YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2006
TOGETHER WITH AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Yapı ve Kredi Bankası A.Ş. ("the Bank") and its subsidiaries (together, "the Group") which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Notes 21 and 37.vii to the consolidated financial statements. On 22 March 2007, the Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional article 23 of the Banking Law, which requires the transfer of the Pension Fund to the Social Security Institution ("SSK"), until the decision regarding the cancellation thereof is published in the Official Gazette. The detailed verdict of the Constitutional Court with regards to the cancellation has not been issued as at the date of our report. The Banking Regulation and Supervision Agency ("BRSA") expressed its opinion that the cancellation of transfer of the Fund to the SSK will not have any impact on the measurement principles of the existing liability of the Bank in the subsequent period. Considering whether a settlement to eliminate all legal and constructive obligations of all of the benefits provided under the defined benefit plan will occur or not upon the publication of the decision of the Constitutional Court, it is not certain whether there will be any possible subsequent change to the measuring of the retirement benefits and possible obligation of the Bank as at the date of our report.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

Zeynep Uras, SMMM

Istanbul, 25 April 2007

YAPI VE KREDİ BANKASI A.Ş.

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2006

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

	Notes	2006	Restated 2005
ASSETS			
Cash and balances with central banks	5	4,121,393	2,250,878
Due from banks	6	2,369,094	3,616,665
Trading assets	7	561,480	1,616,203
Investment securities			
- available-for-sale	8	900,311	1,195,767
- held-to-maturity	8	16,260,889	8,141,100
Investment in associates	9	41,352	35,917
Loans and advances to customers	10	24,680,829	20,250,912
Derivative financial instruments	11	77,705	25,005
Goodwill	12	1,023,528	1,023,528
Other intangible assets	13	179,166	199,977
Premises and equipment	14	1,253,523	1,354,418
Other assets	15	888,708	645,382
Deferred income tax assets	20	485,941	866,299
Total assets		**52,843,919**	**41,222,051**
LIABILITIES			
Due to banks	16	1,751,482	779,286
Due to customers	17	33,262,067	27,222,095
Other borrowed funds	18	6,446,970	4,350,620
Debt securities in issue	19	1,650,006	273,044
Derivative financial instruments	11	32,086	24,159
Current income taxes payable	20	7,429	17,841
Deferred income tax liabilities	20	179,839	232,892
Other provisions	21	976,912	940,429
Reserve for employee benefits	22	164,658	143,140
Insurance technical reserves	23	790,413	830,043
Other liabilities	24	3,547,406	2,531,888
Total liabilities		**48,809,268**	**37,345,437**
EQUITY			
Share capital	26	3,142,818	2,342,316
Adjustment to share capital	26	(60,471)	40,368
Total paid-in share capital	26	3,082,347	2,382,684
Share issue premium		37,579	37,579
Other reserves	27	46,293	8,499
Retained earnings	27	320,155	730,780
Equity attributable to shareholders of the Company		**3,486,374**	**3,159,542**
Equity attributable to minority interest		548,277	717,072
Total equity		**4,034,651**	**3,876,614**
Total liabilities and equity		**52,843,919**	**41,222,051**
Commitments and contingent liabilities	32		

These consolidated financial statements as at and for the year ended 31 December 2006 have been approved for issue by the Board of Directors on 25 April 2007.

YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

	Notes	2006	Restated 2005
Interest income	28	5,363,066	2,228,430
Interest expense	28	(3,368,764)	(1,248,522)
Net interest income		**1,994,302**	**979,908**
Fee and commission income	29	1,276,215	535,245
Fee and commission expense	29	(315,968)	(107,453)
Net fee and commission income		**960,247**	**427,792**
Foreign exchange gains, net		68,791	42,869
Net trading gains		77,094	24,616
Insurance technical income, net		101,216	28,725
Other operating income		92,421	14,651
Operating revenues		**3,294,071**	**1,518,561**
Other operating expenses	30	(1,714,536)	(829,233)
		1,579,535	**689,328**
Impairment losses on loans and credit related commitments, net	31	(281,492)	(142,590)
Other provisions	21	(227,008)	(47,968)
Loss on net monetary position	2	-	(23,911)
Operating profit		**1,071,035**	**474,859**
Share of profit/(loss) of associate	9	2,048	(900)
Profit before income tax		**1,073,083**	**473,959**
Income tax expense	20	(323,740)	(127,567)
- current tax		(80,674)	(118,000)
- deferred tax		(243,066)	(9,567)
Profit for the year		**749,343**	**346,392**
Attributable to:			
Equity holders of the Company		607,376	343,485
Minority interest		141,967	2,907
		749,343	**346,392**
Basic earning per share attributable to the equity holders of the Company (expressed in YTL per thousand share)		1.93	3.87

The accompanying notes set out on pages 5 to 74 form an integral part of these consolidated financial statements.

YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

	Notes	2006	Restated 2005
Cash flows from operating activities			
Net profit for the year		749,343	346,392
Adjustments for:			
Unrealised gain on trading assets, net		63,771	179,060
Allowances for losses on loans and advances	31	281,492	142,590
Measurement of derivative financial instruments at fair value		(44,772)	(3,698)
Share of profit of associate	9	(2,048)	900
Amortisation of goodwill	30	-	-
Amortisation of other intangible assets	30	31,972	15,449
Depreciation of premises and equipment	30	145,068	65,794
Impairment charge on premises	30	1,441	8,901
Impairment charge on assets held for resale	30	(141)	4,050
Impairment charge on intangible assets	30	4,015	-
Provision for current and deferred income taxes	20	323,740	127,567
Other provisions	21	227,008	47,968
Employment termination benefits	22	22,703	14,275
Other liabilities		40,013	95,682
Unearned commission income		(10,219)	26,444
Add back dividend income		(4,124)	-
Interest income - net		(1,994,302)	(979,908)
Interest paid		(3,437,253)	(1,167,267)
Interest received		4,848,868	2,324,152
Inflation effect on non-operating activities		-	2,203
Inflation effect on provision for loan losses		-	(18,755)
Translation difference		14,111	(26,312)
Cash flows from operating profits before changes in operating assets and liabilities		**1,260,686**	**1,205,487**
Changes in operating assets and liabilities:			
Net (increase) / decrease in cash balances with central banks		(1,653,887)	236,502
Net decrease / (increase) in due from banks		87,059	(21,304)
Net decrease in trading assets		990,952	1,344,133
Net (increase) in loans and advances to customers		(4,574,394)	(4,919,430)
Net decrease / (increase) in other assets		197,589	(59,027)
Net increase / (decrease) in due to banks		967,791	(883,393)
Net increase in due to customers		6,097,875	2,672,123
Net increase in other liabilities and provisions		505,962	17,615
Income taxes paid		(134,580)	(177,944)
Inflation effect on operating activities		-	80,584
Net cash from / (used in) operating activities		**3,745,053**	**(504,654)**
Cash flows from investing activities			
Purchase of property and equipment, net	14	(43,955)	(19,280)
Purchase of intangible assets, net	13	(14,017)	(2,294)
Cash inflow on acquisition	25	-	774,810
Cash outflow on acquisition		(609,264)	-
Purchase of investment securities, net		(7,417,704)	(587,378)
Dividends received		4,124	-
Disposal of investments, net		(3,359)	-
Inflation effect on investing activities		-	(81,964)
Net cash used in investing activities		**(8,084,175)**	**83,894**
Cash flows from financing activities			
Proceeds from borrowed funds, net		3,424,534	1,375,857
Proceeds from issuance of ordinary shares		-	1,623,856
Dividend paid to minority		(33,161)	-
Inflation effect on financing activities		-	61,195
Net cash from financing activities		**3,391,373**	**3,060,908**
Net (decrease) / increase in cash and cash equivalents		**(947,749)**	**2,640,148**
Inflation effect on cash and cash equivalents		-	(43,518)
Cash and cash equivalents at the beginning of the year	4	4,276,540	1,679,910
Cash and cash equivalents at the end of the year	**4**	**3,328,791**	**4,276,540**

The accompanying notes set out on pages 5 to 74 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

	Attributable to equity holders of the Company							
	Share capital	**Adjustment to share capital**	**Total paid-in share capital**	**Share issue premium**	**Other reserves**	**Retained earnings**	**Minority interest**	**Total**
Balance at 1 January 2005								
- as previously reported	430,000	132,145	562,145	99,491	-	108,879	-	770,515
- effect of revision in IAS 39	-	-	-	-	3,567	(3,567)	-	-
- effect of change in consolidation scope (Note 2.P)	-	-	-	-	-	292,126	-	292,126
- as restated	**430,000**	**132,145**	**562,145**	**99,491**	**3,567**	**397,438**	**-**	**1,062,641**
Net change in available-for-sale investments, net of tax	-	-	-	-	3,057	-	4,047	7,104
Minority interest arising on business combinations (Note 25)	-	-	-	-	-	-	738,717	738,717
Issue of share capital	1,759,213	(5,467)	1,753,746	-	-	-	-	1,753,746
Transfer from reserves	153,103	(86,310)	66,793	(61,912)	5,262	(10,143)	-	-
Currency translation differences (Note 27)	-	-	-	-	(3,387)	-	(2,465)	(5,852)
Profit for the year	-	-	-	-	-	343,485	2,907	346,392
Effect of adjustments on preliminary fair values due to business combination (Note 25)	-	-	-	-	-	-	(26,134)	(26,134)
Balance at 31 December 2005 as restated	**2,342,316**	**40,368**	**2,382,684**	**37,579**	**8,499**	**730,780**	**717,072**	**3,876,614**
Net change in available-for-sale investments, net of tax	-	-	-	-	3,944	-	(496)	3,448
Gains on hedges of a net investment in a foreign operation (Note 27)	-	-	-	-	(19,194)	-	-	(19,194)
Transfer from reserves	2,929	-	2,929	-	11,922	(14,851)	-	-
Purchase from minority interests (Note 25)	-	-	-	-	-	(440,842)	(133,075)	(573,917)
Currency translation differences (Note 27)	-	-	-	-	36,521	-	603	37,124
Dividends paid	-	-	-	-	-	-	(33,161)	(33,161)
Effect of merged entities under common control (Note 2.P and 25)	797,573	(100,839)	696,734	-	4,601	(556,702)	(144,633)	-
Profit for the year	-	-	-	-	-	607,376	141,967	749,343
Other	-	-	-	-	-	(5,606)	-	(5,606)
Balance at 31 December 2006	**3,142,818**	**(60,471)**	**3,082,347**	**37,579**	**46,293**	**320,155**	**548,277**	**4,034,651**

The accompanying notes set out on pages 5 to 74 form an integral part of these consolidated financial statements.

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

NOTE 1 - ORGANISATION AND PRINCIPAL ACTIVITIES

Yapı ve Kredi Bankası A.Ş. (“YKB” or the “Bank” or together with its subsidiaries it is referred to as “the Group” in these consolidated financial statements) 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 2006, 19.54% shares of the Bank are publicly traded (2005: 41.63%).

As of 28 September 2005, 57.4% of the Bank’s shares that were owned by Çukurova Group Companies and the Saving Deposits Insurance Fund (“SDIF”) were purchased by Koçbank A.Ş. (“Koçbank”). Besides, during April 2006 Koçbank purchased 9.1% of the shares of the Bank which were publicly traded on the ISE and 0.8% of the shares of an investment fund which were in the available-for-sale portfolio of the Bank. As a result, Koçbank increased its participation ratio to 67.3%. As explained in details in Note 25; all rights, receivables, debts and liabilities of the Koçbank have been transferred to the Bank thereby the merger of the two banks procedure has been registered as at the date of 2 October 2006. After the merger, 80.18% of the direct control of the Bank's shares has been transferred to the Koç Finansal Hizmetler A.Ş (“KFS”).

KFS was established on 16 March 2001 to collect Koç Group finance companies under one organization and it became the main shareholder of the Koçbank in 2002. During this organization process the subsidiaries of Koçbank, namely, Koç Finansal Kiralama A.Ş. (“Koç Leasing”), Koç Faktoring Hizmetleri A.Ş. (“Koç Faktoring”), Koç Yatırım Menkul Değerler A.Ş. (“Koç Yatırım”), Koç Portföy Yönetimi A.Ş. (“Koç Portföy”), Koçbank Nederland N.V. ve Koçbank Azerbaijan Ltd., were sold to KFS. As of 22 October 2002, Koç Group established a strategic partnership with UniCredito Italiano SpA (“UCI”) over KFS. Therefore, the indirect main shareholders of the Bank are UCI and Koç Group.

In 2006, with the acquisition of YKB and its subsidiaries, the Group launched structural reorganisation and the following subsidiaries have been merged in 2006 and at the beginning of 2007:

Merging Entities		Merger Date	Merged Entity
YKB	Koçbank	2 October 2006	YKB
Yapı Kredi Finansal Kiralama A.O. (“Yapı Kredi Leasing”)	Koç Leasing	25 December 2006	Yapı Kredi Leasing
Yapı Kredi Faktoring A.Ş. (“Yapı Kredi Faktoring”)	Koç Faktoring	29 December 2006	Yapı Kredi Factoring
Yapı Kredi Portföy Yönetimi A.Ş. (“Yapı Kredi Portföy”)	Koç Portföy	29 December 2006	Yapı Kredi Portföy
Yapı Kredi Yatırım Menkul Değerler A.Ş. (“Yapı Kredi Menkul”)	Koç Yatırım	12 January 2007	Yapı Kredi Menkul

The Group provides banking, leasing, factoring and investment services and has operations in Turkey, the Netherlands, Germany and Russia.

At 31 December 2006, the Group has 15,873 employees (2005: 16,119).

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

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 preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). IFRS comprise accounting standards issued by the International Accounting Standards Board (“IASB”) and its predecessor body and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and its predecessor body. The consolidated financial statements are based on the historical cost convention, as modified by the revaluation of available-for-sale investment securities, financial assets and financial liabilities held for trading and all derivative contracts.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

These consolidated financial statements are presented in the national currency of the Republic of Turkey, YTL which is the Group's functional and presentation currency.

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 Group'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. Although the estimations and assumptions are based on the best estimates of the management's existing incidents and operations, they may differ from the actual results.

Restatement for the effects of hyperinflation

Prior to 1 January 2006, the adjustments and reclassifications made to the statutory records for the purpose of fair presentation in accordance with IFRS included the restatement of balances and transactions for the changes in the general purchasing power of YTL in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Turkey indicate that hyperinflation has ceased, effective from 1 January 2006, the Company no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2005 are treated as the basis for the carrying amounts in these consolidated financial statements.

Corresponding figures, as at and for the year ended 31 December 2005, were restated for the changes in the general purchasing power of the YTL as at 31 December 2005. The restatement was calculated using the conversion factors which derived from the Turkish nationwide Wholesale Price Index ("WPI") published by the Turkish Statistical Institute ("TURKSTAT"). The indices used to restate corresponding figures and the respective conversion factors are as follows:

Dates	Cumulative Index	Conversion factors	Three-year inflation rates
31 December 2005	**8,785.74**	**1.000**	**35.60%**
31 December 2004	8,403.80	1.045	69.70%

Amendments to published standards and interpretations effective 1 January 2006

The application of the amendments and interpretations listed below did not result in substantial changes to the Group's accounting policies:

- IAS 19 Amendment - Actuarial Gains and Losses, Group Plans and Disclosures;
- IAS 21 Amendment - Net Investment in a Foreign Operation;
- IAS 39 Amendment - Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 Amendment - The Fair Value Option;
- IAS 39 and IFRS 4 Amendment - Financial Guarantee Contracts;
- IFRS 1 (Amendment) - First-time Adoption of International Financial Reporting Standards,
- IFRS 6 - Exploration for and Evaluation of Mineral Resources;
- IFRIC 4 - Determining whether an Arrangement contains a Lease;
- IFRIC 5 - Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 - Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interpretations issued but not yet effective

The Group has chosen not to adopt early the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2006:

- IAS 1 Amendment – Capital Disclosures (effective 1 January 2007);
- IFRS 7 - Financial Instruments: Disclosures (effective 1 January 2007);
- IFRS 8 - Operating Segments (effective 1 January 2008);
- IFRIC 7 - Applying the Restatement Approach under IAS 29 (effective 1 March 2006);
- IFRIC 8 - Scope of IFRS 2 (effective 1 May 2006);
- IFRIC 9 - Reassessment of embedded derivative (effective 1 June 2006);
- IFRIC 10 - Interim Financial Reporting and Impairment (effective 1 November 2006);
- IFRIC 11 - IFRS 2 - Group Treasury Share Transactions (effective 1 March 2007); and
- IFRIC 12 - Service Concession Arrangements (effective 1 January 2009).

The application of these new interpretations will not have a material impact on the Group's consolidated financial statements in the period of initial application.

B. Restatement of prior year consolidated financial statements

In accordance with International Financial Reporting Standard 3 ("IFRS 3") Business Combinations, the Group recognised adjustments to the provisionally determined fair values of acquired identifiable assets and liabilities as a result of completing the initial accounting arising from the acquisition of YKB within twelve months of the acquisition date. The Group adjusted goodwill from the acquisition date by an amount equal to the adjustments to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being adjusted (Notes 12 and 25).

Therefore, the Group has reflected the effects of these adjustments in the consolidated financial statements at 31 December 2005.

As further explained in Note 2.P, 2.C.(a) and 25, the Group policy is to account business combinations under common control by applying pooling of interest method using predecessor values and restating comparatives on "as if" basis. In that respect, consolidation accounting was applied from the date that control was achieved. As the control was achieved in an earlier period, opening equity was adjusted and the comparatives were amended. In line with the accounting policy chosen for business combinations under common control the Group used 31 December 2005 consolidated financial statements of Koçbank as predecessor values and presented those financial statements as comparatives.

C. Consolidation

(a) Subsidiaries

Subsidiaries (including special purpose entities), in which Group has power to control the financial and operating policies for the benefit of YKB, either (a) through the power to exercise more than 50% of the voting rights relating to shares in the companies owned directly and indirectly by itself; or (b) although not having the power to exercise more than 50% of the using rights, otherwise having the power to exercise control over the financial and operating policies, have been fully consolidated. The Group sponsors the formation of special purpose entities, which may or may not be directly owned, for the purpose of asset securitisation transactions. Such entities are consolidated in the Group's consolidated financial statements when the substance of the relationship between the Group and the entity indicates that control is held by the Group. Subsidiaries and special purpose entities are consolidated from the date on which control is transferred to Group 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.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The balance sheets and statements of income of the subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by YKB 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 period.

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

The list of principal subsidiaries at 31 December is as follows:

			2006		2005	
Name of subsidiary	**Country of incorporation**	**Nature of business**	**Control rates (%)**	**Effective rates (%)**	**Control rates (%)**	**Effective rates (%)**
YKB (1)	Turkey	Banking	-	-	58.22	57.88
Yapı Kredi Leasing (1)	Turkey	Leasing	25.74	25.73	98.41	56.95
Yapı Kredi Faktoring (1)	Turkey	Factoring	40.48	40.48	99.98	57.87
Yapı Kredi Portföy (1)	Turkey	Portfolio management	14.88	14.04	97.50	54.59
Koç Yatırım (2)	Turkey	Investment management	-	-	-	-
Yapı Kredi Menkul (2)	Turkey	Investment management	99.99	99.99	99.99	57.87
Yapı Kredi Yatırım Ortaklığı A.Ş.	Turkey	Portfolio management	56.07	56.07	56.07	32.45
Yapı Kredi Sigorta A.Ş.	Turkey	Insurance	93.94	89.21	93.95	54.38
Yapı Kredi Emeklilik A.Ş.	Turkey	Insurance	100.00	89.20	100.00	54.38
Yapı Kredi Bank Nederland N.V.	Netherlands	Banking	100.00	100.00	100.00	57.88
Yapı Kredi Bank Moscow	Russia	Banking	100.00	99.89	100.00	57.88
Yapı Kredi Bank Deutschland A.G.	Germany	Banking	97.50	97.50	97.50	56.43
Yapı Kredi Bank Holding B.V.	Netherlands	Holding	100.00	100.00	100.00	57.88
Yapı Kredi Bank Netherland Global Custody B.V. (3)	Netherlands	Custody services	100.00	100.00	100.00	57.88
Azur Tourism Investment N.V. ("Azur")	Netherland Antilles	Tourism investment	100.00	100.00	100.00	57.88
Havenfields Tourism Investment N.V.	Netherland Antilles	Tourism investment	99.89	99.89	100.00	57.88
Enternasyonel Turizm Yatırım A.Ş. ("Enternasyonel") (4)	Turkey	Investment	100.00	99.99	14.80	8.57
Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş. ("Yapı Kredi Koray") (4)	Turkey	Real estate	30.45	30.45	30.45	17.62
Akdeniz Marmara Turizm Ticaret A.Ş. ("Akdeniz Marmara") (4)	Turkey	Tourism	100.00	99.99	100.00	57.88
Bayındırlık İşleri A.Ş. ("Bayındırlık İşleri") (4)	Turkey	Construction	99.99	99.18	100.00	57.40
Agro-san Kimya Sanayi ve Ticaret A.Ş. ("Agro-san") (4)	Turkey	Agricultural chemicals	100.00	99.99	100.00	57.40
Yapı Kredi Kart Hizmetleri A.Ş. ("Yapı Kredi Kart") (4)	Turkey	Member store services	100.00	99.99	100.00	57.88
Yapı Kredi Kültür Sanat Yayıncılık Ticaret ve Sanayi A.Ş. ("Yapı Kredi Kültür") (4)	Turkey	Culture / art publications	100.00	99.99	100.00	57.88
Yapı Kredi Diversified Payment Rights Company (5)	Cayman Islands	Special Purpose Company ("SPC")				

(1) Merged in 2006 (Note 25).

(2) Extraordinary General Assembly meetings regarding the transfer of Koç Yatırım with all its rights, receivables, liabilities and obligations to Yapı Kredi Yatırım and the consequent dissolution without liquidation were held on 29 December 2006, the merger was approved on 15 December 2006 by Capital Market Board and registered on 12 January 2007.

(3) Liquidated in 2006.

(4) These subsidiaries were not consolidated due to immateriality and classified as available-for-sale securities carried at their fair values.

(5) Yapı Kredi Diversified Payment Rights Finance Company which is a special purpose entity operating in Cayman Islands and established for YKB's securitisation transactions explained in Note 19. YKB or any of its affiliates does not have any shareholding interest in this company.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

In 2006 the Group launched structural reorganization starting with the merger of YKB and Koçbank (Note 25) followed by the consequent merger of other financial subsidiaries. In line with that reorganization as of 2 October 2007, the power to exercise control over the financial and operating policies over subsidiaries in which KFS has the power to exercise more than 50% of the voting rights, namely Yapı Kredi Leasing, Yapı Kredi Factoring, Yapı Kredi Portföy and Koç Yatırım was vested with Yapı Kredi. The Group considered that transaction by means of which the separate entities were brought together into one reporting entity, namely Yapı Kredi, as business combination under common control. As further explained in Note 2.P, the Group policy is to account business combinations under common control applying pooling of interest method using predecessor values and restating comparatives on "as if" basis. In that respect, consolidation accounting was applied from the date that control was achieved. As the control was achieved in an earlier period, opening equity was adjusted and the comparatives were amended.

The balance sheets and statements of income of the subsidiaries are consolidated on a line-by-line basis and the carrying value of the investment held by YKB 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.

(b) 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. Investment in associates is accounted for using the equity method of accounting and is 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 details of the associate at 31 December 2006 is as follows:

Name of associate	Country of incorporation	Nature of business	Original currency	Historical share capital	Control rate(%)	Effective rate (%)
Banque de Commerce et de Placements ("Banque de Commerce")	Switzerland	Banking	CHF thousand	75,000	30.67	30.67

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions within the Group, as the minority interests are perceived as genuine equity participations. An acquisition of minority interest is treated as a transaction between equity shareholders which affects the ownership structure of the entity but not its operations. The difference between the acquisition cost and net asset acquired portion is recognised under equity. Disposals from minority interests are also considered as equity transactions and result in changes in the equity of the Group.

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 YTL, which is the presentation currency of YKB.

(ii) Transactions and balances

The financial statements are presented in YTL, the currency of the primary economic environment in which the Group operates. 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 year-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 from the presentation currency (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

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

(ii) 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.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings designated as hedges of such investments, are taken to 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 the UCI Group are considered and referred to as related parties (Note 34).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. At 31 December 2006, the Group has not classified any financial asset as financial assets designated at fair value through profit or loss.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is 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. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Trading assets 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 assets is reported as interest income.

All purchases and sales of trading assets 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 the 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.

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 the sale and repurchase price is treated as interest and amortised over the life of repo agreements using the effective interest method.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 if that loss event (or events) has had 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 loan also covers losses from the collective assessment where financial assets are grouped using the internal models developed by the Group stemming from the classification of loans into risk rating classes based on the observation of a series of parameters related to the borrower and/or to the utilisation of the loan. The methodology and assumptions used for the collective assessment are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The movement in provision is charged against the income for the year. 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. 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. Fair values of derivatives are carried as assets when 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. The 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 2006. 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 balance sheet date (for outstanding contracts) is reclassified to interest income or expense.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Hedge accounting

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in values of hedged items.

Net investment hedge

The effective portion of changes in the fair value of borrowings that are designated and qualify as net investment hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

L. Premises and equipment

All premises and equipment are carried at cost 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

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account for the determination of net profit.

Expenses for the repair of property 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 the capitalised branch refurbishment costs.

M. Other intangible assets

(i) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (not exceeding a period of five years).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Trademarks and customer relationships related intangibles

Intangible assets such as trademarks and customer relationships related intangibles acquired in a business combination (Note 25) are carried at fair value at the acquisition date. The fair value of an intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. In other words, the effect of probability is reflected in the fair value measurement of the intangible asset. The Group recognises at the acquisition date separately from goodwill an intangible asset of the acquiree if the asset's fair value can be measured reliably, irrespective of whether the asset had been recognised by the acquiree before the business combination. Those intangible assets are amortised using the straight-line method over their useful lives, which have been assessed as 10 years.

(iii) Other intangible assets

Expenditures to acquire patents, rights and licenses are capitalised and amortised using the straight-line method over their useful lives of 5 years.

N. 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 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.

O. Business combinations and goodwill

A business combination is the bringing together of separate entities or businesses into one reporting entity. Business combinations are accounted for using the purchase method in the scope of IFRS 3.

The cost of a business combination is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination cost is accounted for as goodwill. In business combinations, the acquirer recognises identifiable assets, intangible assets (such as trademarks) and/or contingent liabilities which are not included in the acquiree's financial statements and which can be separated from goodwill, at their fair values in the consolidated financial statements. The goodwill previously recognised in the financial statements of the acquiree is not considered as an identifiable asset.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any (Notes 12 and 25). Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Each of those cash-generating units is represented by each primary reporting segment except foreign operations (Note 33). Impairment testing is performed at least annually by comparing the present value of the expected future cash flows from a business with the carrying amount of its net assets, including attributable goodwill.

P. Business combinations involving entities under common control

A business combination involving entities under common control of KFS is a business combination in which all of the combining entities are ultimately controlled by KFS both before and after the business combination, and that control is not transitory. In that respect, the Group considers legal mergers arising between entities ultimately controlled by KFS as business combinations under common control. On the other hand, business combination involving entities under common control is scoped out of IFRS 3 and there is no other guidance on how to account for such transactions in current IFRS literature.

As there is an absence of a Standard or an Interpretation that specifically applies to business combination involving entities under common control, the Bank management, in accordance with IAS 8, used its judgment and developed and applied an accounting policy that the management believes resulted in information that is relevant to the economic decision-making needs of users and reflected the economic substance of transactions and not merely its legal form. In making its judgment in accordance with IAS 8, management considered US GAAP as a framework with a similar conceptual framework and applied pooling of interest method applicable under US GAAP in accounting the business combinations involving entities under common control of KFS.

In applying the pooling of interests method, the financial statement items of the combining entities for the period in which the combination occurs and for any comparative periods disclosed are included in the financial statements of the combined entities as if they had been combined from the beginning of the earliest period presented which is 1 January 2005 for the Group (“as if” basis). Financial statements and financial information presented for prior years are restated to furnish comparative information (i.e., restated in a manner similar to a pooling of interests). Further, financial statements of entities under common control are combined on an "as if" pooling basis only for those prior periods in which the common control existed, i.e. YKB and its financial subsidiaries are considered from the date of control transfer to KFS as of 28 September 2005 (Note 25).

Since business combinations involving entities under common control of KFS result in a single combined entity, a single uniform set of accounting policies is adopted. Therefore, the combined entity recognizes the assets, liabilities and equity of the combining entities at their existing carrying amounts adjusted only as a result of conforming the combining entities’ accounting policies and applying those policies to all periods presented. There is no recognition of any new goodwill or negative goodwill. Similarly, the effects of all transactions between the combining entities, whether occurring before or after the merger, are eliminated in preparing the financial statements of the combined entity.

Expenditures incurred in relation to legal mergers are recognized as expenses in the period in which they are incurred

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Impairment of assets

At each reporting date, the Group evaluates whether there is any impairment indication on the asset. When an indication of impairment exists, the Group estimates the recoverable values of such assets. Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. An impairment loss is recognised immediately in the consolidated income statement. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets. An impairment loss recognised in prior periods for an asset is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognised. Such a reversal amount cannot be higher than the previously recognised impairment and is recognised as income in the consolidated financial statements.

R. Financial liabilities

Financial liabilities including due to 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.

S. Income taxes

(i) Income taxes currently payable

Income taxes ("corporation tax") currently payable are calculated based in accordance with the Turkish tax legislation (Note 20).

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

Taxes other than on income are recorded within operating expenses (Note 30).

(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 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 20).

T. Reserve for employment termination benefits

Provision for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. In accordance with existing social legislation and Turkish Labor Law in Turkey, the Group is required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service. Provision is made for the present value of the defined benefit obligation calculated using the projected unit credit method. All actuarial gains and losses are recognised in the consolidated income statement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

U. Provisions, contingent assets and contingent liabilities

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 will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate shall be a pre-tax rate and shall not reflect risks for which future cash flow estimates have been adjusted.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are treated as contingent assets or liabilities.

Provision on estimated liability on transfer of the Fund

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 YKB employees with pension and post-retirement benefits.

The Banking Law No. 5411 ("the Banking Law") which was enacted on 1 November 2005, includes the provision that requires the transfer of 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) on 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 Decree published by the Council of Ministers in the Official Gazette dated 15 December 2006 No.26377 for the purpose of determining the principles and procedures to be applied during the transfer of funds (Note 21).

V. 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

W. 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 or on a cash basis at the time the service is received/ the transaction is performed, whichever is more appropriate.

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

X. Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company’s shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

Y. 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.

Z. 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 where the commitments are grouped using the internal models developed by the Group stemming from the classification of credit related commitments into risk rating classes based on the observation of a series of parameters related to the borrower and/or to the utilisation of the loan.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

AA. 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.

AB. Cash and cash equivalents

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

AC. 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.

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. The unearned premium reserve set aside for unexpired risks has been computed on a daily pro-rated basis.

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

Deferred Acquisition Costs

The direct 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.

Life Mathematical Reserves

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

Life Profit Share Reserve

Life 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 utilisation of funds associated with mathematical reserves in various investment tools whereas the 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.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

AD. Segment Reporting

A reportable segment is a business segment or a geographical segment identified based on the foregoing definitions for which segment information is required to be disclosed. A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

A business segment or geographical segment should be identified as a reportable segment if a majority of its revenue is earned from sales to external customers and if its revenue from sales to external customers and from transactions with other segments is 10% or more of the total revenue, external and internal, of all segments; or its segment result, whether profit or loss, is 10% or more of the combined result of all segments in profit or the combined result of all segments in loss, whichever is the greater in absolute amount; or its assets are 10% or more of the total assets of all segments.

The Group has chosen business segments as the Group's primary segment reporting format. The Group manages its business through five strategic business units: Retail banking, Corporate banking, Private banking and wealth management, Credit Cards and Foreign Operations. Geographical segments have not been disclosed in these consolidated financial statements as the secondary segment, as the operations of the Group in geographical areas other than Turkey are not reportable individually.

AE. Earnings per share

Earnings per share disclosed in the consolidated income statement are determined by dividing net income by the weighted average number of shares outstanding during the period concerned.

	2006	2005
Profit attributable to equity holders of the Company	607,376	343,485
Weighted average number of ordinary shares in issue (thousand)	314,281,800	88,650,150
Basic earning per share (expressed in YTL per 1,000 share)	**1.93**	**3.87**

AF. Comparatives

Comparative figures are reclassified, where necessary, to conform to changes in presentation in the current year consolidated financial statements; the significant changes are explained.

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. 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.

Net investment hedges

The Group hedges part of the currency translation risk of net investments in foreign operations through currency borrowings.

The Group's Euro-denominated borrowing is designated as a hedge of the net investment in the Group's some EUR denominated subsidiaries. The fair value of the borrowing at 31 December 2006 is EUR107 million. The foreign exchange loss of YTL19,194 thousand, net of tax, on translation of the borrowing to YTL at the balance sheet date is recognised in "other reserves" in equity. No amounts were withdrawn from equity during the period as there were no disposals of foreign operations.

B. Risk management

The Value-at-Risk ("VaR") approach is used for measurement of the potential future loss of the Group's portfolio under normal market conditions. The reaction of the portfolio to extreme market movements in terms of market value is measured via Stress Testing.

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, allocation of the capital through business divisions on a risk/return basis and the determining of the economic capital.

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 of each customer.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

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.

Retail lending assessment, instead, is mostly based on the scoring resulting from the combination of several factors (credit history, salary, time of employment, etc.)

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

2006	Total assets	%	Total liabilities	%	Other credit related commitments	%
Turkey	46,219,490	87	38,279,196	78	14,274,344	93
Other European Union countries	4,027,402	8	7,831,052	16	449,699	3
Italy	271,614	1	432,880	1	74,208	-
Other countries	2,325,413	4	2,266,140	5	543,080	4
Total	**52,843,919**	**100**	**48,809,268**	**100**	**15,341,331**	**100**

2005	Total assets	%	Total liabilities	%	Other credit related commitments	%
Turkey	37,550,375	91	30,991,879	83	12,090,350	92
Other European Union countries	1,985,693	5	4,988,687	13	416,664	3
Italy	22,347	-	179,361	-	65,212	1
Other countries	1,663,636	4	1,185,510	4	509,438	4
Total	**41,222,051**	**100**	**37,345,437**	**100**	**13,081,664**	**100**

D. Market risk

Market risk is the risk of incurring value fluctuations in the Group's positions which are associated with potential 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 as well as to VaR analysis.

(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.

Limits for currency risk are set in terms of maximum position and Value-at-Risk allowed and are monitored on a daily basis (both intraday and overnight exposure).

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 foreign currency derivative financial instruments.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

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

2006

	Foreign currency					
	US$	**EUR**	**Other**	**Total**	**YTL**	**Total**
Assets						
Cash and balances with central banks	395,512	1,841,123	27,572	2,264,207	1,857,186	4,121,393
Due from banks	1,730,052	382,962	155,796	2,268,810	100,284	2,369,094
Trading assets	193,828	169,197	-	363,025	198,455	561,480
Investment securities						
- available-for-sale	258,848	71,353	77,669	407,870	492,441	900,311
- held-to-maturity	6,798,735	3,102,615	-	9,901,350	6,359,539	16,260,889
Investment in associates	-	-	41,352	41,352	-	41,352
Loans and advances to customers	5,952,499	3,030,996	281,326	9,264,821	15,416,008	24,680,829
Derivative financial instruments	5,098	76	431	5,605	72,100	77,705
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	16	-	16	179,150	179,166
Premises and equipment	-	6,665	10,214	16,879	1,236,644	1,253,523
Other assets	87,466	86,459	92,558	266,483	622,225	888,708
Deferred income tax assets	-	129	-	129	485,812	485,941
Total assets	**15,422,038**	**8,691,591**	**686,918**	**24,800,547**	**28,043,372**	**52,843,919**
Liabilities						
Due to banks	369,564	215,853	108,914	694,331	1,057,151	1,751,482
Due to customers	10,247,459	4,622,966	470,018	15,340,443	17,921,624	33,262,067
Other borrowed funds	2,924,719	2,872,572	75,374	5,872,665	574,305	6,446,970
Debt securities in issue	1,105,321	544,685	-	1,650,006	-	1,650,006
Derivative financial instruments	2,437	140	233	2,810	29,276	32,086
Current income taxes payable	-	786	-	786	6,643	7,429
Deferred income tax liabilities	-	-	2,565	2,565	177,274	179,839
Other provisions	-	3,662	103	3,765	973,147	976,912
Reserve for employee benefits	-	3,602	-	3,602	161,056	164,658
Insurance technical reserves	254,707	66,961	-	321,668	468,745	790,413
Other liabilities	561,845	454,160	36,526	1,052,531	2,494,875	3,547,406
Total liabilities	**15,466,052**	**8,785,387**	**693,733**	**24,945,172**	**23,864,096**	**48,809,268**
Net balance sheet position	**(44,014)**	**(93,796)**	**(6,815)**	**(144,625)**	**4,179,276**	**4,034,651**
Off-balance sheet derivative instruments net notional position (Note 32)	176,892	127,404	95,131	399,427	(146,802)	252,625
Net foreign currency position	**132,878**	**33,608**	**88,316**	**254,802**	**4,032,474**	**4,287,276**

At 31 December 2006, assets and liabilities denominated in foreign currency were translated into YTL using a foreign exchange rate of YTL1.3777 = US$1, and YTL1.8121 = EUR1 (2005: YTL1.3094 = US$1, and YTL1.5506 = EUR1).

For the purpose of calculating currency risks, foreign currency indexed loans and securities have been reported in this table in the relevant currency of indexation.

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

2005

	Foreign currency					
	US$	**EUR**	**Other**	**Total**	**YTL**	**Total**
Assets						
Cash and balances with central banks	516,396	1,125,779	83,803	1,725,978	524,900	2,250,878
Due from banks	1,336,001	1,225,682	153,936	2,715,619	901,046	3,616,665
Trading assets	624,739	224,359	-	849,098	767,105	1,616,203
Investment securities						
- available-for-sale	350,026	73,277	53,324	476,627	719,140	1,195,767
- held-to-maturity	4,040,609	604,590	-	4,645,199	3,495,901	8,141,100
Investment in associates	-	-	35,917	35,917	-	35,917
Loans and advances to customers	5,838,611	1,930,568	205,632	7,974,811	12,276,101	20,250,912
Derivative financial instruments	7,622	73	204	7,899	17,106	25,005
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	171	-	171	199,806	199,977
Premises and equipment	15,177	2,831	-	18,008	1,336,410	1,354,418
Other assets	28,902	73,219	3,779	105,900	539,482	645,382
Deferred income tax assets	-	11,674	-	11,674	854,625	866,299
Total assets	**12,758,083**	**5,272,223**	**536,595**	**18,566,901**	**22,655,150**	**41,222,051**
Liabilities						
Due to banks	254,321	53,665	143,487	451,473	327,813	779,286
Due to customers	8,263,139	4,703,037	316,778	13,282,954	13,939,141	27,222,095
Other borrowed funds	2,986,026	758,917	57,877	3,802,820	547,800	4,350,620
Debt securities in issue	273,044	-	-	273,044	-	273,044
Derivative financial instruments	10,038	1,023	207	11,268	12,891	24,159
Current income taxes payable	-	3,240	-	3,240	14,601	17,841
Deferred income tax liabilities	2,022	1,927	-	3,949	228,943	232,892
Other provisions	-	71,898	-	71,898	868,531	940,429
Reserve for employee benefits	-	203	-	203	142,937	143,140
Insurance technical reserves	244,401	114,680	-	359,081	470,962	830,043
Other liabilities	222,725	219,623	17,991	460,339	2,071,549	2,531,888
Total liabilities	**12,255,716**	**5,928,213**	**536,340**	**18,720,269**	**18,625,168**	**37,345,437**
Net balance sheet position	**502,367**	**(655,990)**	**255**	**(153,368)**	**4,029,982**	**3,876,614**
Off-balance sheet derivative instruments net notional position (Note 32)	(454,039)	300,125	105,938	(47,976)	36,288	(11,688)
Net foreign currency position	**48,328**	**(355,865)**	**106,193**	**(201,344)**	**4,066,270**	**3,864,926**

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

(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.

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 in the Group.

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

2006	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	3,106,515	-	-	-	1,014,878	4,121,393
Due from banks	1,858,772	65,507	22,217		422,598	2,369,094
Trading assets	59,010	174,512	202,117	74,741	51,100	561,480
Investment securities						
- available-for-sale	68,238	101,237	272,612	207,721	250,503	900,311
- held-to-maturity	7,080,489	3,061,271	1,978,438	4,140,691	-	16,260,889
Investment in associates	-	-	-	-	41,352	41,352
Loans and advances to customers	9,980,702	8,372,911	4,276,626	1,704,718	345,872	24,680,829
Derivative financial instruments	65,928	11,733	44	-	-	77,705
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	179,166	179,166
Premises and equipment net	-	-	-	-	1,253,523	1,253,523
Other assets	663	76,055	-	-	811,990	888,708
Deferred income tax assets	-	-	-	-	485,941	485,941
Total assets	**22,220,317**	**11,863,226**	**6,752,054**	**6,127,871**	**5,880,451**	**52,843,919**
Liabilities						
Due to banks	1,331,513	348,665	-	-	71,304	1,751,482
Due to customers	27,130,223	900,105	84,746	-	5,146,993	33,262,067
Other borrowed funds	1,236,596	1,893,560	3,306,053	10,761	-	6,446,970
Debt securities in issue	1,650,006	-	-	-	-	1,650,006
Derivative financial instruments	20,896	11,190	-	-	-	32,086
Current income taxes payable	-	-	-	-	7,429	7,429
Deferred income tax liabilities	-	-	-	-	179,839	179,839
Other provisions	-	-	-	-	976,912	976,912
Reserve for employee benefits	-	-	-	-	164,658	164,658
Insurance technical reserves	-	-	-	-	790,413	790,413
Other liabilities	2,157,013	100,956	115	-	1,289,322	3,547,406
Total liabilities	**33,526,247**	**3,254,476**	**3,390,914**	**10,761**	**8,626,870**	**48,809,268**
Net interest sensitivity gap	**(11,305,930)**	**8,608,750**	**3,361,140**	**6,117,110**	**(2,746,419)**	**4,034,651**

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

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	1,431,940	-	-	-	818,938	2,250,878
Due from banks	3,187,383	140,234	12,484	-	276,564	3,616,665
Trading assets	431,791	361,758	518,023	180,419	124,212	1,616,203
Investment securities						
- available-for-sale	44,251	135,088	196,553	222,873	597,002	1,195,767
- held-to-maturity	1,877,836	2,010,203	2,154,306	2,098,755	-	8,141,100
Investment in associates	-	-	-	-	35,917	35,917
Loans and advances to customers	10,345,802	5,765,432	2,882,436	915,896	341,346	20,250,912
Derivative financial instruments	21,108	3,714	183	-	-	25,005
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	199,977	199,977
Premises and equipment net	-	-	-	-	1,354,418	1,354,418
Other assets	81,182	17,687	-	-	546,513	645,382
Deferred income tax assets	-	-	-	-	866,299	866,299
Total assets	**17,421,293**	**8,434,116**	**5,763,985**	**3,417,943**	**6,184,714**	**41,222,051**
Liabilities						
Due to banks	674,308	21,815	-	-	83,163	779,286
Due to customers	19,264,465	1,860,874	149,720	-	5,947,036	27,222,095
Other borrowed funds	1,393,184	2,675,266	189,618	92,301	251	4,350,620
Debt securities in issue	273,044	-	-	-	-	273,044
Derivative financial instruments	17,867	6,052	240	-	-	24,159
Current income taxes payable	-	-	-	-	17,841	17,841
Deferred income tax liabilities	-	-	-	-	232,892	232,892
Other provisions	-	-	-	-	940,429	940,429
Reserve for employee benefits	-	-	-	-	143,140	143,140
Insurance technical reserves	-	-	-	-	830,043	830,043
Other liabilities	401,489	31,783	26,856	-	2,071,760	2,531,888
Total liabilities	**22,024,357**	**4,595,790**	**366,434**	**92,301**	**10,266,555**	**37,345,437**
Net interest sensitivity gap	**(4,603,064)**	**3,838,326**	**5,397,551**	**3,325,642**	**(4,081,841)**	**3,876,614**

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

	2006			2005		
	US$ (%)	EUR (%)	YTL (%)	US$ (%)	EUR (%)	YTL (%)
Assets						
Cash and balances with central banks	2.25	1.72	11.07	1.89	1.11	10.25
Due from banks	4.92	1.68	19.57	4.23	2.41	14.79
Trading assets	8.16	9.06	16.72	5.77	3.64	15.45
Investment securities						
- available-for-sale	8.36	7.72	18.79	7.68	6.96	17.00
- held-to-maturity	7.23	3.99	19.26	7.33	5.19	17.22
Loans and advances to customers	5.72	5.89	21.35	5.88	5.71	18.57
Liabilities						
Due to banks	3.31	0.36	18.79	4.62	3.64	16.17
Due to customers	4.14	2.06	18.98	2.60	1.95	14.70
Other borrowed funds	5.50	4.43	18.54	4.79	3.93	13.89

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

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 consequently the 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 based on the remaining period at the balance sheet date to the contractual maturity date.

2006

	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	1,025,344	-	-	-	3,096,049	4,121,393
Due from other banks	2,281,370	65,507	22,217	-	-	2,369,094
Trading assets	70,808	164,575	232,678	74,739	18,680	561,480
Investment securities						
- available-for-sale	135,261	83,238	295,653	226,205	159,954	900,311
- held-to-maturity	3,618,015	2,126,580	6,375,604	4,140,690	-	16,260,889
Investment in associates	-	-	-	-	41,352	41,352
Loans and advances to customers	9,210,678	6,941,043	5,803,065	2,378,852	347,191	24,680,829
Derivative financial instruments	41,940	11,927	45	23,793	-	77,705
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	179,166	179,166
Premises and equipment	-	-	-	-	1,253,523	1,253,523
Other assets	453,622	171,167	3,917	-	260,002	888,708
Deferred income tax assets	-	-	119,848	-	366,093	485,941
Total assets	**16,837,038**	**9,564,037**	**12,853,027**	**6,844,279**	**6,745,538**	**52,843,919**
Liabilities						
Due to banks	1,402,817	348,665	-	-	-	1,751,482
Due to customers	32,277,216	900,105	84,746	-	-	33,262,067
Other borrowed funds	1,253,067	1,881,353	2,163,987	1,148,563	-	6,446,970
Debt securities in issue	-	-	932,796	717,210	-	1,650,006
Derivative financial instruments	15,228	14,195	2,663	-	-	32,086
Current income taxes payable	7,429	-	-	-	-	7,429
Deferred income tax liabilities	-	-	-	-	179,839	179,839
Other provisions	480	-	599,240	-	377,192	976,912
Reserve for employee benefits	-	-	-	-	164,658	164,658
Insurance technical reserves	-	-	-	-	790,413	790,413
Other liabilities	3,249,117	100,472	32,873	-	164,944	3,547,406
Total liabilities	**38,205,354**	**3,244,790**	**3,816,305**	**1,865,773**	**1,677,046**	**48,809,268**
Net interest sensitivity gap	**(21,368,316)**	**6,319,247**	**9,036,722**	**4,978,506**	**5,068,492**	**4,034,651**

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

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	818,938	-	-	-	1,431,940	2,250,878
Due from banks	3,463,947	140,234	12,484	-	-	3,616,665
Trading assets	197,748	393,054	785,471	180,420	59,510	1,616,203
Investment securities						
- available-for-sale	131,366	132,953	213,370	222,872	495,206	1,195,767
- held-to-maturity	487,436	1,168,630	4,386,282	2,098,752	-	8,141,100
Investment in associates	-	-	-	-	35,917	35,917
Loans and advances to customers	9,129,176	5,505,983	3,301,154	1,974,656	339,943	20,250,912
Derivative financial instruments	21,108	3,714	183	-	-	25,005
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	199,977	199,977
Premises and equipment	-	-	-	-	1,354,418	1,354,418
Other assets	238,420	104,386	369	-	302,207	645,382
Deferred income tax assets	-	-	166,685	-	699,614	866,299
Total assets	**14,488,139**	**7,448,954**	**8,865,998**	**4,476,700**	**5,942,260**	**41,222,051**
Liabilities						
Due to banks	726,284	53,002	-	-	-	779,286
Due to customers	25,197,650	1,874,725	149,720	-	-	27,222,095
Other borrowed funds	1,224,415	2,405,199	639,246	81,760	-	4,350,620
Debt securities in issue	273,044	-	-	-	-	273,044
Derivative financial instruments	17,867	6,052	240	-	-	24,159
Current income taxes payable	17,841	-	-	-	-	17,841
Deferred income tax liabilities	-	-	-	-	232,892	232,892
Other provisions	-	-	663,009	-	277,420	940,429
Reserve for employee benefits	-	-	-	-	143,140	143,140
Insurance technical reserves	-	-	-	-	830,043	830,043
Other liabilities	2,175,378	33,350	24,496	-	298,664	2,531,888
Total liabilities	**29,632,479**	**4,372,328**	**1,476,711**	**81,760**	**1,782,159**	**37,345,437**
Net liquidity gap	**(15,144,340)**	**3,076,626**	**7,389,287**	**4,394,940**	**4,160,101**	**3,876,614**

F. Operational risk

Operational risk is the risk of loss due to errors, infringements, interruptions and damages caused by internal processes, personnel, systems and external events. Legal and compliance risk is a sub-category of operational risk: It is the risk to earnings from violations or non compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards. Operational Risk Management Department ("ORM") monitors the Company's operational risk exposure in accordance to standards and policies, collects operational risk data in a web-based database, performs the risk indicators' identification, the scenario analysis assessment and assures the quality of data gathered in accordance to the standards, proposes insurance hedging on operational risks and prepares risk mitigation plans. ORM performs second level controls and measures the Company's operational risks.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

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.

	2006		2005	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets:				
Due from banks	2,369,094	2,368,849	3,616,665	3,616,689
Held-to-maturity securities	16,260,889	16,283,693	8,141,100	8,396,848
Loans and advances to customers	24,680,829	24,872,653	20,250,912	20,356,066
Financial liabilities:				
Due to banks	1,751,482	1,751,288	779,286	779,443
Due to customers	33,262,067	33,260,382	27,222,095	27,250,684
Other borrowed funds	6,446,970	6,465,147	4,350,620	4,369,068

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. 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.

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

Investment securities

Fair value for held-to-maturity assets is based on market prices or prices prevailing at the balance sheet date announced by the Central Bank of the Republic of Turkey (“CBRT”) in the Official Gazette.

Due to customers, due to banks 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 time 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 is as follows:

	2006	2005
Investment securities held in custody	20,973,110	18,852,720
Cheques received for collection	4,722,637	4,154,165
Commercial notes received for collection	3,658,939	2,059,917
	29,354,686	**25,066,802**

NOTE 4 - CASH AND CASH EQUIVALENTS

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

	2006	2005
Cash and cash equivalents	438,382	410,852
Demand deposits with central banks	576,496	408,086
Gold	44,815	2,447
Due from other banks (with original maturity less than three months)	2,269,098	3,455,155
Total	**3,328,791**	**4,276,540**

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 5 - CASH AND BALANCES WITH CENTRAL BANKS

	2006	2005
Cash and cash equivalents		
Cash in hand - foreign currency	127,890	185,533
Cash in hand - YTL	301,144	202,298
Cheques received	3,164	1,102
Other	6,184	21,919
	438,382	**410,852**
Demand deposits at central banks		
Foreign currency	576,213	407,883
YTL	283	203
	576,496	**408,086**
Time deposits at central banks		
Foreign currency	10,466	-
	10,466	**-**
Reserve deposits at central banks		
Foreign currency	1,546,471	1,110,390
YTL	1,549,578	321,550
	3,096,049	**1,431,940**
	4,121,393	**2,250,878**

Reserve deposits at central banks are as follows:

	2006	2005
The Central Bank of Republic of Turkey	3,074,427	1,416,524
De Nederlandsche Bank	17,070	10,103
The Central Bank of the Russian Federation	3,352	2,349
Deutsche Bundesbank	1,200	2,964
	3,096,049	**1,431,940**

These funds are not available to finance the Group's day-to-day operations.

NOTE 6 - DUE FROM BANKS

	2006			2005		
	Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
YTL:						
Nostro/ Demand deposits	44,609	9	44,618	48,069	3	48,072
Time deposits	23,929	28,733	52,662	149,029	53,924	202,953
Interbank money market	3,004	-	3,004	650,021	-	650,021
	71,542	**28,742**	**100,284**	**847,119**	**53,927**	**901,046**
Foreign currency:						
Nostro/ Demand deposits	1,527	376,453	377,980	9,362	219,130	228,492
Time deposits	144,914	1,718,328	1,863,242	113,955	2,373,057	2,487,012
Interbank money market	-	27,588	27,588	-	115	115
	146,441	**2,122,369**	**2,268,810**	**123,317**	**2,592,302**	**2,715,619**
	217,983	**2,151,111**	**2,369,094**	**970,436**	**2,646,229**	**3,616,665**

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 7 - TRADING ASSETS

	2006		2005	
	Cost	Carrying value	Cost	Carrying value
Debt Securities				
YTL:				
Government bonds	110,303	122,097	542,403	580,609
Treasury bills	603	604	52,859	56,136
Government bonds sold under repurchase agreements	19,695	24,654	4,380	5,065
Treasury bills sold under repurchase agreements	-	-	983	1,083
	130,601	**147,355**	**600,625**	**642,893**
Foreign currency:				
Eurobonds	150,895	153,729	360,201	376,166
Government bonds	13,009	13,302	259,927	266,999
Eurobonds sold under repurchase agreements	174,186	195,994	174,955	205,933
	338,090	**363,025**	**795,083**	**849,098**
	468,691	**510,380**	**1,395,708**	**1,491,991**
Other				
Mutual funds	31,605	32,420	58,775	64,702
Equity shares-listed	18,648	18,680	54,772	59,510
	50,253	**51,100**	**113,547**	**124,212**
Total trading assets	**518,944**	**561,480**	**1,509,255**	**1,616,203**

Government bonds, treasury bills and Eurobonds are discount and coupon securities issued by the Government of the Republic 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.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 8 - INVESTMENT SECURITIES

(i) Available-for-sale

	2006		2005	
	Cost	**Carrying value**	**Cost**	**Carrying value**
Debt Securities				
YTL:				
Government bonds	262,547	284,064	105,442	120,060
Treasury bills	15,908	18,069	86,966	93,149
Government bonds sold under repurchase agreements	-	-	2,565	2,938
	278,455	**302,133**	**194,973**	**216,147**
Foreign currency:				
Eurobonds	276,859	304,920	297,244	322,694
Foreign government bonds	17,200	17,365	16,874	17,241
Government bonds	2,166	2,154	23,920	24,468
Treasury bills	1,414	1,440	-	-
	297,639	**325,879**	**338,038**	**364,403**
	576,094	**628,012**	**533,011**	**580,550**
Other				
Equity shares	219,720	159,954	976,827	495,206
Mutual funds	46,153	46,153	304,004	80,145
Precious metals - gold	44,396	44,396	21,651	21,651
Public sector bonds	20,762	21,076	16,042	16,325
Other	714	720	1,843	1,890
	331,745	**272,299**	**1,320,367**	**615,217**
Total available-for-sale securities	**907,839**	**900,311**	**1,853,378**	**1,195,767**

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

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 8 - INVESTMENT SECURITIES (Continued)

The principal available-for-sale equity shares at 31 December are as follows:

Name of the company	Nature of Business	2006 Effective rates (%)	2005 Effective rates (%)	2006	2005
Unlisted					
Enternasyonal	Tourism	99.99	8.57	34,882	12,279
Akdeniz Marmara	Tourism	99.99	57.88	27,373	27,373
Bayındırlık İşleri	Construction	99.18	57.40	17,204	17,204
Superonline Uluslararası İletişim Hizmetleri A.Ş. ("Superonline") (1)	Info-Com	96.67	20.88	13,591	11,906
ISE Settlement and Custody Bank Inc.	Custody	4.86	2.81	12,360	12,243
Kredi Kayıt Bürosu A.Ş.	Credit Card Services	18.18	14.35	3,621	3,621
Türkiye Genel Sigorta A.Ş.	Insurance	1.15	0.67	2,440	2,414
Digital Platform İletişim Hizmetleri A.Ş. (1)	Media	-	41.85	-	106,041
A-Tel Pazarlama ve Servis Hizmetleri A.Ş. (2)	Telecoms	-	28.94	-	201,270
Fintur Technologies B.V. (1)	Telecoms	-	14.59	-	67,025
Other				3,142	3,870
				114,613	**465,246**
Listed					
Yapı Kredi Koray	Real estate management	30.45	17.62	30,175	28,055
Mastercard Inc.	Credit Card Services	0.11	0.20	15,064	3
Turkcell İletişim Hizmetleri A.Ş.	Telecoms	-	0.01	-	1,888
Other		-	-	102	14
				45,341	**29,960**
				159,954	**495,206**

(1) In accordance with the "Fintur, Digitürk and Superonline Purchase and Sale Agreement" signed between YKB and Çukurova Group on 28 September 2005, the shares of YKB in Fintur Technologies B.V.and Digital Platform İletişim Hizmetleri A.Ş. has been sold for EUR42.2 million and YTL106,041 thousand, respectively on 5 January 2006. The sale of Superonline in order to complete the necessary permissions for the transfer of the shares has been extended for 3 additional months on 26 February 2007 as explained in Note 37.

(2) In accordance with the "A-Tel Option Agreement" signed between YKB and Çukurova Holding A.Ş. ("Çukurova Holding") on 28 September 2005, 50% of A-Tel Pazarlama ve Servis Hizmetleri A.Ş. shares which are owned by YKB have been sold for US$150,000,000 on 9 August 2006 (2005: YTL201,270 thousand).

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 8 - INVESTMENT SECURITIES (Continued)

(ii) Held-to-maturity

	2006		2005	
	Cost	Carrying value	Cost	Carrying value
Debt Securities				
YTL:				
Government bonds	2,883,937	3,117,710	2,973,883	3,142,797
Treasury bills	17,317	18,022	202,151	206,277
Government bonds sold under repurchase agreements	2,935,488	3,223,807	144,391	146,827
	5,836,742	**6,359,539**	**3,320,425**	**3,495,901**
Foreign currency:				
Eurobonds	4,251,411	4,343,287	2,442,339	2,484,617
Government bonds	2,008,668	2,046,582	1,735,672	1,739,380
Foreign government bonds	3,225,200	3,228,807	44,129	45,237
Eurobonds sold under repurchase agreements	271,257	273,561	356,175	358,827
Other	9,056	9,113	16,936	17,138
	9,765,592	**9,901,350**	**4,595,251**	**4,645,199**
Total securities held-to-maturity	**15,602,334**	**16,260,889**	**7,915,676**	**8,141,100**

Government bonds, treasury bills and Eurobonds are discount and coupon securities issued by the Government of the Republic of Turkey.

At 31 December 2006, investments securities amounting to YTL1,317,671 thousand (2005: YTL1,935,482 thousand) were pledged to third parties, namely CBRT for legal requirements, Lehman Brothers, UniCredit Italiano S.p.A, Bayerische Hypo-Und Vereins Bank AG, DZ Bank, and other foreign private financial institutions for borrowed funds (Note 18), ISE Settlement and Custody Bank Inc. and other financial institutions as a guarantee for stock exchange and money market operations.

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

	2006	2005
Balance at 1 January	**8,141,100**	**3,630,148**
Increase due to acquisition of subsidiary	-	4,042,723
Additions	10,388,933	1,474,898
Transfers	-	108,738
Redemptions	(1,791,592)	(951,776)
Exchange differences on monetary assets	(477,552)	(31,842)
Monetary loss	-	(131,789)
Balance at 31 December	**16,260,889**	**8,141,100**

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 9- INVESTMENT IN ASSOCIATES

	2006	**2005**
Balance at 1 January	**35,917**	**-**
Increase due to acquisition of subsidiary (Note 25)	-	37,166
Share of results	2,048	(900)
Dividends paid	(1,340)	-
Exchange difference	4,727	(349)
Balance at 31 December	**41,352**	**35,917**

The Group's interest in its principal associate as of 31 December is as follows:

Name	**Country of incorporation**	**Total Assets**	**Equity**	**Revenues**	**Net Profit**
Banque de Commerce	Switzerland				
2006		1,768,798	134,829	71,885	9,520
2005		1,091,242	117,108	40,385	7,296

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS

	2006	2005
Corporate and commercial originated by the Group		
Direct loans	10,672,557	9,357,813
Export loans	2,135,217	2,095,872
Net investment in finance leases	1,513,020	923,566
Investment loans	880,692	514,391
Factoring receivables	784,323	574,878
Debt securities	145,856	142,431
Other	39,911	55,559
Total corporate and commercial loans	**16,171,576**	**13,664,510**
Retail and consumer		
Credit cards receivables	5,251,010	4,099,533
Other consumer and retail loans	2,568,884	1,959,065
Total retail and consumer loans	**7,819,894**	**6,058,598**
	23,991,470	**19,723,108**
Loans under legal follow up	1,706,632	1,584,952
Other impaired loans	919,205	646,063
Total impaired loans	**2,625,837**	**2,231,015**
Gross loans and advances	**26,617,307**	**21,954,123**
Less: Allowance for losses on loan and advances	(1,936,478)	(1,703,211)
Net loans and advances to customers	**24,680,829**	**20,250,912**

Debt securities represent a special type of government bonds issued by the Undersecretariat of Republic of Turkey ("Treasury") as a part of a protocol signed on 30 December 2005 between Treasury, YKB and a government agency from which YKB had a receivable. This security has a maturity of three years and yearly coupon payments.

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.

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Movement in the allowance for losses on loan and advances is as follows:

	2006	2005
Balance at 1 January	**1,703,211**	**464,226**
Increase due to acquisition of subsidiary	-	1,175,295
Impairment losses on loans and advances (Note 31)	336,365	226,690
Write - off during the year as uncollectible	(43,796)	(57,014)
Recoveries of amounts previously provided (Note 31)	(63,025)	(93,332)
Translation difference	3,723	(10,785)
Monetary gain	-	(1,869)
Balance at 31 December	**1,936,478**	**1,703,211**

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

	2006	2005
Gross investment in finance leases	1,850,155	1,102,067
Unearned income	(337,135)	(178,501)
Net investment in finance leases - performing	**1,513,020**	**923,566**
Impaired finance lease receivables	116,683	80,786
Less: Allowance for losses on finance lease receivables	(65,992)	(58,922)
Investment in finance leases, net	**1,563,711**	**945,430**

Lease payments receivable consists of rentals over the terms of leases. The rentals according to maturity are as follows:

	2006	2005
2006	-	560,648
2007	820,918	312,940
2008	531,529	144,931
2009 and over	497,708	83,548
Less: unearned finance income	(337,135)	(178,501)
Net investment in finance leases	**1,513,020**	**923,566**

The loans and advances include factoring receivables as shown below:

	2006	2005
Domestic transactions	595,120	389,723
Export and import transactions	189,203	185,155
Gross factoring receivables	**784,323**	**574,878**
Impaired factoring receivables	4,317	9,100
Less: Allowance for losses on factoring receivables	(4,317)	(9,213)
Factoring receivables, net	**784,323**	**574,765**

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Economic sector risk concentrations for performing loans were as follows:

	2006	%	2005	%
Consumer and retail	7,819,894	33	6,058,598	31
Financial institutions	1,879,936	8	1,645,625	8
Textiles	1,761,714	7	1,477,837	7
Construction and cement	1,702,924	7	1,042,213	5
Petrochemical industry	1,295,729	5	695,680	4
Food, beverage and tobacco	1,189,667	5	1,150,201	6
Metal processing	1,083,169	5	1,427,492	7
Wholesale trade	1,061,136	4	779,979	4
Automotive	958,936	4	492,855	2
Manufacturing	828,504	3	1,310,608	7
Transportation	548,316	2	40,365	-
Tourism	502,709	2	422,508	2
Agriculture	387,519	2	327,367	2
Printing	359,382	1	91,638	-
Durable goods	268,558	1	197,999	1
Communication	200,167	1	4,245	-
Other	2,143,210	10	2,557,898	14
	23,991,470	**100**	**19,723,108**	**100**

The Group’s total cash exposure to Çukurova Group amounts to US$799,225,603 including the accrued interest of US$46,279,767 as of 31 December 2006 (2005: US$805,431,881). The annual interest rate for the remaining portion of the Çukurova Group risk per “FRA Modification Agreement” is identified as Libor+2.5% and the maturity of the last payment is 30 September 2015. According to the “Pledge Agreement” signed between YKB, Çukurova Holding and Çukurova Investments N.V. (“Çukurova Investments”) on 28 September 2005, YKB has a continuous pledge on 6.682% of Turkcell İletişim Hizmetleri A.Ş. (“Turkcell”) shares of Çukurova Holding and Çukurova Investments in relation to the Çukurova Group loans repayment liability. The fair value of those Turkcell collaterals amounts to approximately YTL991,004 thousand as of 31 December 2006.

NOTE 11 - 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.

Options are the right to buy or sell for the buyer and are the obligations for the writer an asset at a specified price until a specified expiration date. Options are traded for clients’ needs therefore the Group does not carry open position in the options book.

“Interest rate cap and floor arrangements” provide the purchaser with the right to receive interest rate differential payments on a notional amount when the indexed rate is in excess of the specified cap rate and limits the benefit of reductions in interest rates if it occurs.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 11 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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 fair values of derivative instruments at 31 December are as follows:

2006	**Contract/notional amount**	**Fair Values**	
		Assets	**(Liabilities)**
Foreign exchange derivatives			
Currency forwards	2,248,536	38,078	(22,105)
Currency swaps	1,268,376	15,638	(3,879)
Interest rate derivatives			
Interest rate swaps, cap and floor arrangements	901,015	23,989	(6,102)
Total OTC derivatives held for trading	**4,417,927**	**77,705**	**(32,086)**
Options (Note 32)	1,152,602	-	-
	5,570,529	**77,705**	**(32,086)**

2005	**Contract/notional amount**	**Fair Values**	
		Assets	**(Liabilities)**
Foreign exchange derivatives			
Currency forwards	1,501,585	20,662	(13,299)
Currency swaps	1,967,808	3,743	(10,572)
Security forwards	5,750	6	-
Interest rate derivatives			
Interest rate swaps, cap and floor arrangements	361,661	593	(287)
Total OTC derivatives held for trading	**3,836,804**	**25,004**	**(24,158)**
Options (Note 32)	4,044	1	(1)
	3,840,848	**25,005**	**(24,159)**

As also explained in Note 2.J, 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 notional amounts of derivative instruments are further explained in detail in Note 32.

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

NOTE 12 - GOODWILL

	2006	2005
Net book amount at 1 January as previously reported	**985,683**	**-**
effect of adjustments on:		
-direct cost related to acquisition (Note 21)	1,933	-
-preliminary fair values acquired due to business combination (Note 25)	35,912	-
Net book amount at 1 January as restated	**1,023,528**	**-**
Increase due to acquisition of subsidiary	-	1,023,528
Impairment charge	-	-
Closing at 31 December	**1,023,528**	**1,023,528**

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. The Group allocated goodwill to cash-generating units (“CGU”) which are represented by each primary reporting segment except foreign operations (Note 33). There was no impairment identified in 2006 (2005: None).

NOTE 13 - OTHER INTANGIBLE ASSETS

	2006	2005
Cost	332,783	321,960
Accumulated amortisation and impairment	(153,617)	(121,983)
Net book amount	**179,166**	**199,977**

Movements of other intangible assets were as follows:

2006	**Rights and licenses**	**Software**	**Trademarks and customer relationships related intangibles**	**Total**
Cost				
Opening balance at 1 January 2006	**84,322**	**74,554**	**163,084**	**321,960**
Additions	12,318	1,945	-	14,263
Disposals	(5,638)	(546)	-	(6,184)
Transfers	-	2,634	-	2,634
Translation differences	-	110	-	110
Closing balance at 31 December 2006	**91,002**	**78,697**	**163,084**	**332,783**
Accumulated amortisation				
Opening balance at 1 January 2006	**(50,978)**	**(65,569)**	**(5,436)**	**(121,983)**
Amortisation charge (Note 30)	(12,960)	(4,063)	(14,949)	(31,972)
Disposals	5,418	520	-	5,938
Transfers	-	(1,492)	-	(1,492)
Impairment charge (Note 30)	(1,245)	(2,770)	-	(4,015)
Translation differences	-	(93)	-	(93)
Closing balance at 31 December 2006	**(59,765)**	**(73,467)**	**(20,385)**	**(153,617)**
Net book amount at 31 December 2006	**31,237**	**5,230**	**142,699**	**179,166**

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

NOTE 13 - OTHER INTANGIBLE ASSETS (Continued)

2005	**Rights and licences**	**Software**	**Trademarks and customer relationships related intangibles**	**Total**
Cost				
Opening balance at 1 January 2005	**18,984**	**47,078**	**-**	**66,062**
Increase due to acquisition of subsidiary (Note 25)	65,336	25,747	163,084	254,167
Additions	782	1,851	-	2,633
Disposals	(780)	(31)	-	(811)
Translation differences	-	(91)	-	(91)
Closing balance at 31 December 2005	**84,322**	**74,554**	**163,084**	**321,960**
Accumulated amortisation				
Opening balance at 1 January 2005	**(13,217)**	**(36,170)**	**-**	**(49,387)**
Increase due to acquisition of subsidiary (Note 25)	(32,486)	(25,177)	-	(57,663)
Amortisation charge (Note 30)	(5,747)	(4,266)	(5,436)	(15,449)
Disposals	472	-	-	472
Translation differences	-	44	-	44
Closing balance at 31 December 2005	**(50,978)**	**(65,569)**	**(5,436)**	**(121,983)**
Net book amount at 31 December 2005	**33,344**	**8,985**	**157,648**	**199,977**

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

NOTE 14 - PREMISES AND EQUIPMENT

2006

	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
at 1 January 2006	**3,481,567**	**691,596**	**295,947**	**131,700**	**4,600,810**
Additions	1,063	54,768	11,830	5,581	73,242
Disposals	(113,715)	(131,069)	(13,485)	(10,995)	(269,264)
Transfers	(2,262)	(2,634)	-	2,262	(2,634)
Translation difference	2,734	428	838	243	4,243
At 31 December 2006	**3,369,387**	**613,089**	**295,130**	**128,791**	**4,406,397**
Accumulated depreciation and impairment					
At 1 January 2006	**(2,345,880)**	**(563,480)**	**(222,824)**	**(93,260)**	**(3,225,444)**
- effect of adjustments on preliminary fair values acquired due to business combination (Note 25)	(20,948)	-	-	-	(20,948)
At 1 January 2006 as restated	**(2,366,828)**	**(563,480)**	**(222,824)**	**(93,260)**	**(3,246,392)**
Depreciation charge (Note 30)	(57,793)	(44,454)	(26,277)	(16,544)	(145,068)
Disposals	73,080	122,991	11,045	10,385	217,501
Transfers	390	1,492	-	(390)	1,492
Translation difference	(600)	(306)	(743)	(199)	(1,848)
Recoveries from sales	22,882	-	-	-	22,882
Impairment charge (Note 30)	(1,441)	-	-	-	(1,441)
At 31 December 2006	**(2,330,310)**	**(483,757)**	**(238,799)**	**(100,008)**	**(3,152,874)**
Net book amount	**1,039,077**	**129,332**	**56,331**	**28,783**	**1,253,523**

At 31 December 2006, total impairment provision on premises and equipment amounts to YTL768,320 thousand (2005: YTL766,879 thousand).

Leased assets included in the furniture, fixtures, vehicles and equipment, where the Group is the lessee, amounted to YTL100,322 thousand (2005: YTL71,568 thousand).

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

NOTE 14 - PREMISES AND EQUIPMENT (Continued)

2005

	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
at 1 January 2005	**68,221**	**323,710**	**22,224**	**81,139**	**495,294**
Increase due to acquisition of Subsidiary (Note 25)	3,413,666	385,492	283,306	37,015	4,119,479
Additions	742	6,009	2,399	14,968	24,118
Disposals	(902)	(23,622)	(11,883)	(1,390)	(37,797)
Translation difference	(160)	7	(99)	(32)	(284)
At 31 December 2005	**3,481,567**	**691,596**	**295,947**	**131,700**	**4,600,810**
Accumulated depreciation and impairment					
at 1 January 2005	**(25,076)**	**(262,148)**	**(16,474)**	**(55,284)**	**(358,982)**
Increase due to acquisition of subsidiary (Note 25)	(2,317,697)	(291,043)	(211,049)	(26,078)	(2,845,867)
Disposals	264	19,560	12,500	635	32,959
Depreciation charge (Note 30)	(15,467)	(28,085)	(7,908)	(14,334)	(65,794)
Impairment charge (Note 30)	(8,901)	-	-	-	(8,901)
Translation difference	49	(1,764)	107	1,801	193
At 31 December 2005	**(2,366,828)**	**(563,480)**	**(222,824)**	**(93,260)**	**(3,246,392)**
Net book amount	**1,114,739**	**128,116**	**73,123**	**38,440**	**1,354,418**

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 15 - OTHER ASSETS

	2006	2005
Asset held for resale, net	182,541	183,104
Due from insurance policyholders	182,453	133,619
Advances given	81,076	22,829
Prepaid expenses	75,726	50,881
Prepaid taxes	63,626	64,926
Payments for credit card settlements	54,638	42,848
Accounts receivable	12,345	24,421
Other	236,303	122,754
	888,708	**645,382**

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.

Movements in assets held for resale were at 31 December as follows:

	2006	2005
Cost		
Opening balance at 1 January	**503,352**	**20,881**
Increase due to acquisition of subsidiary	-	481,693
Additions	7,401	9,401
Disposals	(15,321)	(8,623)
Translation difference	1,640	-
Closing balance at 31 December	**497,072**	**503,352**
Impairment		
Opening balance at 1 January as previously reported	**(312,323)**	**(1,590)**
- effect of adjustments on preliminary fair values acquired due to business combination	(7,925)	-
- as restated at 1 January	(320,248)	(1,590)
Increase due to acquisition of subsidiary	-	(314,608)
Recovery / (impairment charge) for the year (Note 30)	141	(4,050)
Recoveries from sales	6,082	-
Translation difference	(506)	-
Closing balance at 31 December	**(314,531)**	**(320,248)**
Net book amount at 31 December	**182,541**	**183,104**

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 16 - DUE TO BANKS

	2006			2005		
	Current/ Demand	Term	Total	Current/ Demand	Term	Total
Foreign currency:						
Domestic banks	21,829	29,586	51,415	25,205	212,614	237,819
Foreign banks	24,381	618,535	642,916	26,576	187,078	213,654
	46,210	**648,121**	**694,331**	**51,781**	**399,692**	**451,473**
YTL:						
Domestic banks	3,602	1,031,511	1,035,113	19,076	177,438	196,514
Foreign banks	21,492	546	22,038	12,306	118,993	131,299
	25,094	**1,032,057**	**1,057,151**	**31,382**	**296,431**	**327,813**
	71,304	**1,680,178**	**1,751,482**	**83,163**	**696,123**	**779,286**

NOTE 17 - DUE TO CUSTOMERS

	2006			2005		
	Current/ Demand	Term	Total	Current/ Demand	Term	Total
Foreign currency deposits:						
Saving deposits	1,707,504	6,794,988	8,502,492	1,728,169	6,873,654	8,601,823
Commercial deposits	1,616,312	5,221,628	6,837,940	1,910,612	2,339,961	4,250,573
Funds deposited under repurchase agreements	-	-	-	-	430,558	430,558
Public sector deposits	11	-	11	-	-	-
	3,323,827	**12,016,616**	**15,340,443**	**3,638,781**	**9,644,173**	**13,282,954**
YTL deposits:						
Saving deposits	837,846	8,907,805	9,745,651	808,762	7,079,087	7,887,849
Commercial deposits	976,205	4,922,614	5,898,819	1,474,879	4,369,104	5,843,983
Funds deposited under repurchase agreements	-	2,207,576	2,207,576	-	155,587	155,587
Public sector deposits	9,115	60,463	69,578	24,614	27,108	51,722
	1,823,166	**16,098,458**	**17,921,624**	**2,308,255**	**11,630,886**	**13,939,141**
	5,146,993	**28,115,074**	**33,262,067**	**5,947,036**	**21,275,059**	**27,222,095**

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

NOTE 18 - OTHER BORROWED FUNDS

	2006	2005
Foreign institutions and banks		
Syndication loans	2,091,835	1,739,047
Subordinated debt	1,559,258	-
Other	2,198,992	1,901,427
Total foreign	**5,850,085**	**3,640,474**
Domestic banks	596,885	670,006
Interbank money market	-	40,140
Total domestic	**596,885**	**710,146**
	6,446,970	**4,350,620**

Funds borrowed from foreign institutions include two syndicated credit facilities, the first of which in the amount of US$650 million club-term loan facility dated 29 August 2006, with an interest rate of annual Libor+0.25% provided by 24 international banks with Sumitomo Mitsui Banking Corporation Europe Limited acting as agent, and matures on 5 September 2007 and the second of which in the amount of US$700 million club-term loan facility dated 19 December 2006, with an interest rate of annual Libor+0.425% provided by 16 international banks with The Bank of Tokyo Mitsubishi UFJ Ltd. acting as agent, and matures on 24 December 2008.

As of 31 December 2005, funds borrowed from foreign institutions included two syndicated credit facilities, the first of which in the amount of US$500 million, with an interest rate of 6-Month Libor+0.4% with Sumitomo Mitsui Banking Corporation Europe Limited acting as agent and the second of which in the amount of US$800 million, with an interest rate of annual Libor+0.3% with The Bank of New York acting as agent.

At 31 March 2006, YKB obtained a subordinated loan amounting to EUR500 million, with ten years maturity and a repayment option at the end of five years. The interest rate is determined as EURIBOR+2% for the first five years. The loan was obtained from Merrill Lynch Capital Corporation with UniCredito Italiano S.p.A. as guarantor. In addition, the subordinated loan obtained by Koçbank at 28 April 2006 amounting to EUR350 million, with ten years maturity and repayment option at the end of five years has been transferred to YKB. The interest rate is determined as EURIBOR+2.25% for the first five years. The loan was obtained decrees from Goldman Sachs International Bank with Unicredit Italiano S.p.A. as guarantor.

Funds borrowed from domestic banks represent funds obtained from Export Credit Bank of Turkey (Türk Eximbank) in 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

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 19 - DEBT SECURITIES IN ISSUE

			Average interest rate (%)	
	2006	**2005**	**2006**	**2005**
US$200,000,000 Series 2003-A Notes	-	273,044	-	4.56
US$175,000,000 Series 2006-A Floating Rate Notes Due 2014	241,773	-	5.60	-
US$200,000,000 Series 2006-B Floating Rate Notes Due 2014	276,308	-	5.57	-
US$115,000,000 Series 2006-C Floating Rate Notes Due 2013	158,887	-	5.70	-
€300,000,000 Series 2006-D Floating Rate Notes Due 2014	544,685	-	3.88	-
US$310,000,000 of Series 2006-E Floating Rate Notes Due 2011	428,353	-	5.93	-
	1,650,006	**273,044**		
Current	-	273,044		
Non-current	1,650,006	-		
	1,650,006	**273,044**		

In December 2006, YKB finalised a diversified payment rights securitization transaction of US$800 million and EUR300 million by securitising its foreign currency denominated present and future remittances created via payment orders. The deal securitizes YKB's payment orders created via SWIFT MT 103 or similar payment orders accepted as derived primarily from YKB's trade finance and other retail and corporate businesses and paid through foreign depository banks.

The offered notes under the securitization program are issued by Yapı Kredi Diversified Payment Rights Finance Company "SPC", an exempted limited liability company incorporated under the laws of the Cayman Islands. YKB acts as the originator of the diversified payment rights "DPR" and as the servicer. The offered notes were offered for sale outside the United States in reliance upon Regulation S under the Securities Act. The Series 2006-D Notes are listed on the Luxembourg Stock Exchange.

On the issuance date for the offered notes as of 14 December 2006, the SPC also entered into a private placement of US$310,000,000 of Series 2006-E Floating Rate Notes due 2011, which is a Senior Series and thus rank pari passu with the offered notes.

As explained in Note 37, YKB has repaid US$310 million of the credit as of 1 March 2007 and refinanced it with a US$400 million of DPR transaction.

In November 2003, the Group finalised a DPR transaction of US$200 million by securitising its foreign currency present and future remittances. The outstanding amount of the securitisation deal at 31 December 2005 amounting to YTL273,044 has been paid in 2006 last payment being made in December 2006. The deal had an interest rate of 3 month Libor+0.65%.

NOTE 20 - TAXATION

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 these consolidated financial statements, have been calculated on a separate-entity basis.

Corporate Tax Law numbered 5520 became effective at 21 June 2006 by being published in the Official Gazette numbered 26205. By the issue of this law, Corporate Tax Law numbered 5422 was abolished.

The corporation tax rate of the fiscal year 2006 is 20% (2005: 30%). Corporation tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, exempt income and allowances. The annual corporate income tax return is required to be filed in the period between the 1st and 25th days of the fourth month following the close of the related fiscal year. Payments can be made up until the end of the month in which the tax return is to be filed.

Corporations established abroad and controlled directly or indirectly by tax resident companies and real persons by means of separate or joint participation in the capital or dividends or voting rights at the rate of a minimum 50% are considered as Controlled Foreign Corporations "CFC" provided that the below conditions are fulfilled:

a) 25% or more of the gross revenue of the foreign subsidiary must be composed of passive income like interest, dividend, rent, license fee, or marketable securities sales income;
b) The CFC must be subject to an effective income tax rate lower than 10% for its commercial profit in its home country; and,
c) Gross revenue of the CFC must exceed the equivalent of YTL100 in a foreign currency in the related period.

CFC's profit is included in the corporate income tax base of the controlling resident corporation, irrespective of whether it is distributed or not, at the rate of the shares controlled, in the fiscal period covering the month of closing of the fiscal period of the CFC. The CFC's profit that has already been taxed in Turkey as per this article will not be subject to additional tax in Turkey in the event of dividend distribution; whereas the portion of the profit distributed that has not been previously taxed in Turkey will be subject to taxation.

If the ratio of the borrowings from shareholders or from persons related to the shareholders exceeds three times the shareholders' equity of the borrower company at any time within the relevant year, the exceeding portion of the borrowing will be considered as thin capital. Accordingly, under the new thin capitalisation regulation, the ratio of the loans received from related parties to shareholders' equity will be considered as three to one. Except for the loans received from credit institutions that provide loans only to related companies, half of the loans received from related banks and similar institutions are to be taken into account during thin capitalisation calculations.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with the arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes. Effective from 1 January 2007 similar but more clear new transfer pricing rules will be applicable. The expression "purchase or sale of goods or services" is used in a broad sense and includes all economic, commercial or financial transactions and employment relations between related parties.

NOTE 20 – TAXATION (Continued)

All sorts of payments made to corporations (including branches of resident corporations) that are established or are operational in countries which are regarded by the Council of Ministers to undermine fair tax competition due to tax and other practices, will be subject to taxation in Turkey irrespective of the fact that the payments in question are subject to tax or not; or, whether the corporation receiving the payment is a taxpayer or not. In this case, withholding tax at the rate of 30% is envisaged to be levied over these payments. Since up to now, Council of Ministers has not determined these jurisdictions yet the application of the 30% withholding tax is not possible.

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 15%. 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 20% on their quarterly determined 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.

In accordance with Tax Law No: 5024 "Law Related to Changes in Tax Procedure Law, Income Tax Law and Corporate Tax Law" that was published on the Official Gazette on 30 December 2003 to amend the tax base for non-monetary assets and liabilities, effective from 1 January 2004, the income and corporate taxpayers will prepare the statutory financial statements by adjusting the non-monetary assets and liabilities for the changes in the general purchasing power of the Turkish Lira. In accordance with the aforementioned law provisions, in order to apply inflation adjustment, cumulative inflation rate (SIS-WPI) over last 36 months and 12 months must exceed 100% and 10%, respectively. Inflation adjustment has not been applied as these conditions were not fulfilled in the year 2006.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments.

There are numerous exemptions in the Corporate Tax Law concerning the corporations. Those related to the Company are as follows:

Exemption for participation in subsidiaries

Dividend income from participation in shares of capital of another full fledged taxpayer corporation (except for dividends from investment funds participation certificates and investment partnerships shares) are exempt from corporate tax.

Exemption for sale of preferential right certificates and share premiums

Profits from sale of preferential right certificates and share premiums generated from sale of shares at a price exceeding face values of those shares during incorporations or capital increases of joint stock companies are exempt from corporate tax.

Exemption for income from foreign construction, maintenance, assembly and technical services

Income generated from construction, maintenance, assembly and technical services realised in foreign countries and recorded to results of operations are exempted from corporate taxation.

NOTE 20 – TAXATION (Continued)

Exemption for participation into foreign subsidiaries

If the below conditions are fulfilled, participation revenues obtained from abroad and those transferred to Turkey by the date when corporate tax declaration regarding the taxation period in which they are obtained is filed shall not be subject to corporate tax in Turkey. Conditions are as follows:

If the Turkish resident company holds at least 10% stake for a continuous period of a year in the non resident company. If the total tax burden of the non resident company is at least 15% (For insurance finance and financing leasing companies and for the companies whose main activity is investment in securities tax burden should be equal to at least the corporate tax burden in Turkey). If the profit is transferred to Turkey in cash till the corporate tax declaration date.

Exemption for income generated from foreign offices and permanent representatives

Gains obtained by corporations through their places of business abroad or permanent offices abroad and bearing a tax liability similar to that of corporate tax at least at the rate of 15% in accordance with the tax law of the country where that place of business and permanent office is located, (equal to at least the corporate tax burden in Turkey regarding insurance and finance and financial leasing companies and for the companies whose main activity is investment in securities), and which is transferred to Turkey until the submission date of the corporate tax return of the related period, will be exempt from corporate tax.

Capital gains exemption for the capital gains obtained from the sale of foreign subs

Capital gains obtained from the sale of foreign company shares by the Turkish resident companies are exempt from corporate tax provided that the below conditions are satisfied : If as of the date of the income is generated at least 75% of the asset value (except cash) of the Turkish company is comprised of at least 10% shareholdings in one or more foreign companies. If these shares of the foreign companies are being held at least for a continuous period of two years.

Exemption for sale of participation shares and property

75% of the capital gains of corporations' from sale of participation shares and property which have been in their assets at least for two years is exempt from corporate tax provided that this amount is kept in a special reserve account in the liabilities side of the balance sheet for 5 years.

In the event that these profits accounted under special reserves are withdrawn from the entity in any means, transferred to abroad by non-resident taxpayer corporations or the entity liquidates (except by take over, merger and de-merger) within five years, those profits are considered as profits regarding that year and are subject to corporate tax.

This exemption is not applicable for the companies whose main activity is real estate trading and/or leasing or securities trading.

NOTE 20 – TAXATION (Continued)

Exemption for investment allowance

Capital expenditures, with some exceptions, over YTL10 thousand are eligible for investment incentive allowance of 40% is exempted from corporate income tax and this allowance is not subject to withholding tax without the requirement of an investment incentive certificate. Investment allowances calculated are deferred to the following years in cases where corporate income is insufficient. Investment allowances utilised within the scope of investment incentive certificates granted prior to 24 April 2003 in accordance with provisions of Income Tax Law Transitional Article 61 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

As of 1st January 2006, the exemption for investment allowance has been abolished with Corporate Income Tax Law No.5479.

A transition period of three years has been provided for income and corporate taxpayers which have investment incentive allowance rights as of 31 December 2008, which have not yet utilised and which have been deferred to the following years where corporate income may be insufficient and where investment allowance will be earned from the investment expenditures made for the ongoing projects as of 31 December 2005. According to this,

- investment allowances that exist at 31 December 2005 and that cannot be deductible from income generated in 2005 (advance corporate tax or investment allowance of 40%),

- investment allowances calculated in accordance with the legislation valid as of 31 December 2005 and its related 19,8% tax deduction for investment incentive share certificates granted prior to 24 April 2003 and started before 1 January 2006; and

- investment allowances calculated at a rate of 40% in accordance with the legislation valid as of 31 December 2005 for investment incentives granted after 24 April 2003 in accordance with the abolished Article No.19 of Corporate Income Tax Law, which were started before 1 January 2006 and which present an economic and technical integrity with the investments,

can be utilised for the income generated in the years 2006, 2007 and 2008 in accordance with the articles valid on 31 December 2005 (including the 30% corporate tax rate).

Once one of the above alternatives has been chosen, the alternative chosen cannot be changed. Corporations that choose to utilise this right will be subject to the previous legislation of tax rates.

Apart from the abovementioned exemptions considered in the determination of the corporate income tax base, allowances stated in Corporate Income Tax Law Article 8, 9 and 10, and Income Tax Law Article 40 are also taken into consideration.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 20 – TAXATION (Continued)

Reconciliation between the expected and the actual taxation charge is stated below:

	2006
Profit before income taxes	**1,073,083**
Theoretical income tax at the applicable tax rate of 20%	214,617
Effect of different tax rates in other countries	6,810
Effect of change in tax rate	207,288
Refund from the tax litigation against the corporate tax (1)	(109,328)
Non-taxable consolidation adjustments	9,585
Tax effect of items which are not deductible or assessable for taxation purposes:	
- Income exempt from taxation	(54,976)
- Non-deductible expenses	63,877
- Utilisation of investment incentive	(774)
- Utilised tax loss carry forward	(12,214)
- Other	(1,145)
	323,740

(1) The tax litigations against the corporation tax of 2003 and 2004 fiscal year and the withholding tax of the 2004/4 period have been concluded in favour of Koçbank with the decisions of Istanbul 1. Tax Court dated 17 May 2006 and Istanbul 3. Tax Court dated 12 June 2006. The Tax Office has already appealed to the Council of State against the resolutions of Tax Courts and the appeal investigations are continuing. Based on the resolutions of Tax Courts, YTL109,328 thousand, the tax amount subject to litigation has been refunded from the Tax Office to Koçbank and has been recognised in the Group's consolidated financial statements as deferred tax income as of 31 December 2006.

Deferred income taxes

For all domestic subsidiaries and parent, deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2006 under the liability method using a principal tax rate of 20% at 31 December 2006 (2005: 30%).

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

Country	**Tax rate (%)**	
of incorporation	**2006**	**2005**
Germany	26.38	26.38
Russia	24.00	24.00
Netherlands	29.60	31.50

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 carried forward from previous years.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 20 – TAXATION (Continued)

The temporary differences giving rise to the deferred income tax assets and deferred income tax liabilities are as follows:

	Cumulative Temporary Differences		Deferred Tax Asset/Liability	
	31 December 2006	**31 December 2005**	**31 December 2006**	**31 December 2005**
Impairment on assets	1,152,183	1,383,959	162,490	412,873
Provision for loan losses	651,538	544,615	130,307	163,385
Estimated liability transfer price of the Fund (Note 21)	599,240	555,619	119,848	166,685
Employment termination benefits	164,658	143,140	32,844	42,919
Revaluation of derivative instruments at fair value	31,445	28,010	6,289	8,403
Tax losses carried forward	11,737	138,030	2,347	43,617
Valuation differences on investment securities	53,217	46,814	10,643	14,044
Other	106,030	47,860	21,173	14,373
Deferred income tax assets	**2,770,048**	**2,888,047**	**485,941**	**866,299**
Difference between carrying value and tax base of premises and equipment	1,106,023	627,133	130,375	188,115
Valuation differences on investment securities	121,485	38,350	24,300	11,574
Revaluation of derivative instruments at fair value	66,180	12,143	13,233	3,643
Assets capitalised under finance leases	33,138	19,378	6,628	5,813
Other	37,879	30,954	5,303	23,747
Deferred income tax liabilities	**1,364,705**	**727,958**	**179,839**	**232,892**
Deferred income tax assets, net	**1,405,343**	**2,160,089**	**306,102**	**633,407**

The movements of deferred income taxes were as follows:

	2006	**2005**
Balance at 1 January previously reported	**634,324**	**78,663**
- effect of adjustments on preliminary fair values acquired due to business combination (Note 25)	(917)	-
as restated at 1 January	**633,407**	**78,663**
Charge for the year, net	(243,066)	(9,567)
Increase due to acquisition of subsidiary (Note 25)	-	566,659
Tax assets charged to equity	23,001	(2,429)
Monetary loss	-	81
Refund from the tax litigation against the corporate tax	(109,328)	-
Translation difference	2,088	-
Balance at 31 December	**306,102**	**633,407**

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

NOTE 21 - OTHER PROVISIONS

	2006	2005
Provision on estimated liability on transfer of the Fund	599,240	555,619
Provision for losses on credit related commitments (Note 32)	160,576	154,007
Tax and other legal provisions	108,930	130,486
Credit card bonus provision	53,441	52,329
Provision on export commitment estimated liability	39,365	43,574
Other	15,360	4,414
	976,912	**940,429**

Estimated liability on transfer of the Fund

As of 31 December 2006, YKB personnel are members of the Fund which was established in accordance with the 20th temporary article of Social Security Law numbered 506 (“the Social Security Law”). The 23rd temporary article of the Banking Act No.5387 (“the Article”), which was approved by the Grand National Assembly of the Republic of Turkey (“National Assembly”) on 2 July 2005, states that funds established in accordance with the Social Security Law should be transferred to the SSK within three years following the publishing date of the Article and sent to the President of the Republic of Turkey (“the President”) for approval in accordance with the procedure of the enactment of laws as laid down by the Turkish Constitution. However, the said Article was vetoed by the President and sent back to the National Assembly for reconsideration on 22 July 2005. Upon the discussions in the National Assembly the Article was enacted without any modification on 19 October 2005. Although, on 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind the Article, the Article is currently enforceable under Turkish laws and regulations as at the balance sheet date.

The Group obtained an actuarial report from an actuary who is registered with the Undersecretariat of the Treasury regarding this Fund in accordance with the Decree on the Principles and Procedures of Determining the Application of Transfer Transactions (“the Decree”), published in the Official Gazette dated 15 December 2006 with number 26377 by the Decision of Council of Ministers No.2006/11345. Based on this Decree, the actuarial balance sheet of the Fund has been prepared in accordance with a technical interest rate of 10.24% and the CSO 1980 mortality table, and reflects a technical deficit of YTL599,240 thousand at 31 December 2006 (Note 37.vii).

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 21 - OTHER PROVISIONS (Continued)

Tax and other legal provisions

At 31 December 2006, the Group is involved in some legal disputes. The Group's lawyers advise that, owing to developments in some of these cases, it is probable that the Group will be found liable. Therefore, the management has recognised a provision of YTL13,599 thousand (2005: YTL19,159 thousand) as the best estimate of the amount to settle these potential obligations.

The Group recorded total provision of YTL95,331 thousand (2005: YTL111,327 thousand) against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the period ended 31 December 2006.

Export commitment provision

The Group management has estimated losses that may arise from export loans to customers under legal follow-up that do not have the ability to fulfill their export commitments and has recognised provision of YTL39,365 thousand (2005: YTL43,574 thousand).

Provision for credit related commitments

Movement in provision for losses on credit related commitments is as follows:

	2006	2005
Balance at 1 January	**154,007**	**34,640**
Impairment losses on credit related commitments (Note 31)	8,152	9,232
Increase due to acquisition of subsidiary		110,723
Provision used	(2,046)	-
Translation difference	463	(588)
Balance at 31 December	**160,576**	**154,007**

Movement in other provisions is as follows:

	Estimated liability on transfer of the Fund	Tax and other legal provision	Credit card bonus provision	Export commitment provision	Other	Total
Balance at 1 January 2006 as previously reported	**555,619**	**126,279**	**52,329**	**43,574**	**2,481**	**780,282**
-effect of adjustments on preliminary fair values acquired due to business combination (Note 25)	-	4,207	-	-	-	4,207
-effect of adjustments cost of business combination (Note 12)	-	-	-	-	1,933	1,933
as restated at 1 January 2006	**555,619**	**130,486**	**52,329**	**43,574**	**4,414**	**786,422**
Provision (released)/charged	43,621	(21,221)	196,051	(4,209)	12,766	227,008
Provision used	-	(44)	(194,939)	-	(1,820)	(196,803)
Translation difference	-	(291)	-	-	-	(291)
Balance at 31 December 2006	**599,240**	**108,930**	**53,441**	**39,365**	**15,360**	**816,336**

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 22 - RESERVE FOR EMPLOYEE BENEFITS

	2006	2005
Reserve for employee benefits	105,487	94,169
Provision for unused annual vacation	59,171	48,971
	164,658	**143,140**

The movement in the reserve for employee benefits is as follows:

	2006	2005
Opening balance at 1 January as previously reported	**87,972**	**8,881**
- effect of adjustments on preliminary fair values acquired due to business combination	6,197	-
as restated at 1 January	**94,169**	**8,881**
Increase due to acquisition of subsidiary	-	74,623
Interest costs	4,225	1,335
Actuarial gains and losses	10,515	1,050
Annual charge	7,963	11,890
Paid during the year	(11,397)	(3,371)
Translation difference	12	-
Monetary gain	-	(239)
Balance at 31 December	**105,487**	**94,169**

The total of interest cost, actuarial gains and losses and annual charge for the year amounting to YTL22,703 thousand (2005: YTL14,275 thousand) were included in staff costs (Note 30).

Under the Turkish Labour Law, the parent 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 YTL1,857.44 (31 December 2005: YTL1,727 in terms of the purchasing power of YTL at 2005) for each year of service.

There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement.

IFRS requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. In the consolidated financial statements, the Group reflected a liability calculated using the projected unit credit method and based upon the factors derived using their experience of personnel terminating their services and being eligible to receive employment termination benefits. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

Accordingly the following financial and demographical actuarial assumptions were used in the calculations of the provision:

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 22 - RESERVE FOR EMPLOYEE BENEFITS (Continued)

	2006	2005
Discount rate (%)	5.71	5.49
The probability of retirement (%)	96.50	98.15

Additionally, the principal actuarial assumption is that the maximum liability of YTL1,857.44 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 YTL1,960.69 (1 January 2006: YTL1,770.62) which is effective from 1 January 2007, has been taken into consideration in calculating the reserve for employee benefits of the parent and its domestic subsidiaries.

NOTE 23 - INSURANCE TECHNICAL RESERVES

	2006	2005
Mathematical reserve	301,374	334,977
Profit share reserve	230,992	289,865
Unearned premium reserve	196,039	152,731
Outstanding claim reserve	50,785	41,841
IBNR reserve	11,223	10,629
Total	**790,413**	**830,043**

The movements of insurance technical reserves were as follows:

	2006	2005
Opening net book amount at 1 January	**830,043**	**-**
Increase due to acquisition of subsidiary	-	820,265
Provision used	(247,097)	-
Charge for the period, net	164,388	7,468
Foreign exchange difference	43,079	-
Monetary loss	-	2,310
Closing net book amount 31 December	**790,413**	**830,043**

NOTE 24 - OTHER LIABILITIES

	2006	2005
Credit card payables	1,667,657	1,483,126
Blocked accounts	427,243	130,532
Import deposit and transfer orders	373,670	181,435
Miscellaneous payables to customers	241,586	71,290
Taxes other than income and withholdings	99,253	81,831
Premium and bonuses payable to personnel	94,405	59,768
Clearing accounts	64,344	123,713
Unearned income	40,537	50,756
Advances taken	25,163	14,676
Saving deposits insurance fund	5,979	11,216
Other	507,569	323,545
Total	**3,547,406**	**2,531,888**

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

NOTE 25 - ACQUISITIONS AND MERGERS

(i) Acquisition of YKB and legal merger with Koçbank

On 28 September 2005, the final version of the Share Purchase Agreement was signed between Çukurova Holding, various Çukurova Companies, Mehmet Emin Karamehmet (collectively “Çukurova Group”) and KFS, Koçbank N.V. and Koçbank regarding the sale of 57.42% of the shares of YKB. According to the agreement on 28 September 2005, 44.52% of the shares of YKB owned by Çukurova Group and 12.90% of the shares owned by Saving Deposit Insurance Fund were transferred to Koçbank. The value for 57.4% of the shares of YKB was realised as EUR1,182,369 thousand.

The acquired YKB together with its subsidiaries contributed to net income of the Group by YTL1,577 thousand for the period from 30 September to 31 December 2005. If the acquisition had occurred on 1 January 2005, the Group comparative results would have been presented as follows:

a. The Group consolidated pro forma financial information for the years ended 31 December

	2006	2005 (Unaudited)
Net interest income	1,994,302	1,901,264
Net fee and commission income	960,247	824,483
Other operating income (*)	339,522	1,443,258
Operating revenues	**3,294,071**	**4,169,005**
Other operating expenses	(1,714,536)	(3,233,934)
	1,579,535	**935,071**
Impairment losses on loans and advances	(281,492)	(1,234,361)
Other provisions	(227,008)	(1,139,922)
Loss on net monetary position	-	(17,777)
Operating profit /(loss)	**1,071,035**	**(1,456,989)**
Share of profit / (loss) of associate	2,048	(900)
Profit / (loss) before income tax	**1,073,083**	**(1,457,889)**
Income tax (expense) / income	(323,740)	186,625
Profit/ (loss) for the year	**749,343**	**(1,271,264)**

(*) Other operating income as of 31 December 2005 includes Turkcell shares sales income amounting to YTL1,157,046 thousand.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	
- Cash paid	1,919,992
- Direct costs relating to the acquisition	41,940
Total purchase consideration	**1,961,932**
- preliminary fair value of net identifiable assets acquired	974,316
- adjustments on preliminary fair values in initial accounting period (Note 12)	(35,912)
Fair value of net identifiable assets acquired	**938,404**
Goodwill on acquisition	**1,023,528**

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

NOTE 25 - ACQUISITIONS AND MERGERS (Continued)

The assets and liabilities arising from initial acquisition in 2005 are as follows:

	Fair Value	Acquiree’s carrying amount
Cash and cash equivalents	2,736,742	2,736,742
Due from banks	1,148,564	1,148,564
Premises and equipment	1,294,560	1,294,560
Trademarks and customer related intangibles	163,084	-
Other intangibles	33,420	33,420
Investment in associates (Note 9)	37,166	37,166
Trading assets	3,015,454	3,015,454
Investment securities	5,012,740	5,012,740
Loans and advances to customers	10,571,824	10,571,824
Other assets	735,638	735,638
Net deferred income tax assets	567,576	567,576
Deposits	(18,494,773)	(18,494,773)
Other liabilities	(3,908,490)	(3,908,490)
Borrowings	(1,200,470)	(1,200,470)
	1,713,033	**1,549,949**

Adjustments on preliminary fair values in the initial accounting year:

Premises and equipment (Note 14)	(20,948)
Investment securities	(5,665)
Other assets	(3,223)
Deferred income tax assets (Note 20)	(917)
Reserve for employee benefits (Note 22)	(27,086)
Other provisions (Note 21)	(4,207)
Total effect of adjustments	**(62,046)**
Net identifiable assets	**1,650,987**
Minority interest as previously reported	**738,717**
Effect of adjustments on preliminary fair values	(26,134)
Minority interest	**712,583**
Net identifiable assets acquired	**938,404**
Inflow of cash to acquire business, net of cash acquired:	
Purchase consideration settled in cash	(1,961,932)
Cash and cash equivalents in subsidiary acquired	2,736,742
Cash inflow on acquisition	**774,810**

In April 2006, Koçbank increased its interest in YKB with the acquisition of a further 9.09% of the issued share capital of YKB, increasing its total interest to 67.31%. As explained in Note 2.C.(c), the Group recognised the difference between the acquisition cost and net assets acquired amount directly under equity.

Total acquisition cost	607,331
Net assets acquired	(166,489)
Difference (Note 27)	**440,842**

(Amounts expressed in thousands of New Turkish Lira (“YTL”) unless otherwise indicated.)

NOTE 25 - ACQUISITIONS AND MERGERS (Continued)

In 2006 shareholders of both YKB and Koçbank approved the merger of two banks and the transfer of all Koçbank’s rights, receivables, liabilities and obligations to YKB in accordance with article 19 of the Banking Act No.5411 and other relevant legislation was completed on 2 October 2006. Due to the merger and the consequential dissolution of Koçbank without liquidation, the record of Koçbank was erased from the trade registry as of 2 October 2006. After the merger, the share of the KFS, which owned the 99.78% shares of the Koçbank, became 80.18% in the merged YKB. The new combined legal entity retained the name Yapı ve Kredi Bankası A.Ş.

The Group policy is to account business combinations under common control applying pooling of interest method using predecessor values and restating comparatives on “as if” basis (Note 2.P). In that respect, the Group considered merger between YKB and Koçbank, being a transaction under common control of KFS, as legal reorganization rather than acquisition to the Group and used predecessor values in preparation of the consolidated financial statements. Thus, the Group restated its consolidated financial statements and used 31 December 2005 consolidated financial statements of Koçbank as predecessor values and presented those financial statements as comparatives. On the other hand, the financial statements of entities under common control should be combined on an “as if” pooling basis only for those prior periods in which the common control existed. Therefore, the comparative financial statements include Yapı Kredi Bankası A.Ş. and its financial subsidiaries only after the date of acquisition at 28 September 2005.

However, as a result of the merger minority shareholders who held 32.69% shareholding in YKB are holding 19.73% in the merged YKB, so this portion of minority interest, previously presented in the consolidated balance sheet of Koçbank is adjusted to as "additional paid in capital" in the consolidated balance sheet 31 December 2006.

The merged YKB contributed net income of YTL576,309 thousand to the Group for the period from 1 January to 31 December 2006. If the acquisition of the YKB had occurred on 1 January 2005, the comparative results of merged YKB to be included in the Group consolidated pro forma financial information (Note 25.i.a) results would be presented as follows:

b. YKB separate pro forma financial information for the years ended 31 December

	2006	2005 (Unaudited)
Net interest income	1,749,341	1,650,058
Net fee and commission income	892,227	757,626
Other operating income (*)	227,492	1,252,232
Operating revenues	**2,869,060**	**3,659,916**
Other operating expenses	(1,509,578)	(2,982,045)
	1,359,482	**677,871**
Impairment losses on loans and advances	(279,716)	(1,221,477)
Other provisions	(221,130)	(1,114,444)
Profit on net monetary position	-	17,044
Operating profit /(loss)	**858,636**	**(1,641,006)**
Income tax (expense) / income	(282,327)	217,963
Profit/ (loss) for the year	**576,309**	**(1,423,043)**

(*) Other operating income as of 31 December 2005 includes Turkcell shares sales income amounting to YTL1,157,046 thousand.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 25 - ACQUISITIONS AND MERGERS (Continued)

In order to present the share of merged YKB in the Group consolidated balance sheet at 31 December, the following selected balance sheet items are presented below:

	2006	2005 (Unaudited)
Selected asset items		
Trading assets and investment securities	16,242,671	9,866,855
Loans and advances to customers	22,119,480	18,384,326
Selected liability items		
Due to customer and due to banks	34,483,820	27,256,482
Other borrowed funds and debt securities in issue	6,159,001	3,323,932

(ii)Legal mergers of other financial subsidiaries

Koç Leasing, has been transferred with all its rights, receivables, liabilities and obligations to Yapı Kredi Leasing and the consequential dissolution without liquidation were held on 21 December 2006 and the merger was approved on 27 December 2006.

Yapı Kredi Faktoring has been transferred with all its rights, receivables, liabilities and obligations to the Koç Faktoring and the consequential dissolution without liquidation were held on 22 and 27 December 2006 and the corporate title of Koç Faktoring has been changed as Yapı Kredi Faktoring A.Ş. and the merger was approved on 29 December 2006.

Yapı Kredi Portföy has been transferred with all its rights, receivables, liabilities and obligations to the Koç Portföy and the consequential dissolution without liquidation were held on 22 December 2006. The corporate title of Koç Portföy was changed to Yapı Kredi Portföy Yönetimi A.Ş. and the merger was approved on 29 December 2006.

NOTE 26 - SHARE CAPITAL

The historic amount of share capital of the Company consists of 314,281,845,410 (2005: 234,231,647,700) authorised shares with a nominal value of YTL0.01 each. The Company's authorised capital amounts to YTL3,142,818 thousand (2005: YTL2,342,316 thousand).

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

	2006		2005	
Shareholders	**Participation rate (%)**	**YTL thousand**	**Participation rate (%)**	**YTL thousand**
Koç Finansal Hizmetler A.Ş.	80.18	2,520,015	99.78	2,337,074
Other	19.82	622,803	0.22	5,242
Historical share capital	**100.00**	**3,142,818**	**100.00**	**2,342,316**
Adjustment to share capital		(60,471)		40,368
Total paid in share capital		**3,082,347**		**2,382,684**

The adjustment to share capital represents the restatement effect of cash and cash equivalent contributions to share capital in terms of equivalent purchasing power at 31 December 2005 and the effect of the acquisition of YKB shares by Koçbank at 28 September 2005 since the minority portion arised at this acquisition is accepted as capital contribution.

Paid-in capital as of 31 December 2006 in the consolidated statement of changes in shareholders' equity represents Koçbank's paid-in capital, since the 31 December 2005 figures of Koçbank's consolidated financials have been used as opening financial statements as explained in detail in Note 25.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 27 - RETAINED EARNINGS AND OTHER RESERVES

	2006	**2005**
Hedging reserves	(19,194)	-
Statutory reserve	17,184	5,262
Translation reserves	29,924	(3,387)
Revaluation reserve - available-for-sale investments	18,379	6,624
Total other reserves	**46,293**	**8,499**
Retained earnings	320,155	730,780
	366,448	**739,279**

Movements in other reserves were as follows:

	Hedging Reserves	**Statutory reserves**	**Translation reserves**	**Retained earnings**	**Total**
Balance at 1 December 2006	**-**	**5,262**	**(3,387)**	**730,780**	**732,655**
Purchase from minority interest of - additional YKB shares (Note 25.i)	-	-	-	(440,842)	(440,842)
Gains on hedges of a net investment in a foreign operation	(19,194)	-	-	-	(19,194)
Transfer to reserves	-	11,922	-	(14,851)	(2,929)
Currency translation differences	-	-	36,521	-	36,521
Effect of merged entities under common control	-	-	(3,210)	(556,702)	(559,912)
Other	-	-	-	(5,606)	(5,606)
Net profit for the year	-	-	-	607,376	607,376
Balance at 31 December 2006	**(19,194)**	**17,184**	**29,924**	**320,155**	**348,069**

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 the profit appropriation and distribution.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 28 - NET INTEREST INCOME

	2006	2005
Interest income on:		
Loans and receivables	3,527,889	1,294,833
Investment securities	1,368,649	730,499
Placements with banks	267,109	107,189
Financial leases	166,917	87,914
Other	32,502	7,995
Total interest income	**5,363,066**	**2,228,430**
Interest expense on:		
Customer deposits	(2,953,349)	(1,062,325)
Other borrowed funds	(393,893)	(129,956)
Other	(21,522)	(56,241)
Total interest expense	**(3,368,764)**	**(1,248,522)**
Net interest income	**1,994,302**	**979,908**

NOTE 29 - NET FEE AND COMMISSION INCOME

	2006	2005
Fee and commission income on:		
Credit/debit cards	531,217	105,686
Assets under management	203,645	152,251
Banking services	188,826	100,238
Loans		
- Credit related commitments	130,431	66,110
- Loans and advances	59,937	37,574
Insurance products	40,378	15,302
Brokerage	18,020	21,677
Factoring	12,314	7,639
Other	91,447	28,768
Total fee and commission income	**1,276,215**	**535,245**
Fee and commission expense on:		
Credit/debit cards	(207,350)	(66,610)
Other borrowed funds	(8,675)	(7,834)
Brokerage	(3,793)	(477)
Factoring	(4,790)	(3,288)
Other	(91,360)	(29,244)
Total fee and commission expense	**(315,968)**	**(107,453)**
Net fee and commission income	**960,247**	**427,792**

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 30 - OTHER OPERATING EXPENSES

	2006	2005
Staff costs	**898,470**	**390,289**
Depreciation on premises and equipment (Note 14)	145,068	65,794
Amortisation of intangible assets (Note 13)	31,972	15,449
Depreciation and amortisation	**177,040**	**81,243**
Impairment charge on other intangible assets (Note 13)	4,015	-
Impairment charge on property and equipment (Note 14)	1,441	8,901
(Recoveries) / impairment charge on assets held for resale (Note 15)	(141)	4,050
Impairment charge	**5,315**	**12,951**
Marketing and advertisement costs	126,118	52,612
Communication expenses	90,646	35,449
Rent expenses	53,690	34,634
Payment to saving deposit insurance find	45,280	20,423
Sundry taxes and duties	44,902	16,421
Repair and maintenance expenses	31,170	19,600
Utilities	19,529	15,623
Audit and consultancy fees	18,032	12,904
Charity	4,389	5,584
Insurance fee	615	6,982
Other	199,340	124,518
General administrative expenses	**633,711**	**344,750**
Total	**1,714,536**	**829,233**

NOTE 31 - IMPAIRMENT LOSSES ON LOANS AND CREDIT RELATED COMMITMENTS

	2006	2005
Impairment losses on loans and receivables (Note 10)	273,340	133,358
Impairment losses on credit related commitments (Note 21)	8,152	9,232
	281,492	**142,590**

NOTE 32 - 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 2006 and 31 December 2005.

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 21).

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 advisors 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.

Other

On 4 April 2005 the CBRT auditors sent an audit report dated 31 March 2005 to YKB. 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 YTL 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. YKB management plans to use the option of placing interest free deposits in the CBRT, if any liability occurs against YKB as a result of this process.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 32 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

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

	2006			2005		
	Related Parties	Other	Total	Related Parties	Other	Total
Letters of guarantee						
-Foreign Currency	397,764	5,248,298	5,646,062	157,140	5,145,763	5,302,903
-YTL	59,459	5,507,501	5,566,960	317,946	4,826,951	5,144,897
Letters of credit	126,221	2,463,248	2,589,469	71,839	1,981,827	2,053,666
Acceptances	-	216,649	216,649	1,048	246,691	247,739
Other commitments and contingencies	162,110	1,320,657	1,482,767	54,036	432,430	486,466
	745,554	**14,756,353**	**15,501,907**	**602,009**	**12,633,662**	**13,235,671**
Less: Provision for losses on credit related commitments (Note 21)	-	(160,576)	(160,576)	-	(154,007)	(154,007)
	745,554	**14,595,777**	**15,341,331**	**602,009**	**12,479,655**	**13,081,664**

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

	2006	%	2005	%
Construction and cement	3,293,974	21	2,763,210	21
Manufacturing	2,936,389	19	2,124,631	16
Metal processing	1,864,897	12	1,109,369	8
Financial institutions	1,473,299	10	1,052,304	8
Trade	1,353,141	9	1,190,434	9
Petrochemical industry	904,776	6	635,028	5
Telecommunication	539,738	3	179,118	1
Textiles	369,370	2	704,514	5
Automotive and transportation	366,354	2	506,583	4
Tourism	163,198	1	161,339	1
Food, beverage and tobacco	29,720	-	727,064	5
Durable goods	23,326	-	72,174	1
Other	2,183,725	15	2,009,903	16
Total	**15,501,907**	**100**	**13,235,671**	**100**

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 32 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Commitments under derivative instruments:

2006			**Notional amounts**		
	US$	**EUR**	**Other**	**YTL**	**Total**
Forward transactions	**311,841**	**503,302**	**51,971**	**379,139**	**1,246,253**
- Currency forwards	311,841	503,302	51,971	379,139	1,246,253
- Security forwards	-	-	-	-	-
Swap transactions	**659,909**	**161,615**	**154,711**	**112,788**	**1,089,023**
- Interest rate swaps	355,609	95,359	-	-	450,968
- Currency rate swaps	304,300	66,256	154,711	112,788	638,055
Options (call)	**275,582**	**27,629**	**-**	**273,090**	**576,301**
Total purchases	**1,247,332**	**692,546**	**206,682**	**765,017**	**2,911,577**
Forward transactions	**568,794**	**213,215**	**47,766**	**172,508**	**1,002,283**
- Currency forwards	568,794	213,215	47,766	172,508	1,002,283
- Security forwards	-	-	-	-	-
Swap transactions	**226,064**	**324,298**	**63,785**	**466,221**	**1,080,368**
- Interest rate swaps	47,703	95,359	-	306,985	450,047
- Currency rate swaps	178,361	228,939	63,785	159,236	630,321
Options (put)	**275,582**	**27,629**	**-**	**273,090**	**576,301**
Total sales	**1,070,440**	**565,142**	**111,551**	**911,819**	**2,658,952**
Off-balance sheet net notional position (Note 3)	**176,892**	**127,404**	**95,131**	**(146,802)**	**252,625**

2005			**Notional amounts**		
	US$	**EUR**	**Other**	**YTL**	**Total**
Forward transactions	**249,584**	**161,137**	**62,515**	**282,915**	**756,151**
- Currency forwards	249,584	161,137	62,515	282,915	756,151
Swap transactions	**335,123**	**589,224**	**123,062**	**109,000**	**1,156,409**
- Interest rate swaps	136,809	41,075	-	-	177,884
- Currency rate swaps	198,314	548,149	123,062	109,000	978,525
Options	**-**	**1,015**	**-**	**1,005**	**2,020**
Total purchases	**584,707**	**751,376**	**185,577**	**392,920**	**1,914,580**
Forward transactions	**246,695**	**277,854**	**73,155**	**153,480**	**751,184**
-Currency forwards	246,695	277,854	73,155	147,730	745,434
-Security forwards	-	-	-	5,750	5,750
Swap transactions	**792,051**	**172,444**	**6,484**	**202,081**	**1,173,060**
- Interest rate swaps	6,602	41,075	-	136,100	183,777
- Currency rate swaps	785,449	131,369	6,484	65,981	989,283
Options	**-**	**953**	**-**	**1,071**	**2,024**
Total sales	**1,038,746**	**451,251**	**79,639**	**356,632**	**1,926,268**
Off - balance sheet net notional position (Note 3)	**(454,039)**	**300,125**	**105,938**	**36,288**	**(11,688)**

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 33 - SEGMENT ANALYSIS

The Group manages its business through five strategic business units: Retail banking, Corporate banking, Private banking and wealth management, Credit Cards and Foreign operations.

Retail banking provides products and services to individual and small business customers. Products and services include general purpose loans, car loans, mortgage, deposits, investment accounts, life and non-life insurance products, payroll services, ATMs, telephone banking, internet banking and mobile banking.

Corporate banking is organized into two segments, namely Commercial Banking, which serves mid-sized company clients, and Corporate Banking, which serves large-sized company clients. Corporate and commercial banking activities include working capital financing, foreign trade finance, project finance, domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management, investment banking and factoring and leasing services.

Private banking and wealth management serves affluent, high net worth and ultra high net worth customers of the Group and serves investment products to the Group. Activities include time deposits, fiduciary deposits, mutual funds, derivative products such as forwards, futures and options, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products, safe deposit boxes and e-banking services. Private banking and wealth management services are enhanced by investment advisory and portfolio management services provided by the Group's portfolio management and brokerage subsidiaries.

Credit Cards segment under the umbrella brand of "World" include Worldcard, Worldgold, Worldplatinum, World Signia, Virtual Worldcard, Worlduniversity, Visa Business Card, Worldcard-Turkcell, Worldgold-Turkcell and Cagdaskart, each addressing the various needs of different types of consumers. It also provides POS merchant services for company clients.

Foreign operations segment includes banking activities of the Group in the Netherlands, Germany, Switzerland and Russia.

Other operations comprise mainly treasury operations with total assets managed by treasury amounting to YTL22,546,722 thousand, total liabilities amounting to YTL7,782,857 thousand, insurance business with total assets amounting to YTL1,694,723 thousand and total liabilities amounting to YTL1,427,037 thousand.

Transactions between the business segments are on normal commercial terms and conditions.

At 31 December 2006	Retail banking	Corporate banking	Private banking and wealth management	Credit cards	Foreign operations	Other	Eliminations	Group
Segment revenue	886,416	802,547	225,878	1,058,353	46,105	339,480	(64,708)	3,294,071
Segment result	864,079	736,428	225,835	668,211	46,332	339,480	(64,708)	2,815,657
Unallocated costs	-	-	-	-	-	-	-	(1,744,622)
Operating profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,071,035**
Share of results of associates	-	-	-	-	2,048	-	-	2,048
Profit before tax								**1,073,083**
Income tax expense								(323,740)
Profit for the year								**749,343**
Segment assets	4,675,696	13,885,813	483,993	5,758,903	1,180,634	24,241,445	(834,085)	49,392,399
Associates	-	-	-	-	41,352	-	-	41,352
Unallocated assets								3,410,168
Total assets								**52,843,919**
Segment liabilities	12,654,264	12,688,528	6,658,313	-	853,950	9,209,894	(853,665)	41,211,284
Unallocated liabilities								7,597,984
Total liabilities								**48,809,268**

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 34 - 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, The Group is controlled by the Koç Group and UCI, owning 50% of the ordinary shares each of KFS.

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

(i) Balances with related parties:

	2006		2005	
	Total	**Share in total %**	**Total**	**Share in total %**
Originated loans and receivables, net	901,050	4	721,931	4
Due from banks	110,262	5	3,540	-
Trading assets	-	-	2,742	-
Derivative financial instruments	201	-	4,893	20
Other assets	160	-	2,415	-
Total assets	**1,011,673**		**735,521**	
Due to customers	3,124,962	9	1,325,461	5
Due to banks	131,622	8	10,630	3
Other borrowed funds	301,700	5	303,040	6
Other liabilities	1,012	-	875	-
Derivative financial instruments	74	-	4,952	16
Total liabilities	**3,559,370**		**1,644,958**	
Credit related commitments	745,554	5	602,009	5
Commitment under derivative instruments	230,617	4	242,623	6
Total commitments and contingent liabilities	**976,171**		**844,632**	

(ii) Transactions with related parties:

	2006		2005	
	Total	**Share in total %**	**Total**	**Share in total %**
Interest income on originated loans	61,631	2	62,233	5
Interest on deposits in banks	77	-	-	-
Interest income on financial leases	4,610	3	4,429	5
Fee and commission income	4,514	-	14,709	3
Other operating income	1,364	1	-	-
Total interest and fee income	**72,196**		**81,371**	
Interest expense on deposits	226,760	8	107,764	9
Fee and commission expense	539	-	399	-
Other operating expense	2,597	-	-	-
Total interest and fee expense	**229,896**		**108,163**	

(iii) Information regarding benefits provided to the Group's key management:

Salaries paid to the Group's key management approximately amount to YTL17,580 thousand in 2006.

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 35 - ASSETS UNDER MANAGEMENT

At 31 December 2006, the Group manages 30 open-ended mutual funds (2005: 30) and 19 private pension funds (2005: 18), which were established under the Turkish Capital Market Board Regulations.

The details of daily management fee commission rates and net assets values for each fund is as follows:

Name of the fund	2006 %	2005 %	2006 YTL	2005 YTL
Mutual Funds				
Koçbank A.Ş. B Tipi Likit Fonu	0.013	0.010	1,337,291	1,511,598
Koçbank A.Ş. B Tipi Tahvil ve Bono Fonu	0.008	0.010	217,900	886,142
Koçbank A.Ş. B Tipi Değişken Fon	0.010	0.012	299,870	680,110
Koç Yatırım Menkul Değerler A.Ş. B Tipi Tahvil ve Bono Fonu	0.006	0.010	85,327	174,912
Koç Yatırım Menkul Değerler A.Ş. B Tipi Özel Portföy Yönetimi Değişken Fonu	0.005	0.010	76,886	114,446
Koç Yatırım Menkul Değerler A.Ş. B Tipi Likit Fonu	0.009	0.009	97,553	60,660
Koçbank A.Ş. B tipi Özel Bankacılık Büyüme Amaçlı Değişken Fonu	0.008	0.010	38,939	57,712
Koçbank A.Ş. B tipi Özel Bankacılık Değişken Fonu	0.007	0.008	53,587	54,191
Koçbank A.Ş. A Tipi Özel Bankacılık İMKB Ulusal 30 Endeksi Fonu	0.003	0.006	24,731	33,392
Koçbank A.Ş. A Tipi Değişken Fon	0.015	0.015	27,323	31,593
Koçbank A.Ş. A Tipi İMKB Ulusal 30 Endeksi Fonu	0.010	0.010	16,278	24,342
Koç Yatırım Menkul Değerler A.Ş. A Tipi Özel Portföy Yönetimi Değişken Fonu	0.008	0.011	8,730	19,943
Koçbank A.Ş. A Tipi Hisse Senedi Fonu	0.015	0.015	4,975	5,429
Koç Yatırım Menkul Değerler A.Ş. A Tipi Koç Şirketleri İştirak Fonu	0.010	0.010	6,916	3,562
Koçbank A.Ş. B Tipi Tahvil Bono (Eurobond) Fonu	0.008	0.008	1,450	2,756
Koçbank A.Ş. A Tipi Koç Allianz Sigorta Özel Fon	0.003	0.003	262	1,789
BankEuropa Bankası A.Ş. A Tipi Değişken Fonu	0.014	0.001	1,292	965
BankEuropa Bankası A.Ş. B Tipi Tahvil Bono Fonu	0.010	0.001	3,796	32,292
BankEuropa Bankası A.Ş. B Tipi Likit Fonu	0.008	0.001	42,860	19,002
Yapı Kredi Bankası A.Ş. B Tipi Likit Fonu	0.013	0.010	2,430,064	2,574,006
Yapı Kredi Bankası A.Ş. B Tipi Değişken Fon	0.010	0.012	15,474	25,785
Yapı Kredi Yatırım Menkul Değerler A.Ş. B Tipi Tahvil ve Bono Fonu	0.008	0.012	12,569	22,058
Yapı Kredi Bankası A.Ş. A Tipi Karma Fon	0.015	0.015	3,121	2,888
Yapı Kredi Bankası A.Ş. A Tipi Hisse Fon	0.015	0.015	3,271	3,438
Yapı Kredi Bankası A.Ş. A Tipi Yabancı Menkul Kıymetler Fonu	0.015	0.015	820	898
Yapı Kredi Bankası A.Ş. B Tipi Tahvil ve Bono Fonu	0.008	0.012	66,863	168,157
Yapı Kredi Yatırım Menkul Değerler A.Ş. B Tipi Likit Fonu	0.008	0.008	113,380	109,854
Yapı Kredi Yatırım Menkul Değerler A.Ş. A Tipi İMKB Ulusal 30 Endeksi Fonu	0.012	0.012	13,862	22,941
Yapı Kredi Yatırım Menkul Değerler A.Ş. A Tipi Değişken Fon	0.012	0.012	5,211	6,240
Yapı Kredi Yatırım Menkul Değerler A.Ş. A Tipi Karma Fonu	0.003	0.003	30,353	31,656
Total mutual funds			**5,040,954**	**6,682,757**

(Amounts expressed in thousands of New Turkish Lira ("YTL") unless otherwise indicated.)

NOTE 35 - ASSETS UNDER MANAGEMENT (Continued)

Name of the fund	2006 %	2005 %	2006 YTL	2005 YTL
Pension funds				
Koç Allianz Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	0.0052	0.0075	102,981	51,933
Koç Allianz İhtisaslaşmış IMKB Ulusal 30 Endeksi Emeklilik Yatırım Fonu	0.0082	0.0082	12,746	7,366
Koç Allianz Para Piyasası Likit Kamu Emeklilik Yatırım Fonu	0.0052	0.0060	18,005	6,335
Koç Allianz Büyüme Amaçlı Esnek Emeklilik Yatırım Fonu	0.0075	0.0075	9,489	4,500
Koç Allianz Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	0.0055	0.0055	8,630	3,888
Koç Allianz Gelir Amaçlı Kamu Borçlanma Araçları (Dövize End.) Emeklilik Yatırım Fonu	0.0058	0.0058	5,502	1,540
Koç Allianz Hayat ve Emeklilik A.Ş. ("Koç Allianz") Para Piyasası Emanet Likit Kamu Emeklilik Yatırım Fonu	0.0060	0.0060	357	763
Koç Allianz Gelir Amaçlı Uluslararası Karma Emeklilik Yatırım Fonu	0.0055	0.0055	2,663	1,096
Yapı Kredi Emeklilik Büyüme Amaçlı Hisse Senedi Emeklilik Yatırım Fonu	0.0055	0.0055	26,439	9,188
Yapı Kredi Emeklilik Esnek (YTL) Grup Emeklilik Yatırım Fonu	0.0027	0.0027	514	2,554
Yapı Kredi Emeklilik Esnek(Döviz) Grup Emeklilik Yatırım Fonu	0.0027	0.0027	207	1,420
Yapı Kredi Emeklilik Esnek Emeklilik Yatırım Fonu	0.0055	0.0055	100,936	53,131
Yapı Kredi Emeklilik Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	0.0055	0.0055	80,939	25,497
Yapı Kredi Emeklilik Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	0.0055	0.0055	163,007	60,125
Yapı Kredi Emeklilik Gelir Amaçlı Kamu Borçlanma Araçları (Döviz) Emeklilik Yatırım Fonu	0.0055	0.0055	38,019	12,173
Yapı Kredi Emeklilik Gelir Amaçlı Uluslararası Karma Emeklilik Yatırım Fonu	0.0055	0.0055	1,604	640
Yapı Kredi Emeklilik Para Piyasası Emanet Likit Karma Emeklilik Yatırım Fonu	0.0055	0.0055	1,294	769
Yapı Kredi Emeklilik Para Piyasası Likit- Kamu Emeklilik Yatırım Fonu	0.0055	0.0055	67,034	26,659
Yapı Kredi Emeklilik Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu (Euro)	0.0055	-	634	-
Total pension funds			**641,000**	**269,577**
Total			**5,681,954**	**6,952,334**

NOTE 36 - RESERVE REQUIREMENTS

Turkish:

Reserve requirements of 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% (2005: 6%) and 11% (2005: 11%), respectively. The mandatory reserve deposit rates are applicable to both time and demand deposits.

Foreign:

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

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

NOTE 37 - POST BALANCE SHEET EVENTS

(i) As of 1 March 2007, the Group received external financing which consisting of two parts and amounting to US$400 million according to the securitisation program based on diversified payment rights of future cash flows with the leadership of the Standard Chartered Bank and Bayerische Hypo-und Vereinsbank AG. The maturity of the both parts is eight years which amounts to EUR115 million and US$250 million, respectively. With the external financing, fifth part of the transaction made in 2006 with a five-year maturity amounting to the US$310 million was repaid.

(ii) Based on the "Fintur, Superonline and Digitürk Purchase-Sale agreement" signed between YKB and the Çukurova Group companies at 28 September 2005, the date set for the transfer of the Superonline shares was extended for an additional three months on 26 February 2007 in order to complete the share transfer.

(iii) Extraordinary General Assembly meetings regarding the transfer of Koç Yatırım with all its rights, receivables, liabilities and obligations to one of the Bank's subsidiaries, Yapı Kredi Menkul and the consequential dissolution without liquidation were held on 29 December 2006 the merger was approved on 12 January 2007. As a result of the merger, the Bank's share in Yapı Kredi Menkul has been realised as 64.70%.

(iv) Extraordinary General Assembly meetings regarding the transfer of YKB's subsidiaries, Bayındırlık İşleri and Akdeniz Marmara to another subsidiary of the Group, Enternasyonal were held on 5 February 2007 and the merger was approved on 8 February 2007.

(v) As of 26 February 2007, UCI is transferred 50% of its shares in KFS to the Bank Austria Creditanstalt AG ("BACA"). This transfer is subject to the permission of the Capital Market Board regarding the amendment of an indirect shareholding in terms of Yapı Kredi Portföy. Since BACA is a company under the management of UCI, the share transfer does not result in an amendment to the management or the control of either YKB or YKB's equity participations. Consequently, BACA received the exemption from the permission requirement as a result of other publicly held shares from CMB.

(vi) In the meeting of the Board of Directors as of 28 February 2007; it was resolved that the Bank's capital will be increased from YTL3,142,818 thousand to YTL3,149,450 thousand corresponding to a total increase of YTL6,632 thousand and according to Corporate Tax Law No.5422 Part No.12 of article 8, it has been decided that the increased capital amount of YTL6,632 thousand will be offset by adding the sales of the shares to the capital.

(vii) On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional article 23 of the Banking Law, which requires the transfer of the Pension Fund to the SSK, until the decision regarding the cancellation thereof is published in the Official Gazette (Note 21). As stipulated in the other relevant articles of the Banking Act, namely article 58, temporary article 7 and in light of the legal opinions obtained, it is interpreted that it is against the law for the Bank to transfer any resources to the Pension Fund to cover the deficit of the Pension Fund as of 31 December 2007. Besides, BRSA expressed its opinion that the cancellation of the transfer of the Fund to the SSK will not have any impact on the measurement principles of the existing liability of the Bank in the subsequent period. On the other hand, an ambiguity may exist with respect to the constructive obligation of the Bank regarding the existing benefits of the pensioners and, therefore, it is not certain whether or not there will be any possible subsequent change in the measuring of the retirement benefits as at the date of the issuance of these consolidated financial statements.

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