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YAPI VE KREDİ BANKASI A.Ş. ANNUAL REPORT 2005

YAPI VE KREDİ BANKASI A.Ş.
ANNUALREPORT2005

ANNUALREPORT2005

TABLE OF CONTENTS

YAPI KREDİ IN BRIEF

Yapı Kredi is a top-tier, full-service financial institution with core businesses in corporate, 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 415 domestic branches, 1,469 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, electronic, 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.

INFORMATION ON SHAREHOLDERS

KOÇ GROUP

Founded in 1926, Koç Group is the leading industrial Group in Turkey with significant presence in several sectors (automotive, white goods, energy, retail and many others) and an outstanding track record of establishing and managing successful joint ventures with leading multinational groups such as Ford, Allianz and Fiat.

Koç Holding is a listed company on the Istanbul Stock Exchange. The Group employs approximately 62,000 employees over 106 different Group companies operating in different sectors.

Koç Holding maintains European leadership in a number of sectors (household appliances, farm tractors, heating equipment, LPG heater and distribution, tomato products, marina chains) as well as clear Turkish leadership in other key sectors such as automotive (Tofaş and Ford Otosan), consumer durables (Arçelik and Beko), food retailing (Migros), consumer finance and insurance.

UNICREDIT

UCI, presenting a new force in the European Banking, is one of Europe's largest banks serving 28 million customers in 19 countries through over 7,000 branches and with around 140,000 employees.

Since 1999, UCI has substantially increased its international presence through successful acquisitions of leading commercial banks operating in EU accession countries, such as Bank Pekao (the second largest bank in Poland), Bulbank (the largest Bulgarian Bank), Unibanka (the fifth largest bank in the Slovak Republic) and Zagrebacka Banka (the largest Croatian bank). There are also significant banking presences in Russia, Ukraine, Hungary, Slovenia and the Baltic states. In 2005, through the acquisition of the HVB Group, UCI has become the number one financial group in Austria and number two in both Italy and Germany: firmly rooted in one of Europe's wealthiest regions.

Today, UCI is a group that builds on the advantage of being first mover in the integration of the European financial markets.

KOÇ FINANCIAL SERVICES

Koç Financial Services (KFS) was established in March 2001 as an investment and management company, for the purpose of bringing under one umbrella the ownership of Koç Group's financial sector companies by acquiring majority shares, in order to increase synergy and operational efficiency.

Towards the end of 2001, the Koç Group and UniCredit signed a letter of intent to become 50/50 shareholders in KFS.
The partnership agreement was later signed in Milan on May 24, 2002, and the transaction was concluded on October 21, 2002. Consequently, the shares of the Koç Group companies in the financial sector; specifically Koçbank, Koçlease, Koçfaktor, KoçInvest, Koçbank Nederland N.V., Koçbank Azerbaijan JSB and Koç Asset Management were reassigned to KFS and UniCredit and the Koç Group became equal partners of KFS, each holding 50% of the shares.

On September 28, 2005, Yapı Kredi Bank, one of the longstanding and successful institutions of Turkey, has also joined into the KFS family with the aim of creating the most powerful and most reliable finance group in the Turkish Finance Sector. Welcoming Yapı Kredi and its subsidiaries through acquisition of its 57.4% shares, KFS made an important step forward in order to improve its services and increase its power.

BOARD OF DIRECTORS

Dr. Rüşdü Saraçoğlu
Chairman

Andrea Moneta
Vice Chairman

Seyit Kemal Kaya
Member and President

Federico Ghizzoni
Member of the Board of Directors in Charge of the Internal Audit and Risk Manegement

Halil Sedat Ergür
Member

Massimiliano Moi
Member

Giuseppe Vovk
Member

Füsun Akkal Bozok
Member

Ranieri De Marchis
Member

Ahmet Fadıl Ashaboğlu
Member

Dear Shareholders,

2005 has been a stable year both on political and economic fronts for Turkey and there have been some very positive and important developments. After prolonged discussions between the EU and Turkey, negotiations for Turkey's EU accession started on October 3, 2005. Full membership, which we expect to obtain as a result of these negotiations, will bring positive developments for both the EU and Turkey. Turkey's impressive reform performance in the last three years accelerated its move towards the EU. Continuous reforms make us confident about Turkey's determination in the accession efforts.

The Turkish economy has started to enjoy the benefits of increased creditworthiness in the eyes of investors and foreign investor appetite with the acceleration of the EU process and continuing economic stability. There is no doubt that foreign investment is one of the most important sources for countries in emerging markets. Increasing foreign investor appetite not only brings funds but also technology, know-how and best practices to the country.
Net FDI flows to the Turkish economy amounted to USD 8.6 billion in 2005, which corresponds to roughly 2.4% of the GDP. In the near future we expect foreign direct investments to increase with developments in EU accession negotiations and economic stability.

With the prudent programme of financial discipline and monetary policy, the Turkish economy has displayed favorable performance on both disinflation and interest rates fronts and inflation has remained below the pre-announced official targets. The 2005 figures were realized as 2.7% and 7.7% in the PPI and CPI, respectively, and Turkey has achieved price stability after many years of high inflation. Growth performance is reasonable in this low inflation environment with a 7.4% GDP growth in 2005.

This economic environment has had a positive effect on the banking sector and has led to tougher competition with falling interest rates, which has resulted in banks developing the services they offer and focusing more on retail banking.

Yapı ve Kredi Bankası A.Ş. (Yapı Kredi) completed 2005 having fulfilled customer requirements in the best manner through its stable growth and services offered, while obtaining 40% growth in credit volume, without taking into account the effects of the Çukurova Group repayment, and an 18.1% growth in the volume of deposits. The total number of customers reached 11,245,417; the total number of branches rose to 416, with a total number of ATM's rising to 1,469; in 2005 the bank maintained its leading position through several new product launches in the retail banking segment as well as an issuing volume market share of 24% in credit cards. The Bank has continued to operate as one of the leading financial service providers of the Turkish Banking sector with its support to the real sector. Thus, on December 21st, 2005 after a four year break, the Bank obtained a syndicated loan worth 800 million dollars with a maturity of 1 year.

The Share Purchase Agreement was signed on May 8, 2005 with Çukurova Holding A.Ş. and a number of Çukurova Group companies and accordingly the transfer of the shares representing 57.4% of the share capital of Yapı Kredi took place on September 28, 2005. With this transaction, the acquisition of the said shares by Koçbank, one of the subsidiaries of Koç Financial Services, was finalized. The purchase price was calculated and paid on the basis of the value of €2,059,858,516 for 100% of Yapı Kredi shares. The intention is to merge Yapı Kredi and Koçbank subject to the decisions of the relevant bodies of both banks and regulatory approvals.

On behalf of the Board of Directors, I would like to thank our diligent staff, whose devotion has enabled Yapı Kredi to reach its current stage. I also wish to thank our shareholders for their continuous support as well as our correspondent bankers and customers for their unwavering confidence in Yapı Kredi.

Dr. Rüşdü Saraçoğlu
Chairman of the Board

MESSAGE FROM THE GENERAL MANAGER

Dear Shareholders,

2005 has been a year of success for the economy, as well as the banking sector in Turkey, which has gained strength due to several positive developments. The economy rapidly acquired an environment of security thanks to the policy of stability, with the nation gaining experience and eliminating its shortfalls, as the continuity of these developments inspires hope.

While the Turkish banking sector developed with new partnerships and mergers, the sector also continued its overall growth. The year 2005, when banking relations of both the non-financial sector and personal banking customers increased, banks assets rose, recording a significant increase on the volume side with the fall in interest rates, has been a positive period for our sector.

As one of the strongest institutions of the Turkish economy, as an exemplary bank in the field with its constant innovations, Yapı ve Kredi Bankası A.Ş. (Yapı Kredi) has undergone major changes in 2005 that shall lead to many future successes. Negotiations for Yapı Kredi's 57.4% shares between the Çukurova Group and Koç Financial Services that started at the end of 2004 and continued throughout 2005 were completed in September as a result of detailed legal and structural undertakings. Having gained a new partnership structure in 2005, our Bank is now in a position to bring about many positive developments with its customers, personnel, shareholders and for the sector in general.

Having gone through many changes in its deep-rooted history, but never compromising in its quality of service and the support it provides to the non-financial sector, while leading the sector with innovations, Yapı Kredi is now under the umbrella of KFS, through the partnership of one of Turkey's most powerful groups Koç Holding and Europe's leading banking group UniCredit.

Despite the changing shareholder structure in 2005, the Bank has not conceded from commercial activities and has maintained its services in all areas of banking with new product launches and developments. Meeting the requirements of its customers with its extensive service network, Yapı Kredi is in a rapid restructuring process through its new shareholder structure. Our Bank aims to offer the best and the newest by initiating new projects in every area from credits to cost management, branch structure to organization, product portfolio to international activities.

Our objective in the coming term is to create the most trustworthy and solid financial institution of Turkey, constantly adding new successes through the confidence afforded to us by our personnel, customers and shareholders.

I would like to take this opportunity to thank our customers for their trust and support, and for standing at our side during every phase in the history of Yapı Kredi; to our shareholders and to our employees for their efforts.

Respectfully,

S. Kemal Kaya
General Manager

EXECUTIVE MANAGEMENT*

Süleyman Cihangir Kavuncu
Human Resources

Alpar Ergun
Legal

Mehmet Gani Sönmez
Retail Banking

Erhan Özçelik
Foreign Operations

Hamit Aydoğan
Corporate and Commercial Banking

Hüseyin İmece
Investor Relations, Financial Institutions and Capital Allocation

Mert Yazıcıoğlu
Treasury

Tülay Güngen
Corporate Identity and Communication

Didem Gordon
Private Banking and Asset Management

Zeynep Nazan Somer
Credit Cards and Consumer Loans

Carlo Vivaldi
Financial Planning, Administration and Control

Mehmet Güray Alpkaya
Credit Management

Marco Arnaboldi
Risk Management

Mahmut Tevfik Çelikel
Central Purchasing

Mohamed Hishem Laroussi
Information Technology

Ahmet İlerigelen
Corporate Banking

Mert Güvenen
Commercial Banking

Muzaffer Öztürk
Retail Sales

Ali Bahadır Minibaş
Logistics - General Purchasing and Insurance

Kemal Semerciler
Compliance Officer

Stefano Perazzini
Audit

Luca Rubaga
Organization

*As of 30.06.2006

SUMMARY FINANCIAL STATEMENTS

Financial Summary
Key Figures
YAPI KREDİ BANK (ths YTL)

CONSOLIDATED PROFIT AND LOSS ACCOUNT - IFRS

	YEAR			
	2005	**2005***	**2004**	**CHANGE**
Total revenues	3,132,488	1,975,442	1,678,424	17.7%
of which: - net interest income	1,184,505	1,184,505	873,131	35.7%
- net commission	547,318	547,318	535,539	2.2%
Operating expenses	(2,065,309)	(1,387,838)	(1,279,732)	8.4%
Operating profit	1,067,179	587,604	398,692	47.4%
Profit before tax and minority interest	(1,931,792)	370,220	(222,289)	n.s.
Net profit for the year	(1,613,050)	301,479	(32,312)	n.s.
Net profit pertaining to KFS Group	**(1,617,030)**	**297,499**	**(31,394)**	**n.s.**

(ths YTL)

CONSOLIDATED BALANCE SHEET - IFRS

	AMOUNTS AS AT 31 DECEMBER			
	2005	**2005***	**2004**	**CHANGE**
Total assets	26,153,235	28,551,927	26,311,584	8.5%
Loans to customers	11,980,078	13,329,796	12,087,424	10.3%
Securities	6,976,335	7,318,499	7,823,583	-6.5%
Assets administered for customers	31,604,172	31,604,172	28,925,723	9.3%
- Due to customers	17,934,451	17,934,451	18,549,803	-3.3%
- Indirect deposits	13,669,721	13,669,721	10,375,920	31.7%
- Securities under custody	10,489,289	10,489,289	8,241,914	27.3%
- Asset under management	3,160,077	3,160,077	2,134,006	48.1%
Yapı Kredi Group portion of shareholders' equity	**1,569,620**	**4,641,195**	**3,390,151**	**36.9%**

STAFF AND BRANCHES

	FIGURES AS AT 31 DECEMBER		
	2005	**2004**	**CHANGE**
Number of employees	12,321	12,717	-3.1%
Number of banking branches	416	424	-1.9%

*Normalized figures (unaudited)

Key financial ratios and other information - IFRS

	YEAR	
	2005	2004
Profitability ratios (%)		
ROE (1)	-50.7%	-0.9%
Operating Profit / Total assets	4.1%	1.5%
Cost/income ratio	65.9%	76.2%
Risk ratios (%)		
Net non-performing loans / Loans to customers	12.1%	0.8%
Capital ratios (%) (2)		
Core capital / Total risk-weighted assets	8.1%	15.5%
Total regulatory capital / total risk-weighted assets	6.9%	18.3%
Productivity ratios (3) (ths YTL)		
Total revenues per employee	254	132
Total assets per employee	2,123	2,069
Payroll costs per employee	47	39

(1) Shareholders' Equity as at the end of the period (profit for the period not included). Excluding amortisation of goodwill

(2) Core capital is given by Tier 1 capital

(3) Employee numbers as at year-end.

Ratings

The credit ratings issued by leading international rating agencies on Yapı ve Kredi Bankası A.Ş. are summarised below:

	FITCH		MOODYS	
	2005	Outlook	2005	Outlook
LT foreign currency rating	BB-	Positive	B1	Stable
ST foreign currency rating	B		NP	Stable
LT local currency rating	BB+	Positive	Baa1	Stable
National rating	AA(tur)	Stable	-	-
Individual rating	D/E	Positive	-	-
Support rating	3	-	-	-
Financial strength rating	-	-	E+	Positive

Reclassified Accounts

(ths YTL)

CONSOLIDATED BALANCE SHEET - IFRS

	AMOUNTS AS AT			CHANGE	
	31/12/05	31/12/2005*	31/12/04	amount	%
Assets					
Cash and balances with central banks	1,391,585	1,391,585	1,612,381	(220,796)	-13.7%
- out of which: reserve deposits	884,737	884,737	1,192,204	(307,467)	-25.8%
Due from:					
- customers	11,980,078	13,329,796	12,087,424	1,242,372	10.3%
- banks	3,144,003	3,144,003	1,356,078	1,787,925	131.8%
Trading and available-for-sale securities	2,691,688	3,033,852	7,326,035	(4,292,183)	-58.6%
Fixed assets:					
- investment securities	4,248,731	4,248,731	192,267	4,056,464	2,109.8%
- equity investments	35,916	35,916	305,281	(269,365)	-88.2%
- intangible and tangible fixed assets	1,306,528	2,310,032	2,519,313	(209,281)	-8.3%
Deferred tax assets	783,687	397,978	284,813	113,165	39.7%
Other assets	571,019	660,034	627,992	32,042	5.1%
Total assets	**26,153,235**	**28,551,927**	**26,311,584**	**2,240,343**	**8.5%**
Liabilities ans shareholder's equity - IFRS					
Due to banks					
- Deposits	435,891	435,891	297,289	138,602	46.6%
- Other borrowed funds	2,222,200	2,222,200	1,420,776	801,424	56.4%
Due to customers	17,934,451	17,934,451	18,549,803	(615,352)	-3.3%
Other provisions	791,607	116,950	30,954	85,996	277.8%
Deferred tax liabilities	220,193	6,325	44,328	(38,003)	-85.7%
Other liabilities	2,947,824	3,163,466	2,470,502	692,964	28.0%
Minorities	31,449	31,449	107,781	(76,332)	-70.8%
Shareholders'equity:					
- Share capital	3,516,319	3,516,319	3,516,319	-	-
- Retained earnings and reserves	(329,669)	827,377	(94,234)	921,6111	n.s.
- Net profit	(1,617,030)	297,499	(31,934)	329,433	n.s.
Total liabilities and shareholder's equity	**26,153,235**	**28,551,927**	**26,311,584**	**2,240,343**	**8.5%**

*Amounts are normalized

(ths YTL)

CONSOLIDATED PROFIT AND LOSS ACCOUNT - IFRS

	YEAR			CHANGE	
	2005	2005*	2004	Amount	%
Net interest income	**1,184,505**	**1,184,505**	**873,131**	**311,374**	**35.7%**
Net commission	547,318	547,318	535,539	11,779	2.2%
Trading profit and foreign exchange gains, net	71,061	71,061	147,993	(76,932)	-52.0%
Other net operating income	1,329,604	172,558	121,761	50,797	41.7%
Net non-interest income	**1,947,983**	**790,937**	**805,293**	**(14,356)**	**-1.8%**
TOTAL REVENUES	**3,132,488**	**1,975,442**	**1,678,424**	**297,018**	**17.7%**
Payroll costs	(581,147)	(529,147)	(498,509)	(30,638)	6.1%
Other administrative expenses	(1,202,920)	(1,580,953)	(562,049)	(1,018,904)	181.3%
Depreciation of tangible and intangible assets	(281,242)	722,262	(219,174)	941,436	n.s.
Operating expenses	**(2,065,309)**	**(1,387,838)**	**(1,279,732)**	**(108,106)**	**8.4%**
OPERATING PROFIT	**1,067,179**	**587,604**	**398,692**	**188,912**	**47.4%**
Net writedowns of loans and provisions for guarantees and commitments	(1,167,218)	(215,795)	(154,551)	(61,244)	39.6%
Other provisions and impairments	(1,831,753)	(1,589)	(466,430)	464,841	-99.7%
Total provisions	**(2,998,971)**	**(217,384)**	**(620,981)**	**403,597**	**-65.0%**
PROFIT FROM OPERATIONS BEFORE TAX AND MINORITY INTEREST	**(1,931,792)**	**370,220**	**(222,289)**	**592,509**	**n.s.**
Income taxes for the year	307,343	(80,140)	70,391	(150,531)	n.s.
Gain on net monetary position	11,399	11,399	119,586	(108,187)	-90.5%
NET PROFIT FOR THE YEAR	**(1,613,050)**	**301,479**	**(32,312)**	**333,791**	**n.s.**
Minorities	(3,980)	(3,980)	918	(4,898)	n.s.
NET PROFIT	**(1,617,030)**	**297,499**	**(31,394)**	**328,893**	**n.s.**

*Amounts are normalized

DISCUSSION OF RESULTS

PROFIT & LOSS

Yapı Kredi closed the year with a consolidated net loss of YTL 1,617 million due to the effects of certain corrections, which have been recognized in the financial statements for the year ended 31/12/2005.

These financial statements have been prepared taking into consideration the qualifications of Independent Auditors' Reports of the prior periods, the Bank's new prudent approach and principles and the effects of some issues regarding the sale of the Bank that have already been made publicly available.

The net loss in 2005 is influenced by adjustments recorded in the following main areas:

Loans and receivables:
Loans and receivables include YTL 399 mln for the write-off related to the credit exposure towards the Çukurova Group, already announced on 28 September 2005 as part of Share Purchase Agreement signed between Koçbank and Çukurova Group. After the repayment of US$ 1,034 mln, of which US$ 930 mln related to repayment of principal, and the above mentioned write-off of US$ 304 mln, the remaining Çukurova Group loan exposure decreased to US$ 792 mln.

Loans and receivables also include a loss of YTL 484 mln on Fiskobirlik receivable based on the protocol signed with the Undersecretariat of Treasury and Fiskobirlik for the settlement of the receivable related with loans extended to Fiskobirlik on 30 December 2005. Further provision of YTL 467 mln stems from the prudent review of the Bank's major exposures and credit risk policies.

Equity investments:
Impairments of equity investments are represented, for the most part, by an impairment of YTL 294 mln on the value of the 50% stake in A-Tel held by Yapi Kredi, computed by taking into consideration the sale price in the related option agreement with Çukurova Group, which is also supported by an external evaluation.

Fixed assets:
Adjustments on fixed assets including assets held for resale include an impairment of YTL 736 mln on Yapi Kredi's real estate portfolio based on the evaluation performed by an independent appraiser and an impairment of YTL 153 mln based on the alignment of the useful life of the Bank's fixed assets in line with Turkish Banking Sector current best practice.

Other provisions:
The Pension Fund deficit based on the calculation performed by a local actuary in accordance with a technical interest rate of 10,24% and CSO 1980 mortality table, determined by the commission coordinated by the Ministry of Labor, reflects a deficit of YTL 556 mln as of 31 December 2005. The Bank provided a provision covering the full amount of the deficit regarding this Fund in these financial statements.

Other provisions are mainly related to tax and legal risks with the objective to create an adequate coverage to the potential adverse outcome on a number of legal cases currently open against the Bank and outstanding tax investigations.

On most of these adjustments, the Bank will realize some limited tax benefits due to the existing material differences between the book value and the tax value of a number of assets subject to said adjustments.

Excluding the effects of above mentioned adjustments, the overall performance is driven by a 47.4% increase in the operating profit (proforma), that reached YTL 588 milllion, thanks to a 18% revenues growth (proforma) and strong cost management (costs +8.4% year-on-year proforma).

Total revenues accounted for YTL 3,132 million (YTL 1,975 mln, if adjusted by the one-off gain on sale of Turkcell shares to Çukurova Group), out of which YTL 1,185 million net interest income (+36% yoy,), YTL 547 million net commissions (+2% yoy), YTL 71 million income from financial transactions (forex gains and net trading gains from investment securities) and YTL 1,330 mln other net revenues (YTL 173 million, if adjusted by the one-off gain on sale of Turkcell shares to Çukurova Group). In particular, the growth of net interest income despite an interest rate decreasing environment and decreasing weight of trading and forex gains within revenues confirming the first effects of the turnaround of the treasury activity from speculative into service for both the Group companies and the customers have to be underlined.

Operating costs closed at YTL 1,388 million (+8.4% yoy proforma). In particular, non-HR costs (including depreciation) accounted for YTL 859 million (-12% yoy proforma) thanks to the cost management actions; instead, HR costs reached YTL 529 million (+6% yoy proforma) mainly due to the regular accrual revision of salaries, while headcount decreased by 396 units.

In summary, both the commercial and the control efforts allowed the Group to decrease its cost/income ratio to a level of 70% (-17 pp yoy proforma).

Furthermore, to confirm the conservative approach in risk management, the group recorded a net loan loss provisions for YTL 216 million (40% yoy profoma);

BALANCE SHEET

Total assets as at 31 December 2005 reached YTL 28,552 million (pro-forma), 9% yoy despite the strength of the Turkish Lira (roughly 40% of total consolidated assets are denominated in foreign currency).

Net loans (including watchlist loans) amounted to YTL 13,330 million (10%) with a steady consistent growth mainly in credit cards & consumer loans. Credit cards outstanding balance reached to YTL 3,891 million (20% yoy) strengthening the market leadership position through increase of market share (credit card turnover) from 23.7% % to 24.4%.

In particular, the Corporate lending accounted for YTL 6,824 million of which YTL 6,507 million banking loans (16% yoy, pro-forma), YTL 176 million leasing receivables (-35% yoy), YTL 141 million factoring receivables (14% yoy). On the other side, the Retail loans totalled YTL 5,036 million (27% yoy) of which 77% represents credit cards' receivables. Other consumer loans up by 54% yoy.

Total impaired loans are amounted to YTL 1,569 million (+36% yoy) composed of YTL 1,133 million NPL and YTL 437 million watch list loans. Increase in impaired loans is due to the new classification of the loan portfolio in accordance with the Bank's new prudent and conservative approach regarding the Group's credit risk policy.

Total loan loss provisions amount to YTL 1,310 million for cash and non-cash loans (YTL 358 million excluding the effects of above mentioned adjustments).

Direct deposits amounted to YTL 17,934 million, down by -3% yoy mainly because of the decision to release high cost deposits. 51% are TL denominated vs 47% in 2004.

Indirect deposits reached YTL 13,670 million with an increase of 32% yoy. In particular, administered funds (securities held-in-custody) and managed funds (mutual funds and DPM) reached YTL 10,489 million and YTL 3,160 million respectively including mutual and pension funds.

The securities portfolio amounted to YTL 7,318 million (pro-forma) and composed mainly by Turkish Government bonds. Available-for-sale, held-for-trading securities and equity investments totalled YTL 3,034 million, representing 41% of the total bonds portfolio. The weight of held-to-maturity securities in total portfolio increased to 59% from 6% in accordance with the new Group investment policy aiming to stabilize revenue generation, as approved after the acquisition of the Group by Koçbank.

SHAREHOLDERS' EQUITY AND CAPITAL ADEQUACY RATIO

Following the above adjustments and year-end results, total Shareholders' Equity amounts to YTL 1,570 mln. Capital Adequacy Ratio of the unconsolidated Bank at 7.2%, below the minimum regulatory level of 8%. The Bank management is already working on the actions needed to restore the Capital Adequacy Ratio within regulatory requirments.

	Million YTL
I - Core Capital	1,525
II - Supplementary Capital	648
III - Tier 3 Capital	-
IV - Capital	2,173
V - Items deducted from Capital	(758)
VI - Own funds	1,415
VII - RWA and market risks	19,541
Standard Capital Adequacy Ratio (VI/VII)	7.2%

The capital adequacy ratio is set forth in the above schedule was prepared in accordance by the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" issued by the Banking Regulatory and Supervising Agency ("BRSA") published on the Official Gazette no.24657 on 31/01/2002.

CREDIT CARDS

Turkey's most popular credit card system, World, maintained its market leadership in 2005 by developing services to make Worldcard holders' lives easier. Within this framework, joint campaigns were conducted throughout the year creating special opportunities both for World merchants and Worldcard holders. In addition, agreements made with leading retailers delivered a wider platform of shopping privileges to Worldcard holders.

Beside campaign opportunities such as earning points and paying on instalments for Worldcard holders, an infrastructure was developed to enable customers to purchase additional credits/call duration for Turkcell Hazırkart (prepaid) and subscribed line clients. This unique application was first launched in April-May 2005 via campaigns conducted in fuel and food sectors, attracting over one million Worldcard holders to earn credit/call duration. As a result of its success, the campaign was repeated in the fuel sector in June 2005.

Yapı Kredi once again realized another "first" in the sector by improving the Quick Credit (Hızlıkontör) system on December 13th. This equipped Worldcard holders to practically load credits in one single order, either to their own mobile lines or to their friends' Turkcell Pre-paid card lines. The application was supported by an inspiring advertisement campaign, and its success was sealed with a total of 20,000 orders by the end of the year.

At the beginning of the year yet another innovation was introduced in cooperation with Yapı Kredi Emeklilik (Private Pension). A new system was developed for participants of Yapı Kredi Emeklilik who pay their premiums with Worldcard. This system enabled them to transfer their Worldpoints earned through purchases made with Worldcard to the “Akıllı Adım” private pension system as a contribution. A total of 21,914 transactions and point transfers amounting to YTL 498,605 were realized under the campaign called "How many points did you collect today for your pension?"

By implementing a different application compared to previous years, 2.5 million cards were regularly delivered to their holders through one-to-one campaigns. Since April, services such as Worldonline, IVR, SMS, and e-mail have been provided to customers calling Customer Services to find out their credit card application status, in addition to the call center. Digital data indicate that an average of 70,000 people a month receive information from these services and this number keeps increasing day by day.
In 2005 new arrangements regarding th improvement and usage of POS machines were introduced. POS machines working with GPRS were improved along the ADSL POS machines that realize transactions through ADSL and the Internet in order to provide better service to World Member Companies. POS sharing was started between two banks and common member companies by the last quarter of 2005 and efficient usage of the POS park was provided. 86% of Yapı Kredi POS machines were brought up to the operating capacity in compliance with common security standards (EMV) approved by international card institutions. In addition, for the first time in the world, a two-piece separable POS machine was produced in order to ease password entry in these transactions. For the time being, the Vadaa voice of Worldpoint characters is being used in these POS machines, which are compatible to provide voice mails.

The training program which started in 2002 to increase retail sales agents' skills in terms of providing accurate information and satisfactory service to their customers continued in 2005 with organizations and a total number of 22,000 World Member Company owners and employees were reached within the scope of these organizations. In the framework of the Social Responsibility Project donations were made to the Mother and Child Training Foundation (AÇEV) as an activity of Mother's and Father's Day.

These products, services and campaigns when combined together played a key role in Yapı Kredi's continued dominance in Turkey's highly competitive credit card market in 2005. Yapı Kredi Credit card turnover rose to USD 15 billion in 2005. The Bank enjoyed a 24 percent market share in terms of issuing turnover and a 17 percent market share in terms of number of credit cards by the end of 2005. With more than 5,7 million cards, Yapı Kredi continued to hold the largest and most popular portfolio in the country.

As the market leader since 2000, Yapı Kredi maintained a 24,5 percent market share in credit card acquiring volume in 2005, and POS terminals installed in more than 140,000 member offices generated volumes of almost USD 16 billion in total. Turkey's biggest member office chain World has reached over 85,000 members.

RETAIL BANKING

In 2005, significant improvements took place in Yapı Kredi in terms of Retail Banking. The " My Money" system, which was introduced to the public in 2004 and attracted great interest, became the major loyalty program in Turkey by gaining over 600,000 customers in the banking sector. The customer satisfaction level of those using the "My Money" system were rated as very high as a result of surveys verifying this statement and an increase in banking transactions of customers included in this program was observed.

On the other hand, the Online Credit Module whose target is to meet the loan needs of individual customers rapidly through alternative delivery channels without going to a branch, gained a new dimension in 2005 with the introduction of the automatic answering system. Thus, Yapı Kredi customers started enjoying the ease of the results of their personal loan applications.

In the scope of University Banking, Yapı Kredi, has fortified its close relationship with this dynamic customer base by organizing cultural activities in addition to banking operations. In the framework of the third Film Festival conducted in 2005, which has now become a tradition, over 13,000 students in eight different universities enjoyed free entry to all films on campus. Thanks to the IF Istanbul 2005 Independent Film Festival sponsored by Yapı Kredi University Banking, University Telecard holders benefited from the privilege of purchasing festival tickets with 50% discount; and 25% of these tickets sold to students were purchased with University Telecard. The University student-oriented Internet site, namely kampusce.com, which was redesigned in May 2005, raised the number of its members to 30,000 with campaigns held throughout the year.

Owing to the introduction of campaign management software in 2004, data base improvement studies were finalized. The software enabled Yapı Kredi branches and Call Centers to access the information required for pursuing multi-step campaigns. Internet Banking was included in the campaign management system, thus special campaigns were offered to customers and their responses and feedbacks were collected. By completing these studies Yapı Kredi gained a powerful database-driven marketing infrastructure to support its commercial goals.

Yapı Kredi has provided the necessary human resources and financial means since 1999 in order to build an excellent analytic and operational structure to support its numerous activities and, thus expanded its functions by capitalizing on the opportunities of the said structure. The "reporting infrastructure" put at the disposal of both the sales teams in the field and support managements at the Head Office, has emerged as one of these functions. This enabled the customers to have easy online access to product units, customer units, campaigns based on database and information regarding the My Money system. Following a similar study, the Multi Dimensional Analysis Infrastructure was implemented to offer specific features for Yapı Kredi Head Office users.
In order to prevent customer loss by determining the reasons why customers stop working with Yapı Kredi an analytic modeling study was carried out. This study also provided data on the statistical consumption of customers that may become inactive. These models known as Customer Loss and Inactivity Models will be reflected on marketing and sales activities in 2006.

CORPORATE BANKING

Yapı Kredi is increasing its market share in commercial and corporate markets daily via its special products and cash management solutions and has preserved its feature of being the closest bank to the real sector in 2005. This position of Yapı Kredi brought the opportunity of expanding the customer portfolio and transaction volume by 60%, thanks to its capability of finding new, rapid and productive solutions in compliance with any and all kinds of customer needs.

The special financial management suggestions designed for companies with extensive dealership networks helped Yapı Kredi to increase the transaction volume of guaranteed collections. Within a win-win business philosophy, Yapı Kredi considers its customers as business partners, meeting their requirements for collections, guarantees and financing makes a positive contribution to their operational efficiency.

In 2005, Commercial Teleweb, a 24/7 Internet Banking product providing service to commercial companies successfully increased its customer base to 70,000. Some of the most attractive Commercial Teleweb functions of 2005 included collective transfer enabling real time multi-receipent money transfer, special reports for member companies, online payment options for customs tax, Social Security Council premiums and the recent addition of Bağ-Kur premiums.

TRIO; a unique card based payment platform that combines all services related to checks, promissory notes, letters of guarantee and cash payments, increased its number of users in a short period of time by enabling card holders to purchase goods with flexible repayment periods, meeting their financing needs when necessary, thus eliminating their short term cash flow problems and guaranteeing their collections. Business Card, designed especially for the business world, enables customers to differentiate between personal and business expenditures of company owners and employees, retained its pioneering position among the corporate banking services of Yapı Kredi.

Another product, which drew the attention of Yapı Kredi customers in 2005, was the "Flexible Commercial Loan Program". More than 10,000 customers, the majority of which were made up of small and medium sized enterprises, benefited from the "Flexible Commercial Loan Program" with the opportunity of setting their own payment dates. In addition, with the support of flexible repayment conditions, they were able to purchase work premises, commercial vehicles, machinery/equipment or to use the said product to meet their other financial needs.

COMMERCIAL BANKING

During the previous year, Yapı Kredi continued to provide its services in a wide variety of trade sectors including services, textiles, automotives, consumer durables, construction, tourism, trade, energy and agriculture with its customer focused innovative approach to banking without making a differentiation of scale. Besides commercial enterprises involved in different sectors, Yapı Kredi developed solution-focused products and services for supplier industry companies, suppliers and dealers of major corporate customers and due to its broad branch network and suitable cost conditions the Bank maintained its leading position among the preferences of the stated companies.

Yapı Kredi's excellent service concept and deep-rooted corporate relations helped maintaing its leading position in the commercial and small enterprises market,whose basic expectations are closeness and receiving the appropriate service to meet their local needs, and also extended banking products and services in the dealer network integration serving as a bridge between major industrial enterprises and SMEs.

Yapı Kredi, known as the leading bank in public housing and significant construction projects, once again occupied the position of the main financing bank in a number of projects such as natural gas distribution, motorways, dams and shipbuilding: all requiring expert knowledge throughout the year 2005. In a similar fashion, besides seasonal loans, many tourism agencies in the Aegean and Mediterranean regions applied to Yapı Kredi for tourism projects requiring financial support, such as hotel renovation, capacity increase and hotel construction .

With its powerful technological infrastructure, Yapı Kredi continues to form cash management systems in compliance with the needs of its customers by handling a significant proportion of the growing foreign trade volume of the country together with the financial support it provides in the export and import business.

TREASURY

Yapı Kredi Fund Management has preserved its leading position in the market with its experienced staff and with the support of its powerful technological infrastructure.

In the previous year, Yapı Kredi maintained its position as a market maker in foreign currency pricing, serving as a reference for many local and foreign banks, and turnover in customer foreign currency transactions rose by 10% over the previous year, reaching USD 33 billion, giving Yapı Kredi 10.1% of the market according to Central Bank statistics. When interbank transactions are included, Yapı Kredi's total foreign currency volume amounted to USD 54 billion.

Yapı Kredi, ranking among the twelve banks chosen as market makers by the Treasury of the Turkish Government, maintains its determining role in the pricing of Government Bonds, Treasury Bills and Eurobonds, reached a total transaction volume of YTL 50 billion, YTL 33 billion in Istanbul Stock Exchange bonds and bills and USD 17 billion in interbank market and customer transactions.

In 2005, mutual funds managed by Yapı Kredi Portföy Yönetimi A.Ş. continued to offer its customers a broad range of options structured according to a variety of risk categories regardless of the amount of the investment.

According to 2005 records, Yapı Kredi's A type mutual funds consisting of mixed funds, stocks and foreign stock exchange, and B type mutual funds consisting of money market funds, bills/bonds and variable funds reached 288,000 customers via broad branch network and 24 hours unlimited service through alternative delivery channels such as Teletel, Teleweb and Tele24. Total fund volume increased by a growth rate of 49.7%, reaching YTL 2,77 billion compared to the previous year.

The deposits of Yapı Kredi, which is one of the leading banks in the deposit market in terms of high volume of deposits and number of customers, amounted to YTL 9 billion in total, of which YTL 1,4 billion is demand deposit and YTL 7,6 billion is term deposit. When foreign currency deposit accounts (DTH) volume of USD 5,6 billion is added to the given data, the total volume of customer deposits reached the amount of YTL 16,6 billion. Thus, Yapı Kredi has once more proven its deep-rooted and high degree of customer confidence and its excellent service quality with a market share of 6.1% in TL time deposit accounts and 8.4% of foreign currency deposit accounts.

FINANCIAL INSTITUTIONS

In 2005, Yapı Kredi carried its international banking operations one step forward by reinforcing its respected and reliable image. The bank continued to be a major portal of the world's leading financial institutions to the Turkish market, thanks to its effective, professional and accurate approach in correspondent relations.

In the last quarter of the year, Yapı Kredi once again proved its capacity in the world finance market through its low costs and high loan volume, while on the other hand strengthening its ongoing support to domestic exporter companies, with a USD 800 million syndicated loan with a maturity of one year obtained with the contribution of twenty-one foreign banks.

In 2005, Yapı Kredi, with its connections to well-known international loan insurance institutions and banks, strengthened its close relations with the export supporting institutions of countries with a high foreign trade volume. At the same time, it provided new options for its customer's foreign trade financing regarding the improvement of their macroeconomic data.
Amongst more than thirty active commercial banks in Turkey, Yapı Kredi, maintained its solid position in terms of the financial support provided to small and medium sized enterprises as well as relations with corporate businesses, owing to the involvement of its experienced staff in foreign trade operations and by continuously improving its network of financial institutions. This leading approach positively reflected on Yapı Kredi's export and import operations and also contributed to increasing the market share of the bank in this field.

CREDIT RISK MANAGEMENT

The importance of credit risk management is continuously increasing in today's modern banking system. In 2005, 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 and loan culture, principles and keeps a close and continuous watch on its loan portfolios.

Proactive systems alert the Bank to changes in conditions on a daily basis while the Early Warning System and the Commercial Loan Rating Scoring Model enable the analysis of to examine and analyze the entire portfolio.

In line with the merger activities with Koçbank, both banks' credit and monitoring systems are undergone an integration project supported by worldwide known consultants. Automated loan evaluation, credit monitoring and scoring sysytems for both commercial and SME systems are worked to integrate to Yapı Kredi's credit systems which will put the necessary infrastructure that enables the Bank to judge the credibility of companies in different segments in a sounder manner and to reduce operational costs by shortening the time needed to make loan decisions.

BANK RISK COMMITTEE

During 2005, Yapı Kredi Bank Risk Management Committee continued efforts to develop strategies to deal with current and possible risks of the bank, to analyze, 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.

The Market Risk Management approach is in line with best international practices and to promote a strong risk management, Yapı Kredi Bank uses a tool for Market Risk ank Asset & Liabilities Management calculations. With Market Risk Management tool it is possible to calculate Value at Risk with three alternative methods. Yapi Kredi Bank uses one day holding period and %99 percent confidence level VaR for internal steering purposes. A daily report, showing VAR is prepared by Market Risk Management Committee and sent to Top Management and Treasury. Banking Book interest rate risk is monthly measured through sensitivity method, which implies the potential change in fair value of the Bank's interest rate positions resulting from a parallel upward/downward shift of the yield curve.

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.

Operational Risk Management has the objective to reach risk excellence through identifying and managing effectively operational risks, legal risks, compliance risks ensuring the strategic guidance and the definition of the Group risk management policies aiming to ensure achievement of world standards regarding Basel II. Operational loss data collection process and web based tool was established and self assessment & scenario analysis techniques are planned to be implemented and key risk indicators will be collected in near future both for risk management, calculation of capital requirements and quantification of operational risks with advanced measurement approaches.

Reports sent to BRSA and top management concerning risk management, 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.

INTERNAL AUDIT BOARD

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

The Board, with an expert team of 88 people, completed a risk-focused audit of all branches, fourteen Head Office departments and eight subsidiaries during 2005.

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, allowed the audit of the accounting and deposit transactions of Head Office and branches to 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.

With reference 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.

INTERNAL CONTROL CENTER

In 2005, the Internal Control Center, established with the aim of designing, directing and guiding the internal control activities of Yapı Kredi; continued to audit the activities in its primary control areas in order 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. These primary control areas are: Treasury, Credits, Credit Cards, Administrative Services/Financial Affairs and Branches/Operations. The activities in these primary fields are controlled during the activity or short time period after the activity. These controls are performed on the site or remotely. Activities with high-risk levels that need special and intense controls are given priority. Internal Control Center also made proposals to cover the shortcomings of the internal control system of the Bank by reviewing the business processes. Some of these proposals are put into action by the relevant departments in this period.

In 2005 for central audit of accounting, centralised audit accounting project has been completed. Through the production of audit reports for overall bank, all the accounting audit activities are performed from head office for all branches in a shorter period of time. To ensure of the standardization of internal control reports, Technology Management designed a tool in Lotus Notes for internal control reports. Consequently, control reports are classified according to the finding codes and to the managements audited.
In order to build a synergy between the internal audit departments of the financial affiliates of the Bank, a communication channel is established between those departments and Internal Control Center gave support for their internal control activities. For that end, preparations made to apply the project named "Improvement of Internal Control Function" started with

the consultancy of an international company specialized in corporate risk services and ran by the existing internal control employees, in the financial affiliates of the Bank.

OPERATIONS

Yapı Kredi Operations Management, whose main objective is to provide all its banking products and services in a fast, uninterrupted, error free way in compliance with customer expectations carried on its activities to achieve its goal in the previous year.

Using all available resources effectively and in the most productive way through the existing 420 Yapı Kredi branches, in order to reduce the cost and at the same time increase the quality of service, operations related to credits and trade finance were centralized, while front office transactions were continued at branch level. Thus, with the support of Yapı Kredi's powerful technological infrastructure, the bank achieved efficiency, speed and security in all transactions and operations regarding cash, the issue of cheques and promissory notes, and publishing and mailing transactions were also centralized.

TECHNOLOGY

Yapı Kredi has been a pioneer and leader in the banking sector with its accelerated technological infrastructure activities since the 1980's and surpassed those of many of the world's more developed markets by introducing its customers to new banking products and services throughout 2005.

Yapı Kredi took numerous steps to provide its customers with a more secure service through alternative channels of delivery. Within this scope, main page of Teleweb, a service of Internet banking was transferred to a private financial portal. Besides access to financial news and information, easy access with one single password from the same page to services such as banking, informing and reminding services, mobile payment and shopping through the Internet was established. The reporting system enabling closer monitoring of transactions of retail banking customers was developed and provided for the use of the general management and branch employees.

Yapı Kredi introduced security settings, which provide its customers with the opportunity of using Teleweb by determining limitations according to their own preferences. Also, for the audio response system, a key password practice was implemented to increase both security and operation options. Renewals of systems such as recording telephone conversations to the call center and access to these records were made when necessary.

The system providing the planning and execution of the campaigns that proved to be financially successful and efficient was developed to support multi step campaigns in 2005. As a result, Teleweb was added to the channels that facilitate the cost-effective organization of campaigns.
In the field of corporate banking, necessity oriented rapid solutions for payment and collection transactions were implemented

for companies due to the flexibility and functionality that had been achieved in their payment infrastructures in the previous year. Besides this, in accordance with the projects executed with relevant institutions, taxes, SSK and Bağ-Kur payments gained a real-time structure, which enabled customers to view their current debts through all channels and deliver their collections immediately to the relevant institution.

Individual payment systems providing both customer loyalty and income became operative, providing the opportunity of real-time payments in universities and service institutions.

In 1988 Yapı Kredi was the first to introduce Turkish people to ATM machines and in recent years has finalized its software and hardware renewal studies for continued technological leadership in this field. Thus, EMV compatibility providing the opportunity of chip card usage has been realized. This new application is planned to be distributed in 2006.

In 2005 as in previous years, Yapı Kredi developed significant projects in order to increase its share of the credit card market, improve customer satisfaction and to maintain its leadership in the rapidly growing competition of the market. New projects such as; Limit increase, Application via Internet, Joker Vadaa-Personal Transaction, Branch Awarding System, Office Early Blocked Solution, Payments with Cards Through Channels, Quick Credit, Automatic Application Follow-up, Customer Communication Operation, Cardholder Portfolio Management Project, Member Offices Profitability Cubes were developed. Additionally, with the amendments in the provisions of the Issuer Fraud system enabling the system to include lost/stolen cards, an increase in system usage efficiency was noted.

ALTERNATIVE DELIVERY CHANNELS

In 2005, the Unlimited Banking Customers continued to carry out their banking operations whenever, wherever and however they wished by using the alternative delivery channels of Yapı Kredi such as Teletel, Teleweb, Telemobil and Television, which provide an uninterrupted service for 24 hours a day seven days a week with an enhanced service scope. As of year-end 2005, the number of Unlimited Banking (Sınırsız Bankacılık) customers reached 750,000, creating high transaction volumes throughout the year and making a positive contribution to profitability. Consequently, 78 percent of all banking operations carried out via Yapı Kredi's entire services organization were realized by alternative delivery channels.

The "Security Step by Step" system increased the level of security and created a new competitiive advantage in the sector; making online payments of the Social Security Council (SSK), Social Security Organization for Artisans and the Self-Employed (Bağ-Kur) and bills easier to make. These developments and the inclusion of Teleweb in the integrated campaign system, which may be deemed among

Teleweb's innovations of 2005, were followed by special campaigns being offered to customers. During the same period, TelewebClub and Teleweb memberships were combined, making it easier to access all services via the Internet with one single membership and the opportunity of the online membership application simplified the membership process. For commercial users, an E-agenda and Plan Program service, which is supportive software for business administration, was activated.

With 1,469 ATM's, Yapı Kredi has the third largest ATM network among the private banks. In pursuit of customer satisfaction several studies were carried out, such as money transfer to a mobile phone number, Boğaziçi University online payments, increasing the number of the charitable institutions, enabling İGDAŞ payments without the need of orders, password identification and making use easier for customers. In addition, ATM hardware and software improvement studies, which started in 2005 and were planned to be completed in the first quarter of 2006, continued throughout the year. At the end of this study, many innovations and redevelopments in terms of infrastructure will take place, including the use of various animations and visual features.

The Call Center that forms the backbone of the Bank's alternative delivery channels and customer services, continued to serve customers in the most rapid and effective way in 2005. The Predictive Dialing System, in coordination with the branches, produced successful campaigns for the introduction and sales activities of a wide variety of products. Towards the end of the year, in addition to the telephone, the online customer services application started serving customers via the internet.

On the mobile platform, by adding the money transfer to a mobile phone number option to the scope of SIMPLUS64 Mobile Banking service, which was developed in cooperation with Turkcell, customers were provided with the opportunity of transferring money to a desired mobile phone number securely and this was another "first" in Turkey.

HUMAN RESOURCES

In 2005 Yapı Kredi Human Resources pursued the philosophy of human beings being the essential element of high quality services, to develop its human resources practices in line with corporate strategies and targets, also taking into account changing conditions and employee feedback.

The number of employees reached 10,211 at the end of 2005, of which 56 percent are female, 62 percent hold a graduate or post-graduate degree, and 11 percent know at least one foreign language.

The "TeleYanıt" and "WebYanıt" were the first systems in the banking sector in terms of human resources, enabling candidates seeking employment at Yapı Kredi to access information concerning career paths, vacancies, prerequisites and application methods over the telephone and the Internet, as well as the results of applications, test and interviews in the previous year. Thanks to the Recruitment Project introduced in 2004, the continuity of the dynamic infrastructure was provided in 2005 by enabling each stage of the application and recruitment process to be followed easily.

The level of Customer Satisfaction of Yapı Kredi was monitored regularly by the Quality and Communication Management of the bank through various indicators last year. Customer complaints, requests for information and suggestions were carefully monitored and replied to individually, while the overall results were regularly reported to the top management and relevant departments. Furthermore, all consumer rights related claims delivered through other bodies were handled in accordance with the communication standards of Yapı Kredi.

In 2005, the Periodical Performance Evaluation and Premium System was established to reward employees' success, increase their motivation and encourage them to provide a more efficient and high quality service. Additionally, all suggestions received from employees related to increasing efficiency, improving service quality, developing work and information flows and minimizing risks were taken into consideration and the ones that were put into practice were rewarded.

Within the same time frame, the management of the internal magazine, television and electronic communication environment aimed at supporting Yapı Kredi strategies and establishing steady relations with its personnel, support from the contents of significant meetings, and follow up studies for the application of internal communication standards, took their place among other activities.

The technological infrastructure established for the development of Institutionalizing information by registering and transferring the right information to the right person at the right time continued to be developed. A more global and systematic approach was adopted in order to share, manage and use internal information and experience and apply the best application efficiently.

Training activities continued throughout 2005 to develop the know-how and competencies of current employees and improve their performance and to prepare new employees for their positions. The majority of training sessions were given by 218 internal specialist trainers. During the year 13,482 employees participated in 998 training programs and seminars. Training activities consisted 83 percent of training programs and the rest were seminars. New recruits were given a total of 581 days of training in 16 basic training programs prepared according to different training approaches. Within the same timeframe, more than 20,000 participants attended distance learning programs, including e-branch training, which provides information on system infrastructure and changes in application.

ADVERTISING AND PUBLIC RELATIONS

In 2005, Yapı Kredi's advertising and public relations activities continued at the same pace due to the Bank's full yearly schedule of banking activities. Great importance was paid to promoting new services and products along with organizing periodic campaigns.

The "100 Worldpoint Gift!" campaign in the summer of 2005, covering both the food and fuel sector, delivered the the metaphor of filling the Worldpoint pool with happy Worldpoints,.and was well received as a dynamic campaign, Following this campaign, Worldpoints met consumers with the slogan "Worldpoints from Air" in another advertisement announcing Carrefour joining the World Member Offices network. The campaign where Güzide Duran and Worldpoints were starring in a fashion show set was the one, which had the most repercussions among other campaigns and provided the opportunity of four Worldinstalments to Worldcard holders. In the commercial with the idea of bingo, Worldcard greeted its users with the slogan "the Credit card that cares for its consumers" and an award of 20 YTL worth of Worldpoints for New Year shopping. This campaign and the Quick Credit promotion, organized in cooperation with Turkcell entitled "Worldpoints in the maternity ward", were listed among other campaigns much appreciated by Yapı Kredi customers.

In the framework of social responsibility, the activity realized on Mother's Day in cooperation with AÇEV, with the image of Worldpoints stretching out their hands to mothers who play the most important role in pre-school child training, remained in people's memories. These activities prepared for other special days and with the sponsorship of the 2005 Brand Name Conference, reinforced the leadership perception of World Brand in terms of different target groups.

In 2005 Yapı Kredi focused on the efficient use of current products in retail and corporate banking in its communication activities. Customers were reminded of the advantages related to the My Money system and those customers who were not yet members of the system were encouraged to join based on the experiences of member customers. Opportunities such as; expertise in mutual funds communication, ease and speed in operations, high income were announced in a simple but effective manner; at the same time among consumer loans, auto loans and mortgages, which had recently gained great importance, were highlighted. Segment communication activities for White Collar and University Banking were continued. In all these campaigns, Yapı Kredi's expert approach, which was able to foresee the needs of retail banking, was once again underlined.

Corporate banking communication emphasized throughout the commercial loan campaign the idea that businesses can meet all kinds of loan requirements

by Yapı Kredi. As for alternative delivery channels, a 40 fold campaign maintained a different tone by drawing attention to previously neglected advantages such as convenience and less payment options, contrary to the general wording of the sector focusing on easy and rapid transactions.

Throughout 2005, Yapı Kredi continued its periodical publications such as; Gold Style - published every other month with a circulation of 30,000 Bizler magazine - published 15,000 editions four times a year and the monthly e-magazine called "Weburada". In addition, it organized the 61st Year Anniversary Celebration at Dolmabahçe Palace, Many Happy Returns nights and integration meetings.

In 2005, Yapı Kredi publications maintained its position as the institution with the largest market share and also the best selling publisher. Within this year, Yapı Kredi Publishing printed 143 new books, and 277 re-prints, amounting to 420 books and reaching a total of 2,284 books.
Edip Cansever, Abdülhak Şinasi Hisar, Latife Tekin, Hilmi Yavuz and Özen Yula were among the names that joined YKY. (Yapı Kredi Publishing). The rights of books written by Kazuo Ishiguro and Ian McEwan who won Booker prizes, Jürgen Habermas, German Philosopher and author V.S. Naipaul, who won the Nobel Prize, were bought by Yapı Kredi publications.
In addition YKY hosted the "European Cultural Publications Union Eurozine" in 2005 and held over 150 events including seventees significant exhibitions at Yapı Kredi Kültür Merkezi, Dolmabahçe Palace and TÜYAP.

AUDITORS' REPORT AND FINANCIAL STATEMENTS

To the Board of Directors of
Yapı ve Kredi Bankası A.Ş.

1. We have audited the accompanying consolidated balance sheet of Yapı ve Kredi Bankası A.Ş. ("the Bank") at 31 December 2005 and the related consolidated statements of income and of cash flows for the year then ended, all expressed in the equivalent purchasing power of the New Turkish Lira at 31 December 2005. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. The consolidated financial statements of the Bank as at and for the year ended 31 December 2004 were audited by another auditor whose report dated 12 April 2005 expressed a qualified opinion in relation to Çukurova Group risk, the carrying amount of three Çukurova Group companies, the receivable from two government agencies and the pension obligations of the Bank.

4. The Bank made certain corrections, as explained in detail below, in the year 2005, the effects of which were recognised in the consolidated statement of income for the year ended 31 December 2005. In our opinion, the Bank should recognise the effects of these corrections retrospectively as required by International Accounting Standard ("IAS") 8 "Accounting Policies, Change in Accounting Estimates and Errors".

(a) As explained in detail in Note 20, the Bank provided a provision amounting to YTL 555,619 thousand (YTL 388,933 thousand, net of deferred taxes) regarding the deficit of the Pension Fund of its employees as of 31 December 2005 and recognised the full amount of this provision in the consolidated statement of income for the year ended 31 December 2005 as other provision expenses. During the determination of the deficit amounts, the Bank used the assumptions and methods in accordance with the New Banking Law referred to below, that are planned to be used during the transfer of the Pension Fund to the Social Security Institution within the next three years following the enactment of the New Banking Law on 1 November 2005.

On the other hand, before the enactment of the New Banking Law on 1 November 2005, the aforementioned Pension Fund should have been treated as a defined benefit plan where the Projected Unit Credit Method was required in the measurement of the obligations and costs as well as a provision for healthcare benefits for current and future retirees in accordance with IAS 19 "Employee Benefits". The Bank's actuarial valuation with respect to the Pension Fund has not been prepared in accordance with IAS 19 and no provision was provided regarding the deficit of this Pension Fund as of 31 December 2004 in the accompanying consolidated financial statements. Accordingly, we are unable to quantify the effects of that provision, if any, to the opening balances at 1 January 2005 which should have been calculated in accordance with IAS 19.

(b) As explained in Notes 12 and 13, the Bank re-performed detailed restatement work with regard to its premises, equipment and intangible assets in 2005. After the completion of this restatement work, the Bank recognised a correction of YTL188,262 thousand (YTL131,783 thousand, net of deferred taxes) in the consolidated statement of income for the year ended 31 December 2005 as other operational expenses. We believe that the major portion of this correction is related with prior years.

(c) As explained in Notes 13 and 14, a significant portion of the recoverable amounts of the land and buildings of the Bank, including assets held for resale, have been evaluated by two different appraisal companies in 2005. An impairment loss amounting to YTL735,656 thousand based on these evaluations regarding the land and buildings, including assets held for resale, has been recognised in the consolidated statement of income for the year ended 31 December 2005 as other operational expenses. Based on the trends in the real estate market in Turkey in 2005, it is probable that the major portion of this impairment loss can be related to the prior years. On the other hand, the Bank did not quantify the amount of the impairment provision as of 31 December 2004 in relation to the land and buildings, including assets held for resale, as it did not have an independent evaluation report as of that date, thus we are unable to quantify the amount of the impairment provision, if any, as of 31 December 2004 in relation to those assets.

(d) As explained in Note 9, the Bank's receivable from a government agency was determined as YTL152,438 thousand in accordance with the protocol signed between the Bank, this government agency and the Treasury ("the Protocol") at 30 December 2005. This receivable was recognised at its fair value of YTL142,431 thousand as of the same date. As the balance of this receivable prior to the sign-off of the Protocol amounted to YTL642,350 thousand, an amount of YTL499,919 thousand including monetary loss regarding the receivable from this government agency was recognised in the consolidated statement of income for the year ended 31 December 2005 as loss. The Bank did not quantify the amount of the impairment provision regarding this receivable as of 1 January 2005, thus we are unable to quantify the misstatement of current year results.

(e) As explained in Note 8, the Bank recognised an impairment loss amounting to YTL294,830 thousand regarding the carrying amount and goodwill of one of its investments in 2005 based on the price in a sales option agreement it signed with Çukurova group, the former controlling shareholder of the Bank, in the year ended 31 December 2005. The carrying amount of this investment amounted to YTL496,073 thousand including the goodwill at 31 December 2004. The Bank did not perform any impairment test in relation to this investment as of 31 December 2004, thus, we are unable to satisfy ourselves as to opening carrying amount of this investment including the goodwill at 1 January 2005.

5. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Yapı ve Kredi Bankası A.Ş. at 31 December 2005 and, except for the effects of the matters referred to in the paragraph 4 above, the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

6. Without further qualifying our opinion we draw attention to the following significant issues:

(a) As explained in detail in Note 37, the final version of the Share Purchase Agreement ("SPA") was signed between Çukurova Holding A.Ş., various Çukurova Group companies, Mehmet Emin Karamehmet, Koç Finansal Hizmetler A.Ş., Koçbank N.V. and Koçbank A.Ş. regarding the sale of 57,4% of the shares of the Bank on 28 September 2005. In addition to the SPA, several agreements have been signed between the Bank and Çukurova Group companies on 28 September 2005 which aim to re-establish the loan and other relations of the Bank with the Çukurova group. As of the date of this report, a part of the conditions in those agreements have been fulfilled or secured by Koç Finansal Hizmetler A.Ş., the indirect main shareholder of the Bank. The Bank management reflected the effects of the remaining agreements in force as of 31 December 2005 by taking the agreements and the best estimations of the management into consideration, where all of the effects were related with the current year's statement of income. The recoverability of the carrying amounts as a result of the ongoing parts of these agreements is closely related to the fulfilment of the conditions set out in those agreements.

(b) As explained in detail in Note 37, the unconsolidated capital adequacy ratio of the Bank has been realised as below the regulatory minimum required rate of 8% as of 31 December 2005. Moreover, the Bank also could not meet some regulatory limits that are restricted up to a certain level of the shareholders' equity as of 31 December 2005. According to the banking regulations in Turkey, the Bank has to bring the capital adequacy ratio together with the excess regulatory limits to the regulatory levels within 6 months from 30 September 2005. In line with its business plans, the Bank management has been taking certain measures in order to bring the capital adequacy ratio together with the excess regulatory limits to the regulatory levels.

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

Zeynep Uras, SMMM

Istanbul, 3 April 2006

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2005

YAPI VE KREDİ BANKASI A.Ş.
CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER
(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005)

	Notes	2005	2004
ASSETS			
Cash and balances with central banks	5	1,391,585	1,612,381
Due from banks	6	3,144,003	1,356,078
Trading securities	7	1,567,032	4,162,826
Investment securities			
- available-for-sale	8	1,124,656	3,163,209
- held-to-maturity	8	4,248,731	192,267
Loans and advances to customers	9	11,980,078	12,087,424
Derivative financial instruments	10	1,452	2,922
Investments in associates	11	35,916	305,281
Intangible assets	12	30,713	164,749
Premises and equipment	13	1,275,815	2,354,564
Other assets	14	569,567	625,070
Deferred income tax assets	19	783,687	284,813
Total assets		**26,153,235**	**26,311,584**
LIABILITIES			
Due to banks	15	435,891	297,289
Due to customers	16	17,934,451	18,549,803
Other borrowed funds	17	2,222,200	1,420,776
Derivative financial instruments	10	2,062	1,874
Insurance technical reserves	18	830,043	786,895
Current income taxes payable	19	6,325	2,171
Other provisions	20	791,607	30,954
Reserve for employment termination benefits	22	77,545	49,116
Other liabilities	21	2,031,849	1,630,446
Deferred income tax liabilities	19	220,193	44,328
Total liabilities		**24,552,166**	**22,813,652**
EQUITY			
Capital and reserves attributable to the Company's equity holders:			
Share capital	23	752,345	752,345
Adjustment to share capital	23	2,763,974	2,763,974
Total paid-in share capital	23	3,516,319	3,516,319
Translation reserve		(133,768)	(90,286)
Unrealised gains, net		79,345	239,364
Accumulated deficit	24	(1,892,276)	(275,246)
Minority interest		**31,449**	**107,781**
Total equity		**1,601,069**	**3,497,932**
Total liabilities and equity		**26,153,235**	**26,311,584**
Commitments and contingent liabilities	31		

These consolidated financial statements as at and for the year ended 31 December 2005 have been approved for issue by the Board of Directors on 3 April 2006 and signed on its behalf by Kemal Kaya, the General Manager and by Federico Ghizzoni, the Chief Operating Officer.

YAPI VE KREDİ BANKASI A.Ş.
CONSOLIDATED STATEMENTS OF INCOME FOR THE YEAR ENDED 31 DECEMBER
(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005)

	Notes	2005	2004
Interest income	25	3,235,329	3,149,958
Interest expense	25	(2,050,824)	(2,276,827)
Net interest income		**1,184,505**	**873,131**
Fee and commission income	26	791,783	761,206
Fee and commission expense	26	(244,465)	(225,667)
Net fee and commission income		**547,318**	**535,539**
Foreign exchange gains, net		67,163	46,761
Net trading gains		3,898	101,232
Insurance technical income, net		101,550	59,694
Other operating income	27	1,228,054	62,067
Operating revenues		**3,132,488**	**1,678,424**
Other operating expenses	28	(2,878,652)	(1,470,723)
		253,836	207,701
Impairment losses on loans and credit related commitments, net	30	(1,167,218)	(154,551)
Other provision expenses	29	(1,018,410)	(275,439)
Gain on net monetary position		11,399	119,586
Loss before income taxes		**(1,920,393)**	**(102,703)**
Taxation income	19	307,343	70,391
Net loss for the year		**(1,613,050)**	**(32,312)**
Attributable to:			
Equity holders of the Company		(1,617,030)	(31,394)
Minority interest		3,980	(918)
		(1,613,050)	(32,312)
Loss per share (YTL, full amount)		**(0.00215)**	**(0.00004)**

YAPI VE KREDİ BANKASI A.Ş.
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER
(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005)

	Notes	2005	2004
Cash flows from operating activities			
Net loss for the year		(1,617,030)	(31,394)
Adjustments for:			
Depreciation and amortisation	12, 13	281,242	219,174
Impairment losses on loans and other credit related commitments	30	1,167,218	154,551
Other provisions	29	1,018,410	-
Employment termination benefits	22	38,696	31,232
Provision for current and deferred taxes	19	(321,934)	(85,221)
Effect of tangible and intangible assets corrections	12, 13	188,262	-
Impairment charge on premises equipment	13	646,641	44,069
Impairment charge on goodwill	12	77,687	-
Impairment charge on assets held for resale	14	89,015	146,922
Measurement of derivative financial instruments at fair value		1,658	(1,944)
Translation difference		3,719	11,811
Unearned commission income		8,814	-
Interest income, net	25	(1,184,505)	(873,131)
Interest paid		(2,146,876)	(2,231,160)
Interest received		4,225,258	3,481,346
Inflation effect on non-operating activities		(4,612)	167,510
Inflation effect on provision for loan impairment		23,915	81,008
Cash flows from operating profits before changes in operating assets and liabilities		**2,495,578**	**1,114,773**
Changes in operating assets and liabilities:			
Net decrease/(increase) in balances with central banks		219,954	(21,998)
Net decrease in due from other banks		-	96,365
Net decrease/(increase) in trading securities		2,337,564	(382,475)
Net increase in loans and advances to customers		(934,841)	(882,145)
Net (increase)/decrease in other assets		(86,423)	156,330
Net increase/(decrease) in customer deposits		552,693	(1,029,347)
Net (decrease)/increase in other liabilities		(575,751)	618,278
Net (decrease)/increase in due to other banks		(138,602)	636,910
Income taxes paid		-	(69,050)
Inflation effect on operating activities		91,301	(227,222)
Net cash used in operating activities		**3,961,473**	**10,419**
Cash flows from investing activities			
Purchase of premises and equipment, net	13	(21,255)	(223,837)
Purchase of intangible assets, net	12	(1,925)	(21,502)
Purchase of investment securities, net of sales		(1,555,978)	727,330
Dividends received		9,411	-
Disposal of investments, net		259,530	6,710
Inflation effect on investing activities		(94,922)	168,480
Net cash used in investing activities		**(1,405,139)**	**657,181**
Cash flows from financing activities			
Proceeds from borrowed funds, net		(803,370)	(34,864)
Inflation effect on financing activities		43,799	(12,019)
Net cash from financing activities		**(759,571)**	**(46,883)**
Net increase in cash and cash equivalents		1,796,763	620,717
Effect of inflation on cash and cash equivalents		(59,481)	(159,132)
Cash and cash equivalents at the beginning of the year		1,773,837	1,312,252
Cash and cash equivalents at the end of the year	4	**3,511,119**	**1,773,837**

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005)

		Attributable to equity holders of the Company							
	Note	Share capital	Adjustment to share capital	Total paid-in share capital	Translation reserve	Unrealised gains, net	Accumulated deficit	Minority interest	Total
Balance at 1 January 2004		**752,345**	**3,651,487**	**4,403,832**	**(79,477)**	**158,218**	**(1,131,365)**	**121,084**	**3,472,292**
Net change in available-for-sale investments, net of tax		-	-	-	-	81,146	-	(7,307)	73,839
Accumulated losses net off		-	(887,513)	(887,513)	-	-	887,513		-
Dividends		-	-	-	-	-	-	-	-
Translation difference		-	-	-	(10,809)	-	-	(5,078)	(15,887)
Net loss for the year		-	-	-	-	-	(31,394)	(918)	(32,312)
Balance at 31 December 2004	**23, 24**	**752,345**	**2,763,974**	**3,516,319**	**(90,286)**	**239,364**	**(275,246)**	**107,781**	**3,497,932**
Balance at 1 January 2005		**752,345**	**2,763,974**	**3,516,319**	**(90,286)**	**239,364**	**(275,246)**	**107,781**	**3,497,932**
Net change in available for sale investments, net of tax		-	-	-	-	(160,019)	-	129	(159,890)
Dividends		-	-	-	-	-	-	(591)	(591)
Translation difference		-	-	-	(43,482)	-	-	(558)	(44,040)
Addition to the scope of consolidation		-	-	-	-	-	-	194	194
Effect of change in scope of consolidation		-	-	-	-	-	-	(79,486)	(79,486)
Net loss for the year		-	-	-	-	-	(1,617,030)	3,980	(1,613,050)
Balance at 31 December 2005	**23, 24**	**752,345**	**2,763,974**	**3,516,319**	**(133,768)**	**79,345**	**(1,892,276)**	**31,449**	**1,601,069**

NOTE 1 - ORGANISATION AND PRINCIPAL ACTIVITIES

Yapı ve Kredi Bankası A.Ş. ("the Bank") was established with the permission of the Council of Ministers No. 3/6710 on 9 September 1944 and registered in Istanbul, Turkey. The Bank is authorised to perform all banking, economic, financial and commercial activities which are allowed by the laws of the Turkish Republic. The statute of the Bank has not changed since its corporation.

The Bank's shares have been traded on the Istanbul Stock Exchange ("ISE") since 1987. As of 31 December 2005, 41.63% shares of the Bank are publicly traded (2004: 41.63%). As of 28 September 2005, 57.4% of the Bank's shares that were owned by Çukurova Group companies and Saving Deposits Insurance Fund were purchased by Koçbank A.Ş. ("Koçbank"). Several agreements have been signed between the Bank and Çukurova Group companies on 28 September 2005 which aim to re-establish the loan and other relations of the Bank with Çukurova Group companies (Note 37).

The accompanying notes set out on pages 5 to 64 form an integral part of these consolidated financial statements

The Bank and its consolidated subsidiaries are referred to as the "Group" in these consolidated financial statements. The Group provides banking, insurance, leasing, factoring, brokerage and portfolio management services and has operations in Turkey, the Netherlands, Germany, Russia, and Bahrain. The major activity of the Group is concentrated in the banking sector in Turkey, which constitutes 93% (2004: 92%) of total assets of the Group. At 31 December 2005, the Group has 12,321 employees (2004: 12,717).

The Company is registered in Istanbul, Turkey at the following address: Yapı Kredi Plaza D Blok Levent 34330 Istanbul.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of presentation of consolidated financial statements

These consolidated financial statements are prepared in accordance with the International Financial Reporting Standards ("IFRS"), including the International Accounting Standards ("IAS") and interpretations issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements are based on the historical cost convention, restated for the effects of inflation and as modified by the revaluation of available-for-sale investment securities, financial assets and financial liabilities held for trading and all derivative contracts.

The Bank and its domestic subsidiaries maintain their books of account and prepare their statutory financial statements in accordance with Turkish Banking Law and accounting principles promulgated by the Banking Regulation and Supervision Agency ("BRSA") in Turkey, other relevant rules and regulations promulgated by Turkish Commercial Code, Turkish Capital Market Board ("CMB") and Turkish Tax legislation. The foreign subsidiaries and branches maintain their books of account based on statutory rules and regulations applicable in their jurisdictions, namely the Netherlands, Germany, Russian Federation and Bahrain. The consolidated financial statements are based on the statutory records with adjustments and reclassification including, where necessary, restatements for changes in the general purchasing power of YTL, for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements are presented in the national currency of the Republic of Turkey, the New Turkish lira ("YTL") which is the Bank's functional and presentation currency, expressed in terms of the purchasing power of YTL as of 31 December 2005.

Through the enactment of the Law numbered 5083 concerning the "Currency of the Republic of Turkey" in the Official Gazette dated 31 January 2004, the New Turkish Lira ("YTL") and the New Kuruş ("YKr") have been introduced as the new currency of the Republic of Turkey, effective from 1 January 2005. The sub-unit of the YTL is the YKr (YTL1 = YKr100). When the prior currency, Turkish Lira, values are converted into YTL, one million TL shall be equivalent to YTL1. Accordingly, the currency of the Republic of Turkey is simplified by removing 6 zeroes from the TL.

YTL replaced Turkish Lira in the presentation of financial statements and in the books since 1 January 2005. Within this framework, figures expressed in billions of TL in 31 December 2004, are presented in thousand YTL for comparative purposes.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the respective accounting policy disclosures.

Adoption of revised standards

Effective from 1 January 2005 the Group adopted the following revised standards of IFRS which are relevant to its operations. The 2004 accounts have been amended in accordance with the relevant requirements.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 17 (revised 2003)	Leases
IAS 21 (revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003)	Related Party Disclosures
IAS 27 (revised 2003)	Consolidated and Separate Financial Statements
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 39 (revised 2003)	Financial Instruments: Recognition and Measurement
IAS 36 (revised 2004)	Impairment of Assets
IAS 38 (revised 2004)	Intangible Assets
IFRS 3 (issued 2004)	Business Combinations
IFRS 4 (issued 2004)	Insurance Contracts

The adoption of IAS 1, 8, 10, 16, 17, 21, 24, 27, 32, and 39 (all revised 2003) did not result in substantial changes to the Bank's accounting policies. In summary:

- IAS 1 (revised 2003) has affected the presentation of minority interest and other disclosures.
- IAS 8, 10, 16, 17, 27, 32, 39 (all revised 2003) and IAS 39 (revised 2004) had no material effect on the Group's policies.
- IAS 21 (revised 2003) had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as their measurement currency.
- IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures.
- IAS 38 (revised 2004) had no adjustment from the reassessment of useful lives of tangible assets

B. Accounting for the effect of hyperinflation

The restatement for changes in the general purchasing power of YTL at 31 December 2005 is based on IAS 29, which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. The restatement was calculated by means of conversion factors derived from the Turkish nationwide Wholesale Price Index ("WPI") adjusted for 31 December 2005 with Producer Price Index ("PPI") published by the Turkish Statistical Institute ("Turkstat").

The inflation indices and conversion factors used to restate these consolidated financial statements are as follows:

Dates	Index	Conversion factor
31 December 2005	8,627.3	1.000
31 December 2004	8,403.8	1.027
31 December 2003	7,382.1	1.169

The main procedures for the above-mentioned restatement are as follows:

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods are restated in the same terms.

- Monetary assets and liabilities that are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.

- Non-monetary assets and liabilities that are not carried at amounts current at the balance sheet date and components of equity are restated by applying the relevant (monthly, yearly average, year end) conversion factors.

- Comparative financial statements are restated using general inflation indices at the current purchasing power at the latest balance sheet date.

- All items in the statement of income are restated by applying the monthly conversion factors.

- The effects of inflation on the Group's net monetary position are included in the statement of income as gains or losses on net monetary position.

C. Consolidation

i) Subsidiaries

Subsidiaries, in which the Group directly has power to govern the financial and operating policies, have been fully consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The list of subsidiaries at 31 December is as follows:

			Effective rates (%)	
Name of subsidiary	**Country of incorporation**	**Nature of business**	**31 December 2005**	**31 December 2004**
Yapı Kredi Sigorta A.Ş. ("Yapı Kredi Sigorta")	Turkey	Insurance	93.95	66.31
Yapı Kredi Emeklilik A.Ş. ("Yapı Kredi Emeklilik")	Turkey	Insurance	93.96	66.33
Yapı Kredi Finansal Kiralama A.O. ("Yapı Kredi Leasing")	Turkey	Leasing	98.40	66.32
Yapı Kredi Faktoring A.Ş. ("Yapı Kredi Faktoring")	Turkey	Factoring	99.98	99.98
Yapı Kredi Yatırım Menkul Değerler A.Ş. ("Yapı Kredi Menkul")	Turkey	Portfolio Management	99.99	99.99
Yapı Kredi Yatırım Ortaklığı A.Ş. ("Yapı Kredi Yatırım")	Turkey	Portfolio Management	56.06	51.47
Yapı Kredi Portföy Yönetimi A.Ş. ("Yapı Kredi Portföy") (*)	Turkey	Portfolio Management	94.33	79.52
Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş. ("Yapı Kredi Koray") (**)	Turkey	Real Estate	30.45	26.01
Akdeniz Marmara Turizm ve Tic A.Ş. ("Akdeniz Marmara") (**)	Turkey	Construction	99.99	99.99
Bayındırlık İşleri A.Ş. ("Bayındırlık İşleri") (**)	Turkey	Construction	99.18	99.18
Agrosan Kimya Sanayi ve Ticaret A.Ş. ("Agrosan") (**)	Turkey	Agricultural Chemicals	100.00	100.00
Yapı Kredi Kart Hizmetleri A.Ş. ("Yapı Kredi Kart") (**)	Turkey	Member Store Services	99.99	99.99
Yapı Kredi Kültür Sanat Yayıncılık Ticaret ve Sanayi A.Ş. ("Yapı Kredi Kültür") (**)	Turkey	Culture and Art Publications	99.99	99.99
Yapı Kredi Deutschland A.G. ("Yapı Kredi Deutschland")	Germany	Banking	97.50	97.50
Yapı Kredi Holding B.V. ("Yapı Kredi Holding")	Netherlands	Banking	100.00	100.00
Yapı Kredi Bank Nederland N.V. ("Yapı Kredi Nederland")	Netherlands	Banking	100.00	100.00
Yapı Kredi Netherlands Global Custody B.V. ("Yapı Kredi Custody")		Netherlands	Custody	
		Services	100.00	100.00
Yapı Kredi Bank Moscow ("Yapı Kredi Moscow")	Russia	Banking	100.00	99.70
Yapı Kredi International Financial Services ("Yapı Kredi International") (***)	Ireland	Financial Services	-	100.00

(*) Included in the scope of consolidation first in 2005.

(**) These subsidiaries were not included in the scope of the consolidation due to immateriality in 2005.

(***) Liquidated in August 2005.

At 31 December 2005 total assets, total shareholders' equity, total retained earnings, net profit/(loss) for the year, and number of personnel of above-mentioned subsidiaries that were not consolidated due to immateriality are as follows:

	Total assets	Total shareholders' equity	Total retained earnings	Net profit/ (loss)	Number of personnel
Yapı Kredi Koray	205,633	92,249	(44,412)	5,179	80
Akdeniz Marmara	9,285	6,710	5,102	(1,168)	-
Bayındırlık İşleri	20,606	19,814	475	(89)	6
Agrosan	21,086	(25,169)	(28,405)	(3,560)	2
Yapı Kredi Kart	745	440	1	183	20
Yapı Kredi Kültür	7,902	5,018	-	3,603	83
	265,257	**99,062**	**(67,239)**	**4,148**	**191**

The balance sheets and statements of income of the subsidiaries are fully consolidated on a line-by-line basis and the carrying value of the investment held by the Bank and its subsidiaries is eliminated against the related equity. Intercompany transactions and balances between the Group companies are eliminated on consolidation. The dividends arising from subsidiaries are eliminated from profit of the year.

Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

ii) Investments in associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in Group's equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The list of investments in associates that is included in the consolidation with the equity method at 31 December is as follows:

Name of associate	Country of incorporation	Nature of business	Effective rates (%) 31 December 2005	Effective rates (%) 31 December 2004
Banque de Commerce Et de Placement S.A. ("Banque de Commerce")	Switzerland	Banking	30.67	30.67

(iii) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement.

D. Foreign currency translation

(i) Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in New Turkish Lira ("YTL"), which is the presentation currency of the Bank.

(ii) Transactions and balances

The financial statements are presented in YTL, the currency of the primary economic environment in which the Group operates ("the functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

The results and financial position of all the group entities that have a functional currency different to the presentation currency (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the exchange rate prevailing at the date of that balance sheet,

(aa) income and expenses for each income statement are translated at average exchange rates.

Exchange differences resulting from the different rates applied for the translation of the balance sheet and the income statement as well as differences arising from the translation of the portion of the net asset value in foreign entities pertaining to the Group are recognised as translation reserves in the equity.

When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on the sale.

E. Related parties

For the purpose of these consolidated financial statements, shareholders, companies controlled by or affiliated with them and other companies within the Koç Group and UniCredit S.p.A. ("UCI") Group are considered and referred to as related parties (Note 32).

F. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are trading securities, which were either acquired or incurred principally for the purpose of selling or repurchasing them in the near term or part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Trading securities are initially recognised and subsequently re-measured at fair value. All related realised and unrealised fair value gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at the settlement date, which is the date that the asset is delivered to/by the Group.

G. Investment securities

Investment securities are classified into the following two categories: held-to-maturity and available-for-sale assets. Investment securities with fixed maturity, where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or client's servicing activity are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at fair value. Available-for-sale financial assets are subsequently re-measured at fair value. Gains and losses arising from changes in the fair value of securities classified as available-for sale are recognised in the equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is transferred to income statement.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

Equity securities classified as available-for-sale are carried at fair values except unlisted equity securities, which are measured at cost after deduction for any impairment (Note 8).

Interest earned whilst holding investment securities is reported as interest income.

All purchases and sales of investment securities are recognised at settlement date, which is the date the asset is delivered to/by the Group.

The unsettled transactions are recorded as off-balance sheet commitments until the settlement date.

H. Sale and repurchase agreements

Securities sold subject to linked repurchase agreements (”repos”) are retained in the financial statements as available-for-sale, held for trading and held-to-maturity and a counterparty liability is included in due to other banks or due to customers. Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks. The difference between sale and repurchase price is treated as interest and amortised over the life of repo agreements using the effective interest method.

I. Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

All loans and advances are recognised when cash is advanced to borrowers and carried at amortised cost using the effective interest method.

Impairment on loans and advances are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The amount of the provision for the loans that are assessed as individually impaired and loans under legal follow-up is the difference between the carrying amount and the recoverable amount, being the net present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans. The provision for loans also covers losses from the collective assessment of the Group.

The movement in provision is charged against the income for the period. When a loan is deemed uncollectible, it is written-off against the related provision for impairment. The loan is written-off after all the necessary legal proceedings have been completed and the amount of the loan loss is finally determined. Subsequent recoveries are credited to the income statement if previously written-off. Provisions are reversed, in part or as a whole, if the reason that originated them ceases to exist.

J. Premises and equipment

All premises and equipment are carried at cost, restated to equivalent purchasing power of YTL at 31 December 2005, less accumulated depreciation and permanent impairment if any. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful life as follows:

Buildings	50 years
Furniture and fixtures and motor vehicles	5 years
Office equipment	5 years
Leasehold improvements	5 years, or over the period of the lease if less than 5 years

In 2005, the Group reviewed the useful life of its movable premises and equipment and leasehold improvements. Accordingly, the Group changed the useful life of its movables and leasehold improvements included in the premises and equipment to 5 years (over the period of the lease if the agreement is less than 5 years for leasehold improvements) and reflected the effect of this estimation change amounting to YTL141,894 thousand as depreciation expense in the current year income statement (Note 13 and 28).

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use (Note 13 and 14).

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit.

Expenses for the repair of premises and equipment are charged against income. They are, however, capitalised if they result in an enlargement or substantial improvement of the respective assets.

Leasehold improvements comprise primarily of capitalised branch refurbishment costs.

K. Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. The Group ceased amortisation of goodwill from 1 January 2005 and accumulated amortisation as at 31 December 2005 has been eliminated with a corresponding decrease in the cost of goodwill. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any.

(ii) Other intangible assets

Other intangible assets are mainly comprised of patents, rights and computer software licences. They are capitalised on the basis of costs incurred to acquire them and amortised using the straight-line method over their useful lives, but not exceeding 5 years.

In 2005, the Bank reviewed the useful life of its other intangible assets. Accordingly, the Group changed the useful life of its intangible assets to 5 years and reflected the effect of this estimation change amounting to YTL3,973 thousand as credit to amortisation expense in the current year income statement (Note 12 and 28).

L. Accounting for leases

(i) Group company is the lessor

When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(ii) Group company is the lessee

Assets acquired under finance lease agreements are capitalised at the inception of the lease at the fair value of the leased asset, which is the amount of cash consideration given for the leased asset. Lease payments are treated as comprising of capital and interest elements; the capital element is treated as reducing the capitalised obligation under the lease and the interest element is charged to income. Depreciation on the leased asset is also charged to income on a straight-line basis over the useful life of the asset.

M. Financial liabilities

Financial liabilities including due to other banks, due to customers and other borrowed funds are recognised initially at cost. Subsequently, financial liabilities are stated at amortised cost, including transaction costs, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the financial liability using the effective interest method.

N. Income taxes

(i) Income taxes currently payable

Income taxes ("corporation tax") currently payable are calculated in accordance with the Turkish tax legislation (Note 19).

Taxation for foreign subsidiaries has been provided for in these consolidated financial statements in accordance with relevant tax legislation currently in force in countries of the operation of the related foreign subsidiaries.

Taxes other than on income are recorded within operating expenses (Note 28).

(ii) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted, or substantively enacted, at the balance sheet date are used to determine deferred income tax.

The principal temporary differences arise from the measurement of financial assets and liabilities at fair value, provision for loan impairment and provision for employment termination benefits.

Deferred income tax liabilities and assets are recognised when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Group. Deferred income tax assets resulting from temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilised (Note 19).

O. Employment termination benefits

Employment termination benefits represent the present value of the estimated total reserve for the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law and other legislation in the countries where the Group operates (Note 22).

P. Other provisions

(i) Pension and other post employment obligations

Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı Vakfı ("the Fund"), is a separate legal entity and a foundation recognised by an official decree, providing all qualified Bank employees with pension and post-retirement benefits.

The new Banking Law No. 5411 ("Banking Law") which was enacted on 1 November 2005 includes the provision that requires the transfer of the pension funds of the banks, including the Fund, to the Social Security Institution ("SSK") within three years following the publication of the Banking Law. In accordance with the Banking Law, the actuarial calculation of the liability (if any) related to the transfer should be performed by taking into account the procedures and other parameters determined by the commission established by Ministry of Labour and Social Security. Accordingly, the Group calculated the estimated liability for transfer of the Fund to SSK in accordance with the methods determined by this commission and the amount of the liability has been accounted for under "Other provisions" and "Other provision expenses" in the balance sheet and income statement, respectively (Notes 20 and 29).

(ii) Other

Other provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Q. Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

R. Fee and commission income and expense

Fees and commissions are generally recognised in the income statement on an accrual basis over the life of the transaction to which they refer to or on a cash basis at the time the services is received/the transaction is performed, which ever is more appropriate.

Portfolio and other management, advisory and service fees are recognised based on the applicable service contracts.

S. Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers, if the latter fails to meet their obligation. Acceptances are accounted for as off-balance sheet transactions.

T. Other credit related commitments

In the normal course of business, the Group enters into other credit-related commitments including loan commitments, letters of credit and guarantees. These are reported as off-balance sheet items at their notional amounts and are assessed using the same criteria as originated loans (Note 2.I). Specific provisions are therefore established when losses are considered probable and recorded as other provisions. The provision for credit-related commitments also covers losses from the collective assessment of the Group.

U. Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when negative.
The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Derivative financial instruments are classified as held for trading.

Certain derivative transactions, even though providing effective economic hedges under the Group risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading with fair value gains and losses reported in income statement. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. Fair value of over-the-counter ("OTC") forward foreign exchange contracts is determined based on the comparison of the original forward rate with the forward rate calculated by reference to market interest rates of the related currency for the remaining period of the contract, discounted to 31 December 2005. The difference between the spot rate at the time of origination and the original forward rate (for matured contracts) and the original forward rate discounted to the balance sheet date (for outstanding contracts) is reclassified to interest income or expense.

V. Offsetting

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

W. Earnings per share

Earnings per share for each class of shares disclosed in the consolidated statements of income are determined by dividing the net income attributable to that class of shares by the weighted average number of such shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the year in which they were issued and for each earlier period.

The earnings attributable to each class of share have been determined by reference to their effective relative economic interest therein (i.e. their theoretical relative dividend rights assuming that a policy of maximising distributions to each class of share is followed). The earnings attributable to each class of share for each year on this basis are as follows:

	2005	2004
Net loss attributable to ordinary shares	(1,617,030)	(31,394)
Weighted average number of ordinary shares in issue (TL1,000 each)	752,344,693	752,344,693
Loss per share (expressed in YTL, full amount, per share)	**(0.00215)**	**(0.00004)**

X. Cash and cash equivalents

The cash and cash equivalents comprise balances with less than 90 days' maturity including cash and balance with the central banks excluding reserve requirements and amounts due from banks (Note 4).

Y. Insurance business

Premium Income

Premium income is recognised in the period over which insurance coverage 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.

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 other assets and recognised in the income statement on the same basis as the premiums to which they relate.

Unearned Premium Reserve

Unearned premiums are those portions of the premiums underwritten during the 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 the unearned premium calculation and included in current year unearned premium reserve.

Outstanding Claims/IBNR Reserves

The 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 ("Treasury").

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 the utilisation 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.

Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. Any deficiency is immediately charged to profit or loss. The Group has no additional liability with respect to the life insurance portfolio of its subsidiary since in its revised tariffs the subsidiary changed the basis of its life profit share calculation to guarantee an annual return of the lower of the guaranteed rate or the annual inflation rate.

Z. Comparatives

Where necessary, comparative figures have been adjusted to conform changes in presentation in the current year.

NOTE 3 - FINANCIAL RISK MANAGEMENT

A. Strategy in using financial instruments

The Group provides a wide range of services to satisfy customer needs that involve the use of financial instruments including derivative transactions.

In particular, the Group accepts deposits from customers and seeks to earn above-average interest margins by investing these funds in high quality assets, mostly Turkish government bonds and treasury bills, and through lending to commercial and retail borrowers with a range of credit standing. Lending activity also involves off-balance sheet transactions, such as letters of credit and other credit related commitments.

The Group also seeks to increase margins by consolidating short-term funds and lending for longer periods at higher rates through money market and interbank borrowings, whilst maintaining sufficient liquidity to manage potential outflows.

Derivative instruments are limited to financial instruments such as forwards, swaps, futures in the foreign exchange and capital markets and options. These 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.

B. Risk management

Risks emerging in the Group's business and activities are defined as credit risk, market risk, liquidity risk and operational risk.

The Board of Directors and senior management supports any development in the use of risk management tools in terms of measurement, monitoring and management of the risks.

C. Credit risk

Credit risk is defined as the likelihood that the credit standing of a counterparty can deteriorate and, therefore, the counterparty will not be able to meet its obligations (both cash and non-cash ones).

Credit quality is monitored by managing the specific risk of the counterparty as well as the portfolio risk. With regard to the specific risk component i.e. that associated with individual relationships the focus of approaches and tools used to support the lending activity, during both the loan approval phase and in managing customer relationships, is to assign a standardised assessment in the form of rating to each customer. Specifically, loans are made to corporate and commercial customers basing on a process combining both quantitative (balance sheet, income and cash flow analysis, collaterals' value) and qualitative information (management assessment, competitive position, sector performance and environmental factors). Portfolio risk is managed by diversifying lending activity, i.e. by industry, sector or geographical area.

Geographical concentrations of assets, liabilities and credit related commitments, net:

31 December 2005	**Total assets**	**%**	**Total liabilities**	**%**	**Other credit-related commitments**	**%**
Turkey	22,887,584	87	20,471,787	84	8,632,185	92
Other European countries	1,766,501	7	2,256,462	9	337,536	4
Other countries	1,497,527	6	1,806,709	7	383,519	4
Italy	1,623	-	17,208	-	11,717	-
Total	**26,153,235**	**100**	**24,552,166**	**100**	**9,364,957**	**100**

31 December 2004	**Total assets**	**%**	**Total liabilities**	**%**	**Other credit-related commitments**	**%**
Turkey	22,712,771	86	19,528,513	86	8,964,569	92
Other European countries	1,891,439	7	2,344,245	10	433,813	4
Other countries	1,707,176	7	940,729	4	371,434	4
Italy	198	-	165	-	7,925	-
Total	**26,311,584**	**100**	**22,813,652**	**100**	**9,777,741**	**100**

D. Market risk

Market risk is the risk of incurring value fluctuations in the Group's positions which are associated with poten tial changes in prices and other market factors.

The Group, based on its current activities, considers foreign exchange risk, interest rate risk and liquidity risk as the most important components of market risk. Currency and interest rate risks are analysed both on a portfolio and product basis.

The monitoring of limits for such risks is performed both with reference to capital structure.

(i) Currency risk

Foreign exchange exposure is the result of the mismatch of foreign currency denominated assets and liabilities (including foreign currency indexed ones) together with exposures resulting from off-balance sheet foreign exchange derivative instruments. These are mainly represented by currency forwards and currency swaps having a duration less than a year at the balance sheet date.

Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale of foreign currency derivative financial instruments.

Concentrations of assets, liabilities and off-balance sheet items:

31 December 2005	Foreign currency					
	USD	EUR	Other	Total	YTL	Total
Assets						
Cash and balances with central banks	47,240	883,121	20,750	951,111	440,474	1,391,585
Due from banks	1,201,818	1,086,810	146,084	2,434,712	709,291	3,144,003
Trading securities	586,955	221,747	-	808,702	758,330	1,567,032
Investment securities:						
- available-for-sale	360,823	73,130	31,645	465,598	659,058	1,124,656
- held-to-maturity	1,886,657	385,055	-	2,271,712	1,977,019	4,248,731
Loans and advances to customers	3,529,574	793,599	58,382	4,381,555	7,598,523	11,980,078
Derivative financial instruments	838	-	-	838	614	1,452
Investments in associates	-	-	35,916	35,916	-	35,916
Intangible assets	-	171	-	171	30,542	30,713
Premises and equipment	15,177	2,831	-	18,008	1,257,807	1,275,815
Other assets	22,624	65,307	3,297	91,228	478,339	569,567
Deferred income tax assets	-	11,674	-	11,674	772,013	783,687
Total assets	**7,651,706**	**3,523,445**	**296,074**	**11,471,225**	**14,682,010**	**26,153,235**
Liabilities						
Due to banks	82,521	24,033	43,728	150,282	285,609	435,891
Due to customers	5,214,225	3,332,105	163,113	8,709,443	9,225,008	17,934,451
Other borrowed funds	1,879,621	207,642	16,918	2,104,181	118,019	2,222,200
Derivative financial instruments	1,081	960	21	2,062	-	2,062
Insurance technical reserves	244,401	114,680	-	359,081	470,962	830,043
Current income taxes payable	-	3,240	-	3,240	3,085	6,325
Other provisions	-	2,538	-	2,538	789,069	791,607
Reserve for employment termination benefits	-	203	-	203	77,342	77,545
Other liabilities	111,076	57,278	1,745	170,099	1,861,750	2,031,849
Deferred income tax liabilities	2,022	1,927	-	3,949	216,244	220,193
Total liabilities	**7,534,947**	**3,744,606**	**225,525**	**11,505,078**	**13,047,088**	**24,552,166**
Net balance sheet position	**116,759**	**(221,161)**	**70,549**	**(33,853)**	**1,634,922**	**1,601,069**
Off-balance sheet derivative instruments net notional position (Note 31)	(12,044)	(61,213)	32,320	(40,937)	41,305	368
Net foreign currency position	**104,715**	**(282,374)**	**102,869**	**(74,790)**	**1,676,227**	**1,601,437**

At 31 December 2005, assets and liabilities denominated in foreign currency were translated into YTL using a foreign exchange rate of YTL1.34180 = US$1, and YTL1.58748 = EUR1.

31 December 2004						
	Foreign currency					
	USD	EUR	Other	Total	YTL	Total
Assets						
Cash and balances with central banks	121,015	865,625	11,308	997,948	614,433	1,612,381
Due from banks	483,448	825,793	22,361	1,331,602	24,476	1,356,078
Trading securities	1,018,857	523,350	-	1,542,207	2,620,619	4,162,826
Investment securities:						
- available-for-sale	715,919	406,160	20,908	1,142,987	2,020,222	3,163,209
- held-to-maturity	164,475	27,792	-	192,267	-	192,267
Loans and advances to customers	5,030,068	806,080	51,018	5,887,166	6,200,258	12,087,424
Derivative financial instruments	2,920	-	2	2,922	-	2,922
Investments in associates	75	127	41,516	41,718	263,563	305,281
Intangible assets	666	9,389	2,710	12,765	151,984	164,749
Premises and equipment	5,879	4,699	10,201	20,779	2,333,785	2,354,564
Other assets	42,440	39,780	734	82,954	542,116	625,070
Deferred income tax assets	11	4,276	-	4,287	280,526	284,813
Total assets	**7,585,773**	**3,513,071**	**160,758**	**11,259,602**	**15,051,982**	**26,311,584**
Liabilities						
Due to banks	158,386	10,231	21,088	189,705	107,584	297,289
Due to customers	5,829,004	3,799,039	177,620	9,805,663	8,744,140	18,549,803
Other borrowed funds	835,800	257,851	22,406	1,116,057	304,719	1,420,776
Derivative financial instruments	1,428	-	-	1,428	446	1,874
Insurance technical reserves	163,953	163,872	-	327,825	459,070	786,895
Current income taxes payable	-	820	-	820	1,351	2,171
Other provisions	-	-	-	-	30,954	30,954
Reserve for employment termination benefits	-	-	-	-	49,116	49,116
Other liabilities	64,753	74,278	3,951	142,982	1,487,464	1,630,446
Deferred income tax liabilities	-	8,495	-	8,495	35,833	44,328
Total liabilities	**7,053,324**	**4,314,586**	**225,065**	**11,592,975**	**11,220,677**	**22,813,652**
Net balance sheet position	**532,449**	**(801,515)**	**(64,307)**	**(333,373)**	**3,831,305**	**3,497,932**
Off-balance sheet derivative instruments net notional position (Note 31)	(300,045)	366,452	172,239	238,646	(241,127)	(2,481)
Net foreign currency position	232,404	(435,063)	107,932	(94,727)	3,590,178	3,495,451

At 31 December 2005, assets and liabilities denominated in foreign currency were translated into YTL using a foreign exchange rate of YTL1.34210 = US$1, and YTL1.82673 = EUR1.

(ii) Interest rate risk

The interest rate risk is the exposure of the Group to possible adverse movements in interest rates. Such an exposure can result from a variety of factors, including differences in the timing between the maturities or repricing of assets, liabilities and off-balance sheet instruments. Changes in the level and shape of interest rate curves may also create interest rate risk.

Due to the current balance sheet structure of the Group, particular emphasis is placed on managing the interest rate risk. Duration, gap and economic sensitivity analysis are the main methods used to measure this risk. Furthermore, various simulation techniques are employed in order to analyse the effects of market volatilities on balance sheets of each entity of the Group.

The table below summarises the Group's exposure to interest rate risk at 31 December 2005 and 2004. Included in the table are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

31 December 2005

	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	884,737	-	-	-	506,848	1,391,585
Due from banks	2,938,885	122,186	11,433	-	71,499	3,144,003
Trading securities	427,693	346,796	501,791	166,541	124,211	1,567,032
Investment securities:						
- available-for-sale	15,190	109,188	185,940	206,781	607,557	1,124,656
- held-to-maturity	904,607	1,079,560	1,335,891	928,673	-	4,248,731
Loans and advances to customers	5,863,262	3,100,019	1,944,221	827,753	244,823	11,980,078
Derivative financial instruments	643	809	-	-	-	1,452
Investments in associates	-	-	-	-	35,916	35,916
Intangible assets	-	-	-	-	30,713	30,713
Premises and equipment	-	-	-	-	1,275,815	1,275,815
Other assets	81,712	13,269	-	-	474,586	569,567
Deferred income tax assets	-	-	-	-	783,687	783,687
Total assets	**11,116,729**	**4,771,827**	**3,979,276**	**2,129,748**	**4,155,655**	**26,153,235**
Liabilities						
Due to banks	350,287	37,525	-	-	48,079	435,891
Due to customers	12,481,769	1,360,583	109,237	-	3,982,862	17,934,451
Other borrowed funds	785,855	1,344,646	29,924	61,524	251	2,222,200
Derivative financial instruments	1,747	270	45	-	-	2,062
Insurance technical reserves	-	-	-	-	830,043	830,043
Current income taxes payable	-	-	-	-	6,325	6,325
Other provisions	-	-	-	-	791,607	791,607
Reserve for employment termination benefits	-	-	-	-	77,545	77,545
Other liabilities	201,638	9,554	3,087	-	1,817,570	2,031,849
Deferred income tax liabilities	-	-	-	-	220,193	220,193
Total liabilities and equity	**13,821,296**	**2,752,578**	**142,293**	**61,524**	**7,774,475**	**24,552,166**
Net interest sensitivity gap	**(2,704,567)**	**2,019,249**	**3,836,983**	**2,068,224**	**(3,618,820)**	**1,601,069**

31 December 2004

	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	1,192,204	-	-	-	420,177	1,612,381
Due from banks	1,326,691	2,417	-	-	26,970	1,356,078
Trading securities	927,383	1,496,486	1,265,508	321,918	151,531	4,162,826
Investment securities:						
- available-for-sale	195,102	940,974	298,502	430,273	1,298,358	3,163,209
- held-to-maturity	14,538	55,253	85,387	37,089	-	192,267
Loans and advances to customers	7,091,508	1,818,277	3,067,853	-	109,786	12,087,424
Derivative financial instruments	2,863	59	-	-	-	2,922
Investments in associates	-	-	-	-	305,281	305,281
Intangible assets	-	-	-	-	164,749	164,749
Premises and equipment	-	-	-	-	2,354,564	2,354,564
Other assets	75,081	15,266	-	-	534,723	625,070
Deferred income tax assets	-	-	-	-	284,813	284,813
Total assets	**10,825,370**	**4,328,732**	**4,717,250**	**789,280**	**5,650,952**	**26,311,584**
Liabilities						
Due to banks	198,294	13,657	51,176	-	34,162	297,289
Due to customers	11,059,063	4,241,905	362,162	11,604	2,875,069	18,549,803
Other borrowed funds	855,127	387,480	175,160	-	3,009	1,420,776
Derivative financial instruments	1,874	-	-	-	-	1,874
Insurance technical reserves	-	-	-	-	786,895	786,895
Current income taxes payable	-	-	-	-	2,171	2,171
Other provisions	-	-	-	-	30,954	30,954
Other liabilities	150,694	2,977	-	-	1,476,775	1,630,446
Deferred income tax liabilities	-	-	-	-	44,328	44,328
Total liabilities and equity	12,265,052	4,646,019	588,498	11,604	5,302,479	22,813,652
Net interest sensitivity gap	(1,439,682)	(317,287)	4,128,752	777,676	348,473	3,497,932

The table below summarises weighted average effective interest rates for financial instruments by major currencies outstanding as at 31 December 2005 and 2004 based on yearly contractual rates.

	2005 (%)			2004 (%)		
	USD	EUR	YTL	USD	EUR	YTL
Assets						
Balances with central banks	2.03	1.14	10.25	1.04	0.99	12.50
Due from banks	4.27	2.36	15.10	2.24	2.09	23.04
Trading securities	5.75	3.64	15.46	5.23	4.33	26.83
Loans and advances to customers	6.03	5.26	20.53	5.34	6.49	29.82
Investment securities:						
- available-for-sale	7.76	6.96	16.68	6.16	4.35	26.57
- held-to-maturity	6.18	3.83	15.27	5.41	-	-
Liabilities						
Due to banks	4.87	5.02	16.26	3.12	1.12	21.45
Customer deposits	1.99	1.58	13.24	2.02	2.17	16.95
Other borrowed funds	4.83	3.60	13.76	3.36	4.34	15.33

E. Liquidity risk

Liquidity risk is the ability to fund increases in assets and meet obligations as they come due and the risks associated with transactions made in liquid markets.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margins and other calls on cash settled derivatives. Liquidity risk limits and consequent availability of cash and cash equivalent instruments are set based on the level of outstanding deposits.

The following table analyses assets and liabilities of the Group into relevant maturity groupings at 31 December 2005 and 2004, based on the remaining period at the balance sheet date to the contractual maturity date.

31 December 2005	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Term not specified	Total
Assets						
Cash and balances with central banks	1,391,585	-	-	-	-	1,391,585
Due from banks	3,010,384	122,186	11,433	-	-	3,144,003
Trading securities	255,904	386,293	758,294	166,541	-	1,567,032
Investment securities:						
- available-for-sale	124,817	109,188	185,940	206,781	497,930	1,124,656
- held-to-maturity	1,539	337,610	2,980,909	928,673	-	4,248,731
Loans and advances to customers	4,698,862	2,911,626	2,239,699	1,885,068	244,823	11,980,078
Derivative financial instruments	643	809	-	-	-	1,452
Investments in associates	-	-	-	-	35,916	35,916
Intangible assets	-	-	-	-	30,713	30,713
Premises and equipment	-	-	-	-	1,275,815	1,275,815
Other assets	233,174	99,631	369	-	236,393	569,567
Deferred income tax assets	-	-	-	-	783,687	783,687
Total assets	**9,716,908**	**3,967,343**	**6,176,644**	**3,187,063**	**3,105,277**	**26,153,235**
Liabilities						
Due to banks	398,366	37,525	-	-	-	435,891
Due to customers	16,464,631	1,360,583	109,237	-	-	17,934,451
Other borrowed funds	625,122	1,266,858	279,237	50,983	-	2,222,200
Derivative financial instruments	1,747	270	45	-	-	2,062
Insurance technical reserves	-	-	-	-	830,043	830,043
Current income taxes payable	6,325	-	-	-	-	6,325
Other provisions	-	-	555,619	-	235,988	791,607
Reserve for employment termination benefits	-	-	-	-	77,545	77,545
Other liabilities	1,954,753	11,122	727	-	65,247	2,031,849
Deferred income tax liabilities	-	-	-	-	220,193	220,193
Total liabilities and equity	**19,450,944**	**2,676,358**	**944,865**	**50,983**	**1,429,016**	**24,552,166**
Net liquidity gap	**(9,734,036)**	**1,290,985**	**5,231,779**	**3,136,080**	**1,676,261**	**1,601,069**

31 December 2004						
	Demand and up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Term not specified**	**Total**
Assets						
Cash and balances						
with central banks	1,612,381	-	-	-	-	1,612,381
Due from banks	1,353,661	2,417	-	-	-	1,356,078
Trading securities	424,421	1,550,428	1,691,524	496,453	-	4,162,826
Investment securities:						
- available-for-sale	277,767	949,731	462,730	437,189	1,035,792	3,163,209
- held-to-maturity	14,538	55,251	85,389	37,089	-	192,267
Loans and advances to customers	4,251,379	1,834,695	2,113,008	3,778,556	109,786	12,087,424
Derivative financial instruments	2,863	59	-	-	-	2,922
Investments in associates	-	-	-	-	305,281	305,281
Intangible assets	-	-	-	-	164,749	164,749
Premises and equipment	-	-	-	-	2,354,564	2,354,564
Other assets	292,422	32,467	-	-	300,181	625,070
Deferred income tax assets	-	-	-	-	284,813	284,813
Total assets	**8,229,432**	**4,425,048**	**4,352,651**	**4,749,287**	**4,555,166**	**26,311,584**
Liabilities						
Due to banks	232,456	13,657	51,176	-	-	297,289
Due to customers	13,934,132	4,241,905	362,162	11,604	-	18,549,803
Other borrowed funds	574,781	662,755	183,240	-	-	1,420,776
Derivative financial instruments	1,874	-	-	-	-	1,874
Insurance technical reserves	696,952	76,269	13,674	-	-	786,895
Current income taxes payable	2,171	-	-	-	-	2,171
Other provisions	-	-	-	-	30,954	30,954
Reserve for employment						
termination benefits	-	-	-	-	49,116	49,116
Other liabilities	1,598,449	14,597	17,400	-	-	1,630,446
Deferred income tax liabilities	-	-	-	-	44,328	44,328
Total liabilities and equity	**17,040,815**	**5,009,183**	**627,652**	**11,604**	**124,398**	**22,813,652**
Net liquidity gap	**(8,811,383)**	**(584,135)**	**3,724,999**	**4,737,683**	**4,430,768**	**3,497,932**

F. Operational risk

Operational risk is defined as the variability in a Bank's profitability due to mistakes, violations, interruptions or damages deriving from internal processes, persons and systems or from external events.

G. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value at 31 December 2005 and 2004.

	2005		2004	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Due from banks	3,144,003	3,143,993	1,356,078	1,356,074
Loans and advances to customers	11,980,078	12,014,622	12,087,424	12,076,067
Investment securities:				
- held-to-maturity	4,248,731	4,298,222	192,267	206,365
Financial liabilities				
Due to banks	435,891	436,326	297,289	297,586
Customer deposits	17,934,451	17,956,135	18,549,803	18,572,231
Other borrowed funds	2,222,200	2,224,654	1,420,776	1,422,345

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments:

Due from banks

The fair value of overnight deposits is considered to approximate its carrying amounts due to their short-term nature. The estimated fair value of interest bearing placements is based on discounted cash flows using prevailing money market interest rates at the balance sheet date with similar credit risk and remaining maturity.

Loans and advances to customers

Originated loans are net of provisions for impairment. The estimated fair value of originated loans represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine their fair value.

Investment securities

Investment securities include only interest-bearing assets held-to-maturity, as assets available-for-sale are measured at fair value. The fair value for held-to-maturity assets is based on market prices as of the balance sheet date.

Due to banks, customer deposits and other borrowed funds

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of interest bearing deposits and other borrowings without quoted market price is based on discounted cash flows using money market interest rates prevailing at the balance sheet date with similar credit risk, currency and remaining maturity.

H. Fiduciary activities

The Group provides custody services to third parties. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. Fiduciary capacity at 31 December 2005 and 2004 is as follows:

	2005	2004
Investment securities held in custody	10,489,289	5,684,846
Cheques received for collection	2,191,537	1,731,351
Commercial notes received for collection	1,021,801	875,942
	13,702,627	**8,292,139**

NOTE 4 - CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise of the following balance with less than three months maturity from the date of acquisition:

	2005	2004
Cash in hand	240,170	177,193
Cheques received	23	-
Balances with the central banks other than reserve requirements	247,184	234,556
Due from other banks (with original maturity		
less than three months)	3,004,271	1,341,823
Other money market placements	19,471	20,265
	3,511,119	**1,773,837**

NOTE 5 - CASH AND BALANCES WITH CENTRAL BANKS

	2005	2004
Cash and cash equivalents		
Cash in hand - YTL	160,668	78,341
Cash in hand - foreign currency	79,502	98,852
Cheques received-foreign currency	23	-
Other	19,471	8,428
	259,664	**185,621**
Demand deposits at central banks		
Foreign currency	247,077	233,991
YTL	107	565
	247,184	**234,556**
Reserve deposits at central banks		
Foreign currency	605,887	677,574
YTL	278,850	514,630
	884,737	**1,192,204**
	1,391,585	**1,612,381**

Reserve deposits include the balance with the Central Bank of the Republic of Turkey ("CBRT") amounting to YTL879,424 thousand (2004: YTL1,166,449 thousand), with the Central Bank of the Russian Federation amounting to YTL2,349 thousand (2004: YTL1,599 thousand) and Deutsche Bundesbank amounting to YTL2,964 thousand (2004: YTL7,670 thousand). There are no balances with De Nederlandsche Bank as of 31 December 2005 (2004: YTL16,486 thousand). These funds are not available to finance the Group's day-to-day operations.

NOTE 6 - DUE FROM BANKS

	2005 Domestic	2005 Foreign	2005 Total	2004 Domestic	2004 Foreign	2004 Total
YTL:						
Nostro accounts	64	-	64	-	-	-
Demand deposits	32,266	3	32,269	110	33	143
Time deposits	9,473	17,464	26,937	12,490	4	12,494
Interbank money market	650,021	-	650,021	11,839	-	11,839
	691,824	**17,467**	**709,291**	**24,439**	**37**	**24,476**
Foreign currency:						
Nostro accounts	350	4,354	4,704	4	10,865	10,869
Demand deposits	423	34,039	34,462	5,592	10,366	15,958
Time deposits	148,003	2,247,429	2,395,432	111,925	1,192,850	1,304,775
Interbank money market	-	114	114	-	-	-
	148,776	**2,285,936**	**2,434,712**	**117,521**	**1,214,081**	**1,331,602**
	840,600	**2,303,403**	**3,144,003**	**141,960**	**1,214,118**	**1,356,078**

NOTE 7 - TRADING SECURITIES

	2005 Cost	2005 Carrying value	2004 Cost	2004 Carrying value
Debt Securities				
YTL:				
Government bonds	535,702	573,824	475,307	504,756
Treasury bills	51,510	54,785	42,339	44,443
Government bonds sold under repurchase agreements	4,380	5,065	1,587,859	1,686,239
Treasury bills sold under repurchase agreements	983	1,082	223,162	234,255
	592,575	**634,756**	**2,328,667**	**2,469,693**
Foreign currency:				
Eurobonds	333,353	349,274	692,807	730,965
Government bonds	245,961	252,858	200,396	215,905
Eurobonds sold under repurchase agreements	174,955	205,933	412,341	459,712
	754,269	**808,065**	**1,305,544**	**1,406,582**
	1,346,844	**1,442,821**	**3,634,211**	**3,876,275**
Other:				
Mutual funds	58,775	64,702	31,977	32,899
Equity shares-listed	54,772	59,509	118,744	118,632
Other (*)	-	-	125,321	135,020
	113,547	**124,211**	**276,042**	**286,551**
	1,460,391	**1,567,032**	**3,910,253**	**4,162,826**

Government bonds, treasury bills and Eurobonds are discount and coupon securities issued by the Government of Turkey. Mutual funds represent A and B type open-ended funds incorporated in Turkey managed by the Group and carried for resale to customers.

(*) As of 31 December 2004, other trading securities are comprised of Turkcell and foreign corporate bonds of which YTL44,415 thousand have been sold under repurchase agreements.

NOTE 8 - INVESTMENT SECURITIES

(i) Available-for-sale

	2005 Cost	2005 Carrying value	2004 Cost	2004 Carrying value
Debt Securities				
YTL:				
Government bonds	57,495	65,101	565,520	591,503
Treasury bills	86,966	93,149	7,130	7,457
Government bonds sold under repurchase agreements	2,565	2,938	-	-
Treasury bills sold under repurchase agreements	-	-	449,771	470,436
	147,026	**161,188**	**1,022,421**	**1,069,396**
Foreign currency:				
Eurobonds	271,282	295,991	487,257	580,756
Government bonds	40,793	41,709	164,762	196,378
	312,075	**337,700**	**652,019**	**777,134**
	459,101	**498,888**	**1,674,440**	**1,846,530**
Other:				
Equity shares - listed	58,794	29,958	427,670	336,544
Equity shares - unlisted	915,180	467,972	786,366	699,248
Investment funds	320,081	109,627	441,872	262,566
Other	17,884	18,211	14,600	18,321
	1,311,939	**625,768**	**1,670,508**	**1,316,679**
	1,771,040	**1,124,656**	**3,344,948**	**3,163,209**

Government bonds, treasury bills and Eurobonds are discount and coupon securities issued by the Treasury. Investment funds represent foreign funds owned and controlled by the Group.

The principal available-for-sale equity securities at 31 December 2005 and 2004 are as follows:

	Nature of business	2005 (%)	2004 (%)	2005	2004
Listed equity shares:					
Yapı Kredi Koray	Real Estate	30.45	26.01	28,055	21,346
Turkcell İletişim Hizmetleri A.Ş. ("Turkcell") (Note 27)	Telecommunications	0.01	2.95	1,888	304,806
Other				15	10,392
				29,958	**336,544**
Unlisted equity shares:					
A-Tel Pazarlama ve Servis Hizmetleri A.Ş. ("A-Tel") (*)	Telecommunications	50.00	50.00	201,270	452,417
Digital Platform İletişim Hizmetleri A.Ş. ("Digiturk") (**)	Media	25.21	25.21	106,041	108,861
Fintur Technologies B.V. ("Fintur") (**)	Telecommunications	72.36	72.36	67,025	94,605
Akdeniz Marmara (***)	Tourism	100.00	100.00	30,467	-
Bayındırlık İşleri (***)	Construction	99.18	99.18	19,159	-
Enternasyonal Turizm Yatırım A.Ş.	Tourism	14.80	14.80	12,279	21,270
IMKB Takas ve Saklama Bankası A.Ş.	Custody Services	4.86	4.86	12,243	11,739
Superonline Uluslararası Elektronik İletişim Hizmetleri A.Ş. ("Superonline") (**)	Information Communication	36.08	36.08	11,906	-
Türkiye Genel Sigorta A.Ş.	Insurance	1.16	1.16	2,440	2,491
Kredi Kayıt Bürosu A.Ş.	Credit Card Services	9.09	9.09	1,862	1,862
Bankalararası Kart Merkezi A.Ş.	Credit Card Services	9.98	9.98	1,111	1,111
Other				2,169	4,892
				467,972	**699,248**

(*) Based on the "A-Tel Option Agreement" signed between the Group, and Çukurova Holding A.Ş. ("Çukurova Holding") on 28 September 2005, a call option has been granted to Çukurova Group within two years from the agreement date where Çukurova Group or a third party designated by Çukurova Group can purchase 50% of A-Tel shares for USD 150,000,000 which are owned by the Bank (Note 37). If Çukurova Group does not exercise its option during the above mentioned two years period, the Bank will have a put option in order to sell those A-Tel shares to Çukurova Group in three months following the end of the two years. Various mortgages and pledges have been granted in favour of the Bank in relation to the "A-Tel Option Agreement". According to the public announcements of Turkcell on 25 October 2005, Turkcell management has been authorised for the finalisation of the purchase of 50% of A-Tel shares after the proposal of Çukurova Holding regarding the A-Tel Option Agreement based on the condition that 50% of the shares of A-Tel worth at least USD 150,000,000 are valued by an audit firm or an investment bank using a due diligence report including the results of a fiscal, legal and a financial condition of A-Tel. As explained in Note 36, on 22 March 2006, the Board of Directors of Turkcell decided to use the option related to those shares.

As of 31 December 2005, the carrying value of A-Tel accounted for as available-for-sale securities amounted to YTL 201,270 thousand (USD 150,000,000) by taking into consideration the above mentioned "A-Tel Option Agreement". The sales price was also supported by an independent valuation report. Accordingly, an impairment amounting to YTL 251,147 thousand and YTL 43,656 thousand has been recognised in the current year income statement in relation to the carrying value and goodwill of A-Tel, respectively (Notes 12, 28 and 29).

(**) 72.36% of Fintur which is established in the Netherlands, 25.21% of Digitürk and 36.08% of Superonline are owned by the Bank as of 31 December 2005. Based on the "Digiturk, Superonline and Fintur Purchase and Sale Agreement" signed between the Bank and Çukurova Group on 28 September 2005, the parties have agreed to sell the shares of Fintur, Superonline and Digiturk to Çukurova Group within 4 months of that date for the carrying values of EUR42.2 million, EUR7.5 million and YTL106,041 thousand, respectively (Note 36). Those companies are accounted for at their above mentioned sale values at 31 December 2005 and Fintur and Digitürk shares owned by the Bank have been sold on 5 January 2006 for the consideration of their sales values stated in the agreement mentioned in this paragraph. A two months extension period has been granted at 27 January 2006 regarding the sale of Superonline in order to complete the necessary permissions for the transfer of the shares. The sale period of Superonline has been further extended for three months at 27 March 2006 (Note 36).

(***) These subsidiaries were excluded from the scope of consolidation in 2005 due to immateriality.

(ii) Held-to-maturity:

	2005		2004	
	Cost	Carrying value	Cost	Carrying value
Debt Securities				
YTL:				
Government bonds	1,725,058	1,790,891	-	-
Treasury Bills	178,579	181,249	-	-
Government bonds sold under repurchase agreements	4,845	4,879	-	-
	1,908,482	**1,977,019**	**-**	**-**
Foreign currency:				
Eurobonds	659,134	665,185	2,475	2,570
Government bonds	1,229,980	1,247,700	25,632	25,785
Eurobonds sold under repurchase agreements	356,175	358,827	120,002	120,002
Other (*)	-	-	43,259	43,910
	2,245,289	**2,271,712**	**191,368**	**192,267**
	4,153,771	**4,248,731**	**191,368**	**192,267**

(*) As of 31 December 2004, other held-to-maturity securities are comprised of Turkcell corporate bonds that are carried at amortised cost.

The movement in securities held-to-maturity is as follows:

	2005	2004
Balance at 1 January	**192,267**	**762,034**
Additions	2,865,640	-
Redemptions	(65,541)	(471,980)
Transfers (*)	1,270,823	-
Foreign exchange difference	(36)	(5,490)
Monetary loss	(14,422)	(92,297)
	4,248,731	**192,267**

(*) The amount of YTL1,270,823 thousand was transferred to the held-to-maturity portfolio from the available-for-sale portfolio.

Government bonds and Eurobonds are discount and coupon securities issued by the Treasury.

At 31 December 2005, investment securities amounting to YTL733,423 thousand were pledged to various institutions for legal requirements and as a guarantee for stock exchange and money market transactions (31 December 2004: YTL557,997 thousand).

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

	2005	2004
Corporate and commercial loans originated by the Bank		
Direct loans	5,075,931	6,283,330
Originated loans purchased directly from the government (*)	142,431	-
Export loans	777,389	854,901
Investment loans	221,935	154,298
Net investment in finance leases	176,299	273,065
Factoring receivables	141,002	123,336
Other	33,460	32,974
Total corporate and commercial loans	**6,568,447**	**7,721,904**
Retail and consumer loans originated by the bank		
Originated by the Bank	5,035,760	3,978,387
- Credit cards	3,890,994	3,236,381
- Other consumer and retail	1,144,766	742,006
Total retail and consumer	**5,035,760**	**3,978,387**
Loans under legal follow-up	1,132,597	880,645
Other impaired loans	436,529	277,347
Total impaired loans	**1,569,126**	**1,157,992**
Gross loans and advances	**13,173,333**	**12,858,283**
Less: Allowance for losses on loan and advances	(1,193,255)	(770,859)
Net loans and advances to customers	**11,980,078**	**12,087,424**

Other impaired loans represent performing loans either to borrowers or to classes of borrowers (i.e. sectors) in temporary difficulties which are expected to be resolved within a reasonable period of time.

(*) The Bank had a receivable from a government agency amounting to YTL 642,350 thousand as of 31 December 2004. In accordance with the protocol signed between the Bank, this government agency and the Treasury at 30 December 2005, the receivable of the Bank from this government agency is determined as YTL 152,438 thousand and this receivable would be paid to the Bank through a special type of government bond issued by the Treasury, which has a maturity of three years with yearly coupon payments. This government bond has been recognised with its fair value at the inception date of 30 December 2005. Accordingly, an impairment expense of YTL 484,266 thousand regarding the receivable from this government agency is reflected to the current year income statement in 2005.

Movement in the provision for loan losses is as follows:

	2005	2004
Balance at 1 January	**770,859**	**793,614**
Impairment losses on loans an advances (Note 30)	1,163,589	173,500
Write-off during the year as uncollectible	(634,512)	(78,685)
Recoveries of amounts previously provided (Note 30)	(82,766)	(36,562)
Monetary gain	(23,915)	(81,008)
	1,193,255	**770,859**

The loans and advances to customers include finance lease receivables as shown below:

	2005	2004
Gross investment in finance leases	201,258	319,667
Unearned income	(24,959)	(46,602)
Net investment in finance leases - performing	**176,299**	**273,065**
Impaired finance lease receivables	45,168	51,110
Less: Allowance for losses on finance lease receivables	(30,853)	(21,718)
Investment in finance leases, net	**190,614**	**302,457**

Lease rental receivables consist of rentals over the terms of leases. The rentals on performing lease rental receivables according to their maturities are as follows:

	2005	2004
2005	-	195,813
2006	127,103	78,219
2007	53,669	33,028
2008	14,393	8,857
2009 and over	6,093	3,750
Less: unearned finance income	(24,959)	(46,602)
Net investment in finance leases	**176,299**	**273,065**

The loans and advances include factoring receivables as shown below:

	2005	2004
Domestic transactions	105,126	76,192
Export and import transactions	35,876	47,144
Gross factoring receivables	**141,002**	**123,336**
Impaired factoring receivables	3,962	3,413
Less: Allowance for losses on factoring receivables	(3,962)	(3,413)
Factoring receivables, net	**141,002**	**123,336**

Economic sector risk concentrations for performing loans are as follows:

	2005	%	2004	%
Retail and consumer	5,035,760	43	3,978,387	34
Financial institutions	976,677	8	1,182,122	10
Trade	648,110	6	331,520	3
Textiles	647,013	6	817,176	7
Metal processing	600,638	5	664,582	6
Construction and cement	541,713	5	373,772	3
Food beverage and tobacco	536,204	5	456,215	4
Manufacturing	466,316	4	260,413	2
Tourism	197,883	2	191,752	2
Culture and entertainment	192,771	2	253,558	2
Petrochemical industry	185,103	2	114,170	1
Automotive	179,663	1	290,707	2
Agriculture	62,215	1	35,591	-
Durable goods	19,779	-	15,480	-
Other	1,314,362	10	2,734,846	24
	11,604,207	**100**	**11,700,291**	**100**

According to Çukurova Group Loans-Financial Restructuring Agreement ("FRA") Modification Agreement ("Modification Agreement") signed between the Bank and Çukurova Group on 28 September 2005, the parties agreed on applying approximately a 15% discount on the loan payables of the Çukurova Group to the Bank based on early repayment of the major portion of the Çukurova Group payables, performance of the loans, payment schedule, trading conditions and the adopted trading relationship conditions under the Istanbul Approach.

Accordingly, on 28 September 2005, Çukurova Group paid the principal and interest amounting to USD 930,092,413 and USD 80,664,129, respectively, netted off from the payables of the Group under FRA. In addition an amount of USD 23,473,534 was paid to the Bank against other payables of Çukurova Group. Accordingly, Çukurova Group's total repayment to the Bank was realised as USD1,034,230,076 as of 28 September 2005 (Note 37).

After deducting the discount of USD 303,831,442 (YTL 398,295 thousand) from total payables the effect of which is reflected to the current year income statement as "other operating expenses" (Note 28), the Bank's risk balance to Çukurova Group amounted to USD 805,431,881 (YTL 1,080,728 thousand) as of 31 December 2005. The annual interest rate for the remaining portion of the Çukurova Group risk per Modification Agreement is identified as Libor +2.5 and the maturity of the last payment is 31 December 2015. According to the pledge agreement signed between the Bank, Çukurova Holding and Çukurova Investments N.V. on 28 September 2005, the Bank has a continuous pledge on 4.978% of Turkcell and 3.049% of Turkcell Holding shares in relation to the Çukurova Group loans repayment liability. The market value of those Turkcell collaterals amounts to approximately YTL 993,694 thousand as of 31 December 2005.

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises the following derivative instruments:

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions.

"Currency and interest rate swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The Group risks are represented by the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value and the liquidity of the market. To control the level of risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative instruments at 31 December 2005 and 2004 are set below:

31 December 2005			
		Fair Values	
	Contract/notional amount	**Assets**	**(Liabilities)**
Foreign exchange derivatives			
Currency forwards	228,282	1,356	619
Currency swaps	507,217	95	1,307
Interest rate derivatives			
Interest rate derivatives	4,615	-	135
Options	4,044	1	1
Total derivatives held-for-trading	**744,158**	**1,452**	**2,062**

31 December 2004			
	Contract/notional amount	Fair Values	
		Assets	(Liabilities)
Foreign exchange derivatives			
Currency forwards	109,475	1,600	837
Currency swaps	1,818,397	1,307	835
Interest rate derivatives			
Interest rate derivatives	6,506	15	-
Options	429,847	-	202
Total OTC derivatives held-for-trading	**2,364,225**	**2,922**	**1,874**

As also explained in Note 2.U, even though certain derivative transactions provide effective economic hedges under the Group's risk management position, they do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading.

The nominal amounts of derivative instruments are further explained in detail in Note 31.

NOTE 11 - INVESTMENTS IN ASSOCIATES

The principal investments in associates and subsidiaries at 31 December 2005 and 2004 are as follows:

	Nature of business	2005 (%)	2004 (%)	2005	2004
Listed equity shares:					
Banque de Commerce	Banking	30.67	30.67	35,916	41,516
Turkcell Holding (Note 27)	Telecommunications	-	20.02	-	259,530
Other				-	4,235
				35,916	**305,281**

NOTE 12 - INTANGIBLE ASSETS

	Goodwill	Other intangible assets	Total
Cost			
Opening balance	160,366	93,883	254,249
Effect of corrections	-	(23,990)	(23,990)
Additions	-	2,707	2,707
Disposals	-	(782)	(782)
Additions to scope of consolidation	-	176	176
Disposals from scope of consolidation (*)	(48,958)	-	(48,958)
Translation difference	-	(116)	(116)
Closing balance	**111,408**	**71,878**	**183,286**
Accumulated amortisation and impairment			
Opening balance	(55,745)	(33,755)	(89,500)
Effect of corrections	-	3,111	3,111
Amortisation (Note 28)	-	(10,962)	(10,962)
Disposals	-	463	463
Additions to scope of consolidation	-	(105)	(105)
Disposals from scope of consolidation (*)	22,024	-	22,024
Impairment (Note 28)	(77,687)	-	(77,687)
Translation difference	-	83	83
Closing balance	**(111,408)**	**(41,165)**	**(152,573)**
Net book amount at 31 December 2005	**-**	**30,713**	**30,713**

(*) The amount represents goodwill related with Akdeniz Marmara and Bayındırlık İşleri which were excluded from the scope of th consolidation in 2005.

NOTE 13 - PREMISES AND EQUIPMENT

At 01 January 2005	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost	3,525,523	291,228	605,595	358,912	4,781,258
Accumulated depreciation	(1,524,314)	(159,157)	(373,954)	(272,716)	(2,330,141)
Impairment	(96,553)	-	-	-	(96,553)
Net book amount	**1,904,656**	**132,071**	**231,641**	**86,196**	**2,354,564**
Year ended 31 December 2005:					
Cost					
Opening balance	3,525,523	291,228	605,595	358,912	4,781,258
Additions	15,800	2,049	11,224	38,681	67,754
Disposals	(6,126)	(21,634)	(8,556)	(10,183)	(46,499)
Additions to scope of consolidation	-	-	203	113	316
Disposals from consolidation	(49,221)	-	-	-	(49,221)
Translation difference	(774)	(400)	(790)	(267)	(2,231)
Effect of corrections (Note 28)	(71,407)	176	(290,968)	(275,260)	(637,459)
Closing balance	**3,413,795**	**271,419**	**316,708**	**111,996**	**4,113,918**
Accumulated depreciation and impairment					
Opening balance	(1,620,867)	(159,157)	(373,954)	(272,716)	(2,426,694)
Charge for the year (Note 28)	(55,607)	(112,295)	(86,711)	(15,667)	(270,280)
Disposals	3,756	17,244	8,163	188	29,351
Additions to scope of consolidation	-	-	(72)	(23)	(95)
Disposals from consolidation	4,810	-	-	-	4,810
Translation difference	179	292	705	194	1,370
Impairment charge (Note 28)	(646,641)	-	-	-	(646,641)
Effect of corrections (Note 28)	4,284	4,651	222,403	238,738	470,076
Closing balance	**(2,310,086)**	**(249,265)**	**(229,466)**	**(49,286)**	**(2,838,103)**
At 31 December 2005					
Cost	3,413,795	271,419	316,708	111,996	4,113,918
Accumulated depreciation	(1,566,892)	(249,265)	(229,466)	(49,286)	(2,094,909)
Impairment	(743,194)	-	-	-	(743,194)
Net book amount	**1,103,709**	**22,154**	**87,242**	**62,710**	**1,275,815**

The recoverable amount of the land and buildings of the Bank have been evaluated by two separate licensed companies by the CMB in 2005. The impairment charge on land and buildings recorded in the income statement for the year ended 31 December 2005 amounts to YTL646,641 thousand after this evaluation.

NOTE 14 - OTHER ASSETS

	2005	2004
Assets held for resale	173,756	255,139
Due from insurance policy holders	133,619	135,981
Miscellaneous receivables	65,095	31,047
Prepaid tax	64,198	293
Payments for credit card settlements	40,093	41,179
Prepaid expenses	36,424	29,907
Long term receivables	21,245	33,922
Advances given	5,158	5,240
Inventory and stationary stocks	5,058	35,894
Other	24,921	56,468
	569,567	**625,070**

Assets held for resale represent mainly foreclosed assets received against uncollectible loans and advances to customers, to be sold as required by the Turkish Banking Law. At 31 December 2005, the total impairment recognised for assets held for resale amounted to YTL 306,678 thousand (2004: YTL 221,273 thousand).

Movement in assets held for resale is as follows:

	2005	2004
Cost	480,434	476,412
Impairment	(306,678)	(221,273)
Net book amount	**173,756**	**255,139**
Cost		
Opening balance at 1 January	476,412	535,741
Additions	17,929	18,897
Disposal	(13,907)	(78,226)
	480,434	**476,412**
Impairment		
Opening balance at 1 January	(221,273)	(74,809)
Impairment charge for the period (Note 28)	(89,015)	(146,922)
Recoveries from sales	3,610	458
	(306,678)	**(221,273)**

The recoverable amount of the assets held for resale of the Bank has been evaluated by two separate licensed companies by the CMB in 2005. The impairment charge on assets held for resale recorded in the income statement for the year ended 31 December 2005 amounts to YTL89,015 thousand after this evaluation.

NOTE 15 - DUE TO BANKS

	2005			2004		
	Current/ Demand	Term	Total	Current/ Demand	Term	Total
Foreign currency:						
Foreign banks	2,040	89,015	91,055	3,638	95,953	99,591
Domestic banks	25,205	34,022	59,227	25,709	64,405	90,114
	27,245	**123,037**	**150,282**	**29,347**	**160,358**	**189,705**
YTL:						
Foreign banks	44	118,996	119,040	55	32,921	32,976
Domestic banks	20,790	145,779	166,569	4,760	69,848	74,608
	20,834	**264,775**	**285,609**	**4,815**	**102,769**	**107,584**
	48,079	**387,812**	**435,891**	**34,162**	**263,127**	**297,289**

NOTE 16 - DUE TO CUSTOMERS

	2005			2004		
	Current/ Demand	Term	Total	Current/ Demand	Term	Total
Foreign currency deposits:						
Saving deposits	1,311,034	4,319,989	5,631,023	1,146,003	3,950,517	5,096,520
Commercial deposits	1,318,445	1,329,421	2,647,866	700,073	3,267,144	3,967,217
Funds deposited under repurchase agreements	-	430,554	430,554	-	741,926	741,926
	2,629,479	**6,079,964**	**8,709,443**	**1,846,076**	**7,959,587**	**9,805,663**
YTL deposits:						
Saving deposits	642,240	4,825,510	5,467,750	451,654	3,374,118	3,825,772
Commercial deposits	706,384	3,006,041	3,712,425	573,049	2,140,454	2,713,503
Public sector deposits	4,759	26,075	30,834	4,290	3,067	7,357
Funds deposited under repurchase agreements	-	13,999	13,999	-	2,197,508	2,197,508
	1,353,383	**7,871,625**	**9,225,008**	**1,028,993**	**7,715,147**	**8,744,140**
	3,982,862	**13,951,589**	**17,934,451**	**2,875,069**	**15,674,734**	**18,549,803**

NOTE 17 - OTHER BORROWED FUNDS

	2005	2004
Foreign institutions and banks:		
Syndication loan	1,073,901	-
Structured finance deal	268,360	-
Other	564,817	965,074
	1,907,078	**965,074**
Domestic banks:		
Domestic banks	315,122	250,383
Interbank money market	-	205,319
	315,122	**455,702**
	2,222,200	**1,420,776**

As of 31 December 2005, funds borrowed from foreign institutions include a syndicated credit facility, amounting to US$800 million with an interest rate of one year Libor+0.3%, which is provided by 21 international banks with The Bank of New York acting as agent. The maturity of the loan is on 29 December 2006.

In November 2003, the Bank finalised a structured finance deal of US$200 million by securitising its foreign currency present and future remittances. The deal has an interest rate of 3 month Libor+0.65% and a maturity of 31 March 2006.

Funds borrowed from domestic banks represent funds obtained from Export Credit Bank of Turkey (Türk Eximbank) and in the context of Export Financing and International Loans ("EFIL") sourced by World Bank to finance certain export loans provided to customers in line with the prevailing regulations.

NOTE 18 - INSURANCE TECHNICAL RESERVES

	2005	2004
Mathematical reserve	334,977	319,170
Profit share reserve	289,865	287,358
Unearned premium reserve	152,731	145,915
Outstanding claim reserve	41,841	25,027
IBNR reserve	10,629	9,425
Total	**830,043**	**786,895**

The movement of insurance technical reserves is as follows:

	2005	2004
Opening net book amount at 1 January	786,895	758,816
Charge for the period, net	69,014	126,090
Monetary (loss)	(25,866)	(98,011)
Closing net book amount	**830,043**	**786,895**

NOTE 19 - TAXATION

	2005	2004
(i) Taxation income		
Turkish		
- Current tax expense	(7,954)	(14,830)
- Deferred income tax benefit	316,649	85,596
	308,695	**70,766**
Foreign		
- Current tax expense	(6,637)	-
- Deferred income tax benefit/(expense)	5,285	(375)
	(1,352)	**(375)**
	307,343	**70,391**

	2005	2004
(ii) Current income taxes payable		
- Turkish	3,085	1,351
- Foreign	3,240	820
Total current income taxes payable	**6,325**	**2,171**

	2005	2004
(iii) Deferred income taxes		
Deferred income tax assets		
- Turkish	772,013	280,526
- Foreign	11,674	4,287
	783,687	**284,813**
Deferred income tax liabilities		
- Turkish	216,244	35,833
- Foreign	3,949	8,495
	220,193	**44,328**
Deferred income tax assets, net	**563,494**	**240,485**

Turkish tax legislation does not permit a parent Company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the consolidated financial statements, have been calculated on a separate-entity basis.

Turkish corporation tax is payable at a rate of 30% on the total income of the Company after adjusting for certain disallowable expenses, exempt income and investment and other allowances.

No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 10%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 30% on their corporate income. Advance tax is payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

Capital gains derived from the sale of equity investments and immovable properties held for at least 2 years are tax exempt, if such gains are added to paid-in capital by the end of the second year following their sale.

Capital expenditures, with some exceptions, over YTL10 thousand (YTL6 thousand for 2004) are eligible for investment incentive allowance of 40%, which is deductible from taxable income prior to the calculation of the corporate income tax, without the requirement of an investment incentive certificate, and the amount of allowance is not subject to withholding tax.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Corporations file their tax returns within the 15th of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

The reconciliation between the expected and the actual taxation charge is stated below:

	2005
Loss before income taxes	**(1,920,393)**
Theoretical tax credit at the applicable tax rate of 30%	576,118
Effect of different tax rates in other countries	605
Tax effect of items which are not deductible or assessable for taxation purposes:	
Income exempt from taxation	365,451
Non-deductible expenses	(686,606)
Utilisation of investment incentive	1,615
Unutilised tax loss carried forward	39,491
Monetary effect of indexation of taxation liability	10,669
Taxation income	**307,343**

Deferred income taxes

For all domestic subsidiaries and the Bank, deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2004 under the liability method using a principal tax rate of 30% at 31 December 2005 (2004: 30%).

For foreign subsidiaries deferred income taxes are calculated on all temporary differences under the liability method using the principal tax rates at 31 December 2005 and 2004 as follows:

	Country	Tax rate (%)	
of incorporation		**2005**	**2004**
Yapı Kredi N.V.	The Netherlands	31.50	34.50
Yapı Kredi Deutschland	Germany	26.38	26.38
Yapı Kredi Moscow	Russia	24.00	24.00

The deferred income tax asset and liability represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return in accordance with the applicable tax law plus any available tax loss carry forward from previous years.

	Cumulative temporary differences		Deferred income tax asset/(liability)	
	2005	2004	2005	2004
Impairments	1,338,541	311,725	401,562	93,518
Provision for loan losses	376,510	129,395	112,953	38,819
Tax losses carried forward	138,030	87,986	43,617	26,396
Reserve for employment termination benefits	77,545	49,116	23,264	14,735
Credit card bonus liability to customers	42,750	13,157	12,825	3,947
Provision for unused vacation	19,051	14,283	5,714	4,273
Provision for legal proceedings	16,425	-	4,928	-
Valuation differences on securities	105	282,440	32	84,732
Estimated transfer price of Fund (Note 20)	555,619	-	166,686	-
Other	40,356	61,316	12,106	18,393
Deferred income tax assets	**2,604,932**	**949,418**	**783,687**	**284,813**
Difference between carrying value and tax base of premises and equipment and intangible assets	606,639	1,547	181,992	464
Valuation differences on securities	32,520	130,969	9,825	39,291
Other	93,625	15,241	28,376	4,573
Deferred income tax liabilities	**732,784**	**147,757**	**220,193**	**44,328**
Deferred income tax assets, net	**1,872,148**	**801,661**	**563,494**	**240,485**

The movement of deferred income taxes is as follows:

	Deferred income tax		
	Assets	Liabilities	Net
Balance at 1 January 2005	284,813	44,328	240,485
Charge for the period, net	509,922	178,162	331,760
Monetary (loss)	(11,048)	(2,297)	(8,751)
Balance at 31 December 2005	**783,687**	**220,193**	**563,494**

NOTE 20 - OTHER PROVISIONS

Other provisions included in other liabilities are as follows:

	2005	2004
Provision on estimated liability on transfer of Fund	555,619	-
Provision for credit-related commitments (Note 30)	116,655	30,954
Tax and other legal provisions	89,757	
Provision on export commitment estimated liabilities	29,576	-
Total	**791,607**	**30,954**

Estimated liability on transfer of the Fund

On 1 November 2005, Banking Law No.5411 ("Banking Law") which requires the transfer of the pension funds of the banks to the Social Security Institution within three years following the publication date, was published in the Official Gazette. In accordance with the Banking Law, the actuarial calculation of the liability should be performed by a commission including representatives from various institutions. The specified liability will be paid in annual equal instalments for a period not exceeding 15 years. Accordingly, a task force established by the Ministry of Labour and Social Security has commenced to work on the general procedures related to the transfer and other parameters to be used in the actuarial liability calculation. However on 2 November 2005, the President of Turkish Republic has applied to the Constitutional Court of Turkey for abrogation of the relevant article in the Banking Law.

Accordingly, based on the actuarial report dated 14 February 2006 prepared as of 31 December 2005 on the Fund, of which the Bank personnel are members; the Group provided a provision of YTL555,619 thousand, including healthcare benefits, in relation to the estimated transfer price of the Fund to the SSK as of 31 December 2005. The technical interest rate of 10.24% and the mortality table CSO 1980 were used, which were two of the parameters specified by the Ministry of Labour and Social Security, while calculating the actuarial balance sheet in the actuarial report as of 31 December 2005.

Tax and other legal provisions

(i) The Group recorded a total provision of YTL 73,332 thousand against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the year ended 31 December 2005.

(ii) At 31 December 2005, the Group is involved in some legal disputes. The Group's lawyers advise that, owing to developments in the cases, it is probable that the Group will be found liable. Therefore, the management has recognised a provision of YTL 16,425 thousand as the best estimate of the amount to settle these potential obligations.

Provision on export commitment estimated liabilities

At 31 December 2005, the management estimated losses that may arise from export loans to customers under legal follow-up that would not have the ability to fulfil their export commitments and has recognised provision of YTL29,576 thousand.

Movement in provision for credit-related commitments is as follows:

	2005	2004
Balance at 1 January	30,954	16,613
Impairment loss on credit-related commitments (Note 30)	86,395	17,613
Monetary gain	(694)	(3,272)
Balance at 31 December	**116,655**	**30,954**

Movement in other provisions is as follows:

	2005	2004
Balance at 1 January	-	-
Estimated transfer price of the Fund (Note 29)	555,619	-
Tax and other legal provisions (Note 29)	88,869	-
Provision expense for export commitments (Note 29)	29,282	-
Monetary loss	1,182	-
Balance at 31 December	**674,952**	**-**

NOTE 21 - OTHER LIABILITIES

	2005	2004
Credit card payables	1,431,963	1,148,347
Clearing accounts	81,947	113,484
Transitory payables	67,386	25,890
Trade payables	63,739	78,022
Taxes other than income and withholdings	49,641	53,077
Other payables and accrued expense	19,411	31,353
Credit card bonus provisions	42,750	13,157
Miscellaneous payables to customers	40,678	42,679
Cash collaterals	35,368	44,321
Personnel performance bonuses	29,998	-
Provision for unused vacation of personnel	19,051	14,283
Import deposit and transfer orders	5,549	10,856
Other	144,368	54,977
Total	**2,031,849**	**1,630,446**

NOTE 22 - RESERVE FOR EMPLOYMENT TERMINATION BENEFITS

	2005	2004
Reserve for employment termination benefits		
- domestic	77,342	49,116
- foreign	203	-
Total	**77,545**	**49,116**

The movement in the reserve for employment termination benefits is as follows:

	2005	2004
Balance at 1 January	49,116	29,128
Increase during the period	38,696	31,232
Paid during the period	(8,284)	(7,085)
Monetary (gain)	(1,983)	(4,159)
Balance at 31 December	**77,545**	**49,116**

Under the Turkish Labour Law, the Bank and its domestic subsidiaries are required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of YTL1,727 (2004: YTL1,575 in terms of the purchasing power of YTL at 2004) for each year of service.

The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of its employees.

IAS 19 "Employment Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the domestic liability as at 31 December 2005 and 31 December 2004:

	2005	2004
Discount rate (%)	5.49%	16.00%
Turnover rate to estimate the probability of retirement	2.00%	2.00%

Additionally, the principal actuarial assumption is that the maximum liability of YTL1,727 for each year of service would increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of YTL1,771 which is effective from 1 January 2006, has been taken into consideration in calculating the reserve for employment termination benefit of the parent and its domestic subsidiaries.

NOTE 23 - SHARE CAPITAL

The historic amount of share capital of the Company consists of 752,344,693 (2004: 752,344,693) authorised shares with a nominal value of TL1,000 each. The Company's authorised capital amounts to YTL752,345 thousand (2004: YTL752,345 thousand).

At 31 December 2005 and 2004, the issued and fully paid-in share capital held is as follows:

	2005		2004	
Shareholders	**Participation rate (%)**	**YTL thousand**	**Participation rate (%)**	**YTL thousand**
Koçbank A.Ş.	57.43	432,047	-	-
Publicly Traded	41.63	313,224	41.63	313,224
Çukurova Group	-	-	44.53	335,015
Saving Deposits Insurance Fund	-	-	12.90	97,032
Other	0.94	7,074	0.94	7,074
Historical share capital	**100.0**	**752,345**	**100.0**	**752,345**
Adjustment to share capital		2,763,974		2,763,974
Total paid-in share capital		**3,516,319**		**3,516,319**

The adjustment to share capital represents the restatement effect of cash and cash equivalent contributions to share capital in terms of the equivalent purchasing power at 31 December 2005.

NOTE 24 - RETAINED EARNINGS AND LEGAL RESERVES

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code, the Group is required to create the following legal reserves from appropriation of earnings, which are available for distribution only in the event of liquidation or losses:

a) First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.

b) Second legal reserve, appropriated at the rate of at least 10% of distribution in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

After deducting taxes and setting aside the legal reserves as discussed above, the remaining balance of net profit is available for distribution to shareholders.

Starting from 2002, the lower of non inflation-adjusted historical profits or profits arising in the inflation-adjusted statutory financial statements can be subjected to profit appropriation and distribution.

NOTE 25 - NET INTEREST INCOME

	2005	2004
Interest income on:		
Loans and advances to customers	2,315,946	1,969,581
Investment and trading securities	812,844	1,079,411
Reserve deposits	61,261	69,077
Due from banks	28,443	20,942
Money market transactions	10,427	2,242
Other	6,408	8,705
	3,235,329	**3,149,958**
Interest expense on:		
Customer deposits	(1,648,609)	(1,646,893)
Repurchase agreements	(256,772)	(510,016)
Other borrowed funds	(65,820)	(64,492)
Due to banks	(48,649)	(33,336)
Money market transactions	(30,117)	(15,978)
Other	(857)	(6,112)
	(2,050,824)	**(2,276,827)**
Net interest income	**1,184,505**	**873,131**

NOTE 26 - NET FEE AND COMMISSION INCOME

	2005	2004
Fee and commission income on:		
Banking services	288,782	258,304
Credit/debit cards	227,627	235,876
Loans		
- Credit-related commitments	95,713	92,465
- Loans and advances	7,041	10,555
Assets under management	83,308	75,467
Brokerage	29,887	29,741
Factoring	5,289	6,060
Other	54,136	52,738
	791,783	**761,206**
Fee and commission expense on:		
Credit/debit cards	(172,647)	(159,701)
Agency and dealing room commission	(58,049)	(49,245)
Brokerage	(5,157)	(10,022)
Factoring	(2,152)	(2,276)
Other borrowed funds	(1,456)	(3,966)
Other	(5,004)	(457)
	(244,465)	**(225,667)**
Net fee and commission income	**547,318**	**535,539**

NOTE 27 - OTHER OPERATING INCOME

	2005	2004
Gain on sale of Turkcell and Turkcell Holding shares (*)	1,157,046	-
Dividend income	22,543	12,370
Gain on sale of investment	1,840	5,201
Gain on sale of premises and equipment	1,096	19,069
Other	45,529	25,427
	1,228,054	62,067

(*) Turkcell and Turkcell Holding shares of the Bank were sold at 25 November 2005 for a consideration of YTL1,638,001 thousand based on the "Turkcell Option Agreement" signed between the Bank and Çukurova Group companies at 28 September 2005 (Note 37). Gains on the sale of Turkcell and Turkcell Holding shares will be added to the share capital according to the decision made in the meeting of Board of Directors held on 22 December 2005 (Note 36).

NOTE 28 - OTHER OPERATING EXPENSES

	2005	2004
Staff costs	**581,147**	**498,509**
Depreciation on premises and equipment (Note 13)	270,280	184,186
Amortisation on intangible assets (Note 12)	10,962	34,988
Depreciation and amortisation	**281,242**	**219,174**
Impairment charge on property and equipment (Note 13)	646,641	44,069
Impairment charge on assets held for resale (Note 14)	89,015	146,922
Impairment charge on goodwill (Note 12)	77,687	-
Impairment	**813,343**	**190,991**
Çukurova Group loan discount (Note 9)	398,295	-
Fixed assets correction (Note 12, 13)	188,262	-
Marketing and advertisement costs	148,717	157,962
Promotion expense on credit cards	88,003	79,088
Communication expenses	69,574	52,013
Saving Deposits Insurance Fund ("SDIF") premium	33,105	51,723
Network expenses	32,407	32,083
Rent expenses	25,560	26,961
Repair and maintenance expenses	25,412	14,859
Sundry taxes and duties	23,783	44,774
Litigation expenses	10,900	3,550
Cleaning expenses	7,822	7,013
Insurance fee	7,078	8,267
Audit and consultancy fees	4,501	8,677
Other	139,501	75,079
General administrative expenses	**1,202,920**	**562,049**
	2,878,652	**1,470,723**

NOTE 29 - OTHER PROVISION EXPENSES

	2005	2004
Estimated transfer price of Fund (Note 20)	555,619	-
Impairment losses on investment in A-Tel (Note 8)	251,147	-
Tax and other legal provisions (Note 20)	88,869	-
Provision expense for export commitments (Note 20)	29,282	-
Impairment losses on investment in Fintur (Note 8)	27,580	-
Impairment losses on investment in Bayındırlık İşleri	24,583	-
Impairment losses on investment in Enternasyonel Turizm Yatırım A.Ş.(*)	21,509	210,778
Impairment losses on investment in Akdeniz Marmara	14,525	-
Impairment losses on investment in Digitürk (Note 8)	2,820	-
Impairment losses on investment in Superonline	-	40,379
Other impairment losses in investments	2,476	24,282
	1,018,410	**275,439**

(*) Resulted from the indirect investment in Enternasyonel Turizm Yatırım A.Ş. (2004: YTL 188,945 thousand). As of 31 December 2004, YTL 21,833 thousand is related with the direct investment in the same Company.

NOTE 30 - IMPAIRMENT LOSSES ON LOANS AND CREDIT-RELATED COMMITMENTS

	2005	2004
Impairment losses on loans and advances, net of recoveries (Note 9)	1,080,823	136,938
Impairment losses on credit-related commitments (Note 20)	86,395	17,613
	1,167,218	**154,551**

NOTE 31 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of its activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities at 31 December 2005 and 2004.

Legal proceedings

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognises provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated (Note 20).

In respect of the further claims asserted against the Group, which according to the principles outlined above, have not been provided for, it is the opinion of the management and its professional advisers that such claims are either without merit, can be successfully defended or will not have a material adverse effect on the Group's financial position.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as and if required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table shows the outstanding credit-related commitments of the Group:

	2005			2004		
	Related parties	**Other**	**Total**	**Related parties**	**Other**	**Total**
Letters of guarantee						
- YTL	265,280	3,715,904	3,981,184	341,942	3,808,242	4,150,184
- Foreign currency	69,759	3,829,041	3,898,800	685,852	3,177,803	3,863,655
Letters of credit	35,044	1,158,590	1,193,634	35,171	1,433,294	1,468,465
Acceptance credits	-	163,161	163,161	4,329	149,004	153,333
Other commitments and contingencies	1,393	243,440	244,833	-	173,058	173,058
	371,476	**9,110,136**	**9,481,612**	**1,067,294**	**8,741,401**	**9,808,695**
Less: provision for losses on credit related commitments (Note 20)			(116,655)			(30,954)
			9,364,957			**9,777,741**

The economic sector risk concentrations for outstanding performing credit-related commitments of the Group are as follows:

	2005	%	2004	%
Construction and cement	2,159,529	23	1,747,932	18
Manufacturing	1,636,949	17	1,642,858	17
Trade	1,065,756	11	850,256	9
Financial institutions	762,654	8	1,131,346	12
Metal processing	724,408	8	1,052,424	11
Food, beverage and tobacco	503,430	5	556,361	6
Textiles	476,811	5	520,125	5
Machinery	265,591	3	134,069	1
Petrochemical industry	237,289	2	172,483	2
Automotive	191,215	2	120,391	1
Communication	179,118	2	717,071	7
Transportation	147,689	2	121,668	1
Tourism	93,356	1	119,744	1
Public services	58,644	1	39,985	-
Durable goods	15,079	-	18,616	-
Other	964,094	10	863,366	9
	9,481,612	**100**	**9,808,695**	**100**

Commitments under derivative instruments:

31 December 2005					
			Notional amounts		
	USD	**EUR**	**Other FC**	**YTL**	**Total**
Purchases:					
Swap transactions	**130,822**	**87,318**	**36,608**	**-**	**254,748**
- Interest rate swaps	1,941	-	-	-	1,941
- Currency rate swaps	128,881	87,318	36,608	-	252,807
Forward transactions	**41,022**	**24,956**	**2,758**	**46,759**	**115,495**
- Currency forwards	41,022	24,956	2,758	46,759	115,495
Options (call)	**-**	**1,015**	**-**	**1,005**	**2,020**
	171,844	**113,289**	**39,366**	**47,764**	**372,263**
Sales:					
Swap transactions	**127,965**	**127,219**	**-**	**1,900**	**257,084**
- Interest rate swaps	2,674	-	-	-	2,674
- Currency rate swaps	125,291	127,219	-	1,900	254,410
Forward transactions	**55,923**	**46,330**	**7,046**	**3,488**	**112,787**
-Currency forwards	55,923	46,330	7,046	3,488	112,787
Options (put)	**-**	**953**	**-**	**1,071**	**2,024**
	183,888	**174,502**	**7,046**	**6,459**	**371,895**
Off-balance sheet net notional position (Note 3)	**(12,044)**	**(61,213)**	**32,320**	**41,305**	**368**

31 December 2004					
			Notional amounts		
	USD	**EUR**	**Other FC**	**YTL**	**Total**
Purchases:					
Swap transactions	**239,317**	**503,176**	**173,766**	**-**	**916,259**
- Interest rate swaps	3,322	-	-	-	3,322
- Currency rate swaps	235,995	503,176	173,766	-	912,937
Forward transactions	**19,796**	**18,146**	**2,750**	**14,339**	**55,031**
- Currency forwards	19,796	18,146	2,750	14,339	55,031
Options (call)	**174,681**	**-**	**-**	**34,901**	**209,582**
	433,794	**521,322**	**176,516**	**49,240**	**1,180,872**
Sales:					
Swap transactions	**669,101**	**141,197**	**1,528**	**96,818**	**908,644**
- Interest rate swaps	3,184	-	-	-	3,184
- Currency rate swaps	665,917	141,197	1,528	96,818	905,460
Forward transactions	**33,187**	**13,673**	**2,749**	**4,835**	**54,444**
-Currency forwards	33,187	13,673	2,749	4,835	54,444
Options (put)	**31,551**	**-**	**-**	**188,714**	**220,265**
	733,839	**154,870**	**4,277**	**290,367**	**1,183,353**
Off-balance sheet net notional position (Note 3)	**(300,045)**	**366,452**	**172,239**	**(241,127)**	**(2,481)**

NOTE 32 - RELATED PARTY TRANSACTIONS

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 financial or operational decisions.

A number of banking transactions were entered into with related parties in the normal course of business.

Following the acquisition of the Bank by Koçbank on 28 September 2005 the risk group of the Bank was changed to be Koç and UniCredito Italiano group and related group of companies (2004 balances consist of the Çukurova Group risks):

(i) Balances with related parties:

	2005 Total	2005 Share in Total (%)	2004 Total	2004 Share in Total (%)
Loans and advances to customers	373,521	3	3,194,854	26
Due from banks	26,839	1	-	-
Trading securities	2,742	-	89,293	2
Investment security	-	-	43,910	1
Other assets	-	-	37,053	6
	403,102		**3,365,110**	
Due to customers	285,988	2	273,160	1
Due to banks	1,829	-	-	-
Other liabilities	1,518	-	-	-
	289,335		**273,160**	
Credit-related commitments	371,476	4	1,067,294	11
Commitment under derivative instruments	-	-	143,260	6
	371,476		**1,210,554**	

(ii) Transactions with related parties:

	2005 Total	2005 Share in Total (%)	2004 Total	2004 Share in Total (%)
Interest, fee and commission income:				
Interest income on originated loans	16,623	1	152,784	8
Interest income on financial leases	-	-	2,958	-
Fee and commission income	547	-	4,208	1
	17,170		**159,950**	
Interest expense:				
Interest expense on customer deposits	4,524	-	6,254	-
	4,524		**6,254**	

NOTE 33 - SEGMENT REPORTING

(i) Business Segments:

31 December 2005	**Banking**	**Leasing**	**Factoring**	**Insurance**	**Brokerage and Portfolio Management**	**Consolidated**
Net interest income	1,106,042	26,363	9,094	24,397	18,609	1,184,505
Provision for possible loan, leasing and factoring receivables	(1,155,985)	(10,593)	(640)	-	-	(1,167,218)
Foreign exchange gain/(loss)	72,753	(4,102)	4	(1,514)	22	67,163
Other operating income	1,726,442	2,820	3,365	83,189	43,495	1,859,311
Other operating expense	(3,731,836)	(7,082)	(4,538)	(107,223)	(24,874)	(3,875,553)
Profit/(loss) from operating activities	**(1,982,584)**	**7,406**	**7,285**	**(1,151)**	**37,252**	**(1,931,792)**
Unallocated items:						
Income tax	-	-	-	-	-	307,343
Monetary gain	-	-	-	-	-	11,399
Minority interest	-	-	-	-	-	(3,980)
Net profit/(loss)	**(1,982,584)**	**7,406**	**7,285**	**(1,151)**	**37,252**	**(1,617,030)**
Other segment information						
Segment assets	23,186,519	196,002	140,219	1,020,998	162,082	26,117,319
Investments in associates	35,916	-	-	-	-	35,916
Total assets	**23,222,435**	**196,002**	**140,219**	**1,020,998**	**162,082**	**26,153,235**
Segment liabilities	20,980,571	102,733	125,621	1,064,666	37,486	22,311,077
Total liabilities	**20,980,571**	**102,733**	**125,621**	**1,064,666**	**37,486**	**22,311,077**
Capital expenditures						
Tangible fixed assets	49,868	23	7	17,263	593	67,754
Intangible fixed assets	728	569	15	1,019	376	2,707
Depreciation	**(262,791)**	**(178)**	**(302)**	**(5,589)**	**(1,420)**	**(270,280)**
Amortisation	**(9,988)**	**(132)**	**(26)**	**(398)**	**(418)**	**(10,962)**
Impairment losses on premises and equipment	**(646,641)**	**-**	**-**	**-**	**-**	**(646,641)**

31 December 2004

	Banking	Leasing	Factoring	Insurance	Brokerage and Portfolio Management	Construction	Consolidated
Net interest income (expense)	782,432	32,441	15,430	35,322	7,506	-	873,131
Provision for possible loan, leasing and factoring receivables	(140,273)	(11,258)	(3,020)	-	-	-	(154,551)
Foreign exchange gain/(loss)	44,921	1,276	(826)	207	1,183	-	46,761
Other operating income	632,321	2,280	7,731	66,521	47,737	1,942	758,532
Other operating expense	(1,589,511)	(1,119)	(7,439)	(108,378)	(32,190)	(7,525)	(1,746,162)
Profit/(loss) from operating activities	**(270,110)**	**23,620**	**11,876**	**(6,328)**	**24,236**	**(5,583)**	**(222,289)**
Unallocated items:							
Income tax	-	-	-	-	-	-	70,391
Monetary gain	-	-	-	-	-	-	119,586
Minority interest	-	-	-	-	-	-	918
Net profit/(loss)	**(270,110)**	**23,620**	**11,876**	**(6,328)**	**24,236**	**(5,583)**	**(31,394)**
Other segment information							
Segment assets	24,248,311	292,160	251,811	966,948	126,548	120,525	26,006,303
Investments in associates	305,281	-	-	-	-	-	305,281
Total assets	**24,553,592**	**292,160**	**251,811**	**966,948**	**126,548**	**120,525**	**26,311,584**
Segment liabilities	21,552,883	158,035	205,038	850,172	32,848	14,677	22,813,653
Total liabilities	**21,552,883**	**158,035**	**205,038**	**850,172**	**32,848**	**14,677**	**22,813,653**
Capital expenditures							
Tangible fixed assets	61,511	15	983	7,329	620	654	71,112
Intangible fixed assets	15,826	2,872	-	-	2,804	-	21,502
Depreciation	**(175,145)**	**(197)**	**(1,155)**	**(5,748)**	**(955)**	**(986)**	**(184,186)**
Amortisation	**(33,552)**	**(64)**	**(44)**	**-**	**(1,328)**	**-**	**(34,988)**
Impairment losses on premises and equipment	**(42,042)**	**-**	**-**	**(2,027)**	**-**	**-**	**(44,069)**

NOTE 34 - ASSETS UNDER MANAGEMENT

At 31 December 2005, the Group manages 11 mutual funds (2004: 11 mutual funds) and 10 mutual pension funds (2004: 10 mutual pension funds) (''Funds'') which were established under CMB Regulations. At 31 December 2005, the Funds' investment portfolio includes government bonds, treasury bills and share certificates amounting to YTL3,160,077 thousand. (2004: YTL2,054,305 thousand). In accordance with the Funds' statute, the Group purchases and sells marketable securities for the Funds, markets their participation certificates and provides other services and charges management fees ranging from 0.00275% to 0.015%. Management fees earned by the Group amounted to YTL83,308 thousand for the year ended 31 December 2005 (2004: YTL75,467 thousand).

NOTE 35 - RESERVE REQUIREMENTS WITH CBRT AND LIQUIDITY REQUIREMENTS

Turkish:

Reserve requirements of the CBRT represent the minimum deposits, as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the CBRT. In accordance with the current legislation, the mandatory reserve deposit rates for Turkish lira and foreign currency deposits are 6% (2004: 6%) and 11% (2004: 11%), respectively. The mandatory reserve deposit rates are applicable to both time and demand deposits.

Liquidity requirements as promulgated by the CBRT are computed on the basis of the liabilities identified and at the rates prescribed in the related regulations and should be maintained as government bonds and treasury bills in special accounts with the Central Bank. The mandatory liquidity rates for Turkish lira and foreign currency liabilities were 4% and 1% respectively in 2004. In December 2005, CBRT discontinued the application of liquidity requirements.

Foreign:

Reserve requirements of De Nederlandsche Bank represent reserve deposits equivalent to 2% of the overnight deposits, deposits with agreed maturity or deposits redeemable at notice up to 2 years, debt securities issued with agreed maturity up to 2 years and money market paper.

Reserve requirements of the Deutsche Bundesbank represent reserve deposits equivalent to 2% of all financial liabilities except for bank borrowings and bank deposits in the Eurozone.

Reserve requirements of the Central Bank of the Russian Federation represent reserve deposits equivalent to 2% of borrowings from non-resident bank from all currencies, 3.5% of individual deposits denominated in Russia Rubles and 3.5% of the deposits of legal entities for all currencies.

NOTE 36 - POST BALANCE SHEET EVENTS

a) Based on the "Fintur, Superonline and Digiturk Purchase-Sale agreement" signed between the Bank and the Çukurova Group companies on 28 September 2005 (Note 37), Fintur and Digiturk shares were sold to Avor İnşaat Gıda Tekstil Kimya Sanayi ve Ticaret A.Ş., a Çukurova Group Company, on 5 January 2006 for a consideration of their 31 December 2005 carrying values of EUR42,221 thousand and YTL106,041 thousand, respectively. A two months extension period (from 4 months to 6 months) has been granted at 27 January 2006 regarding the sale of Superonline in order to complete the necessary permissions for the transfer of shares. The sale period of Superonline has been further extended for three months at 27 March 2006 (Note 8).

b) In accordance with the "Non-Core Option Agreement" signed between the Bank and Çukurova Group at 28 September 2005 (Note 37), parties agreed that for the following six years after the date of share transfer, if the non-core assets that have a carrying value of approximately YTL455,000 thousand in the financial statements as of 30 September 2005 are sold to third parties, 57.4% of the difference between the value of the assets stated in the agreement and the sales value will be used to reduce debts of the Çukurova Group to the Bank. Koç Finansal Hizmetler A.Ş. ("KFS"), the indirect main shareholder of the Group, has declared to the Bank that it has agreed and committed to irrevocably pay any difference in favour of Çukurova Group resulting from the transactions subject to this agreement during the life of the Option Agreement, which will be deducted from Çukurova Group's debts. Accordingly, the Bank has not recognised any provision in these consolidated financial statements in relation to this option agreement.

c) On 31 January 2006, KFS has declared to the Bank that it agreed and is committed to irrevocably pay the amount of any discount, if any, provided by the Bank to Çukurova Group loans, if the payment of the Bank to the related government agencies in relation to the deficit of the Fund is realised below EUR350 million (Note 20). KFS also declared to the Bank, that this commitment is valid for 3 years.

d) The corporate tax rate for the year 2005 earnings is 30% in Turkey. However according to the "Draft Legislation of Corporate Tax" the corporate tax rate is anticipated to be decreased to 20% for the tax period starting from 1 January 2006. If the mentioned draft Law will be enacted without any amendment, the corporate tax rate will be 20% for the tax period starting from 1 January 2006. Had the Bank applied 20% in deferred tax calculation as of 31 December 2005, current year loss would have increased by YTL185,237 thousand.

e) Starting from 1 January 2006 the Group decided to discontinue the application of inflation accounting by concluding that the Turkish economy ceased to be hyperinflationary, through considering the resolutions reached by governmental authorities, agencies and through the opinion of IASB which is stating that such a decision could be best made by the economic actors operating in the Turkish economy and as a reference, The Ministry of Finance, Treasury, CMB and BRSA, who are the major regulatory authorities in the Turkish economy, have declared that the Turkish economy has ceased to be defined as hyperinflationary and that the application of inflation accounting should be discontinued in the statutory financial statements.

f) On 22 March 2006, the Board of Directors of Turkcell decided to exercise the option related to the 50% shares of A-Tel owned by the Group as per the terms of the "A-Tel Option Agreement" (Note 37.v.) and required actions and transactions will be conducted accordingly.

g) In the shareholders meeting dated 31 March 2006, it was decided to increase the share capital of the Bank from YTL752,345 thousand to YTL1,896,662 thousand. The increase amount of YTL1,144,317 thousand represents the statutory gain recognised from sale of Turkcell and Turkcell Holding (Note 27).

NOTE 37 - OTHER EXPLANATIONS

a) Acquisition of the Group by Koçbank:

The final version of Share Purchase Agreement ("SPA") was signed between Çukurova Holding, various Çukurova Group Companies, Mehmet Emin Karamehmet and KFS, Koçbank N.V., Koçbank regarding the sale of 57.4% of the shares of the Bank on 28 September 2005. In that respect, 44.5% of the Bank shares with a nominal value of YTL335,015 thousand that belong to Çukurova Group Companies including Sınai ve Mali Yatırımlar Holding A.Ş., Baytur İnşaat Taahhüt A.Ş., Çukurova Holding, T. Genel Sigorta A.Ş., Çukurova İthalat ve İhracat Ticaret A.Ş., Akşam Denizcilik ve Ticaret A.Ş., Interdepo Uluslararası Özel Antrepo İşletmeleri A.Ş., Endüstri Holding A.Ş., Ören Denizcilik Nakliyat ve Ticaret A.Ş., Çukurova Ziraat Endüstri ve Ticaret A.Ş., Avor İnşaat Gıda Tekstil Kimya Sanayi ve Ticaret A.Ş., Barboros Denizcilik İşletmesi A.Ş., Genel Denizcilik Nakliyatı A.Ş. and 12.9% of the Bank shares with a nominal value of YTL97,032 thousand that belong to SDIF were transferred to Koçbank. The value for 57.4% of the shares of the Bank was EUR1,160,054 thousand. This price was realised as EUR1,182,369 thousand due to the applied adjustment dependent on the difference between the value of the Bank's shares in Turkcell Holding and Turkcell as of 28 October 2004 and as of the closing date determined by calculating the weighted average of share prices of Turkcell for the last 30 days until the share transfer completion date. In addition, the total control share of Koçbank in the Bank is calculated as 58.22% considering the indirect investment of 0.8%. Accordingly, the General Assembly of the Bank was held on 28 September 2005 and the new members of the Board of Directors of the Bank were appointed on the same date. In the first meeting of the Board of Directors held on the same date the following agreements were agreed to be signed between the Bank and Çukurova Group Companies:

(i) Çukurova Group Loans FRA Modification Agreement:

According to Çukurova Group Loans-FRA Modification Agreement ("Modification Agreement") signed between the Bank and Çukurova Group on 28 September 2005, the parties agreed on applying approximately a 15% discount on the loan payables of the Çukurova Group to the Bank based on early repayment of the major portion of the Çukurova Group payables, performance of the loans, payment schedule, trading conditions and the adopted trading relationship conditions under the Istanbul Approach.

Accordingly, on 28 September 2005, Çukurova Group paid the principal and interest amounting to USD 930,092,413 and USD 80,664,129, respectively, which had been netted off from the payables of the Group under FRA. In addition an amount of USD 23,473,534 was paid to the Bank against other payables of Çukurova Group. Accordingly, Çukurova Group's total repayment to the Bank was realised as USD 1,034,230,076 as of 28 September 2005 (Note 9).

(ii) Turkcell Option Agreement:

Based on the Turkcell Option Agreement signed between the Bank and Çukurova Holding on 28 September 2005, a call option has been granted to Çukurova Holding for the purchase of 1.15% of the shares of Turkcell and 20.02% of the shares of Turkcell Holding in the following 12 months after the option agreement date. Turkcell and Turkcell Holding shares were sold on 25 November 2005 (Note 27).

(iii) Option Agreement in Relation to Non-Core Assets:

In accordance with the "Non-Core Assets Option Agreement" signed between the Bank and Çukurova Group on 28 September 2005, parties agreed that for the following six years after the date of share transfer, if the non-core assets that have a carrying value of approximately YTL455,000 thousand in the financial statements as of 30 September 2005 are sold to third parties, 57.4% of the difference between the value of the assets stated in the agreement and the sales value will be used to reduce debts of the Çukurova Group to the Bank.

As further explained in Note 36, KFS, the indirect main shareholder of the Bank, has declared to the Bank that it has agreed and committed to irrevocably pay any difference in favour of Çukurova Group resulting from the transactions subject to this agreement during the life of the Option Agreement, which will be deducted from Çukurova Group's debts.

(iv) Digiturk, Superonline and Fintur Purchase and Sale Agreement

Digiturk, Superonline and Fintur Purchase and Sale Agreement was signed between the Bank and Çukurova Group on 28 September 2005, and the parties have agreed to sell the shares owned by the Bank in Fintur, Superonline and Digitürk to Çukurova Group within 4 months of that date for EUR42.2 million, EUR7.5 million and YTL106,041 thousand, respectively. Fintur and Digitürk shares were sold to Avor İnşaat Gıda Tekstil Kimya Sanayi ve Ticaret A.Ş., a Çukurova Group Company, on 5 January 2006 for a consideration of the values explained in this paragraph (Note 8).

The Bank has classified the cash risk of USD 35.9 million and the non-cash risk of YTL182 thousand and USD 728,922 of Superonline under "Loans under legal follow up" and provided full provision regarding those risks as of 31 December 2005 financial statements. These receivables will be written off from the Bank's assets when the "Fintur, Superonline and Digiturk Purchase-Sale Agreement" becomes fact.

(v) A-Tel Option Agreement

Based on the "A-Tel Option Agreement" signed between the Bank, and Çukurova Holding on 28 September 2005, a call option has been granted to Çukurova Group within two years from the agreement date where the Çukurova Group or a third party designated by Çukurova Group can purchase 50% of A-Tel shares for USD150,000,000 which are owned by the Bank. If Çukurova Group does not exercise its option during the above mentioned two-year period, the Bank will have a put option in order to sell those A-Tel shares to Çukurova Group in three months following the end of the two years (Note 8).

(vi) Yapı Kredi Plaza Agreement in relation to the sale of immovable in Yapı Kredi Plaza A Block 15, 16, 17 and 18th floors and Yapı Kredi Plaza E Block

According to the "Yapı Kredi Plaza Agreement in relation to the sale of immovable in Yapı Kredi Plaza A Block 15, 16, 17 and 18th floors and Yapı Kredi Plaza E Block", the parties agreed on the selling of the Bank's various immovables in Yapı Kredi Plaza (A Block Floors 15, 16, 17 and 18 and the whole E Block) located in Istanbul, Levent to the Çukurova Group. Accordingly, the transfer operation in relation to those immovables commenced and the transfer price amounting to USD 13,995,820 was collected by the Bank.

(vii) Superonline Modification Agreement

According to the Superonline Modification Agreement, the parties agreed on extending present agreements between the Bank and Superonline for an five additional years on an arms-length basis.

(viii) Advertising Publication Agreement

According to the "Advertising Publication Agreement", the parties agreed that the Bank and its subsidiaries will spend up to EUR15 million per year for a five-year period after the share transfer on advertisements via media companies of Çukurova Group and that half of this amount will be used in the payment of Çukurova Group Loan.

b) Tender offer of minority shares:

Koçbank applied to CMB for the purpose of starting a tender offer process of publicly held shares of the Bank and its listed investments and subsidiaries Yapı Kredi Sigorta, Yapı Kredi Finansal Kiralama, Yapı Kredi Koray and Yapı Kredi Yatırım on 13 October 2005. The tender offer process of Koçbank for publicly held shares of investments and subsidiaries of the Bank has been finalised as of the date of these financial statements and no replies to this tender offer have been realised. On the other hand, the proposed share price for the publicly traded shares of the Bank is accepted as YTL6.50 as of 22 February 2006 by the CMB and the proposal collection process has been finalised as of the date of these consolidated financial statements.

c) Capital Adequacy Ratio of the Bank:

The Bank's Capital Adequacy Ratio has been realised as 7.24% as of 31 December 2005, which is below the minimum required rate of 8%, according to the statutory unconsolidated financial statements of the Bank. In addition, the Bank exceeded some regulatory limits that are restricted with a predetermined rate of equity as of 31 December 2005. According to the regulations in Turkey, the Bank has to bring the unconsolidated Capital Adequacy Ratio together with the excess regulatory limits to the regulatory levels within six months from 30 September 2005. In line with its business plans, the Bank management has been taking certain measures to bring the Capital Adequacy Ratio to the regulatory minimum rate of 8%.

d) CBRT report:

On 4 April 2005 the auditors of the CBRT sent an audit report dated 31 March 2005 to the Bank. The report includes critiques on the calculation methods of reserve requirements and liquidity obligations for various liability items. On the other hand, on 16 November 2005, the "Communiqué regarding the reserve requirements" numbered 2005/1 was issued in the Official Gazette numbered 25995. According to this Communiqué, if CBRT auditors conclude that the reserve requirements were understated for a specific time, twofold and threefold of the understated TL and foreign currency denominated amount, respectively, can be placed in the CBRT as interest free demand deposits for this specific time period. Otherwise, penalty interest will be charged regarding the understated amounts. The Bank management plans to use the option of placing interest free deposits in the CBRT, if any liability occurs against the Bank as a result of this process.

e) Legal proceedings:

As of 31 December 2005, the Bank has legal proceedings against the responsible individuals and the companies regarding the interest income losses arising from the interest free advances extended by the Bank. These legal cases and the collectibility of corresponding contingent assets are currently under review by the Bank's management.

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