

YAPI VE KREDİ BANKASI A.Ş.

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2005
TOGETHER WITH AUDITOR'S REPORT**

AUDITOR'S REPORT

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

1. We have audited the accompanying consolidated balance sheet of Yapı ve Kredi Bankası A.Ş. ("the Bank") at 31 December 2005 and the related consolidated statements of income and of cash flows for the year then ended, all expressed in the equivalent purchasing power of the New Turkish Lira at 31 December 2005. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. The consolidated financial statements of the Bank as at and for the year ended 31 December 2004 were audited by another auditor whose report dated 12 April 2005 expressed a qualified opinion in relation to Çukurova group risk, the carrying amount of three Çukurova group companies, the receivable from two government agencies and the pension obligations of the Bank.
4. The Bank made certain corrections, as explained in detail below, in the year 2005, the effects of which were recognised in the consolidated statement of income for the year ended 31 December 2005. In our opinion, the Bank should recognise the effects of these corrections retrospectively as required by International Accounting Standard ("IAS") 8 "Accounting Policies, Change in Accounting Estimates and Errors".
 - (a) As explained in detail in Note 20, the Bank provided a provision amounting to YTL555,619 thousand (YTL388,933 thousand, net of deferred taxes) regarding the deficit of the Pension Fund of its employees as of 31 December 2005 and recognised the full amount of this provision in the consolidated statement of income for the year ended 31 December 2005 as other provision expenses. During the determination of the deficit amounts, the Bank used the assumptions and methods in accordance with the New Banking Law referred to below, that are planned to be used during the transfer of the Pension Fund to the Social Security Institution within the next three years following the enactment of the New Banking Law on 1 November 2005.

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

- (b) As explained in Notes 12 and 13, the Bank re-performed detailed restatement work with regard to its premises, equipment and intangible assets in 2005. After the completion of this restatement work, the Bank recognised a correction of YTL188,262 thousand (YTL131,783 thousand, net of deferred taxes) in the consolidated statement of income for the year ended 31 December 2005 as other operational expenses. We believe that the major portion of this correction is related with prior years.
- (c) As explained in Notes 13 and 14, a significant portion of the recoverable amounts of the land and buildings of the Bank, including assets held for resale, have been evaluated by two different appraisal companies in 2005. An impairment loss amounting to YTL735,656 thousand based on these evaluations regarding the land and buildings, including assets held for resale, has been recognised in the consolidated statement of income for the year ended 31 December 2005 as other operational expenses. Based on the trends in the real estate market in Turkey in 2005, it is probable that the major portion of this impairment loss can be related to the prior years. On the other hand, the Bank did not quantify the amount of the impairment provision as of 31 December 2004 in relation to the land and buildings, including assets held for resale, as it did not have an independent evaluation report as of that date, thus we are unable to quantify the amount of the impairment provision, if any, as of 31 December 2004 in relation to those assets.
- (d) As explained in Note 9, the Bank's receivable from a government agency was determined as YTL152,438 thousand in accordance with the protocol signed between the Bank, this government agency and the Treasury ("the Protocol") at 30 December 2005. This receivable was recognised at its fair value of YTL142,431 thousand as of the same date. As the balance of this receivable prior to the sign-off of the Protocol amounted to YTL642,350 thousand, an amount of YTL499,919 thousand including monetary loss regarding the receivable from this government agency was recognised in the consolidated statement of income for the year ended 31 December 2005 as loss. The Bank did not quantify the amount of the impairment provision regarding this receivable as of 1 January 2005, thus we are unable to quantify the misstatement of current year results.
- (e) As explained in Note 8, the Bank recognised an impairment loss amounting to YTL294,830 thousand regarding the carrying amount and goodwill of one of its investments in 2005 based on the price in a sales option agreement it signed with Çukurova group, the former controlling shareholder of the Bank, in the year ended 31 December 2005. The carrying amount of this investment amounted to YTL496,073 thousand including the goodwill at 31 December 2004. The Bank did not perform any impairment test in relation to this investment as of 31 December 2004, thus, we are unable to satisfy ourselves as to opening carrying amount of this investment including the goodwill at 1 January 2005.

5. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Yapı ve Kredi Bankası A.Ş. at 31 December 2005 and, except for the effects of the matters referred to in the paragraph 4 above, the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.
6. Without further qualifying our opinion we draw attention to the following significant issues:
 - (a) As explained in detail in Note 37, the final version of the Share Purchase Agreement (“SPA”) was signed between Çukurova Holding A.Ş., various Çukurova group companies, Mehmet Emin Karamahmet, Koç Finansal Hizmetler A.Ş., Koçbank N.V. and Koçbank A.Ş. regarding the sale of 57,4% of the shares of the Bank on 28 September 2005. In addition to the SPA, several agreements have been signed between the Bank and Çukurova group companies on 28 September 2005 which aim to re-establish the loan and other relations of the Bank with the Çukurova group. As of the date of this report, a part of the conditions in those agreements have been fulfilled or secured by Koç Finansal Hizmetler A.Ş., the indirect main shareholder of the Bank. The Bank management reflected the effects of the remaining agreements in force as of 31 December 2005 by taking the agreements and the best estimations of the management into consideration, where all of the effects were related with the current year’s statement of income. The recoverability of the carrying amounts as a result of the ongoing parts of these agreements is closely related to the fulfilment of the conditions set out in those agreements.
 - (b) As explained in detail in Note 37, the unconsolidated capital adequacy ratio of the Bank has been realised as below the regulatory minimum required rate of 8% as of 31 December 2005. Moreover, the Bank also could not meet some regulatory limits that are restricted up to a certain level of the shareholders’ equity as of 31 December 2005. According to the banking regulations in Turkey, the Bank has to bring the capital adequacy ratio together with the excess regulatory limits to the regulatory levels within 6 months from 30 September 2005. In line with its business plans, the Bank management has been taking certain measures in order to bring the capital adequacy ratio together with the excess regulatory limits to the regulatory levels.

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

Zeynep Uras, SMMM

Istanbul, 3 April 2006

YAPI VE KREDİ BANKASI A.Ş.

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YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER

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

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

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

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

YAPI VE KREDİ BANKASI A.Ş.**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER**

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

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

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

YAPI VE KREDİ BANKASI A.Ş.**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER**

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

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

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

YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER

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

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

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

YAPI VE KREDİ BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2005

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

NOTE 1 - ORGANISATION AND PRINCIPAL ACTIVITIES

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of presentation of consolidated financial statements

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2005**

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Adoption of revised standards

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

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

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

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

YAPI VE KREDİ BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2005

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Accounting for the effect of hyperinflation

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

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

| <u>Dates</u> | <u>Index</u> | <u>Conversion factor</u> |
|-------------------------|----------------|--------------------------|
| 31 December 2005 | 8,627.3 | 1.000 |
| 31 December 2004 | 8,403.8 | 1.027 |
| 31 December 2003 | 7,382.1 | 1.169 |

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

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods are restated in the same terms.
- Monetary assets and liabilities that are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities that are not carried at amounts current at the balance sheet date and components of equity are restated by applying the relevant (monthly, yearly average, year end) conversion factors.
- Comparative financial statements are restated using general inflation indices at the current purchasing power at the latest balance sheet date.
- All items in the statement of income are restated by applying the monthly conversion factors.
- The effects of inflation on the Group's net monetary position are included in the statement of income as gains or losses on net monetary position.

C. Consolidation

i) Subsidiaries

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

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

YAPI VE KREDİ BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2005

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The list of subsidiaries at 31 December is as follows:

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

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

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

(***) Liquidated in August 2005.

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

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

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

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

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) Investments in associates

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

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

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

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

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

(iii) Transactions and minority interests

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

D. Foreign currency translation

(i) Functional currency

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

(ii) Transactions and balances

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

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) Group companies

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

- (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.

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

E. Related parties

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

F. Financial assets at fair value through profit or loss

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

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

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

G. Investment securities

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2005

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

H. Sale and repurchase agreements

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

I. Loans and advances to customers

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Premises and equipment

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

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

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

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

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

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

Leasehold improvements comprise primarily of capitalised branch refurbishment costs.

K. Intangible assets

(i) Goodwill

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

(ii) Other intangible assets

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

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

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Accounting for leases

(i) Group company is the lessor

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

(ii) Group company is the lessee

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

M. Financial liabilities

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

N. Income taxes

(i) Income taxes currently payable

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

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

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

(ii) Deferred income taxes

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

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

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

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

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Employment termination benefits

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

P. Other provisions

(i) Pension and other post employment obligations

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

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

(ii) Other

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

Q. Interest income and expense

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

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

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

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Fee and commission income and expense

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

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

S. Acceptances

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

T. Other credit related commitments

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

U. Derivative financial instruments

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

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

V. Offsetting

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

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

W. Earnings per share

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

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

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

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

X. Cash and cash equivalents

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

Y. Insurance business

Premium Income

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

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

Claims

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

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

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Acquisition Costs

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

Unearned Premium Reserve

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

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

Outstanding Claims/IBNR Reserves

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

Mathematical Reserves

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

Profit Share Reserve

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

Liability adequacy test

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

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Z. Comparatives

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

NOTE 3 - FINANCIAL RISK MANAGEMENT

A. Strategy in using financial instruments

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

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

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

Derivative instruments are limited to financial instruments such as forwards, swaps, futures in the foreign exchange and capital markets and options. These transactions are considered as effective economic hedges under the Group's risk management policies. However, since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading.

B. Risk management

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

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

C. Credit risk

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

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

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NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

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

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

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

D. Market risk

Market risk is the risk of incurring value fluctuations in the Group's positions which are associated with 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.

(i) Currency risk

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

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NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

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

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

31 December 2005

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

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

YAPI VE KREDİ BANKASI A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)**31 December 2004**

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

At 31 December 2004, assets and liabilities denominated in foreign currency were translated into YTL using a foreign exchange rate of YTL1.34210 = US\$1 and YTL1.82673 = EUR1.

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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. Changes in the level and shape of interest rate curves may also create interest rate risk.

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

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

| 31 December 2005 | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Non-interest bearing | Total |
|--|--------------------|-----------------------|----------------------|------------------|-------------------------|-------------------|
| Assets | | | | | | |
| Cash and balances with central banks | 884,737 | - | - | - | 506,848 | 1,391,585 |
| Due from banks | 2,938,885 | 122,186 | 11,433 | - | 71,499 | 3,144,003 |
| Trading securities | 427,693 | 346,796 | 501,791 | 166,541 | 124,211 | 1,567,032 |
| Investment securities: | | | | | | |
| - available-for-sale | 15,190 | 109,188 | 185,940 | 206,781 | 607,557 | 1,124,656 |
| - held-to-maturity | 904,607 | 1,079,560 | 1,335,891 | 928,673 | - | 4,248,731 |
| Loans and advances to customers | 5,863,262 | 3,100,019 | 1,944,221 | 827,753 | 244,823 | 11,980,078 |
| Derivative financial instruments | 643 | 809 | - | - | - | 1,452 |
| Investments in associates | - | - | - | - | 35,916 | 35,916 |
| Intangible assets | - | - | - | - | 30,713 | 30,713 |
| Premises and equipment | - | - | - | - | 1,275,815 | 1,275,815 |
| Other assets | 81,712 | 13,269 | - | - | 474,586 | 569,567 |
| Deferred income tax assets | - | - | - | - | 783,687 | 783,687 |
| Total assets | 11,116,729 | 4,771,827 | 3,979,276 | 2,129,748 | 4,155,655 | 26,153,235 |
| Liabilities | | | | | | |
| Due to banks | 350,287 | 37,525 | - | - | 48,079 | 435,891 |
| Due to customers | 12,481,769 | 1,360,583 | 109,237 | - | 3,982,862 | 17,934,451 |
| Other borrowed funds | 785,855 | 1,344,646 | 29,924 | 61,524 | 251 | 2,222,200 |
| Derivative financial instruments | 1,747 | 270 | 45 | - | - | 2,062 |
| Insurance technical reserves | - | - | - | - | 830,043 | 830,043 |
| Current income taxes payable | - | - | - | - | 6,325 | 6,325 |
| Other provisions | - | - | - | - | 791,607 | 791,607 |
| Reserve for employment termination benefits | - | - | - | - | 77,545 | 77,545 |
| Other liabilities | 201,638 | 9,554 | 3,087 | - | 1,817,570 | 2,031,849 |
| Deferred income tax liabilities | - | - | - | - | 220,193 | 220,193 |
| Total liabilities and equity | 13,821,296 | 2,752,578 | 142,293 | 61,524 | 7,774,475 | 24,552,166 |
| Net interest sensitivity gap | (2,704,567) | 2,019,249 | 3,836,983 | 2,068,224 | (3,618,820) | 1,601,069 |

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NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

| 31 December 2004 | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Non-interest bearing | Total |
|-------------------------------------|--------------------|-----------------------|----------------------|-----------------|-------------------------|-------------------|
| Assets | | | | | | |
| Cash and balances | | | | | | |
| with central banks | 1,192,204 | - | - | - | 420,177 | 1,612,381 |
| Due from banks | 1,326,691 | 2,417 | - | - | 26,970 | 1,356,078 |
| Trading securities | 927,383 | 1,496,486 | 1,265,508 | 321,918 | 151,531 | 4,162,826 |
| Investment securities: | | | | | | |
| - available-for-sale | 195,102 | 940,974 | 298,502 | 430,273 | 1,298,358 | 3,163,209 |
| - held-to-maturity | 14,538 | 55,253 | 85,387 | 37,089 | - | 192,267 |
| Loans and advances to customers | 7,091,508 | 1,818,277 | 3,067,853 | - | 109,786 | 12,087,424 |
| Derivative financial instruments | 2,863 | 59 | - | - | - | 2,922 |
| Investments in associates | - | - | - | - | 305,281 | 305,281 |
| Intangible assets | - | - | - | - | 164,749 | 164,749 |
| Premises and equipment | - | - | - | - | 2,354,564 | 2,354,564 |
| Other assets | 75,081 | 15,266 | - | - | 534,723 | 625,070 |
| Deferred income tax assets | - | - | - | - | 284,813 | 284,813 |
| Total assets | 10,825,370 | 4,328,732 | 4,717,250 | 789,280 | 5,650,952 | 26,311,584 |
| Liabilities | | | | | | |
| Due to banks | 198,294 | 13,657 | 51,176 | - | 34,162 | 297,289 |
| Due to customers | 11,059,063 | 4,241,905 | 362,162 | 11,604 | 2,875,069 | 18,549,803 |
| Other borrowed funds | 855,127 | 387,480 | 175,160 | - | 3,009 | 1,420,776 |
| Derivative financial instruments | 1,874 | - | - | - | - | 1,874 |
| Insurance technical reserves | - | - | - | - | 786,895 | 786,895 |
| Current income taxes payable | - | - | - | - | 2,171 | 2,171 |
| Other provisions | - | - | - | - | 30,954 | 30,954 |
| Reserve for employment | | | | | | |
| termination benefits | - | - | - | - | 49,116 | 49,116 |
| Other liabilities | 150,694 | 2,977 | - | - | 1,476,775 | 1,630,446 |
| Deferred income tax liabilities | - | - | - | - | 44,328 | 44,328 |
| Total liabilities and equity | 12,265,052 | 4,646,019 | 588,498 | 11,604 | 5,302,479 | 22,813,652 |
| Net interest sensitivity gap | (1,439,682) | (317,287) | 4,128,752 | 777,676 | 348,473 | 3,497,932 |

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

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

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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 consequent availability of cash and cash equivalent instruments are set based on the level of outstanding deposits.

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

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

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NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

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

F. Operational risk

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

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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 2005 and 2004.

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

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

Due from banks

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

Loans and advances to customers

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

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NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

Investment securities

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

Due to banks, customer deposits and other borrowed funds

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

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

H. Fiduciary activities

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

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

NOTE 4 - CASH AND CASH EQUIVALENTS

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

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2005

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NOTE 5 - CASH AND BALANCES WITH CENTRAL BANKS

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

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

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NOTE 6 - DUE FROM BANKS

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

NOTE 7 - TRADING SECURITIES

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

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

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

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NOTE 8 - INVESTMENT SECURITIES**(i) Available-for-sale:**

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

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

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NOTE 8 - INVESTMENT SECURITIES (Continued)

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

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

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

As of 31 December 2005, the carrying value of A-Tel accounted for as available-for-sale securities amounted to YTL201,270 thousand (US\$150,000,000) by taking into consideration the above mentioned "A-Tel Option Agreement". The sales price was also supported by an independent valuation report. Accordingly, an impairment amounting to YTL251,147 thousand and YTL43,656 thousand has been recognised in the current year income statement in relation to the carrying value and goodwill of A-Tel, respectively (Notes 12, 28 and 29).

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NOTE 8 - INVESTMENT SECURITIES (Continued)

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

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

(ii) Held-to-maturity:

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

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

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NOTE 8 - INVESTMENT SECURITIES (Continued)

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

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

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

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

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

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NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

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

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

(*) The Bank had a receivable from a government agency amounting to YTL642,350 thousand as of 31 December 2004. In accordance with the protocol signed between the Bank, this government agency and the Treasury at 30 December 2005, the receivable of the Bank from this government agency is determined as YTL152,438 thousand and this receivable would be paid to the Bank through a special type of government bond issued by the Treasury, which has a maturity of three years with yearly coupon payments. This government bond has been recognised with its fair value at the inception date of 30 December 2005. Accordingly, an impairment expense of YTL484,266 thousand regarding the receivable from this government agency is reflected to the current year income statement in 2005.

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NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Movement in the provision for loan losses is as follows:

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

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

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

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

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

The loans and advances include factoring receivables as shown below:

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

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NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Economic sector risk concentrations for performing loans are as follows:

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

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

Accordingly, on 28 September 2005, Çukurova Group paid the principal and interest amounting to US\$930,092,413 and US\$80,664,129, respectively, netted off from the payables of the Group under FRA. In addition an amount of US\$23,473,534 was paid to the Bank against other payables of Çukurova Group. Accordingly, Çukurova Group's total repayment to the Bank was realised as US\$1,034,230,076 as of 28 September 2005 (Note 37).

After deducting the discount of US\$303,831,442 (YTL398,295 thousand) from total payables the effect of which is reflected to the current year income statement as "other operating expenses" (Note 28), the Bank's risk balance to Çukurova Group amounted to US\$805,431,881 (YTL1,080,728 thousand) as of 31 December 2005. The annual interest rate for the remaining portion of the Çukurova Group risk per Modification Agreement is identified as Libor+2.5 and the maturity of the last payment is 31 December 2015. According to the pledge agreement signed between the Bank, Çukurova Holding and Çukurova Investments N.V. on 28 September 2005, the Bank has a continuous pledge on 4.978% of Turkcell and 3.049% of Turkcell Holding shares in relation to the Çukurova Group loans repayment liability. The market value of those Turkcell collaterals amounts to approximately YTL993,694 thousand as of 31 December 2005.

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NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises the following derivative instruments:

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

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

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

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

31 December 2005

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

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NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

31 December 2004

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

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

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

NOTE 11 - INVESTMENTS IN ASSOCIATES

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

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

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NOTE 12 - INTANGIBLE ASSETS

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

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

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NOTE 13 - PREMISES AND EQUIPMENT

| At 1 January 2005 | Land and buildings | Office equipments | Furniture and fixtures, vehicles and other | Leasehold improvements | Total |
|--------------------------|---------------------------|--------------------------|---|-------------------------------|------------------|
| Cost | 3,525,523 | 291,228 | 605,595 | 358,912 | 4,781,258 |
| Accumulated depreciation | (1,524,314) | (159,157) | (373,954) | (272,716) | (2,330,141) |
| Impairment | (96,553) | - | - | - | (96,553) |
| Net book amount | 1,904,656 | 132,071 | 231,641 | 86,196 | 2,354,564 |

Year ended 31 December 2005:

| | | | | | |
|-------------------------------------|------------------|----------------|----------------|----------------|------------------|
| Cost | | | | | |
| Opening balance | 3,525,523 | 291,228 | 605,595 | 358,912 | 4,781,258 |
| Additions | 15,800 | 2,049 | 11,224 | 38,681 | 67,754 |
| Disposals | (6,126) | (21,634) | (8,556) | (10,183) | (46,499) |
| Additions to scope of consolidation | - | - | 203 | 113 | 316 |
| Disposals from consolidation | (49,221) | - | - | - | (49,221) |
| Translation difference | (774) | (400) | (790) | (267) | (2,231) |
| Effect of corrections (Note 28) | (71,407) | 176 | (290,968) | (275,260) | (637,459) |
| Closing balance | 3,413,795 | 271,419 | 316,708 | 111,996 | 4,113,918 |

Accumulated depreciation and impairment

| | | | | | |
|-------------------------------------|--------------------|------------------|------------------|-----------------|--------------------|
| Opening balance | (1,620,867) | (159,157) | (373,954) | (272,716) | (2,426,694) |
| Charge for the year (Note 28) | (55,607) | (112,295) | (86,711) | (15,667) | (270,280) |
| Disposals | 3,756 | 17,244 | 8,163 | 188 | 29,351 |
| Additions to scope of consolidation | - | - | (72) | (23) | (95) |
| Disposals from consolidation | 4,810 | - | - | - | 4,810 |
| Translation difference | 179 | 292 | 705 | 194 | 1,370 |
| Impairment charge (Note 28) | (646,641) | - | - | - | (646,641) |
| Effect of corrections (Note 28) | 4,284 | 4,651 | 222,403 | 238,738 | 470,076 |
| Closing balance | (2,310,086) | (249,265) | (229,466) | (49,286) | (2,838,103) |

At 31 December 2005

| | | | | | |
|--------------------------|------------------|---------------|---------------|---------------|------------------|
| Cost | 3,413,795 | 271,419 | 316,708 | 111,996 | 4,113,918 |
| Accumulated depreciation | (1,566,892) | (249,265) | (229,466) | (49,286) | (2,094,909) |
| Impairment | (743,194) | - | - | - | (743,194) |
| Net book amount | 1,103,709 | 22,154 | 87,242 | 62,710 | 1,275,815 |

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

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NOTE 14 - OTHER ASSETS

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

Assets held for resale represent mainly foreclosed assets received against uncollectible loans and advances to customers, to be sold as required by the Turkish Banking Law. At 31 December 2005, the total impairment recognised for assets held for resale amounted to YTL306,678 thousand (2004: YTL221,273 thousand).

Movement in assets held for resale is as follows:

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

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

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NOTE 15 - DUE TO BANKS

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

NOTE 16 - DUE TO CUSTOMERS

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

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

NOTE 17 - OTHER BORROWED FUNDS

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

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

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

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

NOTE 18 - INSURANCE TECHNICAL RESERVES

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

The movement of insurance technical reserves is as follows:

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

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NOTE 19 - TAXATION

| | 2005 | 2004 |
|---|----------------|----------------|
| (i) Taxation income | | |
| Turkish | | |
| - Current tax expense | (7,954) | (14,830) |
| - Deferred income tax benefit | 316,649 | 85,596 |
| | 308,695 | 70,766 |
| Foreign | | |
| - Current tax expense | (6,637) | - |
| - Deferred income tax benefit/(expense) | 5,285 | (375) |
| | (1,352) | (375) |
| | 307,343 | 70,391 |
| | 2005 | 2004 |
| (ii) Current income taxes payable | | |
| - Turkish | 3,085 | 1,351 |
| - Foreign | 3,240 | 820 |
| Total current income taxes payable | 6,325 | 2,171 |
| | 2005 | 2004 |
| (iii) Deferred income taxes | | |
| Deferred income tax assets | | |
| - Turkish | 772,013 | 280,526 |
| - Foreign | 11,674 | 4,287 |
| | 783,687 | 284,813 |
| Deferred income tax liabilities | | |
| - Turkish | 216,244 | 35,833 |
| - Foreign | 3,949 | 8,495 |
| | 220,193 | 44,328 |
| Deferred income tax assets, net | 563,494 | 240,485 |

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NOTE 19 - TAXATION (Continued)

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

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

No further tax is payable unless the profit is distributed.

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

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

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

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

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

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

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

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

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NOTE 19 - TAXATION (Continued)

Deferred income taxes

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

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

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

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

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

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NOTE 19 - TAXATION (Continued)

The movement of deferred income taxes is as follows:

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

NOTE 20 - OTHER PROVISIONS

Other provisions included in other liabilities are as follows:

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

Estimated liability on transfer of the Fund

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

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

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NOTE 20 - OTHER PROVISIONS (Continued)

Tax and other legal provisions

- (i) The Group recorded a total provision of YTL73,332 thousand against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the year ended 31 December 2005.
- (ii) At 31 December 2005, the Group is involved in some legal disputes. The Group's lawyers advise that, owing to developments in the cases, it is probable that the Group will be found liable. Therefore, the management has recognised a provision of YTL16,425 thousand as the best estimate of the amount to settle these potential obligations.

Provision on export commitment estimated liabilities

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

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

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

Movement in other provisions is as follows:

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

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NOTE 21 - OTHER LIABILITIES

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

NOTE 22 - RESERVE FOR EMPLOYMENT TERMINATION BENEFITS

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

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

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

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

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NOTE 22 - RESERVE FOR EMPLOYMENT TERMINATION BENEFITS (Continued)

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

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

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

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

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

NOTE 23 - SHARE CAPITAL

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

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

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

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

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NOTE 24 - RETAINED EARNINGS AND LEGAL RESERVES

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

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

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

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

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

NOTE 25 - NET INTEREST INCOME

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

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

NOTE 26 - NET FEE AND COMMISSION INCOME

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

NOTE 27 - OTHER OPERATING INCOME

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

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

YAPI VE KREDİ BANKASI A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AT 31 DECEMBER 2005**

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

NOTE 28 - OTHER OPERATING EXPENSES

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

NOTE 29 - OTHER PROVISION EXPENSES

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

(*) Resulted from the indirect investment in Enternasyonel Turizm Yatırım A.Ş. (2004: YTL188,945 thousand). As of 31 December 2004, YTL21,833 thousand is related with the direct investment in the same Company.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2005

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

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

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

NOTE 31 - COMMITMENTS AND CONTINGENT LIABILITIES

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

Legal proceedings

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

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

Credit-related commitments

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

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

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

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AT 31 DECEMBER 2005**

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NOTE 31 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

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

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

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

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

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NOTE 31 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**Commitments under derivative instruments:****31 December 2005**

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

31 December 2004

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

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NOTE 32 - RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

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

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

(i) Balances with related parties:

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

(ii) Transactions with related parties:

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

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NOTE 33 - SEGMENT REPORTING

(i) Business Segments:

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

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NOTE 33 - SEGMENT REPORTING (Continued)

| 31 December 2004 | Banking | Leasing | Factoring | Insurance | Brokerage and Portfolio Management | Construction | Consolidated |
|--|-------------------|----------------|----------------|----------------|--|----------------|-------------------|
| Net interest income (expense) | 782,432 | 32,441 | 15,430 | 35,322 | 7,506 | - | 873,131 |
| Provision for possible loan, leasing and factoring receivables | (140,273) | (11,258) | (3,020) | - | - | - | (154,551) |
| Foreign exchange gain/(loss) | 44,921 | 1,276 | (826) | 207 | 1,183 | - | 46,761 |
| Other operating income | 632,321 | 2,280 | 7,731 | 66,521 | 47,737 | 1,942 | 758,532 |
| Other operating expense | (1,589,511) | (1,119) | (7,439) | (108,378) | (32,190) | (7,525) | (1,746,162) |
| Profit/(loss) from operating activities | (270,110) | 23,620 | 11,876 | (6,328) | 24,236 | (5,583) | (222,289) |
| Unallocated items: | | | | | | | |
| Income tax | - | - | - | - | - | - | 70,391 |
| Monetary gain | - | - | - | - | - | - | 119,586 |
| Minority interest | - | - | - | - | - | - | 918 |
| Net profit/(loss) | (270,110) | 23,620 | 11,876 | (6,328) | 24,236 | (5,583) | (31,394) |
| Other segment information | | | | | | | |
| Segment assets | 24,248,311 | 292,160 | 251,811 | 966,948 | 126,548 | 120,525 | 26,006,303 |
| Investments in associates | 305,281 | - | - | - | - | - | 305,281 |
| Total assets | 24,553,592 | 292,160 | 251,811 | 966,948 | 126,548 | 120,525 | 26,311,584 |
| Segment liabilities | 21,552,883 | 158,035 | 205,038 | 850,172 | 32,848 | 14,677 | 22,813,653 |
| Total liabilities | 21,552,883 | 158,035 | 205,038 | 850,172 | 32,848 | 14,677 | 22,813,653 |
| Capital expenditures | | | | | | | |
| Tangible fixed assets | 61,511 | 15 | 983 | 7,329 | 620 | 654 | 71,112 |
| Intangible fixed assets | 15,826 | 2,872 | - | - | 2,804 | - | 21,502 |
| Depreciation | (175,145) | (197) | (1,155) | (5,748) | (955) | (986) | (184,186) |
| Amortisation | (33,552) | (64) | (44) | - | (1,328) | - | (34,988) |
| Impairment losses on premises and equipment | (42,042) | - | - | (2,027) | - | - | (44,069) |

YAPI VE KREDİ BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 34 - ASSETS UNDER MANAGEMENT

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

NOTE 35 - RESERVE REQUIREMENTS WITH CBRT AND LIQUIDITY REQUIREMENTS

Turkish:

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

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

Foreign:

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

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

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

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NOTE 36 - POST BALANCE SHEET EVENTS

- a) Based on the "Fintur, Superonline and Digitürk Purchase-Sale agreement" signed between the Bank and the Çukurova Group companies on 28 September 2005 (Note 37), Fintur and Digitürk shares were sold to Avor İnşaat Gıda Tekstil Kimya Sanayi ve Ticaret A.Ş., a Çukurova Group Company, on 5 January 2006 for a consideration of their 31 December 2005 carrying values of EUR42,221 thousand and YTL106,041 thousand, respectively. A two months extension period (from 4 months to 6 months) has been granted at 27 January 2006 regarding the sale of Superonline in order to complete the necessary permissions for the transfer of shares. The sale period of Superonline has been further extended for three months at 27 March 2006 (Note 8).
- b) In accordance with the "Non-Core Option Agreement" signed between the Bank and Çukurova Group at 28 September 2005 (Note 37), parties agreed that for the following six years after the date of share transfer, if the non-core assets that have a carrying value of approximately YTL455,000 thousand in the financial statements as of 30 September 2005 are sold to third parties, 57.4% of the difference between the value of the assets stated in the agreement and the sales value will be used to reduce debts of the Çukurova Group to the Bank. Koç Finansal Hizmetler A.Ş. ("KFS"), the indirect main shareholder of the Group, has declared to the Bank that it has agreed and committed to irrevocably pay any difference in favour of Çukurova Group resulting from the transactions subject to this agreement during the life of the Option Agreement, which will be deducted from Çukurova Group's debts. Accordingly, the Bank has not recognised any provision in these consolidated financial statements in relation to this option agreement.
- c) On 31 January 2006, KFS has declared to the Bank that it agreed and is committed to irrevocably pay the amount of any discount, if any, provided by the Bank to Çukurova Group loans, if the payment of the Bank to the related government agencies in relation to the deficit of the Fund is realised below EUR350 million (Note 20). KFS also declared to the Bank, that this commitment is valid for 3 years.
- d) The corporate tax rate for the year 2005 earnings is 30% in Turkey. However according to the "Draft Legislation of Corporate Tax" the corporate tax rate is anticipated to be decreased to 20% for the tax period starting from 1 January 2006. If the mentioned draft Law will be enacted without any amendment, the corporate tax rate will be 20% for the tax period starting from 1 January 2006. Had the Bank applied 20% in deferred tax calculation as of 31 December 2005, current year loss would have increased by YTL185,237 thousand.
- e) Starting from 1 January 2006 the Group decided to discontinue the application of inflation accounting by concluding that the Turkish economy ceased to be hyperinflationary, through considering the resolutions reached by governmental authorities, agencies and through the opinion of IASB which is stating that such a decision could be best made by the economic actors operating in the Turkish economy and as a reference, The Ministry of Finance, Treasury, CMB and BRSA, who are the major regulatory authorities in the Turkish economy, have declared that the Turkish economy has ceased to be defined as hyperinflationary and that the application of inflation accounting should be discontinued in the statutory financial statements.
- f) On 22 March 2006, the Board of Directors of Turkcell decided to exercise the option related to the 50% shares of A-Tel owned by the Group as per the terms of the "A-Tel Option Agreement" (Note 37.v.) and required actions and transactions will be conducted accordingly.
- g) In the shareholders meeting dated 31 March 2006, it was decided to increase the share capital of the Bank from YTL752,345 thousand to YTL1,896,662 thousand. The increase amount of YTL1,144,317 thousand represents the statutory gain recognised from sale of Turkcell and Turkcell Holding (Note 27).

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NOTE 37 - OTHER EXPLANATIONS

a) Acquisition of the Group by Koçbank:

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

(i) Çukurova Group Loans FRA Modification Agreement:

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

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

(ii) Turkcell Option Agreement:

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

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

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

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NOTE 37 - OTHER EXPLANATIONS (Continued)

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

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

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

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

(v) A-Tel Option Agreement

Based on the "A-Tel Option Agreement" signed between the Bank, and Çukurova Holding on 28 September 2005, a call option has been granted to Çukurova Group within two years from the agreement date where the Çukurova Group or a third party designated by Çukurova Group can purchase 50% of A-Tel shares for US\$150,000,000 which are owned by the Bank. If Çukurova Group does not exercise its option during the above mentioned two-year period, the Bank will have a put option in order to sell those A-Tel shares to Çukurova Group in three months following the end of the two years (Note 8).

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

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

(vii) Superonline Modification Agreement

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

(viii) Advertising Publication Agreement

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

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NOTE 37 - OTHER EXPLANATIONS (Continued)

b) Tender offer of minority shares:

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

c) Capital Adequacy Ratio of the Bank:

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

d) CBRT report:

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

e) Legal proceedings:

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

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