve as models for its competitors.

In 2004, the New Branch Infrastructure Project was completed with the objective of increasing the capabilities of the branches. The new system enables Yapı Kredi to introduce new products to the market faster, to integrate these new products into the branches and deliver efficient service to the end-users. Priority will be given to spreading this system throughout the branch network in 2005 in order to raise service quality substantially.

Through efforts to implement operational datawarehouse applications to support Yapı Kredi's growth strategy in retail banking, the infrastructure for effective customer relationship management was developed. The Bank was awarded Computer World's 'Best Practices in Business Intelligence 2004" prize as a result of these efforts.

At the same time, the campaign management infrastructure was integrated with existing channels to support the effectiveness of sales campaigns, enabling the Bank to run different campaigns at different channels concurrently. The Bank created an e-post office system to meet demanding customer communication requirements and is able to manage all communication with customers through e-mails, mobile phone short message services (SMS) and letters in a more effective and low-cost manner. The "Secure Banking through SMS" application developed with Turkcell indicates that Yapı Kredi's leadership in mobile banking will continue in the future. By utilizing the internationally accepted encryption techniques, the highest level of security has been achieved for mobile banking transactions.

Yapı Kredi Call Center renewed its technology last year and adopted a new system that increased the number of calls that employees

Last year, Webtrust certificates for internet banking were awarded to Yapı Kredi in five categories.

can handle at the same time and improved the efficiency of responses to incoming calls. Yapı Kredi played a leading role in applying standards in Turkey by sharing with other banks its technical management, know-how and experience in the transition to EMV standard chip cards at sales points. The infrastructure of payment systems has been improved to benefit from internet and data communications. In internet banking, important changes were made in the Teleweb architecture to enhance its performance. After receiving the ISO-9001 Quality Certificate in 2000, Yapı Kredi decided to apply European Foundation for Quality Management (EFQM) Model of Excellence for Technology Management in order to successfully manage its technology and people, maintain customer satisfaction at a consistently high level and deliver service at international standards. To a certain the level it had achieved, Technology Management applied for the Kal-Der 2004 National Quality Award. The independent audit conducted by Kal-Der concluded that Yapı Kredi's Technology Management had reached the level to attain this prestigious award in both Turkey and Europe.

Yeniköy Koru, a magnificent monument to history and nature, continues and will continue to exist; thanks to the protection of Yapı Kredi.

ALTERNATIVE DELIVERY CHANNELS

Yapı Kredi handles 71% of comparable transactions through alternative delivery channels. These channels have enriched the scope of service by enabling Yapı Kredi customers to reach the bank, 24 hours a day 7 days a week at the time, place and method of their channel access.

As of year-end 2004, close to 600,000 "Unlimited Banking" customers used the Bank's Teletel, Teleweb, Telemobil and Television channels. Customers who use these channels are among the Bank's most loyal customers and have created high transaction volumes that made a positive contribution to profitability.

The variety of services provided through "Unlimited Banking" channels continued to meet the demands of customers in 2004. In order to increase security, a new password system for Teleweb was launched in 2004 and the system was enriched by enabling tax payments, bill payments from credit cards, personalized teleweb for retail customers as well as services such as Businesscard company reports and letters of guarantee monitoring for corporate customers.

Yapı Kredi has the second largest ATM network among private banks with 1,452 Tele24 machines. During the year, many new model Tele24 machines went into service that provide new functions such as direct cash deposits. The scope of service was broadened by distinguishing the screen according to the location and card type.

The Call Center, the backbone of the Bank's alternative delivery channels and customer services, continued to serve customers in the most rapid and effective way in 2004. The Predictive Dialing System produced excellent results for campaigns for a wide variety of products and services in coordination with the sales efforts of branches. Teletel began to provide Priority Service for Valuable Customers and Reminder and Informational Services.

On the mobile platform, cooperation with Turkcell developed the "SIMPlus64 Mobile Banking Service", the first mobile banking model in Turkey and the world to embed a banking menu on the SIM card. This project added a new delivery channel for banking services and work continues to enrich its functionality and increase usage among its target market.

The hunting lodge and outbuildings belonging to Sait Halim Paşa (1863-1921), the grandson of Kavalalı Mehmet Ali Paşa and the son of Halil Paşa can be seen in Yeniköy Koru.

HUMAN RESOURCES

In the services sector in which service quality and human resources have growing importance, Yapı Kredi continued to develop its human resources policies and practices in line with corporate strategies, taking into account changing conditions and employee feedback.

As a result of the planning efforts to maintain the dynamism of the Bank by ensuring efficient allocation of human resources, the number of employees totaled 10,546 at end - 2004. Of these, 56% are female, 62% hold a graduate or post-graduate degree, and 11% know at least one foreign language.

In 2004, the Bank participated in Career Days at Turkey's leading universities. The "Teleyanıt" and "WebYanıt" systems enable candidates seeking employment at Yapı Kredi to access information over the telephone and internet concerning career paths, open positions, prerequisites and application methods as well as the results of applications, tests and interviews. The technological infrastructure of the recruitment process was enhanced to follow each stage of the application and recruitment process easily.

During the year, human resources practices were reviewed and revised in line with new labor laws.

In 2004, Yapı Kredi continued to conduct "Mystery Shopping Research" to track the success of service culture improvement efforts and to judge customer satisfaction. Close to 2,250 branch visits have been made to date, resulting in a total of 64% improvement in service quality since 1999. As done in the last 12 years, the complaints and suggestions from customers were handled one by one by Yapı Kredi's External Customer Relations team and the results were reported to management and the relevant departments.

"A Suggestion Assessment and Reward System" has been established to analyze suggestions received from employees related to increasing efficiency, improving service quality, developing work and information flows and minimizing risks.

To measure the effectiveness of internal communications and internal service quality, the service and communications approaches of branch and Head Office employees were assessed. Improvements made as a result of this research received a positive response.

Efforts to expand and improve internal communications systems and channels accelerated in 2004. The Bank inaugurated satellite television broadcasts called BİZTV (OUR TV) to provide macroeconomic and market information, give messages from the senior management and enable all employees to share in training sessions and meetings.

Training activities continued throughout 2004 to develop the know-how and competencies of Yapı Kredi employees and improve their performance and thus contribute to the Bank's service quality, corporate values and competitive strength. The majority of training sessions were given by 259 internal trainers. During the year, employees participated in 1,508 training programs and seminars and the average hours of training per employee was 38. 2004 was also a very busy year in terms of basic training programs. New recruits were given a total of 1,010 days of training in 30 basic training programs.

2004
Worldcard become the first credit card to apply extra installment payments to all sectors.

2004
Yapı Kredi became the first bank in Turkey to systemically reward customer value through the "My Money" program.

ADVERTISING AND PUBLIC RELATIONS

2004 marked the 60th anniversary of Yapı Kredi, the Bank with a well-established tradition of being the "first" in the market. Special promotional events took place to celebrate this important anniversary, including a documentary film and specially composed music.

In terms of promotions and advertising, the year was a busy one for all banking categories. Communication related to the promotions and deals offered by a large number of Worldcard merchant partners continued. Films for Extra World Installment campaign that started in the summer and shopping campaigns during the month of Ramazan were shown to be successful in creating lasting awareness according to research. Joint campaigns with mobile phone operator Turkcell contributed to awareness and effective communication. Special promotions for Mother's Day, Father's Day and Valentines Day, events such as the Nişantaşı Spring Festival, Uludağ World Challenge, Burç Beach, Port Göcek Regatta and Platinum yacht races and sponsorship of the Global Warming and Brand Conference supported communication with Worldcard's target audience.

In 2004, My Money was selected as a believable and reliable name for a new application in retail banking. The launch of My Money reflects Yapı Kredi's focus on the needs of the consumer. The red hand on the My Money logo underlines the individuality of the program.

Yapı Kredi deepened its relations with university students – the active customers of the future – by organizing a Film Festival that traveled between universities and was attended by close to 32,000 students. The festival was supported by an internet site kampusce.com.

A press conference was held at the Operations Center (Banking Base) for the first time to announce the Bank's Webtrust certificate in five categories.

The Flexible Loan Repayment model was promoted by three television commercials. The style of these commercials was also used to promote TRIO. The card's features were explained in advertorials in the press and television. The same technique was used to promote the new infrastructure of Commercial Teleweb.

During the year, various meetings and seminars for bank employees were held in different parts of Turkey. An internal television channel started broadcasting, adding to the range of corporate communication methods that include a quarterly magazine and monthly e-mail bulletins.

Yapı Kredi is committed to adding value to the life of the community by bringing new ideas and opening new perspectives. Yapı Kredi Culture Art Publishing, a non-profit company, operates a publishing house, cultural center, museum, art galleries, library and arranges a busy calendar of performing arts. Yapı Kredi strives to bring first-rate art exhibits and performances to Turkish audiences and publishes a large selection of quality titles.

In 2004, Yapı Kredi Publishing printed 186 new books and new editions of another 536 books in its catalogue. The 60th Year Anniversary Exhibition of important objects of the Bank's collections traveled to seven provinces and was seen by more than one million lovers of art. In addition, 70,000 spectators attended more than 400 cultural and artistic events .

The Karaköy Branch remains in its original building.

Yapı ve Kredi Bankası
Anonim Şirketi

Consolidated Financial Statements
Together With
Report of Independent Auditors
December 31, 2004

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Yapı ve Kredi Bankası Anonim Şirketi

1. We have audited the accompanying consolidated balance sheet of Yapı ve Kredi Bankası Anonim Şirketi (the Bank) and its subsidiaries (collectively the Group) as of December 31, 2004 and the related consolidated income, changes in equity and cash flow statements for the year then ended, all expressed in the equivalent purchasing power of Turkish lira as of December 31, 2004. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. Except as discussed in paragraphs 3 to 6 below we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As explained in detail in Note 26, as December 31, 2004 there are loans due from the Çukurova Group amounting to approximately TL 2,718 trillion (USD 2,026 million). Such loans are collateralized by Turkcell İletişim Hizmetleri A.Ş. (Turkcell) and Turkcell Holding A.Ş. (Turkcell Holding) shares, the fair value of which is estimated as TL 2,258 trillion (USD 1,683 million) at market prices as of December 31, 2004. As of February, 28, 2005 the Çukurova Group paid the interest installment amounting to TL 142 trillion (USD 101.5 million) due as of December 31, 2004. As explained in further detail in Note 32, in the public announcements made by Koç Financial Services (KFS) and Çukurova Group regarding the negotiations for the sale of Bank shares held by Çukurova Group to KFS, "a substantial part of the share transfer price will be used by the Çukurova Group to repay their loans to the Bank." Consequently the recoverability of the Çukurova Group loans is also dependent on the conclusion of the Share Transfer Agreement and utilization of the sale proceeds to repay the loans to the Bank.

4. As of December 31, 2004, the available for sale investments of the Bank include investments in shares of three Çukurova Group companies with a carrying value of TL 199 trillion, representing cost less a provision for impairment of TL 39 trillion. There are also loans outstanding of TL 156 trillion due from these companies. There is no current valuation of the recoverable amount of the investment and loans. As explained in Note 32, the Çukurova Group had an option to repurchase these shares which has not been exercised and declared to be lapsed by the Bank. However, in the public announcements made by Koç Financial Services (KFS) and Çukurova Group regarding the negotiations for the sale of Bank shares held by Çukurova Group to KFS. There is reference to a new option for the repurchase of the shares by the Çukurova Group. Accordingly there is uncertainty regarding the classification and the recoverable amount of the investments and related loans.

5. The Bank has a defined benefit plan to provide post retirement benefits to its employees. According to the actuarial valuation prepared in accordance with local regulations as of December 31, 2004 there is a surplus of plan assets less liabilities of TL 56 trillion using a discount rate of 15% and a deficit of TL 116 trillion using a rate of 10% (December 31, 2003- TL 141 trillion surplus using the rate of 15% , TL 7 trillion surplus using the rate of 10%).

   The Bank is also liable to provide healthcare benefits to its current and retired employees. The cost of these benefits is charged to expense as incurred.

   International Accounting Standard 19 "Employee Benefits" requires the use of the Projected Unit Credit Method in measurement of the obligations and costs of defined benefit plans, as well as a provision for healthcare benefits for retirees and future retirees. The Bank's valuation with respect to post retirement benefits has not been prepared in accordance with IAS 19 and there is no actuarial valuation for healthcare benefits. Accordingly we were unable to quantify the amount of provision that should be reflected in the financial statements, if any.

6. As explained in detail in Note 33, as of December 31, 2004 the Bank has a receivable from a government agency amounting to TL 625 trillion. Interest income is not accrued on this receivable since December 31, 2001, except for the three month period between July and September 30, 2002. The Bank also has interest receivable of TL 24 trillion from another government agency. Legal actions have been taken against these agencies and the recoverable amount of this receivable is dependent on the outcome of the legal proceedings.

7. In our opinion, except for the matters explained in paragraphs 3 to 6 above, the financial statements referred to above present fairly. In all material respects, the financial position of the Group as of December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion further we would like to draw attention to the following;

8. Turkcell announced at the Istanbul Stock Exchange on March 25, 2005 that the Turkcell Holding (owning 51% of Turkcell) shares directly or indirectly owned by Çukurova Group, representing 52% of Turkcell Holding's share capital, are offered for sale to Sonera Holding B.V. at the amount of $ 3.1 billion. The total holding under negotiation includes 12.86% Turkcell Holding shares held by the Bank as collateral for the Çukurova Group exposures (fair value estimated as TL 875 trillion in paragraph 3 above) and 20.02% classified as the Bank's investments in associates (carried at TL 253 trillion as of December 31,2004). Based on the offer price, the value of the such shares held as collateral and classified as investments in associates are TL 1,029 trillion and TL 1,602 trillion, respectively. The effects of the potential sale are uncertain and not reflected in the Bank's financial statements.

9. As explained in more detail in Note 32, on January 31, 2005 Çukurova Holding A.Ş. and Mehmet Emin Karamehmet have signed a Share Transfer Agreement with Koç Financial Services and Koçbank Nederland N.V. with respect to the sale of shares that Çukurova Group of Companies and Savings Deposits and Insurance Fund (SDIF) own in Yapı ve Kredi Bankası A.Ş. Share transfer price will be adjusted based on the results of due diligence studies and the balance sheet as of the date of transfer and share transfer is subject to completion of due diligence studies and side agreements to the Share Transfer Agreement and permission of related authorities which are still in progress as of the report date.

10. As required by the agreement signed among Banking Regulation and Supervision Agency (BRSA), SDIF and the Çukurova Group, all necessary precautions will be taken in order for the capital adequacy ratio of the Bank not to fall below 10%. In the event the capital adequacy ratio falls below 10% and if the Çukurova Group is unable to increase capital, the necessary capital will be provided by SDIF.

April 12, 2005
Istanbul, Turkey

Ernst & Young

Yapı ve Kredi Bankası Anonim Şirketi

CONSOLIDATED BALANCE SHEET

As at December 31, 2004
(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

	Notes	2004	2003
ASSETS			
Cash and balances with the central banks	4	**409,291**	308,036
Deposits with other banks and financial institutions	4	**1,309,418**	880,972
Other money market placements	4	**11,532**	91,066
Reserve deposits at the central banks	5	**1,161,321**	1,146,120
Trading securities	6	**3,893,907**	3,487,131
Available for sale securities	6	**2,588,550**	2,748,481
Held to maturity securities	6	**187,286**	947,935
Loans and advances	7	**11,580,480**	10,726,345
Factoring receivables	8	**241,649**	307,236
Minimum lease payments receivable	9	**265,991**	360,555
Derivative financial instruments	22	**2,846**	4,336
Investment in joint ventures	10	**440,697**	471,726
Investments in unconsolidated subsidiaries	11	**4,124**	5,633
Investments in associates	12	**314,041**	317,952
Investment properties	13	**20,291**	20,698
Premises and equipment	14	**2,273,279**	2,465,894
Intangibles	15	**160,481**	170,290
Other assets	16	**663,783**	815,025
Deferred tax asset	21	**245,793**	171,630
Total assets		**25,774,760**	25,447,061
LIABILITIES AND EQUITY			
Deposits from other banks	17	**289,588**	195,719
Customers' deposits	17	**15,205,988**	16,170,067
Other money market deposits	17	**3,063,289**	2,447,770
Funds borrowed	18	**915,551**	809,324
Debt securities	18	**268,420**	314,088
Insurance technical reserves	20	**766,511**	739,159
Factoring payables	8	**121,508**	144,012
Derivative financial instruments	22	**1,825**	5,209
Other liabilities and provisions	19	**1,721,110**	1,218,228
Income taxes payable	21	**2,115**	5,510
Deferred tax liability	21	**11,537**	15,632
Total liabilities		**22,367,442**	22,064,718
Minority interest		**104,989**	117,947
Share capital issued	23	**3,425,231**	4,289,752
Net unrealized gains		**233,162**	154,119
Currency translation differences		**(87,947)**	(77,418)
Legal reserves and accumulated deficit	24	**(268,117)**	(1,102,057)
Total equity		**3,302,329**	3,264,396
Total liabilities and equity		**25,774,760**	25,447,061

The accompanying policies and explanatory notes on pages 44 through 98 form an integral part of the financial statements.

Yapı ve Kredi Bankası Anonim Şirketi

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2004
(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

	Notes	2004	2003
Interest income			
Interest on loans and advances		**1,856,501**	1,797,720
Interest on securities		**1,051,449**	973,124
Interest on deposits with other banks and financial institutions		**87,686**	121,752
Interest on other money market placements		**2,184**	12,655
Interest on financial leases		**43,346**	43,275
Interest income from factoring advances		**18,713**	21,920
Other interest income		**8,480**	899
Total interest income		**3,068,359**	2,971,345
Interest expense			
Interest on deposits		**(1,636,703)**	(2,352,041)
Interest on other money market deposits		**(512,369)**	(522,014)
Interest on funds borrowed		**(62,821)**	(105,281)
Interest on debt securities		**(5,954)**	(6,697)
Total interest expense		**(2,217,847)**	(2,986,033)
Net interest income (expense)		**850,512**	(14,688)
Provision for possible losses on loan, lease and factoring receivables	7,8,9	**(128,135)**	6,726
Net interest income (expense) after provision for possible losses on loan, lease and factoring receivables		**722,377**	(7,962)
Foreign exchange gain		**45,550**	33,613
Net interest income after foreign exchange gain (loss) and provision for possible losses on loan, lease and factoring receivables		**767,927**	25,651
Fees and commissions income		**214,998**	220,068
Income from banking services		**501,134**	533,867
Trading income, net		**98,609**	542,174
Other income	28	**553,237**	578,374
Other operating income		**1,367,978**	1,874,483
Fees and commissions expense		**(171,852)**	(215,429)
Salaries and employee benefits	27	**(485,595)**	(460,937)
Depreciation and amortization	13, 14, 15	**(213,497)**	(220,890)
Taxes other than on income		**(43,614)**	(67,100)
Other expenses	28	**(1,449,931)**	(1,010,456)
Other operating expense		**(2,364,489)**	(1,974,812)
Loss from operating activities		**(228,584)**	(74,678)
Income / (loss) from associates and joint ventures	10, 12	**12,050**	(27,266)
Loss from operating activities before income tax, monetary gain and minority interest		**(216,534)**	(101,944)
Income tax benefit	21	**68,567**	81,611
Monetary gain		**116,491**	144,900
Net (loss) / profit from ordinary activities		**(31,476)**	124,567
Minority interest		**895**	(15,473)
Net (loss) / profit		**(30,581)**	109,094
(Loss) / Earnings per share :			
Basic (Full TL)	25	**(95)**	145

The accompanying policies and explanatory notes on pages 44 through 98 form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2004

(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

	Notes	Share Capital	Unrealized gains (losses)	Reserve for general banking risk	Currency translation differences	Reserves and and accumulated profits	Total
At January 1, 2003		4,289,752	31,487	97,214	(29,494)	(1,307,289)	3,081,670
Net gain (loss) on available for sale financial assets		-	122,632	-	-	-	122,632
Dividends declared		-	-	-	-	(1,076)	(1,076)
Currency translation differences		-	-	-	(47,924)	-	(47,924)
Net profit for the year (as restated)		-	-	-	-	109,094	109,094
Reserve for general banking risk		-	-	(97,214)	-	97,214	-
At December 31, 2003		4,289,752	154,119	-	(77,418)	(1,102,057)	3,264,396
Net gain on available for sale financial assets		-	79,043	-	-	-	79,043
Accumulated losses netted-off	**23**	(864,521)	-	-	-	864,521	-
Dividends declared		-	-	-	-	-	-
Currency translation differences		-	-	-	(10,529)	-	(10,529)
Net loss for the year		-	-	-	-	(30,581)	(30,581)
At December 31, 2004		**3,425,231**	**233,162**	**-**	**(87,947)**	**(268,117)**	**3,302,329**

The accompanying policies and explanatory notes on pages 44 through 98 form an integral part of the financial statements.

Yapı ve Kredi Bankası Anonim Şirketi

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2004
(Currency – In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

	Notes	2004	2003
Cash flows from operating activities			
Interest received		**3,387,443**	2,912,835
Interest paid		**(2,161,101)**	(2,918,022)
Fees and commissions received		**214,998**	220,068
Income from banking services		**501,134**	533,867
Trading income		**98,609**	542,174
Recoveries of loans previously written off		**21,357**	14,679
Fees and commissions paid		**(171,852)**	(215,429)
Cash payments to employees and other parties		**(485,595)**	(460,937)
Cash received from other operating activities		**771,316**	790,410
Cash paid for other operating activities		**(1,235,548)**	(953,241)
Income taxes paid		**(67,261)**	(14,073)
Cash flows from operating activities before changes in operating assets and liabilities		**873,500**	452,331
Changes in operating assets and liabilities			
Net (increase) decrease trading securities		**(372,567)**	819,322
Net (increase) decrease in bank accounts		**(539)**	111,367
Net (increase) decrease in reserve deposits at the Central Banks		**(21,428)**	109,068
Net (increase) decrease in originated loans and advances		**(1,060,838)**	336,752
Net decrease (increase) in factoring receivables		**62,844**	(101,382)
Net decrease (increase) in minimum lease payments receivable		**85,003**	(29,866)
Net decrease in other assets		**152,280**	33,547
Net decrease in deposits from other banks		**93,869**	28,183
Net decrease in customers' deposits		**(1,002,682)**	(1,392,575)
Net increase in other money market deposits		**620,950**	224,458
Net increase (decrease) in factoring payables		**(22,504)**	45,546
Net increase in other liabilities		**602,262**	878,216
Net cash (used in) / provided by operating activities		**10,150**	1,514,967
Cash flows from investing activities			
Purchases of available for sale securities		**(175,737)**	(649)
Proceeds from sale and redemption of available for sale securities		**414,647**	(1,255,783)
Purchases of held to maturity securities		**-**	(763,950)
Proceeds from redemption of held to maturity securities		**457,957**	657,401
Acquisition of subsidiaries and associates net of cash acquired		**-**	(1,948)
Disposal of subsidiaries and associates net of cash disposed		**6,536**	121,261
Purchases of investment property		**-**	(32)
Purchases of premises and equipment		**(69,270)**	(120,589)
Proceeds from the sale of premises and equipment		**26,968**	12,702
Purchase of intangible assets		**(20,945)**	-
Proceeds from intangible assets		**-**	49
Net cash provided by investing activities		**640,156**	(1,351,538)
Cash flows from financing activities			
Proceeds from issue of share capital		**-**	-
Retained earnings from change in participation percentage		**-**	-
Repayments of funds borrowed and debt securities		**(45,668)**	(284,810)
Dividends paid to minority interests		**-**	(1,075)
Net cash provided by financing activities		**(45,668)**	(285,885)
Effect of net foreign exchange differences and monetary gain (loss) on cash and cash equivalents		**(155,010)**	(208,062)
Net (decrease) increase in cash and cash equivalents		**604,638**	(122,456)
Cash and cash equivalents at beginning of year	4	**1,278,259**	1,608,777
Cash and cash equivalents at end of year	4	**1,727,887**	1,278,259

The accompanying policies and explanatory notes on pages 44 through 98 form an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

1. CORPORATE INFORMATION

General

Yapı ve Kredi Bankası Anonim Şirketi (the Bank) was established on September 9, 1944 under the Turkish Banking and Commercial Codes. The Bank's ordinary shares have been listed on the İstanbul Stock Exchange since 1987 and its shares in the form of Global Depository Receipts have been listed on the London Stock Exchange since 1997. The address of the headquarter and registered office of the Bank is Yapı Kredi Plaza D Blok, Büyükdere Caddesi, Levent 34330, İstanbul, Turkey.

The consolidated financial statements of the Bank are authorized for issue by the management on April 12, 2005. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

An agreement has been signed among the BRSA, SDIF and the Çukurova Group on January 31, 2003 by which management, control, and shareholding rights (excluding dividends) of Pamukbank T.A.Ş. is transferred to SDIF. Moreover, the shares of the Bank held by Pamukbank T.A.Ş. and its subsidiaries and the shares held by the Çukurova Group will be sold to third parties by the Çukurova Group within two years after the agreement date so that direct and indirect participation of the Çukurova Group in the Bank will be reduced to less than 10%. On January 31, 2005 Koç Financial Services A.Ş. ("KFS"), and Koçbank Nederland N.V. have signed a Share Transfer Agreement with Çukurova Holding A.Ş. (Çukurova) and Mehmet Emin Karamehmet for the sale of Yapı ve Kredi Bankası A.Ş. shares held by the Çukurova Group. The agreement has not yet been finalized as of the date of the approval of these financial statements.

Currently, the Bank is managed by an independent board under the supervision of BRSA and Çukurova Group.

Nature of Activities of the Bank / Group

The Bank is a full-service financial institution engaged in corporate, retail, international and investment banking businesses through a network which includes 419 domestic branches, an offshore banking branch in Bahrain, four overseas representative offices in Germany and the Russian Federation. Services provided include customer deposit-taking, consumer and corporate lending, foreign trade transactions, investment banking and mutual fund management, credit and debit cards, electronic, telephone and internet banking and payment services.

The Bank has established or acquired financial subsidiaries which complement the core areas of its business including life and non-life insurance, leasing, factoring and investment banking. The Bank also has subsidiaries, associates, and joint ventures in information technology, tourism, telecommunication, and construction sectors operating in Turkey and abroad.

For the purpose of these consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as "the Group".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004

1. CORPORATE INFORMATION (continued)

The subsidiaries included in consolidation and their shareholding percentages at December 31, 2004 and 2003 are as follows:

	Place of Incorporation	Principal Activities	Effective Shareholding and Voting Rights (%)	
			2004	2003
Yapı Kredi Sigorta A.Ş.	Turkey	Insurance	**66.31**	66.31
Yapı Kredi Finansal Kiralama A.O.	Turkey	Leasing	**66.32**	65.40
Yapı Kredi Faktoring A.Ş.	Turkey	Factoring	**99.98**	99.98
Yapı Kredi Yatırım Menkul Değerler A.Ş.	Turkey	Investment banking	**99.99**	99.99
Yapı Kredi Emeklilik A.Ş.	Turkey	Insurance	**99.99**	99.99
Yapı Kredi Bank Deutschland A.G.	Germany	Banking	**97.50**	97.50
Yapı Kredi Holding B.V.	Netherlands	Holding	**100.00**	100.00
Yapı Kredi Moscow	Russia	Banking	**99.70**	99.70
Yapı Kredi Yatırım Ortaklığı A.Ş.	Turkey	Investment Trust	**51.47**	51.47
Yapı Kredi International Financial Services Ltd.	Ireland	Financial Services	**100.00**	100.00
Bayındırlık İşleri A.Ş.	Turkey	Construction	**99.18**	84.86
Akdeniz Marmara Turizm İnşaat ve Ticaret A.Ş.	Turkey	Construction	**99.99**	99.99
Yapı Kredi Nederland N.V.	Netherlands	Banking	**100.00**	100.00

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and International Accounting Standards and Standing Interpretations Committee interpretations approved by International Accounting Standards Committee (IASC) that remain in effect. The consolidated financial statements have been prepared on a historical cost convention except for the measurement at fair value of derivative financial instruments, trading securities and available-for-sale financial assets. As of December 31, 2004, the Group did not early adopt the changes in IFRS effective for annual periods beginning on or after January 1, 2005.

The Bank and its subsidiaries which are incorporated in Turkey, maintain their books of account and prepare their statutory financial statements ("Statutory Financial Statements") in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, accounting standards promulgated by the Turkish Capital Market Board, Turkish Commercial Code and Tax Legislation. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS in Turkish Lira (TL) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. The major adjustments which are reflected to be in conformity with IFRS constitute:

(a) Consolidation and/or equity accounting of non-financial subsidiaries
(b) Deferred tax
(c) Employee benefits
(d) Deferred acquisition costs related to insurance contracts and unearned premium reserve and claim provisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Currency, Reporting Currency and Translation Methodology

Measurement Currency for the Bank and Its Subsidiaries Which Operate in Turkey :

The measurement and reporting currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira (TL). As a result of a long period of high inflation, the Turkish Lira (TL) has ended up in large denominations, creating difficulty in expressing and recording transactions. A new law was enacted on January 31, 2004 to introduce Yeni Türk Lirası (New Turkish Lira, YTL), as the new currency unit for the Republic of Turkey effective January 1, 2005. The conversion rate for TL against YTL is fixed at YTL 1 to TL 1,000,000 (full) through out the period of one year until complete phase-out of TL. In accordance with the declaration of the Banking Regulation and Supervision Agency dated January 5, 2005, the Bank continued to use the Turkish Lira (TL) as the functional and presentation currency as of December 31, 2004 in billions of TL. Effective January 1, 2005 the Bank's functional and presentation currency will be YTL and financial statements including comparative figures for the prior periods / years will be presented in thousands of YTL.

The restatement for the changes in the general purchasing power of TL as of December 31, 2004 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 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 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 December 31, 2004, the three year cumulative rate has been 69.72% (2003 - 181.11%) based on the Turkish countrywide wholesale price index published by the State Institute of Statistics. Such index and conversion factors as of the end of the three year period ended December 31, 2004 are given below:

Dates	Index	Conversion Factors
December 31, 2001	4,951.7	1.697
December 31, 2002	6,478.8	1.297
December 31, 2003	7,382.1	1.138
December 31, 2004	8,403.8	1.000

The main guidelines for the above mentioned restatement are as follows :

- the financial statements of prior year, including monetary assets and liabilities reported therein, which were previously reported in terms of the measuring unit current at the end of that year are restated in their entirety to the measuring unit current at December 31, 2004.
- monetary assets and liabilities reported in the consolidated balance sheet as of December 31, 2004 are not restated because they are already expressed in terms of the monetary unit current at that balance sheet date.
- the inflation adjusted share capital was derived by indexing cash contributions, dividends reinvested, transfers from statutory retained earnings and income from sale of investments and property transferred to share capital from the date they were contributed.
- non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and other components of equity are restated by applying the relevant conversion factors.
- the effect of general inflation on the net monetary position is included in the income statement as monetary gain (loss).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- All items in the income statement are restated by applying appropriate average conversion factors with the exception of depreciation, amortization, gain or loss on disposal of non-monetary assets which have been calculated based on the restated gross book values and accumulated depreciation/amortization.

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Group could realize or settle the same values of assets and liabilities as those appearing in the consolidated balance sheets. Similarly, it does not necessarily mean that the Group could return or settle the same values of equity to its shareholders.

Measurement and Reporting Currencies of Foreign Subsidiaries

The measurement and reporting currencies are as follows at December 31, 2004 and 2003:

	Local Currency	Measurement Currency
Yapı Kredi Bank Deutschland A.G. (YK Deutschland)	Euro	Euro
Yapı Kredi Holding B.V. (YK Holding)	Euro	USD
Yapı Kredi Moscow (YK Moscow)	RUR	USD
Yapı Kredi International Financial Services Ltd. (YK International)	USD	USD
Yapı Kredi Bank Nederland N.V. (YK Nederland)	Euro	Euro

Because of the international nature of the foreign subsidiaries' activities and the fact that some foreign subsidiaries transact more of their business in USD or EURO than in any other currency, those foreign subsidiaries have adopted these currencies as their measurement currency.

The subsidiaries are regarded as foreign entities since they are financially, economically and organizationally autonomous.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries drawn up to the reporting date each period.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The consolidated financial statements of the Group include the Bank and its subsidiaries, which it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively.

Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The purchase method of accounting is used for acquired businesses. Subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

All significant intercompany balances and transactions are eliminated on consolidation.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in Associates

The Group's investments in associates are accounted for under the equity method of accounting. These are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures of the Group. The investments in associates are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The income statement reflects the Group's share of the results of operations of the associates. The Group's investments in associates include goodwill (net of accumulated amortization) on acquisition, which is treated in accordance with the accounting policy for goodwill stated below.

Interest in Joint Venture

The Group's interest in its joint venture is accounted for by equity basis of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee.

Foreign Currency Translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Foreign currency translation rates used by the Bank as of respective year-end are as follows :

Dates	USD / TL (full)	EURO / TL (full)
December 31, 2002	1,595,000	1,662,309
December 31, 2003	1,380,000	1,725,276
December 31, 2004	1,342,100	1,826,732

The assets and liabilities of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The income statements of foreign subsidiaries are also translated at year-end exchange rates, which is considered as a proxy to restate such income statement amounts at year-end purchasing power of TL. All differences resulting from the translation of the financial statements of foreign entities are included in equity as translation gain (loss) until the disposal of the net investment.

On disposal of a foreign entity, accumulated exchange differences are recognized in the income statement as a component of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquiring company and are recorded at the exchange rate at the date of the transaction and restated thereafter.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Premises and Equipment

Premises and equipment is stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings and land improvements	50 years
Furniture and fixtures, equipment, leased equipment	5-17 years
Leasehold improvements	Over the term of respective leases

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of premises and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement.

Investment Properties

Investment properties are stated at cost less accumulated depreciation and any impairment in value. Investment properties are depreciated on a straight-line basis over the estimated useful lives of 50 years.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary, associate or joint venture at the date of acquisition. Goodwill is amortized on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortization and any impairment in value.

Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and Development Costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortized over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the group purchases or sells the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost, change in value is not recognized; for assets classified as trading or as available for sale, the change in value is recognized through profit or loss and in equity, respectively. Management determines the appropriate classification of its investments at the time of the purchase. The Group maintains four separate securities portfolio, as follows:

Trading securities

Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. After initial recognition, trading securities are remeasured at fair value based on quoted bid prices. All related realized and unrealized gains or losses are recognized in trading income.

Held to maturity securities

Investment securities with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Management determines the appropriate classification of its investments at the time of the purchase.

Held-to-maturity investments are carried at amortized cost using the effective yield method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognised or impaired, as well as through the amortization process.

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

Loans and advances to government

Debt securities that are purchased from government at original issuance and not classified as trading are classified as originated loans and advances and carried at amortized cost using the effective yield method less any impairment in value. Interest earned on such securities is reported as interest income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Available for sale securities

All other investments are classified as available for sale. Available for sale securities are subsequently carried at fair value. Gains or losses on re-measurement to fair value are recognized as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

Interest earned on available for sale investments is reported as interest income. Dividends received are included in dividend income, if any.

For investments that are traded in an active market, fair value is determined by reference to Stock Exchange or current market bid prices at the close of business on the balance sheet date. For investments where there is no market price or market price is not indicative of the fair value of the investment, fair value is determined by reference to the current market value of another instrument which is substantially the same, recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment, if any.

Repurchase and Resale Transactions

The Group enters into short-term sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement, continue to be recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they are part of. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repurchase agreements) are not recognized in the balance sheet, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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 realize the asset and settle the liability simultaneously.

Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instrument. The Group derecognizes a financial asset or a portion of financial asset when and only when it loses control of the contractual rights that comprise the financial asset or a portion of financial asset. The Group derecognizes a financial liability when and only when a liability is extinguished that is when the obligation specified in the contract is discharged, cancelled and expires.

Cash and Cash Equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with other banks and financial institutions and other money market placements with an original maturity of three months or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and Advances to Customers

Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at draw down are categorized as loans originated by the Group and are carried at amortized cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognized when cash is advanced to borrowers.

Provisions for Possible Losses on Loan, Lease, Factoring Receivable Losses

Based upon its evaluation of credits granted, management estimates the total credit risk provision that it believes is adequate to cover uncollectable amounts in the Group's loan and receivable portfolio and losses under guarantees and commitments. If there is objective evidence that the Group will not be able to collect all amounts due (principal and interest) according to original contractual terms of the loan; such loans are considered impaired and classified as "loans in arrears". Loans with principal or interest overdue by more than 90 days are also classified as "loans in arrears". The amount of the loss is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate or as the difference between the carrying value of the loan and the fair value of collateral, if the loan is collateralized and foreclosure is probable.

Impairment and uncollectibility are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

The Group ceases to accrue interest on those loans that are classified as "loans in arrears" and for which the recoverable amount is determined primarily in reference to fair value of collateral.

The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance for impairment account. A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Write offs are charged against previously established allowances and reduce the principle amount of a loan. Recoveries of loans written off in earlier period are included in income.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan losses expense. Unwinding of the discount is treated as income and remaining provision is then reassessed.

Provision is made on a portfolio basis for losses on existing lease receivables, based on past experience, management's assessment of current economic conditions, the quality and inherent risks in the receivable portfolio and other relevant factors.

Balances of agencies and policyholders under legal follow-up and agencies and policyholders for which management identifies problems in credit worthiness are classified as doubtful receivables. Based upon its evaluation of such receivables, management estimates the total allowance that it believes is adequate to cover specific uncollectible amounts. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the income statement in the periods in which they become known.

Deposits and Funds Borrowed

Deposits and funds borrowed are initially recognized at cost. After initial recognition, all interest bearing liabilities are subsequently measured at amortized cost using effective yield method, less amounts repaid. Amortized cost is calculated by taking into account any discount or premium on settlement. Gain or loss is recognized in the income statement when the liability is derecognized or impaired as well as through the amortization process.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

The Group has both defined benefit and defined contribution plans as described below:

(i) Pension and Other Post-retirement Obligations

a) Defined Contribution Plans:

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in current and prior years.

For defined contribution plans the Group pays contributions to the Social Security Funds which are recognised as employee benefits expense when they are due.

b) Defined Benefit Plans:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his /her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı Vakfı ("the Fund"), is a separate legal entity and a foundation recognized by an official decree, providing all qualified Bank employees with pension plan benefits. The Fund is a defined benefit plan under which the Bank pays fixed contributions, and is obliged to pay amounts other than the fixed contribution to the Fund through constructively paying additional amounts or through contractual benefits that are not solely linked to the fixed contributions.

The liability to be recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The Bank does not have the legal right to access to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and therefore, no assets are recognised in the balance sheet in respect of defined benefit pension plans. The defined benefit obligation is calculated annually by independent actuaries in accordance with the related communiques of the Ministry of Labor and Social Security. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using expected real interest rates for Turkish lira. Technical deficits determined based on such actuarial reports are provided for in the following year.

The Bank provides also post-retirement healthcare benefits to its retirees. The costs of these benefits are charged to expense as incurred.

(ii) Employee Termination Benefits

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

Full provision is made for the present value of the defined benefit obligation calculated using the Projected Unit Credit method. All actuarial gains and losses are recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Leases

The Group as Lessee

Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalized leased assets are depreciated over the estimated useful life of the asset.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

The Group as Lessor

Finance Lease

The Group presents leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized immediately as expenses.

Operating Lease

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in income on a straight - line basis over the lease term.

Insurance Business

Premium Income

Premium income is recognised in the period in which insurance cover is provided to the customer. Premiums received relating to future periods are deferred on a daily pro-rated basis and only recognised in the income statement when earned.

Reinsurance premiums are recognised on the same basis as the related premium income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Claims

A provision is made for the estimated cost of claims notified but not settled and claims incurred but not reported (IBNR) at the balance sheet date, less amounts recoverable from reinsurers.

The provision for the cost of claims notified but not settled is based upon a best estimate of the cost of settling each outstanding claim, on a case by case basis, after taking into account all known facts, recent past experience and assumptions about the future development of the outstanding cases.

Deferred Acquisition Costs

The direct and indirect costs and commission expenses incurred in acquiring the unearned portion of premiums are recorded in the balance sheet under deferred acquisition costs and recognized in income statement on the same basis as the premiums to which they relate.

Income from general insurance business including net insurance premiums and investment income is reflected in other income and reinsurance premiums, claims and agent's commissions paid, the increase/decrease in insurance business funds are reflected in other income. Staff costs and other administrative expenses are included in the relevant captions in the income statement.

Insurance Technical Reserves

Insurance technical reserves represent:

Unearned Premium Reserve

Unearned premiums are those proportions of the premiums written in a year that relate to the period of risk subsequent to the balance sheet date for all policies other than life policies with more than one year of maturity. Unearned premium reserve set aside for unexpired risks has been computed on a daily pro-rated basis.

In calculating the provision for unearned premium, reinsurance commissions are deferred with the same rates used in unearned premium calculation and included in current year unearned premium reserve.

Outstanding Claims / IBNR Reserves

Outstanding claims reserve represents the estimate of the total reported costs of notified claims on an individual case basis at the end of the year, as well as the corresponding handling costs. A provision for claims incurred but not reported (IBNR) is also established.

Mathematical Reserves

The mathematical reserves have been calculated on the life policies in force at year-end by using actuarial assumptions and formulas which have been approved by the Prime Ministry Undersecretariat of Treasury.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Profit Share Reserve

Profit share is the portion of investment income allocated to life policy holders from income generated due to premiums of life policies with a savings clause. Such policies normally have at least 10 years of maturity and policy holders are entitled to receive a profit share after 3 years from the date of policy issuance. Profit share is calculated on an individual policy basis. Investment income presented within income from insurance operations represents income generated through utilization of funds associated with mathematical reserves in various investment tools whereas provision for profit share represents the amount allocated to policy holders out of investment income after certain deductions.

Factoring Receivables and Factoring Payables

Factoring receivables are recognized at original factored receivable amount, which represents the fair value of consideration given, and subsequently remeasured at amortized cost less reserve for possible losses. Factoring payables are recognized at original factored amount less advances extended against factoring receivables, interest and factoring commissions charged, and then carried at amortized cost.

Income and Expense Recognition

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income is suspended when loans are overdue by more than 90 days and is excluded from interest income until received. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments.

Fee for bank transfers and other banking services are recorded as income when collected. Dividends are recognized when the shareholders' right to receive the payments is established.

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

Income Tax

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

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences:

- except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is 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 to be utilized.

Deferred income 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.

Derivative Financial Instruments

The Group enters into transactions with derivative instruments including forwards and swaps in the foreign exchange and capital markets. These derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value. Any gains or losses arising from changes in fair value are recognized in income statement.

Fair values are obtained from quoted market prices in active markets, to the extent publicly available and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value with fair value changes reflected in income statement. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement.

Fiduciary Assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the balance sheet, since such items are not treated as assets of the Group.

Use of Estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results may vary from the current estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004
(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment Reporting

A business segment is a distinguishable component of an entity engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an entity that is engaged in providing products and services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3. SEGMENT INFORMATION

Segment information is prepared on the following bases:

Business segments

The Group conducts the majority of its business activities in the financial sector.

Year ended December 31, 2004

	Banking	Leasing	Factoring	Insurance	Construction	Consolidated
Net interest income	769,205	31,601	15,030	34,676	-	**850,512**
Provision for possible loan, lease and factoring receivable losses	(114,227)	(10,966)	(2,942)	-	-	**(128,135)**
Foreign exchange gain/(loss)	43,756	1,244	(805)	1,355	-	**45,550**
Other operating income	844,856	2,220	7,531	511,479	1,892	**1,367,978**
Other operating expense	(1,794,841)	(1,090)	(7,246)	(553,982)	(7,330)	**(2,364,489)**
Profit (loss) from operating activities	**(251,251)**	**23,009**	**11,568**	**(6,472)**	**(5,438)**	**(228,584)**
Income/loss from associates	12,044	-	-	6	-	**12,050**
Unallocated items:						
Income tax						**68,567**
Monetary gain						**116,491**
Minority interest						**895**
Net profit (loss)	**(239,207)**	**23,009**	**11,568**	**(6,466)**	**(5,438)**	**(30,581)**
Other segment information						
Segment assets	23,408,766	284,592	245,288	963,973	117,403	**25,020,022**
Investment in associates/joint ventures	754,314	-	-	424	-	**754,738**
Total assets	**24,163,080**	**284,592**	**245,288**	**964,397**	**117,403**	**25,774,760**
Segment liabilities	21,116,424	153,941	199,727	883,053	14,297	**22,367,442**
Total liabilities	**21,116,424**	**153,941**	**199,727**	**883,053**	**14,297**	**22,367,442**
Capital expenditures						
Tangible fixed assets	60,522	14	958	7,139	637	**69,270**
Intangible fixed assets	18,147	2,798	-	-	-	**20,945**
Depreciation	**(169,119)**	**(192)**	**(1,125)**	**(5,599)**	**(960)**	**(176,995)**
Amortization	**(33,788)**	**(63)**	**(43)**	**-**	**-**	**(33,894)**
Impairment losses	**(40,953)**	**-**	**-**	**(1,974)**	**-**	**(42,927)**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

3. SEGMENT INFORMATION (continued)

Year ended December 31, 2003

	Banking	Leasing	Factoring	Insurance	Construction	Consolidated
Net interest income (expense)	(111,870)	26,018	19,215	51,949	-	(14,688)
Provision for possible loan, lease and factoring receivables	1,211	5,468	47	-	-	6,726
Foreign exchange gain/(loss)	32,917	3,023	88	(2,415)	-	33,613
Other operating income	1,358,704	7,998	5,781	508,488	-	1,880,971
Other operating expense	(1,396,787)	(16,740)	(14,832)	(533,606)	(19,335)	(1,981,300)
Profit (loss) from operating activities	**(115,825)**	**25,767**	**10,299**	**24,416**	**(19,335)**	**(74,678)**
Income (loss) from associates	(27,266)	-	-	-	-	**(27,266)**
Unallocated items :						
Income tax	-	-	-	-	-	**81,611**
Monetary gain	-	-	-	-	-	**144,900**
Minority interest	-	-	-	-	-	**(15,473)**
Net profit	**(143,091)**	**25,767**	**10,299**	**24,416**	**(19,335)**	**109,094**
Other segment information						
Segment assets	22,955,168	390,574	316,208	873,250	122,183	**24,657,383**
Investment in associates/joint ventures	789,678	-	-	-	-	**789,678**
Total assets	**23,744,846**	**390,574**	**316,208**	**873,250**	**122,183**	**25,447,061**
Segment liabilities	20,797,736	227,018	244,554	789,811	5,599	**22,064,718**
Total liabilities	**20,797,736**	**227,018**	**244,554**	**789,811**	**5,599**	**22,064,718**
Capital expenditures						
Tangible fixed assets	114,122	261	534	5,673	-	**120,590**
Intangible fixed assets	-	-	-	-	-	**-**
Depreciation	(185,409)	(501)	(340)	(4,162)	(1,093)	**(191,505)**
Amortization	(28,775)	(117)	(52)	-	-	**(28,944)**

Transactions between the business segments are on normal commercial terms and conditions. Those transactions are eliminated in consolidation.

Geographical segments

The Group's activities are conducted predominantly in Turkey and European Union Countries.

Year ended December 31, 2004

	Turkey	**EU Countries**	**Non-EU Countries**	**Consolidated**
Net interest income	875,407	(33,844)	8,949	**850,512**
Provision for possible loan, lease and factoring receivable	(131,865)	9,321	(5,591)	**(128,135)**
Foreign exchange gain (loss)	44,587	585	378	**45,550**
Other operating income	1,341,471	22,829	3,678	**1,367,978**
Other operating expense	(2,327,246)	(31,953)	(5,290)	**(2,364,489)**
Profit/ (loss) from operating activities	**(197,646)**	**(33,062)**	**2,124**	**(228,584)**
Other segment information				
Segment assets	21,405,347	1,897,162	1,717,513	**25,020,022**
Investment in associates/joint ventures	714,297	40,441	-	**754,738**
Total assets	**22,119,644**	**1,937,603**	**1,717,513**	**25,774,760**
Capital expenditures				
Tangible fixed assets	68,815	190	265	**69,270**
Intangible fixed assets	20,871	74	-	**20,945**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004
(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

3. SEGMENT INFORMATION (continued)

Year ended December 31, 2003

	Turkey	EU Countries	Non-EU Countries	Consolidated
Net interest income (expense)	(17,830)	(9,159)	12,301	**(14,688)**
Provision for possible loan, lease and factoring receivable	20,990	(13,756)	(508)	**6,726**
Foreign exchange gain/(loss)	24,421	10,605	(1,413)	**33,613**
Other operating income	1,854,532	20,761	5,678	**1,880,971**
Other operating expense	(1,935,407)	(38,058)	(7,835)	**(1,981,300)**
Profit / (loss) from operating activities	**(53,294)**	**(29,607)**	**8,223**	**(74,678)**
Other segment information				
Segment assets	21,358,387	1,420,231	1,878,765	**24,657,383**
Investment in associates	748,005	-	41,673	**789,678**
Total assets	**22,106,392**	**1,420,231**	**1,920,438**	**25,447,061**
Capital expenditures				
Tangible fixed assets	119,978	463	149	**120,590**
Intangible fixed assets	-	-	-	**-**

4. CASH AND CASH EQUIVALENTS

	2004	2003
Cash on hand	**180,811**	232,290
Balances with the central banks	**228,480**	75,746
Cash and balances with the central banks	**409,291**	308,036
Deposits with banks and other financial institutions	**1,309,418**	880,972
Funds lent under reverse repurchase agreements	**11,532**	30,075
Interbank placements	**-**	60,991
Other money market placements	**11,532**	91,066
Cash and cash equivalents in the balance sheet	**1,730,241**	1,280,074
Less: Time deposits with original maturities of more than three months	**(2,354)**	(1,815)
Cash and cash equivalents in the cash flow statement	**1,727,887**	1,278,259

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004
(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

4. CASH AND CASH EQUIVALENTS (continued)

As of December 31, 2004 and 2003, interest range of deposits and placements are as follows:

	2004				2003			
	Amount		**Effective interest rate**		Amount		Effective interest rate	
	Turkish Lira	**Foreign currency**	**Turkish Lira**	**Foreign currency**	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Central banks	**550**	**227,930**	**-**	**0.99-1.04%**	72	75,674	-	0.41-0.8%
Deposits with other banks and financial institutions	**12,311**	**1,297,107**	**23.04%**	**2.09-2.24%**	5,705	875,267	26.55%	1.58-2.98%
Funds lent under reverse repurchase agreements	**11,532**	**-**	**17.60%**	**-**	30,075	-	27.19%	-
Interbank placements	**-**	**-**	**-**	**-**	42,105	18,886	26.00%	2.28%
Total	**24,393**	**1,525,037**			77,957	969,827		

As at December 31, 2004, TL 227,941 (2003 - TL 69,454) of the balances with the central bank represent funds deposited for liquidity requirements as per Turkish Banking Regulations and TL 112,934 (2003 - TL 96,566) of the deposits with other banks and financial institutions represents the amounts blocked for insureds per Turkish Insurance Regulations.

5. RESERVE DEPOSITS AT THE CENTRAL BANKS

	2004	2003
- Turkish lira	**501,299**	241,309
- Foreign currency	**660,022**	904,811
	1,161,321	1,146,120

According to the regulations of the Central Bank of Turkish Republic (the Central Bank) and other Central Banks banks are obliged to reserve a portion of certain liability accounts as specified in the related decrees. The reserves deposited with the Central Bank of Turkish Republic amounted to TL 1,121,163 (2003 - TL 1,081,053).

As of December 31, 2004 and 2003, reserve deposit rates applicable for Turkish lira and foreign currency liability accounts with the Central Bank of Turkish Republic are 6% and 11%, respectively.

As of December 31, 2004, the interest rates applied for Turkish lira and foreign currency reserve deposits by the Central Bank of Turkish Republic are 12.50% (2003 - 16%) and for USD 1.04% and Euro 0.985% (2003 - USD 0.41% and Euro 0.8%), respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

6. INVESTMENTS IN SECURITIES

Trading Securities

	2004		2003	
	Amount	**Effective interest rates**	Amount	Effective interest rates
Trading securities at fair value				
Debt instruments				
Turkish government bonds (TL)	**1,973,155**	**22.35% - 48.39%**	1,668,027	26.45%-65.08%
Turkish governments bonds (FC)	**200,989**	**3% - 5.1%**	235,511	1.92%-6.83%
Turkish treasury bills	**271,479**	**26.64% - 34.43%**	234,798	28.56%-64.18%
Turkish corporate bonds	**91,094**	**5.66%**	77,305	7.41%-11.72%
Eurobonds issued by the Turkish government	**1,159,833**	**3.54% - 7.80%**	1,060,994	4.10%-11.44%
Foreign government bonds	**9,323**	**-**	18,901	4.25%-5.50%
Foreign corporate bonds	**40,428**	**8.62%**	49,668	5.70%
	3,746,301		3,345,204	
Others				
Mutual funds	**32,047**		41,491	
Equity securities	**115,559**		100,436	
	147,606		141,927	
Total trading securities	**3,893,907**		3,487,131	

As of December 31, 2004, foreign corporate bonds include Republic of Turkey Credit Linked notes with carrying value of TL 40,427 (2003 - TL 47,219).

Available for sale securities at fair value

	2004		2003	
	Amount	**Effective interest rates**	Amount	Effective interest rates
Available for sale securities				
Debt instruments				
Turkish government bonds (TL)	**1,003,422**	**21.42% - 52.72%**	929,605	29.86%-68.90%
Turkish government bonds (FC)	**131,646**	**4.44% - 4.48%**	107,390	4.44%
Turkish treasury bills	**7,046**	**-**	275,154	61.36%
Turkish corporate bonds	**-**	**-**	4,693	7.00%
Eurobonds issued by the Turkish government	**565,712**	**6.62% - 11.23%**	504,527	8.62%-10.78%
Foreign government bonds	**59,645**	**-**	42,998	10% - 17%
Foreign corporate bonds	**17,845**	**-**	22,298	9% - 20%
	1,785,316		1,886,665	
Others				
Mutual funds	**255,764**		455,818	
Equity securities	**318,923**		199,584	
Listed	**298,204**		123,231	
Unlisted	**20,719**		76,353	
	574,687		655,402	
Total available for sale securities at fair value	**2,360,003**		2,542,067	
Available for sale securities at cost				
Equity securities - unlisted	**228,547**		206,414	
Total available for sale securities	**2,588,550**		2,748,481	

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

6. INVESTMENTS IN SECURITIES (continued)

As of December 31, 2004 and 2003 unlisted equity securities in available for sale securities at fair value include 14.80% investment in a group company operating in tourism industry and owns various hotels in different regions of Turkey. Remaining 85.20% of the shares are held by the mutual funds established in Netherlands for purposes of investments in real estate projects which are also owned by the Bank.

The Group in the accompanying financial statements has not consolidated such subsidiary and classified both its direct equity investment and the above referred mutual funds as available for sale securities on the basis that control is intended to be temporary and that these are held exclusively with an intention for sale.

As of December 31, 2003, mutual funds and equity investment were carried at fair values of TL 455,818 (including above mentioned tourism investment amounting to TL 354,919) and TL 64,368 respectively, calculated based on the fair values assessed by an independent expert.

During 2004 and subsequent to year-end, various hotels and other tourism investments owned by the above mentioned subsidiary were sold, or offered for sale. As of December 31, 2004, reserves for impairment of TL 184,050 and TL 21,267, have been provided for the mutual funds and the equity investment, respectively, taking into account the effect of the possible losses that may arise as far as the realized sale amounts after the balance sheet date for some assets and offers taken for the remaining assets.

As of December 31, 2004, the above referred to mutual funds and the equity investments are carried at TL 255,764 (including tourism investment amounting to TL 119,265) and TL 20,719, net respectively.

Equity securities which are not listed and whose fair values could not be reliably measured are reflected at cost.

As of December 31, 2004 and 2003, available for sale securities at cost constitute mainly 72.36% of Fintur Technologies B.V., established in the Netherlands, and 25.21% of Digital Platform with restated costs of TL 92,154 and TL 106,040 respectively. As of December 31, 2004 and 2003 the Group has also 36.08% shareholding in Superonline at the amount of TL 39,333, which is fully provided for. The Group has not consolidated such investments on the basis that such investments are acquired with the intention to sell and therefore the control in the management of these three companies is temporary and as explained in Note 32, there is an option given to Çukurova Group to purchase these companies.

As explained in Note 32 f), the Bank has classified the Turkcell shares acquired for the settlement of the interest installment receivable amounting to USD 98,937,601 as of December 31, 2003 in available for sale portfolio within listed equity securities and as of December 31, 2004 valued such securities at TL 139 trillion based on the terms of the related option agreement. The difference between this amount and the cost is recognized as unrealized gain / loss and taken to equity. The option was not used by Çukurova Group as of January 31, 2005 and declared to be lapsed by the Bank. The fair value of these shares at market prices as of December 31, 2004 is estimated as TL 246 trillion.

Held to maturity securities

	2004		2003	
	Amount	**Effective interest rates**	Amount	Effective interest rates
Held to maturity securities at amortized cost				
Debt instruments				
Turkish government bonds	**-**	**-**	571,660	51.61%-66.54%
Turkish treasury bills	-	-	157,026	61.99%
Turkish corporate bonds	**42,773**	**10.41% - 11.54%**	49,348	11.29%
Eurobonds issued by the Turkish government	**119,396**	**8.17% - 10.77%**	142,910	8.17%-10.77%
Foreign government bonds	**25,117**	**-**	26,991	
Total held to maturity securities	**187,286**		947,935	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

6. INVESTMENTS IN SECURITIES (continued)

As of December 31, 2004, the carrying value and the nominal amounts of securities kept in the Central Bank, in İstanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (İstanbul Stock Exchange Clearing and Custody Incorporation), and other authorative bodies for legal requirements and as a guarantee for stock exchange and money market operations, and insurance blockage are as follows:

	2004		2003	
	Nominal (*)	**Carrying Value**	Nominal(*)	Carrying Value
Trading Securities	**612,365**	**581,695**	416,463	463,430
Available for Sale Securities	**649,747**	**533,029**	12,455	14,719
Held to Maturity Securities	**24,970**	**24,968**	713,061	755,519
Loans and Advances to Government	**170,835**	**153,702**	14,694	16,916
Total	**1,457,917**	**1,293,394**	1,156,673	1,250,584

(*) Historic balance

Carrying value of debt instruments given as collateral under repurchase agreements are:

	2004	2003
Trading Securities	**2,357,795**	1,605,051
Available for sale securities	**743,021**	1,121,820

As of December 31, 2004, investment in securities includes bonds issued by a certain related party which are classified as trading securities amounting to TL 86,980 (2003 - TL 62,877), held to maturity securities amounting to TL 42,773 (2003 - TL 49,348) and as of December 31, 2003, available for sale securities amounting to TL 1,451.

7. LOANS AND ADVANCES

	2004						
	Amount				**Effective interest rates**		
	Turkish Lira	**Foreign currency**	**Foreign currency indexed**	**Total**	**Turkish Lira**	**Foreign currency**	**Foreign currency indexed**
Corporate loans	**1,444,426**	**5,113,926**	**65,398**	**6,623,750**	**29.82%**	**5.44%**	**8.19%**
Loans to government	**818,020**	**153,902**	**2,537**	**974,459**	**24.45%**	**3.79%**	**6.00%**
Consumer loans	**673,784**	**14,754**	**34,247**	**722,785**	**29.98%**	**6.00%**	**8.87%**
Credit cards	**3,152,544**	**-**	**-**	**3,152,544**	**79.00%**	**-**	**-**
Total	**6,088,774**	**5,282,582**	**102,182**	**11,473,538**			
Loans in arrears	**623,822**	**209,530**	**-**	**833,352**			
Less: Reserve for possible loan losses	**(561,912)**	**(164,498)**	**-**	**(726,410)**			
Total	**6,150,684**	**5,327,614**	**102,182**	**11,580,480**			

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

7. LOANS AND ADVANCES (continued)

	2003						
	Amount				Effective interest rates		
	Turkish Lira	Foreign currency	Foreign currency indexed	Total	Turkish Lira	Foreign currency	Foreign currency indexed
Corporate loans	1,092,259	5,708,937	158,147	6,959,343	45.17%	5.31%	8.50%
Loans to government	741,450	145,064	-	886,514	60.58%	2.94%	-
Consumer loans	627,767	4,241	70,176	702,184	40.17%	8.00%	8.81%
Credit cards	1,994,952	-	-	1,994,952	89.28%	-	-
Total loans	4,456,428	5,858,242	228,323	10,542,993			
Loans in arrears	686,798	256,380	-	943,178			
Less: Reserve for possible loan losses	(581,314)	(178,512)	-	(759,826)			
Total	4,561,912	5,936,110	228,323	10,726,345			

Breakdown of loans to government:

	2004			
	Turkish Lira	**Foreign Currency**	**Foreign Currency Indexed**	**Total**
Government Bonds and treasury bills that are directly purchased from the government	**192,309**	**-**	**-**	**192,309**
Loans granted directly to Turkish Treasury	**-**	**153,902**	**2,537**	**156,439**
Loans granted to other governmental institutions	**625,711**	**-**	**-**	**625,711**
Total	**818,020**	**153,902**	**2,537**	**974,459**

	2003			
	Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total
Government Bonds and treasury bills that are directly purchased from the government	29,392	-	-	29,392
Loans granted to directly Turkish Treasury	-	143,059	-	143,059
Loans granted to other governmental institutions	712,058	2,005	-	714,063
Total	741,450	145,064	-	886,514

As of December 31, 2004, the Group has a receivable of TL 625,711 (2003 - TL 712,058) from a government institution. The Group suspended interest income accruals since December 31, 2001 except for the period July 1 – September 30, 2002 in line with the opinion taken from BRSA. Based on the Board of Directors' decision numbered 60/41 held at December 25, 2003, the Bank decided to open a lawsuit against the Undersecretariat of Turkish Treasury in order to collect the above mentioned receivable. Moreover, in September 30, 2004, execution of a bankruptcy case for the receivable has been issued for this government institution, and the bankruptcy payment order is announced in October 12, 2004. The final recoverable amount of this receivable is dependent on the outcome of the lawsuit against the Undersecretariat of Turkish Treasury. Had the Group applied interest for the periods in 2002, 2003 and 2004 using the simple interest rates of debt securities announced by State Planning Organization, the net income and shareholders' equity of the Group would be increased by TL 258,105 and TL 760,240, respectively.

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7. LOANS AND ADVANCES (continued)

Movements in the reserve for possible loan losses:

	2004	2003
Reserve at beginning of year	**759,826**	880,780
Provision for possible loan losses	**148,388**	129,855
Recoveries	**(34,161)**	(131,066)
Write offs during the year	**-**	-
Loans written off during the year	**(75,593)**	(27,516)
Monetary gain	**(72,050)**	(92,227)
Reserve at end of year	**726,410**	759,826

As of December 31, 2004, non performing loans and advances on which interest is not being accrued, or where interest is suspended, amounted to TL 833,352 (2003 - TL 943,178). There is no uncollected interest accrued on impaired loans.

As of December 31, 2004, reserve for possible loan losses includes a reserve which is provided on a portfolio basis based on past experience, management's assessment of current economic condition, the quality and inherent risk in the credit portfolio of the Group at an amount of TL 93,321 (2003 - TL 71,712). In October 2002 the Bank, together with a group of other banks, signed a financial restructuring agreement with two loan customers classified under loans in arrears with loan amounts of TL 51,043. In accordance with the provisions of the restructuring agreement the loan receivable of the Bank as of June 30, 2002 was determined as USD 74,693,578. USD 25,156,368 of this amount will be repaid according to a long-term repayment schedule with Libor + 2.5% interest rate. Remaining USD 49,537,210 plus interest accruing thereon at Libor rate, will be recovered within a period of seven years through sale of the shares of the loan customers (comprising 70.59% of the outstanding shares in one of the company at the nominal amount TL 58,231 and 48.86% of the outstanding shares of the other company at the nominal amount of TL 16,844) which were transferred to the Bank in May 2003 at a value of USD 51,983,768(nominal amount). Guarantors according to a repayment will repay any residual uncovered amounts.

As of December 31, 2003 the Group reclassified such structured loan to performing portfolio, reversed previously provided reserve of TL 37,607 (historical) and reflected the loan amount at the estimated net recoverable amount of USD 82,242,085 calculated based on the estimated fair value of the shares using quoted market prices and other collaterals and estimated future cash flows in 2003 and 2004 financial statements.

8. FACTORING RECEIVABLES AND PAYABLES

	2004						
	Amount				**Interest rates**		
	Turkish Lira	**Foreign currency**	**Foreign currency indexed**	**Total**	**Turkish Lira**	**Foreign currency**	**Foreign currency indexed**
Open accounts	**58,989**	**160,379**	**-**	**219,368**	**22.00%-36.00%**	**3.58%-8.50%**	**4.99%-9.50%**
Checks receivable	**20,008**	**2,273**	**-**	**22,281**			
Total factoring receivables	**78,997**	**162,652**	**-**	**241,649**			
Doubtful factoring receivables	**2,153**	**1,172**	**-**	**3,325**			
Less: Reserve for possible losses	**(2,153)**	**(1,172)**	**-**	**(3,325)**			
Net factoring receivables	**78,997**	**162,652**	**-**	**241,649**			
Factoring payables	**(26,528)**	**(94,980)**	**-**	**(121,508)**			
Net funds in use	**52,469**	**67,672**	**-**	**120,141**			

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8. FACTORING RECEIVABLES AND PAYABLES (continued)

	2003						
	Amount				Interest rates		
	Turkish Lira	Foreign currency	Foreign currency indexed	Total	Turkish Lira	Foreign currency	Foreign currency indexed
Open accounts	76,730	164,102	31,540	272,372	35.49%-55.70%	4.24%-5.29%	10.00%
Checks receivable	34,789	75	-	34,864			
Total factoring receivables	111,519	164,177	31,540	307,236			
Doubtful factoring receivables	925	711	-	1,636			
Less: Reserve for possible losses	(925)	(711)	-	(1,636)			
Net factoring receivables	111,519	164,177	31,540	307,236			
Factoring payables	(45,166)	(87,583)	(11,263)	(144,012)	-		
Net funds in use	66,353	76,594	20,277	163,224			

Movements in the reserve for possible losses:

	2004	2003
Reserve at beginning of year	**1,636**	2,036
Provision for possible losses	**2,979**	-
Recoveries	**(37)**	(47)
Provision net of recoveries	**2,942**	(47)
Factoring receivables written off during the year	**(1,054)**	(105)
Monetary gain	**(199)**	(248)
Reserve at end of year	**3,325**	1,636

9. MINIMUM LEASE PAYMENTS RECEIVABLES

Gross investment in finance leases:

	2004	2003
Not later than 1 year	**242,946**	281,795
Later than 1 year and not later than 5 years	**81,384**	132,183
Later than 5 years	**8,211**	21,227
Minimum lease payment receivables, gross	**332,541**	435,205
Less: Unearned interest income	**(45,395)**	(63,056)
Net investment in finance leases	**287,146**	372,149
Less: Reserve for impairment	**(21,155)**	(11,594)
Minimum lease payments receivables, net	**265,991**	360,555

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

9. MINIMUM LEASE PAYMENTS RECEIVABLES (continued)

Net investment in finance leases may be analyzed as follows:

	2004	2003
Not later than 1 year	**211,896**	242,121
Later than 1 year and not later than 5 years	**69,111**	112,984
Later than 5 years	**6,139**	17,044
	287,146	372,149

As of December 31, 2004 and 2003, TL 237,192 and TL 339,197 of net lease receivables are denominated in foreign currency (mainly US$ and Euro), respectively. The effective interest rates for minimum lease receivable denominated in US$ 10.74%, in Euro 11.23%, and in TL 30.20% (2003 - in US$ 7.9%, in Euro 8.6%, and in TL 32%).

Movements in the reserve for impairment:

	2004	2003
Reserve at beginning of year	**11,594**	18,572
Provision for impairment	**12,383**	757
Recoveries	**(1,417)**	(6,225)
Provision net of recoveries	**10,966**	(5,468)
Monetary gain	**(1,405)**	(1,510)
Reserve at end of year	**21,155**	11,594

10. INVESTMENT IN JOINT VENTURES

As of December 31, 2002 in line with the Financial Restructuring Agreement, explained in more detail in Note 32, signed between the Bank and the Çukurova Group companies, Bank received 50% shares of A-Tel Pazarlama ve Servis Hizmetleri A.Ş. (A-TEL, an unlisted company based in Turkey specialized in marketing of pre-paid GSM cards of Turkcell İletişim Hizmetleri Anonim Şirketi) corresponding to seven million shares with TL 7,000 billion nominal value. Such shares are valued as U.S. Dollars 268,906,707 and deducted from the total receivable of U.S. Dollars 2,213 million of the Çukurova Group. According to the agreement, the valuation of the A-TEL shares, are made based on the assumption that the Service Rendering Agreement between A-TEL and Turkcell İletişim Hizmetleri A.Ş. dated July 9, 1999 and Distribution Rendering Agreement dated August 1, 1999 will continue to be valid.

At the date of acquisition (December 31, 2002) the difference between the fair value of the Group's share in identifiable assets and liabilities of A-Tel (TL 398,591 historical) and the consideration given (USD 268,906,707; equivalent of TL 439,530 historical) was reflected as a goodwill arising on acquisition and amortized over a period of 10 years.

As of December 31, 2004 the investment in joint venture is accounted for under the equity method.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

10. INVESTMENT IN JOINT VENTURES (continued)

The Group's share of the assets and liabilities, revenues and expenses of the joint venture which are accounted for by the equity method in the consolidated financial statements at December 31, 2004 and for the year then ended are as follows :

	2004	2003
Current assets	**28,675**	19,406
Non-current assets	**441,299**	482,980
	469,974	502,386
Current Liabilities	**(29,277)**	(30,660)
Net asset value	**440,697**	471,726
Revenues	**345,526**	283,845
Cost of sales	**(301,989)**	(250,979)
Administrative expenses	**(70,345)**	(74,838)
Finance cost	**(20)**	(648)
Loss before tax	**(26,828)**	(42,620)
Income tax expense	**(5,098)**	(2,300)
Net loss	**(31,926)**	(44,920)

As described in detail in Note 33, in May 2003, Capital Market Board (CMB) requested the Group to claim repayment of USD 94.8 million from the seller (Çukurova İthalat ve İhracat A.Ş - Çukurova İthalat) on the basis that the value of A-Tel was overestimated at acquisition. Subsequently in 2004 Çukurova Group has submitted a letter of commitment to the Group declaring that the related amount including the interest accrued since the acquisition date will be paid to the Bank given that Çukurova İthalat ve İhracat A.Ş. fails its case against CMB. The Group has accepted this pledge and has renounced the lawsuit if filed previously. Eventhough the Court has ruled that CMB decision be annulled, the decision is not yet definite, and CMB may still appeal to the decision.

11. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

The breakdown of unconsolidated subsidiaries is comprised of the following:

	Participation	Percentage	Participation	Amount
	2004	2003	**2004**	2003
Yapı Kredi Kart Hizmetleri A.Ş.	**100.00%**	100.00%	**948**	968
Yapı Kredi Portföy Yönetimi A.Ş.	**97.50%**	97.50%	**2,693**	2,678
Other	**-**	-	**483**	1,987
			4,124	5,633

Such subsidiaries are not consolidated as they are not material.

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11. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES (continued)

In addition to the above for the purposes of these consolidated financial statements, as of December 31, 2004 and 2003, full reserve for impairment has been provided for the Bank's participations in the following subsidiaries:

	Ownership (%)		Restated Cost	
Name	**2004**	2003	**2004**	2003
Halk Reasürans A.Ş.	**95.78%**	95.78%	**7,023**	7,023
Yapı Kredi Sigorta Aracılık Hizmetleri A.Ş.	**99.99%**	99.99%	**446**	446
Ascot Telecommunication Investment N.V.	**100.00%**	100.00%	**528**	528
Superonline	**36.08%**	-	**39,333**	-

12. INVESTMENTS IN ASSOCIATES

The following is a list of the investments in associates:

			2004			2003		
Entity	Principle Activities	Country of Business	**Carrying Value**	**Ownership Interest**	**Group's Share of Income (Loss)**	Carrying Value	Ownership Interest	Group's Share of Income (Loss)
Turkcell Holding Anonim Şirketi (*)	Holding	Turkey	**252,807**	**20.02%**	**44,170**	248,092	20.02%	34,724
YK Koray Gayrimenkul Yatırım Ortaklığı Anonim Şirketi	Real Estate	Turkey	**20,793**	**26.01%**	**(2,377)**	23,162	26.01%	(8,522)
Banque de Commerce et de Placements SA,	Banking	Switzerland	**40,441**	**30.67%**	**2,183**	41,671	30.67%	1,411
Groupe SEB İstanbul Ev Aletleri A,Ş	Retail	Turkey	-	-	-	5,027	32.00%	(9,959)
			314,041		**43,976**	317,952		17,654

(*) September 30, 2004, US GAAP financials used for equity pick-up. Estimated market value of Turkcell Holding shares is TL 1,403,321.

13. INVESTMENT PROPERTIES

At January 1, 2004, net	**20,698**
Additions	**-**
Capitalized subsequent expenditure	**-**
Disposals	**-**
Transfers to/from inventories and owner occupied properties	**-**
Depreciation	**(407)**
Provision for impairment	**-**
At December 31, 2004	**20,291**

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

14. PREMISES AND EQUIPMENT

	Land and Buildings	Equipment and Motor Vehicles	Leasehold improvements	Continuing Investments	Total
At January 1, 2004, net of accumulated depreciation	1,955,920	481,687	22,127	6,160	2,465,894
Additions	3,486	44,648	3,065	18,071	69,270
Disposals	(14,958)	(5,875)	(65)	(6,070)	(26,968)
Transfers	8,362	118	5,302	(16,444)	(2,662)
Impairment	(42,927)	-	-	-	(42,927)
Depreciation charge for the year	(57,028)	(109,706)	(10,261)	-	(176,995)
Exchange adjustment	(18,369)	6,269	(233)	-	(12,333)
At December 31, 2004, net of accumulated depreciation	**1,834,486**	**417,141**	**19,935**	**1,717**	**2,273,279**
At December 31, 2003					
Cost	3,530,442	1,330,549	84,275	6,160	4,951,426
Accumulated depreciation	(1,473,102)	(848,862)	(62,148)	-	(2,384,112)
Accumulated impairment provision	(101,420)	-	-	-	(101,420)
Net carrying amount	**1,955,920**	**481,687**	**22,127**	**6,160**	**2,465,894**
At December 31, 2004					
Cost	3,488,804	1,370,228	90,789	1,717	4,951,538
Accumulated depreciation	(1,509,971)	(953,087)	(70,854)	-	(2,533,912)
Accumulated impairment provision	(144,347)	-	-	-	(144,347)
Net carrying amount	**1,834,486**	**417,141**	**19,935**	**1,717**	**2,273,279**

The impairment loss of TL 144,347 represents the write-down of certain property and equipment to recoverable amount in the land and buildings segment. The recoverable amount was based on the selling price disclosed in independent appraisal report.

The carrying value of equipment and motor vehicles under finance leases at December 31, 2004 is TL 68,846 (2003 – TL 65,271). Leased assets are pledged as securities for the related finance lease obligations.

Continuing investments are mainly comprised of expenditures made for various constructions and other banking projects. The transfers amounting to TL 2,662 represent balance transferred to intangible assets (See Note 15).

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15. INTANGIBLES

	Goodwill	Intangibles	Total
At January 1, 2004, net of accumulated amortization	109,080	61,210	170,290
Additions	2,720	18,225	20,945
Disposals	-	(150)	(150)
Transfers	-	2,662	2,662
Exchange adjustment	704	(76)	628
Amortization charge for the year	(10,593)	(23,301)	(33,894)
At December 31, 2004, net of accumulated amortization	**101,911**	**58,570**	**160,481**
At December 31, 2003			
Cost	152,788	179,638	332,426
Accumulated amortization	(43,708)	(118,428)	(162,136)
Net carrying amount	**109,080**	**61,210**	**170,290**
At December 31, 2004			
Cost	156,212	200,299	356,511
Accumulated amortization	(54,301)	(141,729)	(196,030)
Net carrying amount	**101,911**	**58,570**	**160,481**

Other intangibles mainly comprises capitalized software development expense. Goodwill arising on acquisition of investment in joint venture (A-TEL) amounting to TL 53,156 (gross amount) is amortized on a straight-line basis over its economic useful life of 10 years.

Breakdown of net goodwill:

	2004
Yapı Kredi Bankası (A-Tel)	42,525
Yapı Kredi Deutschland	8,826
Consolidation Goodwills	
Yapı Kredi Finansal Kiralama	13,015
Yapı Kredi Faktoring	2,475
Yapı Kredi Sigorta	5,545
Yapı Kredi Moscow	649
Bayındırlık İşleri	17,049
Akdeniz Marmara Turizm İnşaat ve Ticaret	9,187
Banque de Commerce et de Placements	2,640
Total	**101,911**

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16. OTHER ASSETS

	2004	2003
Asset held for resale	**251,001**	435,156
Due from insureds, net	**117,139**	107,351
Loans given to insureds	**15,319**	15,183
Individual Retirement System Receivables	**54,905**	5,226
Long-term receivables	**33,043**	37,664
Payments for credit cards settlements	**40,112**	32,515
Inventory	**30,260**	32,712
Deferred expenses	**1,269**	3,912
Prepaid expenses	**29,132**	29,537
Advances given	**5,104**	52,345
Miscellaneous	**86,499**	63,424
Total	**663,783**	815,025

Assets held for resale which comprise primarily real estate obtained from loan customers are stated at cost less accumulated reserve for impairment of TL 167,342 based on the valuations made by independent appraisal firms. The reserve provided for impairment in 2004 is TL 103,262.

As of December 31, 2004, the Bank has an accrued interest receivable amounting to TL 23,801 from a Government-owned entity. The Bank has suspended interest since June 30, 1999. To collect the receivable amount mentioned, the Bank filed a lawsuit numbered 2001/693 in the 8th Istanbul Supreme Court Trade Court for the late payment of revenue receivable from "Ataşehir Konutları" and the lawsuit is still in progress. In such cases, an examination by an expert had been performed to determine and calculate the damage. In the first expert report prepared the receivable due to the damage is determined as being TL 110 trillion as of December 30, 1999. In the second expert report prepared this amount has been brought down to TL 40.8 trillion. The Bank has appealed to this second expert report. The third expert report dated February 11, 2005, indicated that the receivable due to damage is TL 40.8 trillion and accrual to this amount can be demanded starting from December 30, 1999. The Bank has appealed to this report as of February 28, 2005 and the judicial process is ongoing.

Furthermore, the lawsuit numbered 2001/1188 filed in Istanbul 3rd Asliye Trade Court related to the collection of TL 60 trillion is still ongoing. In the court meeting on October 24, 2002, a decision was made to have expert examination for determining the amount of damage. The case has been transferred to the committee of experts on December 24, 2002 and the results are still pending.

17. DEPOSITS

Deposits from other banks

	2004				2003			
	Amount		**Effective interest rate**		Amount		Effective interest rate	
	Turkish Lira	**Foreign currency**	**Turkish Lira**	**Foreign currency**	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Demand	**4,691**	**26,007**	**1.00%**	**-**	19,684	13,340	1.00%	-
Time	**100,106**	**158,784**	**21.45%**	**3.00%**	54,691	108,004	20.64%	2.70%
Total	**104,797**	**184,791**			74,375	121,344		

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17. DEPOSITS (continued)

Customers' deposits

	2004				2003			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Saving								
Demand	**439,954**	**1,116,316**	**1.06%**	**-**	372,431	1,237,586	1.00%	-
Time	**3,286,713**	**3,848,180**	**16.95%**	**2.09%**	3,279,681	6,067,910	23.45%	2.35%
Total	**3,726,667**	**4,964,496**			3,652,112	7,305,496		
Commercial and other								
Demand	**565,370**	**681,938**	**1.00%**	**-**	1,007,301	745,629	1.00%	-
Time	**2,085,007**	**3,182,510**	**16.95%**	**2.09%**	2,172,142	1,287,387	23.45%	2.35%
Total	**2,650,377**	**3,864,448**			3,179,443	2,033,016		
Total	**6,377,044**	**8,828,944**			6,831,555	9,338,512		

Other money market deposits

	2004				2003			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements:								
-Due to customers	**710,690**	**-**	**17.93%**	**-**	366,134	-	25.90%	-
-Due to banks	**1,429,892**	**722,707**	**17.93%**	**4.00%**	1,488,441	564,663	25.90%	2.90%
	2,140,582	**722,707**			1,854,575	564,663		
Interbank deposits	**200,000**	**-**	**18.39%**	**-**	19,030	9,502	25.73%	2.61%
Total	**2,340,582**	**722,707**			1,873,605	574,165	-	

18. FUNDS BORROWED AND DEBT SECURITIES

Funds Borrowed

	2004				2003			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short term	**96,825**	**640,233**			79,692	546,964		
Fixed interest	**96,825**	**513,943**	**15.33%**	**3.47%**	79,692	452,016	23.20%	3.44%
Floating interest	**-**	**126,290**	**-**	**2.31%-7.69%**	-	94,948	-	5%-5.35%
Medium/long term	**-**	**178,493**			-	182,668		
Fixed interest	**-**	**175,602**	**-**	**3.47%**	-	178,920	-	3.44%
Floating interest	**-**	**2,891**	**-**	**2.31%-7.69%**	-	3,748	-	2.6%-5.75%
Total	**96,825**	**818,726**			79,692	729,632		

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18. FUNDS BORROWED AND DEBT SECURITIES (continued)

Repayments of medium/long term borrowing are as follows:

	2004		2003	
	Fixed rate	**Floating rate**	Fixed rate	Floating rate
2006	**80,795**	**965**	114,152	2,711
2007	**55,891**	**634**	37,098	698
2008	**8,049**	**517**	7,067	304
2009	**8,453**	**517**	14,416	35
Thereafter	**22,414**	**258**	6,187	-
Total	**175,602**	**2,891**	178,920	3,748

Debt securities

In December 2003, the Bank issued U.S Dollars 200,000,000 of floating rate (Libor + 1.5%) notes through securitization of its diversified payment rights. The securitization agreement has a maturity of 1 year with an option to extent the maturity to 5 years.

19. OTHER LIABILITIES AND PROVISIONS

	2004	2003
Payables to merchants (credit cards)	**1,118,599**	581,545
Trade payables	**76,001**	115,481
Other payables and accrued expense	**30,541**	62,460
Taxes and duties payable	**51,702**	68,608
Loan loss reserve for non-cash loans	**9,834**	7,373
Cash collaterals	**43,173**	54,982
Transitory payables	**135,763**	135,445
Salary payments of public and private institutions	**4,490**	32,246
Due to insurance and reinsurance companies	**22,597**	27,871
Vacation pay liability	**13,913**	-
Employee termination benefits	**47,844**	28,373
Provisions for credit card promotions	**12,816**	12,252
Money received from invoice payments of customers for institutions	**7,117**	13,060
Payment orders	**10,575**	18,326
Resource utilization fund	**16,418**	14,646
Miscellaneous	**61,891**	43,868
Individual Retirement System Payable	**57,836**	1,692
Total	**1,721,110**	1,218,228

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

19. OTHER LIABILITIES AND PROVISIONS (continued)

The breakdown of payable to merchants due from credit card transactions of member firms is as follows:

Payable to merchant	2004	2003
Blocked accounts of members firms	**1,015,364**	511,015
Turkcell card accounts	**20,167**	15,612
Unblocked accounts of members firms	**15,707**	9,259
Other	**67,361**	45,659
Total	**1,118,599**	581,545

Employee Benefits

a) Pension Scheme :

The Bank has established a pension scheme under a separate legal entity, Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı Vakfı (the Fund), which is a funded defined benefit plan covering substantially all employees. The assets of the plan are held independently of the Bank's assets in the Fund. This scheme is valued by independent actuaries every year. The latest actuarial valuations were carried out as at December 31, 2004 in accordance with the statutory regulations. Based on the results of such actuarial valuation, the Fund has a surplus of plan assets less liabilities of TL 56 trillion, using a discount rate of 15% and a deficit of TL 116 trillion using a discount rate of 10% (2003 - surplus of TL 141 trillion and TL 7 trillion, using discount rates of 15% and 10% respectively). No liability is recognized in the financial statements of the Group at December 31, 2004.

b) Employee Termination Benefits :

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 1.575 million and TL 1.390 million at December 31, 2004 and December 31, 2003, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2004 and December 31, 2003, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

As of January 1, 2005, retirement pay liability ceiling was increased to TL 1.650 million.

IAS 19 (revised) requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans.

The principal actuarial assumptions used at the balance sheet dates are as follows:

	2004	2003
Discount rate	**16%**	25%
Expected rates of salary/limit increases	**10%**	18%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004
(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

19. OTHER LIABILITIES AND PROVISIONS (continued)

The movement in provision for retirement pay liability is as follows :

At January 1, 2003	28,107
Paid during the year	(8,601)
Interest cost	3,100
Increase during the year	9,299
Monetary loss	(3,532)
At December 31, 2003	**28,373**
Paid during the year	(6,901)
Interest cost	4,868
Increase during the year	25,555
Monetary gain	(4,051)
At December 31, 2004	**47,844**

20. INSURANCE TECHNICAL INCOME AND EXPENSE AND INSURANCE TECHNICAL RESERVES

Insurance Technical Income and Expense

	2004	2003
Premium income, net	**402,978**	391,366
Investment income	**101,850**	122,909
Total insurance technical income included in other income (Note 28)	**504,828**	514,275
Claims paid, net	**290,332**	267,037
Provision for unearned premiums	**20,132**	2,686
Provision for mathematical reserve	**54,029**	50,772
Provision for profit share	**49,802**	80,510
Provision for IBNR incurred but not reported claims	**4,680**	1,054
Provision for earthquake reserve	**1,995**	1,038
Commissions paid, net	**25,710**	28,043
Acquisition costs	**-**	6,093
Other technical expenses	**-**	7,503
Total insurance technical expenses included in other expense (Note 28)	**446,680**	444,736
Income from insurance operations, net	**58,148**	69,539

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

20. INSURANCE TECHNICAL INCOME AND EXPENSE AND INSURANCE TECHNICAL RESERVES (continued)

Insurance Technical Reserves

	2004	2003
Profit share reserve	**279,914**	281,549
Mathematical reserve	**310,902**	295,186
Unearned premium reserve	**142,135**	122,656
Outstanding claim reserve	**24,379**	34,669
IBNR reserve	**9,181**	5,099
Total	**766,511**	739,159

21. INCOME TAXES

General Information

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey and other countries in which the Group companies operate.

In Turkey, the corporation tax rate for the fiscal year ended December 31, 2004 is 33% (2003 - 30%). Effective January 1, 2005, the corporate tax rate will be 30%. Corporate tax returns are required to be filed until the fifteenth of the fourth month following the balance sheet date and paid in one installment until the end of the fourth month. The tax legislation provides for a temporary tax of 33% (2003-30%) to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

In 2003 and prior years, corporation tax was computed on the statutory income tax base without any adjustment for inflation accounting. Starting from January 1, 2004, taxable income is derived from the financial statements which are adjusted for inflation accounting. Accumulated earnings arising from the first application of inflation accounting on December 31, 2003 balance sheet is not subject to corporation tax, and similarly accumulated deficits arising from such application is not deductible for tax purposes. Moreover, accumulated tax loss carry-forwards related with 2003 and prior periods will be utilized at their historical (nominal) values in 2004 and future years.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. A tax amnesty law, which was enacted in 2003 provided immunity for tax inspection and additional assessments to those taxpayers who utilized the option. According to the law, companies, who accepted to use this option, also accepted a 50% reduction from their corporate tax losses incurred in the same year. In March 2003, the Group applied to tax authorities for declaration of additional taxes amounting to TL 34,074 to benefit from the advantages of the related law and paid full amount within 2003 and 2004.

Effective from April 24, 2003, investment allowances provides a deduction from the corporate tax base of 40% of the purchases of the brand-new fixed assets having economic useful life and exceeding TL 6,000 and directly related with the production of goods and services. Investment allowance that arose prior to April 24, 2003 are taxed at 19.8% (withholding tax) unless they are converted to new type at companies' will. All investment allowances can be carried forward indefinitely.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

21. INCOME TAXES (continued)

10% withholding applies to dividends distributed by resident corporations to resident real persons, those who are not liable to income and corporation tax, non-resident real persons, non-resident corporations (excluding those that acquire dividend through a permanent establishment or permanent representative in Turkey) and non-resident corporations exempted from income and corporation tax. Dividend distributions by resident corporations to resident corporations are not subject to a withholding tax. Furthermore, in the event the profit is not distributed or included in capital, no withholding tax shall be applicable.

Capital gains derived from cash sales of participation shares that have been held for at least two years are exempt from corporation tax if the gains are added to share capital. Furthermore, in the event the profit arising from the dividend receipt is not distributed or is included in capital, no withholding tax shall be applicable. As a result of the above exemption, the Group did not recognize a deferred tax liability on the undistributed profits of subsidiaries and associates and other temporary differences pertaining to other investments in shares issued by Turkish companies.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial statements, has been calculated on a separate-entity basis.

As of December 31, 2004, effective tax rates of consolidated subsidiaries vary between 10.00% and 34.50% (2003 – 10.00% and 34.50%).

Major components of income tax expense for the years ended December 31, 2004 and 2003 are:

Consolidated income statement	**2004**	2003
Current income tax		
Current income tax charge	**14,446**	20,790
Deferred income tax		
Relating to origination and reversal of temporary differences	**(83,013)**	(102,401)
Income tax reported in consolidated income statement	**(68,567)**	(81,611)
Consolidated statement of changes in equity		
Deferred income tax		
Unrealized gain on available-for-sale financial assets	**17,002**	41,547
Income tax charge reported in equity	**17,002**	41,547

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended December 31, 2004 and 2003 was as follows:

	2004	2003
Net profit/(loss) from ordinary activities before income tax and income/(loss) from associates	**(112,093)**	70,222
At Turkish statutory income tax rate of 33% (2003 –30%)	**(36,991)**	21,067
Effect of different income tax rates	**(6,902)**	(2,081)
Income not subject to tax	**(45,651)**	(196,568)
Expenditure not allowable for income tax purposes (including goodwill amortization)	**89,645**	181,847
Unutilized tax losses	**-**	759
Utilization of previously unrecognized tax losses	**-**	(43,557)
Other	**(68,668)**	(43,078)
Income tax credit	**(68,567)**	(81,611)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

21. INCOME TAXES (continued)

Deferred income tax

Deferred income tax at December 31, relates to the following:

	2004	2003
Deferred income tax liabilities		
Year end interest income accruals	**14,201**	5,272
Revaluations of available-for-sale financial assets to fair value	**24,072**	41,009
Difference between tax and book values of premises, equipment, leased assets and intangibles	**452**	5,747
Others	**4,454**	5,214
Gross deferred income tax liabilities	**43,179**	57,242
Deferred income tax assets		
Retirement pay and vacation liability	**18,515**	8,512
Loan loss provision	**37,813**	41,964
Deferred tax on tax loss carry forward	**25,712**	115,284
Impairment on fixed assets	**91,095**	331
Difference between tax and book values of securities	**82,537**	15,056
Provisions for credit card promotions	**3,845**	3,676
Unearned premium reserve	**4,411**	2,508
Others	**13,507**	25,909
Gross deferred income tax assets	**277,435**	213,240
Net deferred income tax liability	**11,537**	15,632
Net deferred income tax asset	**245,793**	171,630

During 2003, deferred tax liability attributable to restatement differences mainly on "premises and equipment", "intangibles" and "assets held for resale" are reversed as the new tax regulation has retrospectively affected the tax basis of assets and liabilities as of December 31, 2003 and accordingly temporary differences arising from restatement of non-monetary assets have become permanent differences as further discussed above.

Movement of net deferred tax (liability) asset can be presented as follows:

	2004	2003
Balance at January 1	**155,998**	79,924
Deferred income tax recognized in income statement	**83,013**	102,401
Deferred income tax recognized in equity	**19,507**	(23,504)
Monetary gain/loss	**(24,262)**	(2,823)
Balance at December 31	**234,256**	155,998

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

22. DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards, swaps and options

The table below shows the favorable (assets) and unfavorable (liabilities) fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	2004								
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 months**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives held for trading									
Interest rate swap purchase	**15**	**-**	**3,236**	**3,236**	**-**	**-**	**-**	**-**	**-**
Interest rate swap sale	**-**	**-**	**3,101**	**3,101**	**-**	**-**	**-**	**-**	**-**
Forward purchase contract	**289**	**(52)**	**53,606**	**26,581**	**11,160**	**10,294**	**5,571**	**-**	**-**
Forward sale contract	**1,269**	**(763)**	**53,035**	**26,553**	**10,706**	**10,250**	**5,526**	**-**	**-**
Currency swap purchase	**1,273**	**(376)**	**889,288**	**796,285**	**86,205**	**6,798**	**-**	**-**	**-**
Currency swap sale		**(437)**	**882,04**	**789,275**	**86,018**	**6,711**	**-**	**-**	**-**
Options purchase	**-**	**(197)**	**204,153**	**174,200**	**29,953**	**-**	**-**	**-**	**-**
Options sale	**-**	**-**	**214,559**	**184,605**	**29,954**	**-**	**-**	**-**	**-**
	2,846	**(1,825)**	**2,302,982**	**2,003,836**	**253,996**	**34,053**	**11,097**	**-**	**-**

	2003								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives held for trading									
Forward purchase contract	2,770	(5,148)	84,735	59,880	20,585	4,270	-	-	-
Forward sale contract	1,272	(56)	88,615	63,763	20,525	4,327	-	-	-
Currency swap purchase	273	(5)	905,017	905,017	-	-	-	-	-
Currency swap sale	21	-	892,092	892,092	-	-	-	-	-
	4,336	(5,209)	1,970,459	1,920,752	41,110	8,597	-	-	-

The fair value of derivatives that are not quoted in active markets are determined by using internal pricing models which require management to make estimates. Changes in assumptions about the factors used in such models could affect reported fair value of derivatives.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

23. SHARE CAPITAL ISSUED

	2004	2003
Number of common shares, TL one thousand, per value		
Authorized, issued and outstanding in 2004 and 2003	**752,345 million**	752,345 million

As of December 31, 2004 and 2003, the Bank's subscribed and issued share capital in historical terms is TL 752,345.

As of December 31, 2004 and 2003, the composition of shareholders and their respective % of ownership in historical TL can be summarized as follows:

	2004		2003	
	Amount	**%**	Amount	%
Publicly Traded	**313,224**	**41.63**	313,224	41.63
Çukurova Group	**340,600**	**45.28**	340,600	45.28
- Sınai ve Mali Yatırım Holding A.Ş. (*)	**115,223**	**15.32**	115,223	15.32
- Baytur İnşaat Taahhüt A.Ş.	**82,888**	**11.02**	82,888	11.02
- Çukurova Holding A.Ş. (*)	**66,651**	**8.86**	66,651	8.86
- T. Genel Sigorta A.Ş.	**41,456**	**5.51**	41,456	5.51
- Other	**34,382**	**4.57**	34,382	4.57
Saving Deposit Insurance Fund (SDIF) (**)	**97,032**	**12.90**	97,032	12.90
Others	**1,489**	**0.19**	1,489	0.19
Total	**752,345**	**100.00**	752,345	100.00
Restatement effect	**2,672,886**		3,537,407	
Restated share capital	**3,425,231**		4,289,752	

(*) Shareholder rights are transferred to SDIF except the dividend collection right.
(**) By the agreement signed between BRSA and Çukurova Group, the share controlled by Pamukbank A.Ş. and subsidiaries are transferred to SDIF.

At the Ordinary General Assembly held on March 31, 2004 the Board of Directors of the Bank was authorized to net off the current year profit against prior year losses. In line with the related Board of Directors' Decision, prior year losses amounting to TL 1,421,006 were netted off from the net profit for the period ended December 31, 2003, from legal reserves and from supplementary capital amounting to TL 184,674, TL 371,811, and TL 864,521 respectively.

24. LEGAL RESERVES AND ACCUMULATED PROFITS (DEFICIT)

Legal Reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. As of December 31, 2004, the Bank's legal reserves amount to TL 36,907 (2003 - TL 36,907) at nominal values.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

24. LEGAL RESERVES AND ACCUMULATED PROFITS (DEFICIT) (continued)

The statutory general reserve and statutory current year profit are available for distribution, subject to the reserve requirements referred to above. However, as explained in more detail in Note 32.2.b), the Bank will not distribute any profit in line with the provisions of the agreement among BRSA, SDIF and the Çukurova Group.

As of December 31, 2003, the Group reversed its general banking risk reserve provided in 2002 at the amount of TL 97,214 for possible losses that may occur in the future due to changes in the market.

As of December 31, 2003, retained earnings include undistributed funds at the amount of TL 9,771 before deferred tax due to earthquake losses to be incurred in the future.

Dividends

On March 31, 2004 general meeting of the Bank approved the statutory financial statements of the Bank as of December 31, 2003 and authorized the Board of Directors to net-off the current year income with accumulated deficit in line with BRSA legislation.

25. EARNINGS PER SHARE

Basic earnings per share (EPS) are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through December 31, 2003.

There are no dilution of shares as of December 31, 2004 and 2003.

The following reflects the income and share data used in the basic earnings per share computations:

	2004	2003
Net profit (loss) attributable to ordinary shareholders for basic earnings per share	**(30,581)**	109,094
Weighted average number of ordinary shares for basic earnings per share (million)	**752,345**	752,345

There have been no other transactions involving ordinary shares or potential ordinary shares since the balance sheet date and before the completion of these financial statements.

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December 31, 2004

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26. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The major shareholders are Mr. Mehmet Emin Karamehmet and his family / Çukurova Group who control 45.28% of the Bank's share. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders and other Çukurova Group companies are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

The following transactions have been entered into with related parties:

Related party		Cash loans	Non-cash loans	Loans in arrears	Short-term placements	Minimum lease payments receivable	Factoring receivables	Other assets	Deposits	Interest income	Interest expense	Commission income	Notional Amount of Derivative Transactions
Shareholders	**2004**	**445,054**	**32,643**						**145**	**22,297**	**4**	**234**	**139,549**
	2003	520,439	38,924	-	-	-	-	-	310	25,915	(948)	300	-
Associates	**2004**	**318,004**	**992,400**	**45,880**		**13,638**			**172,165**	**13,999**	**4,881**	**3,477**	**-**
	2003	189,345	532,441	147,764	-	-	-	36,093	307,040	13,433	(9,162)	4,176	-
Others	**2004**	**2,303,154**	**14,603**			**18,462**	**714**		**93,774**	**112,530**	**1,207**	**388**	**-**
	2003	2,781,467	112,231	-	-	10,929	9,481	-	102,242	130,626	(2,195)	1,281	-

Directors' Remuneration

The executive and non-executive members of the Board of Directors and management received remuneration and fees totaling TL 5,755 (2003 - TL 8,912).

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

26. RELATED PARTY DISCLOSURES (continued)

As of December 31, 2004 goodwill at the amount of TL 53,156 is recorded for A-Tel amounting to TL 517,543 at cost, classified as other investments in the accompanying financial statement. The useful life of the goodwill is determined as 10 years.

In case of the liquidation of the non-cash risks of the Çukurova Group related with the Bank, the US Dollars equivalents of these amounts will be computed by using Central Bank foreign exchange rates on the liquidation dates and the amount will be added to the cash risk balances which are subject to the agreement. These amounts will be added to the installments in the payment plan and Libor+3.5 interest will be applied starting from liquidation dates. Default in payments will result in the violation of the agreement. In 2004, the non-cash risks of Çukurova Group at the amount of approximately US Dollars 37 million have been liquidated. These balances have been added to the installments in the payment plan and Libor+3.5 interest has been applied starting from liquidation dates (2003 - US Dollar 48 million).

In line with the additional agreement signed on July 20, 2004 between the Bank and the Çukurova Group (supplementary agreement to the Financial Restructuring Agreement (FRA) dated December 31, 2002), the parties reached a consensus that the debt subject to FRA is USD 1,986 million as of December 31, 2003, and that the value of the total of principal and interest amounts calculated according to present value formula using 7.5% as discount rate is USD 1,775 million as of December 31, 2003, and a new schedule for restructuring and amortization has been arranged for this amount. In this payment plan, the interest was going to be Libor + 3.5 for payments within the maturity date. However, the additional agreement dated July 20, 2004 between the Bank and the Çukurova Group was dissolved due to the fact that Çukurova Group did not comply with the payment schedule. As a result of the termination of the agreement, they returned to FRA dated December 31, 2002. In accordance to this agreement, Çukurova Group has to pay its annual interest obligation on December 31, 2004. When the fine and the additional 60 days period considered, the deadline for the interest payment of Çukurova Group is March 1, 2005. According to the above mentioned agreement, Çukurova Group has paid its annual interest obligation amounting TL 142 billion (USD 101.5 million) as of February 28, 2005.

27. SALARIES AND EMPLOYEE BENEFITS

	2004	2003
Staff costs		
Wages and salaries	**238,221**	249,554
Bonuses	**76,300**	76,328
Other fringe benefits	**124,479**	106,395
Provision for employee termination benefits	**30,423**	12,399
Cost of defined contribution plan (employers' share of social security premiums)	**16,172**	16,261
Total	**485,595**	460,937

The average number of employees for the years is:

	2004	2003
The Bank	**10,561**	10,499
Subsidiaries	**2,059**	1,419
Total	**12,620**	11,918

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

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28. OTHER INCOME/OTHER EXPENSE

	2004	2003
Other income		
Insurance technical income	**504,828**	514,275
Reversal of provision for non – cash loans	**3,757**	6,423
Others	**44,652**	57,676
Total	**553,237**	578,374
Other expense		
Insurance technical expense	**446,680**	444,736
General and administrative expenses	**431,120**	383,058
Provision for non-cash loans	**5,347**	-
Saving deposit insurance fund premiums	**50,365**	67,700
Credit Card Promotion provision	**7,041**	25,669
Impairment provision on premises, equipment and assets held for resale	**149,645**	43,658
Others	**359,733(*)**	45,635
Total	**1,449,931**	1,010,456

(*) Includes provisions for unconsolidated subsidiaries and equity investments amounting TL 268,305.

29. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	2004	2003
Contingencies		
Letters of guarantee	**7,806,243**	7,675,170
Letters of credit	**1,430,425**	1,235,319
Acceptance credits	**149,361**	193,958
Other	**168,575**	105,601
Commitments		
Cash loan limits	**25,177,625**	12,976,855
Credit card limits	**5,789,312**	3,665,731
Cheque commitments	**809,132**	845,262

Maturities of non-cash loans are less than one year except for certain letters of guarantees, which are indefinite.

The management does not anticipate any material losses as a result of these commitments and contingencies.

The Banking Group is contingently liable with respect to reinsurance, which would become an actual liability to the extent that any reinsuring company fails to meet its obligations to Yapı Kredi Sigorta, a consolidated subsidiary. The Banking Group's management believes that no provision is necessary for this contingency.

29.COMMITMENTS AND CONTINGENCIES (continued)

Other

The Group manages 11 (2003 - 11) open-ended investment funds which were established under the regulations of the Turkish Capital Market Board. In accordance with the funds' charters, the Group purchases and sells securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations. Management fee and commission income received from investment funds amounted to TL 72,006 (2003 - TL 80,683).

As of December 31, 2004, the Group had investment custody accounts amounting to TL 5,184,956 (2003 - TL 5,086,929) and financial assets under portfolio management amounting to TL 2,506,284 (2003 - TL 12,351).

Litigation

Except for the one explained in more detailed in Note 33-a); there have been 660 cases sued and traced by the Bank totaling TL 79.1 trillion, US Dollar 494,647, EURO 34,443, GBP 4,235, FRF 36,136 and DEM 250,198.

There are currently 366 law suits brought against the Bank totaling TL 28.2 trillion, US Dollar 7,359,819, EUR 191,117, DEM 516,362, CHF 25,910 and GBP 338,094.

The Bank’s management upon advice of legal counsel, due to the development and progress of the above cases, is of the opinion that the cases will result in favor of the Bank, consequently no provision is set in the consolidated financial statements.

30. FINANCIAL RISK MANAGEMENT

Credit Risk

The Group identifies loan limits for each customer considering statutory regulations. In the process of loan granting the internal scoring system, financial analysis reports, geographical and industry concentration are considered within the limits defined. The limits defined by Board of Directors for each foreign bank are followed-up daily by Treasury Management for the transactions related with placements with domestic and correspondent banks or treasury operations such as forward buy and sell transactions. Moreover, daily positions and limit controls of each Treasury and Fund Management employee who is authorized for transactions in the market are controlled by the system. In loan granting process, primarily the liquid collaterals are obtained. Long-term projections of the companies are analyzed both by financial analysis specialists and head office when grating long-term and project finance loans. Since credit and interest risks are higher in long-term commitments, their pricing is coordinated with treasury management.

As a part of internal scoring system, the loan proposals received from branches are not accepted unless they include a detailed financial information of the companies. All loan customers are followed-up in the system with risk scores and risky customers are closely monitored by the Risk Management Department.

The audited financial statements of the companies are obtained for the loans granted according to the materiality of the loans granted.

The Group has control limits over the positions of forward, options and similar agreements.

The non-cash risks of the customers whose cash risks are classified as non-performing are subject to provision in accordance with Provisioning Regulation. These risks are classified within the same group with the non-performing loans when they are liquidated.

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

30. FINANCIAL RISK MANAGEMENT (continued)

Segment information of cash and non-cash loans is as follows:

	2004		2003	
	Cash	**Non-cash**	Cash	Non-cash
Finance	**1,151,500**	**1,102,039**	1,346,968	1,090,190
Main metal product, processed materials	**761,997**	**1,598,890**	741,447	1,576,924
Textile, fabrics, yarn industry	**796,007**	**506,651**	945,664	523,081
Construction	**361,678**	**1,681,467**	497,864	2,147,896
Government	**345,829**	**125**	190,221	-
Transportation, communication, travel agency	**157,768**	**817,012**	172,537	294,864
Food and beverage, tobacco	**444,397**	**541,949**	443,337	481,387
Wholesale and retail trade	**248,210**	**581,708**	295,393	737,037
Automotive industry	**283,176**	**117,272**	269,412	214,667
Optics and electrical equipments	**85,882**	**598,176**	87,529	513,867
Chemical industry	**127,017**	**265,804**	123,225	88,000
Paper production and publishing	**49,954**	**88,457**	52,266	75,027
Agriculture	**51,666**	**24,107**	29,894	25,226
Petroleum products	**38,137**	**140,863**	34,957	281,499
Foreign trade	**-**	**-**	21,135	4,692
Tourism	**186,785**	**116,642**	134,617	111,331
Other (including credit card balances)	**4,801,544**	**1,373,442**	3,455,966	1,044,360
Corporate loans	**9,891,547**	**9,554,604**	8,842,432	
Consumer loans	**712,433**	**-**	686,244	
Interest accruals	**869,558**	**-**	1,014,317	
Loans in arrears	**833,352**	**-**	943,178	
Provision for possible loan losses	**(726,410)**	**-**	(759,826)	
	11,580,480	**9,554,604**	10,726,345	9,210,048

Liquidity Risk

The major funding source of the Group is its stable deposit base provided by quality banking service, widespread branches and effective usage of alternative distribution channels. In parallel to market conditions, despite the average maturities of deposits are short-term, they are renewed on the maturities and consequently provide a long-term funding source.

The Group has short-term and liquid assets in interbank placements and securities portfolio against liquidity risk. Major part of the securities portfolio comprises of the securities, which are actively traded in markets and foreign currency indexed bonds, which are barely traded, are not included in the Bank's portfolio.

The liquidity risk and the maturity structure of assets and liabilities are weekly reported to Asset and Liability Committee and to the top level Risk Committee.

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30. FINANCIAL RISK MANAGEMENT (continued)

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 Year	Total
As at December 31, 2004						
Assets						
Cash and balances with the central banks	409,291	-	-	-	-	**409,291**
Deposits with banks and other financial institutions	1,279,025	28,039	1,354	1,000	-	**1,309,418**
Other money market placements	11,532	-	-	-	-	**11,532**
Reserve deposits at the central banks	1,161,321	-	-	-	-	**1,161,321**
Trading securities	196,890	186,882	145,409	1,337,801	2,026,925	**3,893,907**
Available for sales securities	811,338	6,573	20,371	887,515	862,753	**2,588,550**
Held to maturity securities	14,161	-	95	53,725	119,305	**187,286**
Originated loans and advances	835,221	3,147,865	905,451	803,078	5,888,865	**11,580,480**
Factoring receivables	192,693	29,996	18,960	-	-	**241,649**
Minimum lease payments receivable	23,699	63,065	42,611	61,366	75,250	**265,991**
Derivative financial instruments	2,438	351	38	19	-	**2,846**
Investments in joint venture	-	-	-	-	440,697	**440,697**
Investments in unconsolidated subsidiaries	-	-	-	-	4,124	**4,124**
Investments in associates	-	-	-	-	314,041	**314,041**
Investment properties	-	-	-	-	20,291	**20,291**
Premises and equipment	-	-	-	-	2,273,279	**2,273,279**
Intangibles	-	-	-	-	160,481	**160,481**
Other assets	311,744	28,009	20,570	11,056	292,404	**663,783**
Deferred tax asset	-	-	-	-	245,793	**245,793**
Total assets	**5,249,353**	**3,490,780**	**1,154,859**	**3,155,560**	**12,724,208**	**25,774,760**
Liabilities						
Deposits from other banks	167,439	58,996	7,932	5,371	49,850	**289,588**
Customers' deposits	6,860,998	4,309,939	2,926,046	744,922	364,083	**15,205,988**
Other money market deposits	2,511,994	90,243	359,405	101,647	-	**3,063,289**
Funds borrowed	206,566	153,325	186,422	190,745	178,493	**915,551**
Debt securities	-	-	-	268,420	-	**268,420**
Insurance technical reserves	645,256	33,642	36,446	37,847	13,320	**766,511**
Factoring payables	121,508	-	-	-	-	**121,508**
Derivative financial instruments	1,825	-	-	-	-	**1,825**
Other liabilities and provisions	1,684,015	5,927	5,614	8,605	16,949	**1,721,110**
Income taxes payable	1,548	567	-	-	-	**2,115**
Deferred tax liability	-	-	-	-	11,537	**11,537**
Total liabilities	**12,201,149**	**4,652,639**	**3,521,865**	**1,357,557**	**634,232**	**22,367,442**
Net liquidity gap	**(6,951,796)**	**(1,161,859)**	**(2,367,006)**	**1,798,003**	**12,089,976**	**3,407,318**
As at December 31,2003						
Total assets	5,268,684	3,345,694	1,504,510	1,670,022	13,658,151	25,447,061
Total liabilities	11,771,172	5,283,543	3,104,514	1,333,179	572,310	22,064,718
Net liquidity gap	**(6,502,488)**	**(1,937,849)**	**(1,600,004)**	**336,843**	**13,085,841**	**3,382,343**

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30. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

The Group follows-up the daily currency risk and reports the findings both to Asset and Liability Committee and Risk Committee. The foreign currency position is managed according to the expectations in the markets and within the limits defined by the statutory regulations and top management. The forward buy and sell transactions are generally realized to hedge risk on parity differences.

The concentrations of assets, liabilities and off balance sheet items:

	Turkish Lira	US Dollars	Euro	GBP	CHF	Others	Total
As at December 31, 2004							
Assets							
Cash and balances with the central banks	97,218	111,168	191,449	2,325	1,069	6,062	**409,291**
Deposits with other banks and financial institutions	12,311	470,924	804,401	921	1,510	19,351	**1,309,418**
Other money market placements	11,532	-	-	-	-	-	**11,532**
Reserve deposits at the central banks	501,299	6,712	651,752	-	-	1,558	**1,161,321**
Trading securities	2,391,650	992,464	509,793	-	-	-	**3,893,907**
Available sale securities	1,475,172	697,373	395,639	-	-	20,366	**2,588,550**
Held to maturity securities	-	160,214	27,072	-	-	-	**187,286**
Originated loans and advances	6,150,684	4,794,057	599,990	3,606	2,270	29,873	**11,580,480**
Factoring receivables	78,997	18,249	131,370	12,849	-	184	**241,649**
Minimum lease payments receivable	28,799	97,301	132,498	527	5,125	1,741	**265,991**
Derivative financial instruments	-	2,844	-	2	-	-	**2,846**
Investments in joint ventures	440,697	-	-	-	-	-	**440,697**
Investments in unconsolidated subsidiaries	3,927	73	124	-	-	-	**4,124**
Investments in associates	273,600	-	-	-	40,441	-	**314,041**
Investment properties	20,291	-	-	-	-	-	**20,291**
Premises and equipment	2,253,038	5,727	4,577	-	-	9,937	**2,273,279**
Intangibles	148,046	649	9,146	-	2,640	-	**160,481**
Other assets	582,978	41,341	38,750	-	-	714	**663,783**
Deferred tax asset	241,617	11	4,165	-	-	-	**245,793**
Total assets	14,711,856	7,399,107	3,500,726	20,230	53,055	89,786	**25,774,760**
Liabilities							
Deposits from other banks	104,797	154,283	9,966	18,941	649	952	**289,588**
Customers' deposits	6,377,044	5,268,057	3,387,868	88,455	48,236	36,328	**15,205,988**
Other money market deposits	2,340,582	409,949	312,758	-	-	-	**3,063,289**
Funds borrowed	96,825	545,729	251,171	8,921	7,767	5,138	**915,551**
Debt securities	-	268,420	-	-	-	-	**268,420**
Insurance technical reserves	447,178	159,706	159,627	-	-	-	**766,511**
Factoring payables	26,528	9,842	78,659	6,295	-	184	**121,508**
Derivative financial instruments	434	1,391	-	-	-	-	**1,825**
Other liabilities and provisions	1,581,831	63,076	72,354	646	1,556	1,647	**1,721,110**
Income taxes payable	1,316	-	799	-	-	-	**2,115**
Deferred tax liability	3,262	-	8,275	-	-	-	**11,537**
Total liabilities	**10,979,797**	**6,880,453**	**4,281,477**	**123,258**	**58,208**	**44,249**	**22,367,442**
Net balance sheet position	**3,732,059**	**518,654**	**(780,751)**	**(103,028)**	**(5,153)**	**45,537**	**3,407,318**
Off-balance sheet position							
Net notional amount of derivatives	(234,880)	(301,936)	374,628	115,490	45,826	(113)	(985)
Non- cash loans	3,860,572	3,319,168	1,940,351	15,552	113,786	305,175	9,554,604
At December 31, 2003							
Total assets	13,661,431	8,256,212	3,333,692	41,655	58,492	95,579	25,447,061
Total liabilities	10,360,723	7,321,922	4,160,004	113,338	65,711	43,020	22,064,718
Net balance sheet position	3,300,708	934,290	(826,312)	(71,683)	(7,219)	52,559	3,382,343
Net notional amount of derivatives	(9,903)	(829,844)	708,307	83,592	50,503	6,390	9,045
Non-cash loans	3,189,990	3,677,673	1,907,117	14,895	136,519	283,854	9,210,048

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30. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk

The monitoring of interest rate sensitive assets and liabilities and sensitivity analysis regarding the effect of interest rate fluctuations on financial statements are performed by the related departments and periodically reported to the Asset and Liability Committee and to the top level Risk Committee.

In parallel to the fluctuations in the market, the funding cost of the Bank is daily followed-up by Treasury Management and the related departments and branches are informed regarding the minimum and maximum limits on currency basis. The demands that are not within the limits defined by Treasury Management can only be accepted with the approval of Treasury Management. Moreover the daily reference interest rates, which results from the transactions in the market are determined according to the funding cost of the Bank and the income and loss differences between the applied interest rates by the branches, head office, and reference interest rate are calculated by the system. Since income and loss computed in this method is also utilized by the performance evaluations of Human Resources Department, sensitive work is performed by wide network of branches.

Moreover, the Group has aimed to decrease interest rate risk by evaluating its liquidity in assets with variable interest rate.

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the repricing date.

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 Year	Non interest bearing	Total
As at December 31, 2004							
Assets:							
Cash and balances with the central banks	-	-	-	-	-	409,291	**409,291**
Deposits with banks and other financial institutions	1,280,793	-	1,354	1,000	-	26,271	**1,309,418**
Other money market placements	10,503	1,029	-	-	-	-	**11,532**
Reserve deposits at the central banks	1,136,233	-	-	-	-	25,088	**1,161,321**
Trading securities	282,843	524,002	229,167	1,176,093	1,534,112	147,690	**3,893,907**
Available for sale securities	17,034	156,956	21,469	884,399	705,755	802,937	**2,588,550**
Held to maturity securities	14,161	-	95	53,727	119,303	-	**187,286**
Originated loans and advances	843,187	5,962,379	918,232	799,563	2,929,463	127,656	**11,580,480**
Factoring receivables	192,581	29,996	18,960	-	-	112	**241,649**
Minimum lease payments receivable	23,699	63,065	42,611	61,366	75,250	-	**265,991**
Derivative financial instruments	2,438	351	38	19	-	-	**2,846**
Investments in joint venture	-	-	-	-	-	440,697	**440,697**
Investments in unconsolidated subsidiaries	-	-	-	-	-	4,124	4,124
Investments in associates	-	-	-	-	-	314,041	**314,041**
Investment properties	-	-	-	-	-	20,291	**20,291**
Premises and equipment	-	-	-	-	-	2,273,279	**2,273,279**
Intangibles	-	-	-	-	-	160,481	**160,481**
Other assets	69,831	3,305	4,957	9,914	23,802	551,974	**663,783**
Deferred tax asset	-	-	-	-	-	245,793	**245,793**
Total assets	**3,873,303**	**6,741,083**	**1,236,883**	**2,986,081**	**5,387,685**	**5,549,725**	**25,774,760**
Liabilities:							
Deposits from other banks	134,162	58,996	7,932	5,371	49,850	33,277	**289,588**
Customers' deposits	4,060,407	4,309,939	2,926,046	744,922	364,083	2,800,591	**15,205,988**
Other money market deposits	2,511,994	90,243	359,405	101,647	-	-	**3,063,289**
Funds borrowed	203,784	160,771	186,422	191,020	170,623	2,931	**915,551**
Debt securities	-	268,420	-	-	-	-	**268,420**
Insurance technical reserves	-	-	-	-	-	766,511	**766,511**
Factoring payables	111,700	3,037	6,367	-	-	404	**121,508**
Derivative financial instruments	1,825	-	-	-	-	-	**1,825**
Other liabilities and provisions	145,131	1,659	2,853	46	-	1,571,420	**1,721,110**
Income taxes payable	-	-	-	-	-	2,115	**2,115**
Deferred tax liability	-	-	-	-	-	11,537	**11,537**
Total liabilities	**7,169,003**	**4,893,065**	**3,489,025**	**1,043,006**	**584,556**	**5,188,786**	**22,367,442**
Balance sheet interest sensitivity gap	**(3,295,700)**	**1,848,018**	**(2,252,142)**	**1,943,075**	**4,803,129**	**360,939**	**3,407,318**
Off-balance interest sensitivity gap		**135**					

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30. FINANCIAL RISK MANAGEMENT (continued)

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 Year	Non interest bearing	Total
As at December 31, 2003							
Assets							
Cash and balances with the central banks		-	-	-	-	308,036	308,036
Deposits with other banks and financial institutions	787,575	89,586	12,000	-	23	(8,212)	880,972
Other money market placements	89,465	-	1,601	-	-	-	91,066
Reserve deposits at the central banks	1,102,226	-	-	-	-	43,894	1,146,120
Trading securities	410,254	758,015	254,729	93,206	1,856,005	114,922	3,487,131
Available for sale securities	69,335	40,210	264,893	389,362	1,091,639	893,042	2,748,481
Held to maturity securities	491,135	157,026	107,514	2,101	190,159	0	947,935
Originated loans and advances	625,301	2,667,647	817,002	3,804,885	2,558,480	253,030	10,726,345
Factoring receivables	78,449	186,095	42,590	77	0	25	307,236
Minimum lease payments receivable	9,734	44,376	59,574	116,843	130,028	-	360,555
Derivative financial instruments	-	-	-	-	-	4,336	4,336
Investments in joint venture	-	-	-	-	-	471,726	471,726
Investments in unconsolidated subsidiaries	-	-	-	-	-	5,633	5,633
Investments in associates	-	-	-	-	-	317,952	317,952
Investment properties	-	-	-	-	-	20,698	20,698
Premises and equipment	-	-	-	-	-	2,465,894	2,465,894
Intangibles	-	-	-	-	-	170,290	170,290
Other assets	78,513	3,148	4,474	66,688	33,134	629,068	815,025
Deferred tax asset	-	-	-	-	-	171,630	171,630
Total assets	**3,741,987**	**3,946,103**	**1,564,377**	**4,473,162**	**5,859,468**	**5,861,964**	**25,447,061**
Liabilities:							
Deposits from other banks	114,511	14,675	8,740	9,173	23,686	24,934	195,719
Customers' deposits	4,094,671	4,951,028	2,853,004	661,363	344,557	3,265,444	16,170,067
Other money market deposits	2,379,329	-	-	68,441	-	-	2,447,770
Funds borrowed	77,179	173,614	157,189	203,406	188,477	9,459	809,324
Debt securities	-	-	-	314,088	-	-	314,088
Insurance technical reserves	582,634	-	-	-	-	156,525	739,159
Factoring payables	30,163	94,539	18,677	-	-	633	144,012
Derivative financial instruments	-	-	-	-	-	5,209	5,209
Other liabilities and provisions	859,347	15,648	27,933	43,686	4,965	266,649	1,218,228
Deferred tax liability	-	-	-	-	-	5,510	5,510
Income taxes payable	-	-	-	-	-	15,632	15,632
Total liabilities	**8,137,834**	**5,249,504**	**3,065,543**	**1,300,157**	**561,685**	**3,749,995**	**22,064,718**
Balance sheet interest sensitivity gap	**(4,395,847)**	**(1,303,401)**	**(1,501,166)**	**3,173,005**	**5,297,783**	**2,111,969**	**3,382,343**
Off-balance interest sensitivity gap	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Market Risk

The interest rate risk and foreign currency risk, which are the main components of market risk is followed-up daily by the Bank's Board of Directors and top level risk committee.

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulatory and Supervision Agency (BRSA). These ratios measure capital adequacy (minimum 8% as required by BRSA) by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2004, the Group's capital adequacy ratio on a consolidated basis in line with the requirements of BRSA is 19.78 % (2003-20.49%).

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31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	2004	2003	**2004**	2003
Financial assets				
Loans and advances	**11,630,344**	10,726,345	**11,619,281**	10,726,345
Investments held to maturity	**187,286**	947,935	**201,019**	1,002,020
Minimum lease payments receivables	**265,991**	360,555	**298,641**	346,768
Financial liabilities				
Deposits from other banks	**289,588**	195,719	**289,588**	195,719
Customer deposits	**15,205,988**	16,170,067	**15,205,988**	16,170,067
Funds borrowed	**915,551**	809,324	**915,551**	809,324

As of December 31, 2004 and 2003, the fair values of originated loans and advances to customers excluding securities, customer deposits, deposits from other banks and funds borrowed could not be presented due to impracticality. However, management believes that the fair value of mentioned financial assets and liabilities are considered to approximate carrying value resulting from assessing the various risk components of the respective portfolios.

Fair values of financial assets and liabilities carried at cost, including deposits with banks and other financial institutions, balances with the central banks, other money market placements, reserve deposits, factoring receivables, and payables, debt securities and other money market deposits are considered to approximate their respective carrying values due to their short term nature.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristics or by discounting the expected future cash flows at prevailing interest rates.

32. ÇUKUROVA GROUP SHARES IN THE BANK AND LOANS RECEIVABLE BY THE BANK

a) In accordance with the decision of the BRSA dated June 18, 2002 and numbered 742, the management and control of Pamukbank T.A.Ş., was transferred to the SDIF. In accordance with Article 8/2c at the Banks Act, the control and shareholding rights (excluding dividends) of Pamukbank will be used by SDIF due to the fact that the shareholders of Pamukbank T.A.Ş. who hold direct or indirect shares of 10% or more has lost the qualification of being a bank owner, in line with the Article 7/2 of Banks Act. As a result of the decision of the General Assembly of Administrative Lawsuit Chambers of the Council of State dated November 22, 2002 and numbered 2002/892 YK, related with the suspension of the execution of the resolution of the BRSA regarding the take over of Pamukbank by SDIF, SDIF has transferred the management, control and privileges relating with shareholding of Pamukbank T.A.Ş. to its former owners as of January 24, 2003.

Following that, an agreement has been signed among the BRSA, SDIF and the Çukurova Group on January 31, 2003. With this agreement, the transfer of management, control, and shareholding rights (excluding dividends) of Pamukbank T.A.Ş. to SDIF is finalized and in line with the provisions of Banking Law numbered 4389, it was concluded that SDIF will continue to exercise the partnership rights of Pamukbank T.A.Ş. in the Bank. Moreover, the shares of the Bank held by Pamukbank T.A.Ş. and its subsidiaries are taken over by SDIF and within the scope of the above mentioned agreement, the shares of the Bank owned by SDIF and Çukurova Group will be sold to third parties by Çukurova Group within two years after the agreement date so that direct and indirect participation of Çukurova Group in the Bank will be reduced to less than 10%. In case, the sale cannot be realized within this period, a reputable investment bank that will mutually be authorized by SDIF and Çukurova Group would realize the sales in one year.

Following the above-mentioned developments, within the frame of the agreement between BRSA, Saving Deposit Insurance Fund and the Çukurova Group dated January 31, 2003, the parties have reached a consensus about the early repayment of the fund's receivable, and additional agreements regarding the new payment plan have been signed on 4 and 5 August 2004. The agreement mentioned does not revoke the agreement dated January 31, 2003, even in case the Fund's full receivable amount is collected the agreement dated January 31, 2003 will remain in effect except the replacing acts brought by the additional agreement.

Based on the additional agreements, the sales procedure of bank shares belonging to Çukurova Group, mentioned in the agreement dated January 31, 2003 will be accelerated. In case of the sales of the Bank shares belonging the Çukurova Group, the cash receipt due to this sales operation will be deducted from risk receivables. Under this agreement, Çukurova Group charged an investment bank with international experience for the sales procedure of the shares as of October 15, 2004. Thereby, based on the related additional agreements, the sales process of Çukurova Group's bank shares has started.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004

(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

32. ÇUKUROVA GROUP SHARES IN THE BANK AND LOANS RECEIVABLE BY THE BANK (continued)

b) In addition to the matters explained above in a), the agreement signed among BRSA, SDIF, and the Çukurova Group on January 31, 2003 require that;

i) All necessary precautions will be taken in order for the capital adequacy ratio of the Bank not to fall below 10%. In case the capital adequacy ratio falls below 10% and if Çukurova Group is unable to increase capital, the necessary capital will be provided by SDIF.

ii) Until the sale of the shares of the Bank, the Bank will not distribute any profit or in case of a profit distribution, the Bank will increase its capital so that profit will remain within the Bank.

iii) Çukurova Holding A.Ş. has the right to purchase all shares of Turkcell Holding A.Ş. and Turkcell İletişim Hizmetleri A.Ş. which are directly or indirectly owned by the Bank within two years from the starting date of the agreement by means of payment in cash, whether up front or in installments. It was accepted by SDIF, which is the minority shareholder of the Bank, that the purchase prices of these stocks will be calculated by taking into consideration the last 30 days the weighted average closing prices of these shares' realized prior to the purchase transaction. The right to determine the management and auditing principles of these shares will belong to the Çukurova Holding A.Ş. until the purchase transaction is realized.

iv) Çukurova Group is able to purchase all Fintur Technologies BV shares and/or all Digital Platform Hizmetleri A.Ş. shares owned by the Bank within one year starting from the agreement date at their net book value prevailing at the date of transfer by means of payment in cash and/or in exchange of shares of T. Genel Sigorta A.Ş. and/or Banque de Commerce et de Placements S.A. over their book values.

v) If applicable to all parties, the merger of the Bank and Pamukbank A.Ş. will be considered.

vi) The members of the Board of Directors have been selected by SDIF among the candidates suggested by the shareholders of the Bank such that the suggested number were twice the number of members required in the Board of Directors. These candidates have been identified from the list prepared by an internationally reputable consultancy firm which will be authorized by all parties.

vii) A "Participation Management Committee" has been formed in order to create a synergy for the Bank and its subsidiaries in their relations with other Group companies. The Board is not a decision making body and have four members of which two have been selected by SDIF and the other two have been selected by the Bank.

c) As mentioned in article a) above, main aspects of Additional Appointment signed in August 4, 2004 between TMSF and Çukurova group as far as announced to public are as follows:

i) Fund pledges on shares of Turkcell Holding A.Ş. and Turkcell İletişim Hizmetleri A.Ş. that are owned by Çukurova will be set free in parallel to the payments received and these shares will be admitted to Bank that is chosen as Trustee Bank. The Fund's pledges on Çukurova Group's shares of the Bank will be preserved. In the case of delay, pledge untying operation will be ceased.

ii) Sales procedure of the Bank in the Agreement signed January 31, 2003 will be accelerated. In the case of sale of Bank shares belonging to Çukurova Group, money received from these sales will be deducted as fund receivables from the balance in new payment plan scope.

iii) In the case of any delay in new repayment plan, Additional Agreement will be out of validity and the rules of Agreement signed in January 31, 2003 about loan determination and repayment will be relevant.

iv) Çukurova Group will basicly cover early loan repayment to both TMSF and Bank via foreign resources. However remaining loan balance that is not covered by foreign resources will be paid from Group's own resources to TMSF and Bank.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2004
(Currency -- In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

32. ÇUKUROVA GROUP SHARES IN THE BANK AND LOANS RECEIVABLE BY THE BANK (continued)

d) The additional agreement dated July 20, 2004 between the Bank and the Çukurova Group was dissolved by the Bank due to the fact that Çukurova Group did not comply with the payment schedule. The results of the termination of this agreement are summarized below;

i) They returned to FRA signed between the Bank and the Çukurova Group dated December 31, 2002. In accordance to this agreement, Çukurova Group has to pay its annual interest obligation on December 31, 2004. When the fine and the additional 60 days period considered, the deadline for the interest payment of Çukurova Group is March 1, 2005.

ii) Regarding the sales of the Turkcell and Turkcell Holding shares belonging to the Bank, the agreement dated January 31, 2003 has become valid. According to this agreement, Çukurova Group has the option to buy these shares by paying the amount in cash, in one single payment and in advance till January 31, 2005.

iii) Çukurova Group has no right to buy the shares of Digital Platform and Superonline any more. Bank is free to sell these companies to whom it pleases in line with the decisions of the authorized members.

e) On January 16, 2005, Koç Financial Services (KFS) and Çukurova Holding A.S. have signed a protocol for carrying out exclusive negotiations with respect to the sale of shares that Çukurova Group of Companies owns in Yapı ve Kredi Bankası A.Ş. Following the protocol dated January 16, 2005, on January 31, 2005 Koç Financial Services A.S. ("KFS"), and Koçbank Nederland N.V., with Çukurova Holding A.Ş. (Çukurova) and Mehmet Emin Karamehmet have signed a Share Transfer Agreement for the sale of Yapı ve Kredi Bank A.Ş. (YKB or the Bank) shares held by Çukurova Group. Main aspects of Share Transfer Agreement as far as announced to public are as follows:

i) Under the agreement, KFS will acquire a shareholding of 57.42% of the share capital of YKB, of which 44.53%, TL 335,015 nominal, from Çukurova and 12.89%, TL 97,032 nominal, from the Savings Deposits and Insurance Fund (SDIF).

ii) The purchase price, according to June 30, 2004 financials, is equivalent to 57.4% of Euro 2,050 million and will be subject to the adjustments in accordance with the due diligence review and with the financial statements to be prepared at completion. The substantial part of the purchase price will be paid by Çukurova to YKB in order to set off the Çukurova loans owed to YKB.

f) As indicated in the BRSA letter numbered KR 1.50.2.01-759, dated January 28, 2005, as of January 31, 2005, Çukurova Group did not used the option to repurchase the Turkcell and Turkcell Holding shares mentioned in the FRA signed on January 31, 2003. Furthermore, as of January 31, 2005, Çukurova Group also did not use the option related to repurchase of Turkcell shares that were not traded on Istanbul Stock Exchange (ISE), acquired for the settlement of the interest installment receivable along with its accrued interest amounting to USD 98,937,601 as of December 31, 2003 calculated as per FRA. However, according to the Share Transfer Agreement signed between KFS and Çukurova Group, to the extent announced to the public, related to all Turkcell and Turkcell Holding shares owned by the Bank, the following paragraphs are indicated:

i) The parties shall use all reasonable efforts to procure that the Company honours the Original Turkcell Option Agreement and subject thereto, enters into an agreement to extend the Turkcell Option (the Turkcell Option Agreement) which will include the revised terms for the Original Turkcell Option, including the exercise price (but subject to a Euro 55 million pro-rated reduction in exercise price if exercised within 6 months of Completion) and provision for a twelve month exercise period (the Turkcell Option).

32. ÇUKUROVA GROUP SHARES IN THE BANK AND LOANS RECEIVABLE BY THE BANK (continued)

ii) If the Turkcell Option is not exercised by Çukurova within six months of Completion, Çukurova shall pay to the Company the total carry costs of the Turkcell Option of Euro 55 million (less the sum of dividends received by the Company on the Turkcell Option Shares prior to the exercise of the Turkcell Option), provided that such costs will be pro-rated on the basis that for each month following the completion of the six month period referred to herein in which the Turkcell Option is not exercised Çukurova shall be liable for one sixth of the total carry costs which shall not exceed Euro 55 million (less the sum of dividends received by the Company on the Turkcell Option Shares prior to the exercise of the Turkcell Option). Such carry costs shall be payable monthly in arrears.

The Bank had classified the Turkcell shares acquired for the settlement of the interest installment receivable along with its accrued interest amounting to USD 98,937,601 as of December 31, 2003 calculated as per FRA in available for sale portfolio and as of December 31, 2004, booked with the amount equal to option related interest receivable plus its accrual with Libor + 3.5 interest rate. Difference between this amount and the cost is recognized as unrealized gain/loss and taken to equity. Had the Bank booked the Turkcell shares without taking the option into account, as of December 31, 2004 net loss of the Bank would have decreased by TL 10,004 and equity would have increased by TL 101,952.

g) The Bank's Board of Directors responded to the request made by Çukurova Group to related parties about extending the purchase option of Fintur Technologies B.V. and Digital Platform İletişim Hizmetleri A.Ş. shares by Çukurova Group at their net book value within one year (January 31, 2004) as indicated by the article 27 of main principles of the agreement signed among BRSA, SDIF and Çukurova Group on January 31, 2003 that the option can be extended until May, 2004. Within the framework of the additional agreement signed between the Çukurova Group and the Bank on July 20, 2004 as an addition to Financial Restructuring Agreement dated December 31, 2002, because the deadline for the option right has passed, the shares of the above-mentioned Fintur, Digital Platform, and Superonline Uluslararası Elektronik Bilgilendirme ve Haberleşme Hizmetleri A.Ş. owned by the Bank and its subsidiaries would be transferred to Çukurova Group by December 31, 2004 based on the value determined by the valuation institution selected by Çukurova Group out of three independent valuation institutions nominated by the Bank. However, since the Bank management declared the Supplementary Agreement as invalid, Çukurova Group's right to purchase such companies is abolished. Sections of the Share Transfer Agreement dated January 31, 2005, signed between Koç Financial Services and Çukurova Group, which is announced to the public, refers to an option related to the repurchase of the shares of such companies by the Çukurova Group. Accordingly the Bank has ceased the valuation work for these investments that was started during the year.

33. OTHER CONTINGENCIES

a) As of December 31, 2004 and December 31, 2003, the Bank has a receivable of TL 625,710 from a government institution. In line with the opinion taken from BRSA, the Bank has calculated income accrual at an amount of TL 89,132 (at nominal amount) only for three month period between July 1, 2002 and September 30, 2002 and recorded such accrual to the accompanying financial statements. Based on the Board of Directors' decision numbered 60/41 held at December 25, 2003, the Bank decided to open a lawsuit against the Undersecretariat of Turkish Treasury in order to collect the above mentioned receivable. Moreover, execution of a bankruptcy case for the receivable mentioned above, in September 30, 2004 has been issued for this government institution, and the bankruptcy payment order is being announced in October 12, 2004. The final recoverable amount of this receivable is dependent on the outcome of the lawsuit against the Undersecretariat of Turkish Treasury. Had the Bank applied interest for the periods in 2002, 2003 and 2004 using the simple interest rates of debt securities announced by State Planning Organization, as of December 31, 2004, the net loss of the Bank would be decreased by TL 258,105 and shareholders' equity of the Bank would be increased by TL 760,240 respectively.

b) As of December 31, 2004, the Bank has an accrued interest receivable amounting to TL 23,801 from a Government-owned entity. In 1999, the Bank has shown in its financial statements the rediscount calculated as of June 30, 1999 for the remaining principal balance, no record of rediscount for other periods has been noted. To collect the receivable amount mentioned, the Bank filed a lawsuit numbered 2001/693 in the 8th Istanbul Supreme Court Trade Court for the late payment of revenue receivable from "Ataşehir Konutları" and the lawsuit is still in progress. In such cases, an examination by an expert had been performed to determine and calculate the damage. In the first expert report prepared the receivable due to the damage is determined as being TL 110 trillion as of December 30, 1999. In the second expert report prepared this amount has been brought down to TL 40.8 trillion. The Bank has appealed to this second expert report. The third expert report dated February 11, 2005, indicated that the receivable due to damage is TL 40.8 trillion and accrual to this amount can be demanded starting from December 30, 1999. The Bank has appealed to this report as of February 28, 2005 and the judicial process is ongoing.

   Furthermore, the lawsuit numbered 2001/1188 filed in Istanbul 3rd Asliye Trade Court related to the collection of TL 60 trillion is still ongoing. In the court meeting on October 24, 2002, a decision was made to have expert examination for determining the amount of damage. The case has been transferred to the committee of experts on December 24, 2002 and the results are still pending.

c) The Capital Market Board's (CMB) written statement dated May 30, 2003 and numbered OFD/902 has requested that USD 94.8 million be demanded on the grounds that during the acquisition of 50% of the shares of A-Tel Servis Hizmetleri Anonim Şirketi during the Financial Restructuring Agreement (FRA) of Çukurova İthalat ve İhracat Anonim Şirketi (Çukurova İthalat), the value of these shares was overestimated, with the decision of the Board of Directors dated December 31, 2003 and numbered 60/43 a law suit for compensation has been filed against Çukurova İthalat in Istanbul 7th Principal Trade Court with file number 2004/3. On the course of the trial Çukurova Group has pledged to pay the amount subject to lawsuit in full and in cash in case it becomes definite that the lawsuit filed in Ankara 5th Administrative Court with file number 2003/1254 for the annulment of the CMB decision results against the Group. The Board of Directors has accepted this pledge with its decision dated March 11, 2004 and numbered 61/13 and has renounced the lawsuit it filed in Istanbul 7th Trade Court. Even though Ankara 5th Administrative Court has ruled that CMB decision be annulled, the decision is not yet definite, and CMB may still appeal to the decision.

d) On April 4, 2005 the Bank received the report of the Central Bank auditors dated March 31, 2005. In this report among other issues, the accounting for securitization and syndication loans in the offshore branch by the Bank, resulting in exclusion of such liabilities in disponibility (liquidity) requirements was criticized. The Bank has not made a provision for such contingency on the basis that there is no final assessment made by the regulatory authority and thus no reliable estimate of the amount of obligation if any, can be made.

Yapı ve Kredi Bankası Anonim Şirketi

SEPARATE BALANCE SHEET

As at December 31, 2004

(Currency - In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

The Bank's own unconsolidated balance sheets and income statements for inclusion in the consolidated financial statements prepared in accordance with IFRS as of and for the years ended December 31, 2004 and 2003 are included in this Appendix for information purposes only. In the unconsolidated financial statements, the Bank opted to account for investments in subsidiaries at restated cost in accordance with IAS 27.

	2004	2003
ASSETS		
Cash and balances with the central banks	**402,097**	296,987
Deposits with banks and other financial institutions	**657,329**	591,837
Other money market placements	**-**	89,313
Reserve deposits at the central banks	**1,136,233**	1,102,225
Trading securities	**3,553,822**	3,011,316
Available for sale securities	**2,232,756**	2,329,381
Held to maturity securities	**160,214**	918,844
Originated loans and advances	**10,854,910**	10,084,575
Derivative financial instruments	**1,529**	2,706
Investment in joint ventures	**440,697**	471,726
Investments in subsidiaries	**706,834**	704,089
Investments in associates	**484,245**	478,726
Premises and equipment	**2,167,368**	2,338,577
Intangibles	**99,488**	107,061
Other assets	**402,352**	599,905
Deferred tax asset	**232,531**	152,497
Total assets	**23,532,405**	23,279,765
LIABILITIES AND EQUITY		
Deposits from other banks	**267,925**	207,619
Customers' deposits	**14,160,183**	15,243,648
Other money market deposits	**3,066,669**	2,438,267
Funds borrowed	**610,543**	513,612
Debt securities	**268,420**	314,088
Derivative financial instruments	**1,825**	5,367
Other liabilities and provisions	**1,570,771**	1,035,046
Total liabilities	**19,946,336**	19,757,647
Equity		
Share capital issued	**3,425,231**	4,289,752
Net unrealized gains	**212,304**	133,467
Legal reserves and accumulated profits (deficit)	**(51,466)**	(901,101)
Total equity	**3,586,069**	3,522,118
Total liabilities and equity	**23,532,405**	23,279,765

SEPARATE INCOME STATEMENT

For the year ended December 31, 2004
(Currency - In billions of Turkish Lira in equivalent purchasing power at December 31, 2004)

	2004	2003
Interest income		
Interest on originated loans and advances	**1,810,697**	1,731,857
Interest on securities	**979,639**	873,046
Interest on deposits with banks and other financial institutions	**76,559**	129,974
Interest on other money market placements	**1,149**	12,427
Other interest income	**385**	362
Total interest income	**2,868,429**	2,747,666
Interest expense		
Interest on deposits	**(1,516,364)**	(2,285,616)
Interest on other money market deposits	**(524,854)**	(525,503)
Interest on funds borrowed	**(87,180)**	(110,005)
Interest on debt securities	**(5,953)**	-
Total interest expense	**(2,134,351)**	(2,921,124)
Net interest income	**734,078**	(173,458)
Provision for possible losses on loan	**(117,957)**	15,476
Net interest income (expense) after provision for possible losses on loan	**616,121**	(157,982)
Foreign exchange gain	**42,793**	25,002
Net interest income (loss) after foreign exchange gain and provision for possible losses on loan	**658,914**	(132,980)
Other operating income		
Fees and commissions income	**170,507**	172,894
Income from banking services	**500,022**	533,687
Trading income, net	**80,540**	513,122
Dividend income from subsidiaries and associates	**24,607**	11,529
Other income	**93,761**	72,740
Other operating expense		
Fees and commissions expense	**(191,872)**	(220,095)
Salaries and employee benefits	**(397,095)**	(385,281)
Depreciation and amortization	**(198,447)**	(204,558)
Taxes other than on income	**(42,863)**	(65,516)
Other expenses	**(991,191)**	(449,369)
Loss from operating activities before income tax and monetary gain	**(293,117)**	(153,827)
Income tax benefit	**88,514**	106,188
Monetary gain	**189,716**	256,622
Net (loss) / profit from ordinary activities	**(14,887)**	208,983

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Yeşim Akdeniz
Human Resources

Haşim Fırat Çelikkan
Commercial Banking

Tülay Güngen
ADC & Technology

Ahmet İlerigelen
Credit

Hüseyin İmece
Treasury & Financial Institutions

Ali Bahadır Minibaş
Operations

Erhan Özçelik
Corporate Sales & Marketing

Muzaffer Öztürk
Retail Banking Sales

Kemal Semerciler
Internal Audit

Zeynep Nazan Somer
Credit Cards and Retail Banking Marketing*

Cengiz Yamaner
Legal Affairs

*Also acting as Chief Financial Officer since Dec 6, 2004.

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