Yapı Kredi
Faktoring

Annual Report 2007

Contents

Yapı Kredi Faktoring in Brief

Although factoring is one of the oldest financing tools, it did not gain impetus in Turkey until the first factoring companies were established in the early 1990s. Yapı Kredi Faktoring is one of Turkey's longest established and most trusted factoring companies.

Yapı Kredi Faktoring conducts its activities from its head office in Istanbul and a regional representative office in İzmir. The synergy developed with Yapı Kredi Bank's nationwide sales and service organization represents one of Yapı Kredi Faktoring's most important service and competitive advantages. With more than 720 branches, Yapı Kredi Bank's service points enjoy a wide reach throughout the country.

Yapı Kredi Faktoring is a full member of Factors Chain International (FCI), based in Amsterdam, as well as a member of the Turkish Factoring Association.

Yapı Kredi Faktoring was selected for the second time as the “Best Export Factor of the Year” by the members of the FCI in its annual meeting held in Chile between October 21 and 27, 2007. A total of 42 member companies from 23 countries selected Yapı Kredi Faktoring as the most successful of 178 companies, awarding Yapı Kredi Faktoring 94.19 points out of a maximum 100 on criteria such as service quality, the number of countries exported to, the number of correspondents employed and export factoring volume. Yapı Kredi Faktoring was also evaluated as “excellent” in terms of service quality.

Yapı Kredi Faktoring enjoys a strong market presence in domestic and international markets. The Company delivers outstanding performance with its well-defined strategies, ensures sustainable quality in factoring services with its outstanding and well-oriented team and provides unique solutions to its well-determined client portfolio.

Yapı Kredi Faktoring leads the sector thanks to its robust capital structure, wealth of experience, proven service quality and specialist human resources.

Part 1: Introduction

Ömer Uluç, Landscape, 1999, Oil on Canvas, 100 x 100 cm (detail)
Yapı Kredi Collection

Financial Highlights

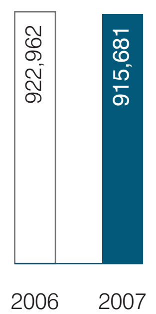
Turnover

USD Millions	2006	2007
Domestic	2,155	2,807
International	1,451	1,503
Export	1,435	1,480
Import	16	23
Total Turnover	3,606	4,310

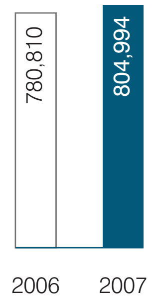
Major Balance Sheet and Income Statement Accounts

YTL Thousand	2006	2007
Factoring Receivables - Net	780,810	804,994
Total Assets	922,962	915,681
Factoring Payables	-	-
Shareholders' Equity	114,642	146,527
Net Profit	20,194	19,759
Factoring Revenue	88,755	107,229
Interest Income	81,643	101,457
Commission Income	7,112	5,772

Total Assets
(YTL thousand)

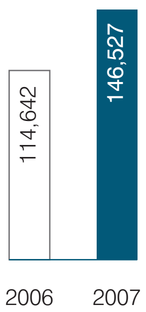


Factoring Receivables - Net
(YTL thousand)

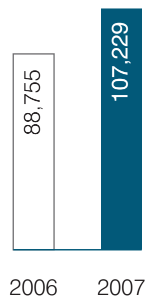


Financial Highlights

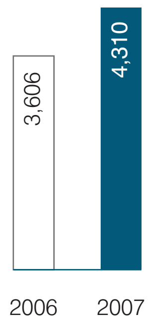
Shareholders' Equity
(YTL thousand)



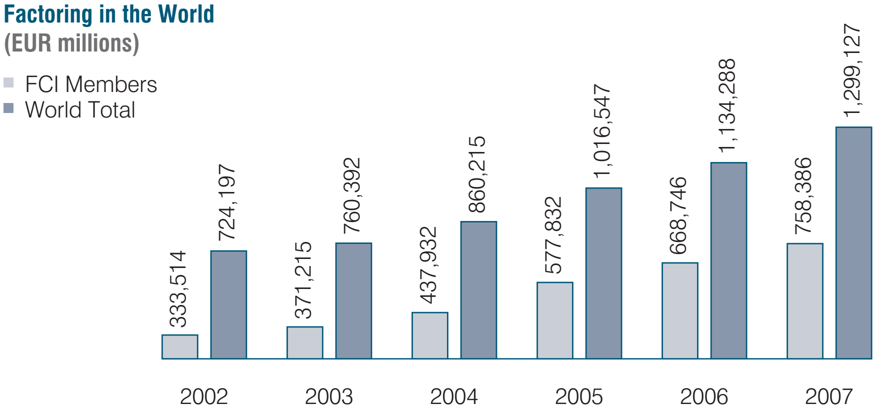
Factoring Revenue
(YTL thousand)



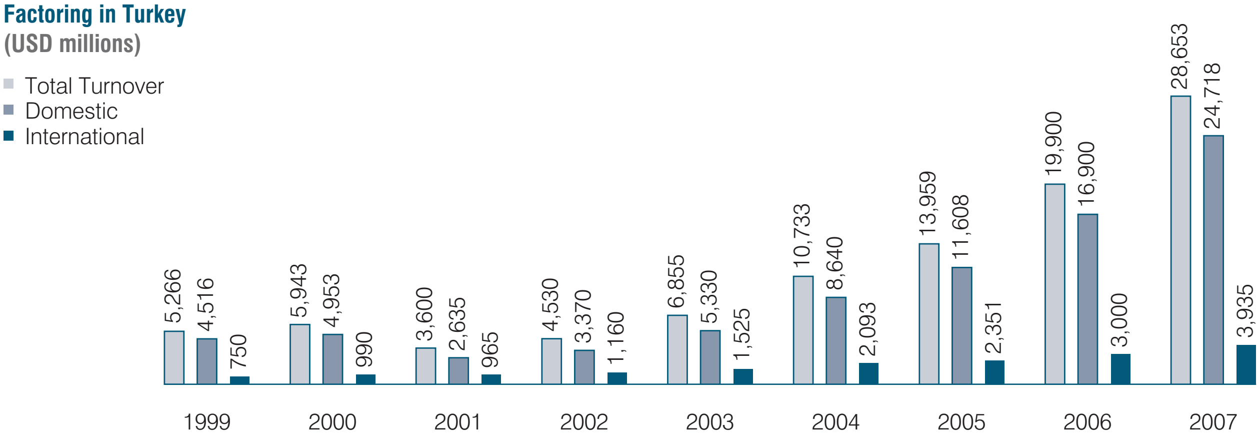
Total Turnover
(USD millions)



Factoring in the World
(EUR millions)



Factoring in Turkey
(USD millions)



Chairman's Statement

The year 2007 was a time of important and promising changes for the future of Yapı Kredi Faktoring.

Yapı Kredi Faktoring's success and performance in 2006 was reinforced in 2007 when it once again maintained its standing as “The World's best factoring exporter”.

The factoring business in Turkey continued to grow in 2007, with the sector writing a total volume of approximately US$28.6 billion in business; the highest level ever reached in a single year.

As one of Turkey's leading factoring companies, Yapı Kredi Faktoring, attained a total factoring turnover of US$4,310 million, 35% of which was derived from international business and the remaining 65% from domestic business.

Yapı Kredi Faktoring currently controls a 19.4% market share of the total transaction volume in the factoring sector and a 49% market share in terms of international factoring services in Turkey. It provides services in Turkey through the Head Office in Istanbul and its Aegean regional office in Izmir.

Our responsibility going forward will be to ensure that our Group is constantly recognized as the leader at both a domestic and international level with its accomplishments and becomes the first choice of customers with its full-scale financial services. In order to realize this ultimate target, Yapı Kredi Faktoring, as a part of the Group, will continue to grow and meet its customers' needs.

On behalf of the Board, I would like to thank our shareholders, business partners and all of the employees of Yapı Kredi Faktoring for their loyalty and for the role they played in achieving such excellent results.

Tayfun BAYAZIT
Chairman of the Board

Board of Directors

- **Tayfun Bayazıt** - Chairman
- **Alessandro M. Decio** - Vice Chairman
- **Dr. Rüşdü Saraçoğlu** - Member
- **Hamit Aydoğan** - Executive Member
- **Ahmet F. Ashaboğlu** - Member
- **Dante Pasqualini** - Member

Executive Management

- **Galip Gürsoy** - General Manager
- **Ayşen Çetintaş** - Assistant General Manager
- **Ceyla Kurdoğlu** - Assistant General Manager
- **Berna Betül Öztürk** - Assistant General Manager
- **Neşe Kaya** - Head of Administration and Financial Control Unit
- **Can Özyurt** - Head of Marketing and New Business Development Unit
- **Erkin Birinkulu** - Head of Credit Underwriting Section
- **Banu Akgün** - Head of Foreign Sales Support Section
- **Nur Özsoy** - Head of Treasury & Foreign Relations Section

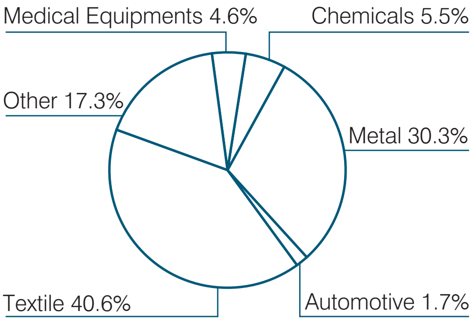
The Year in Review

Marketing and New Business Development Unit

Yapı Kredi Faktoring's marketing strategies are always rooted in ensuring our clients feel that the Company is a strong and dependable business partner. The Company believes that providing solutions which satisfy customers' needs - in other words, complete customer satisfaction - is its number one priority.

Yapı Kredi Faktoring closely monitored market and sector developments throughout 2007 and added 325 new clients into its portfolio. Apart from its own marketing and sales organization, Yapı Kredi Faktoring's most important delivery channel is its extensive network of more than 720 Yapı Kredi Bank branches located nationwide. In 2007 business transferred by branches accounted for a 44% share of our new business volume through the active cooperation with Yapı Kredi Bank.

Share in Export Business in 2007 (%)



In parallel with the development of the Turkish economy over the last few years, factoring has become a vitally important financing tool and the company will focus its attention on promoting its services to prospective clients and sectoral organizations, taking advantage of personal visits and telemarketing.

Yapı Kredi Faktoring is also planning to increase its growth in import factoring, which forms an indispensable component of the international factoring business.

International Factoring Unit

The Department provides services to both corporate and commercial client groups. In 2007, the distribution of export turnover was weighted in favor of corporate customers, who accounted for 80.7% of total turnover. Corporate clients also constituted the majority of imports (an 82.6% share) with a total amount of Euro 13.6 million.

Yapı Kredi Faktoring was the leader in Turkey among all factoring companies in 2007 with total international factoring turnover of Euro 1,094 million and export factoring turnover of Euro 1,077 million. Exports constituted approximately 35% of total turnover, with 72% of the export business derived from no recourse two-factor transactions. The majority of the export business was directed to Italy, the United Kingdom, Germany, Spain and France.

Yapı Kredi Faktoring commanded a 48% market share in export factoring, according to Turkish Factoring Association, in 2007 and aims to capture additional market share next year. The company is also planning to increase its growth in import factoring, which is an indispensable component of the international factoring business.
The Company attained import turnover of Euro 16.5 million in 2007, the highest level of international factoring transaction volume in Turkey among the members of the Turkish Factoring Association. Yapı Kredi Faktoring A.Ş. was nominated as the World's Best Export Factorer in 2007 in the annual ranking of export factoring companies compiled by Factors Chain International, an accolade it also received in 2006.

Yapı Kredi Faktoring closely monitored market and sector developments throughout 2007 and added 325 new clients into its portfolio.

Domestic Factoring Unit

Turnover in the domestic factoring sector increased to Euro 13.7 billion (US$18.7 billion) in 2007 from Euro 9.9 billion (US$ 13 billion) according to sector statistics compiled by the Turkish Factoring Association. According to 2007 figures, the domestic business represented 85.3% of the total factoring volume in Turkey.

At the end of 2007, Yapı Kredi Faktoring's domestic factoring volume had reached Euro 2 billion, accounting for 14.6% of Turkey's total domestic factoring volume (TFA results).

The domestic factoring unit in our company provides client relations services under three segments; Corporate (Large Scale Companies), Commercial (Small Scale Companies) and the Supplier Group (Subcontractors of Koç Group companies or other industrial giants).

Domestic business comprised 65% of total turnover, while the share in terms of funds in use reached 79% in 2007.

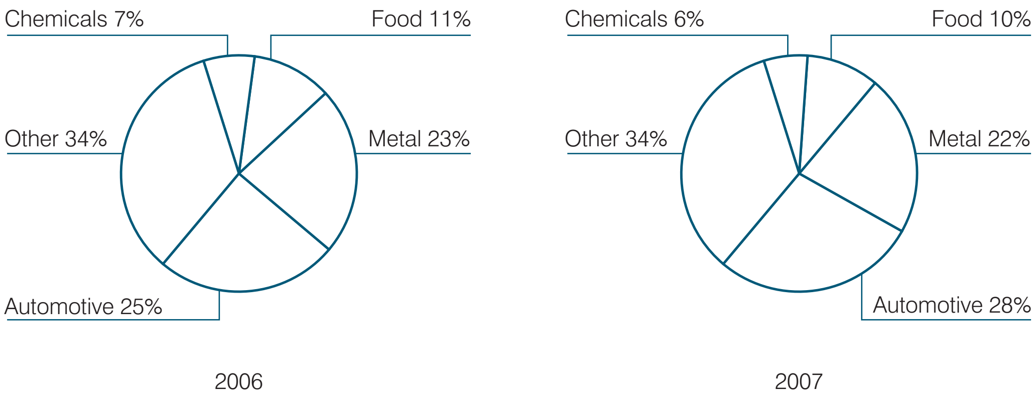
The distribution of our domestic business volume on the basis of industrial sector is provided below:

Credit Risk Management Unit

Yapı Kredi Faktoring has strived to establish an effective implementation of spreading a common risk culture, minimizing more risky transactions and those where the company's reputation could be at stake. At the same time, support sales by focusing on risk control for key segments and key products to reach the common targets.

Credit lines are assigned either for those transactions that are carried out against a predetermined reimbursement procedure or explicitly associated with a commercial/trade related transaction. The growth of an SME based portfolio in 2008 would be largely supported by market oriented Intelligence Service, operating under the Credit-Risk Department.

Share in Domestic Business (%)



The Year in Review

Treasury & Foreign Relations Section

Fund management activities are performed within the Treasury & Foreign Relations Section. The section aims to serve clients' needs without taking directional risk on the market. The Treasury department's general strategy is to actively manage the structure of the company's assets and liabilities by hedging interest rates, liquidity and exchange rate risks in compliance with Koç Financial Services' strategies.

The funding of domestic transactions is executed by the Treasury Section, whereas international funding is carried out by International Department. Yapı Kredi Faktoring obtains credit facilities from various resources. Yapı Kredi Faktoring has always enjoyed an excellent reputation among creditor institutions and foreign correspondent factoring companies and has widespread bank portfolio and credit lines. The company faces no difficulty in borrowing from domestic or international sources at favorable terms.

The Future

Continuous leadership

With its solid capital structure, high credibility, and extensive funding resources, Yapı Kredi Faktoring's goal is to maintain its leading position in the sector while continuing to develop new factoring products and services.

93% of the new additions to the company's clientele in 2007 were in the small to medium sized enterprise (SME) category while the remaining 7% were large corporate customers. The company plans to supply even more resources to the SME segment in 2008 and increase the share of such companies in its business portfolio.

Yapı Kredi Faktoring's target will retain its position as the world's best export factoring company, lead in terms of market share and increase its active cooperation with the Yapı Kredi Bank & UCI network.

As the solid market leader in the Turkish factoring sector, Yapı Kredi Faktoring aims to be one of Europe's largest factoring companies in Europe in the near future.

Information on Shareholders

Yapı Kredi

Turkey's first privately-owned bank with a nationwide presence, Yapı Kredi is the fourth largest private bank with total assets of YTL 50.4 billion (bank-only), as of end-2007.

Yapı Kredi, through its innovative products and services, is one of the Turkish banking sector's standard-setters. As of end-2007, Yapı Kredi has a 10.4% market share in total cash loans and a 9.3% market share in total deposits. At end-2007, the Bank was sector leader in credit cards (25.2%), mutual funds (20.9%), leasing (19.2%), and factoring (19.4%). It also ranked third in private pension funds with a 15.4% market share.

Through a customer-centric strategy and segment-based service model, Yapı Kredi has an extensive customer base to which it delivers a comprehensive array of retail, SME (Small and Medium Size Enterprises), corporate, commercial, and private banking products and services as well as asset management, leasing, private pension, insurance, and brokerage services.

Yapı Kredi has financial subsidiaries in Turkey in the fields of factoring, leasing, asset management insurance, pension, investment and brokerage that complement the Bank's strong, segment-based business structure and also international banking operations located in the Netherlands, Russia, and Azerbaijan.

Yapı Kredi controls one of the most extensive branch and alternative delivery channel networks in the Turkish banking sector. In addition to a physical service network consisting of 676 branches and 1,930 ATMs, Yapı Kredi's internet and telephone banking applications are at the service of its customers.

Yapı Kredi's principal shareholder, Koç Financial Services (KFS), the 50-50% joint venture between UniCredit and Koç Group, controls a 81.8% stake in the Bank while minorities' stake is 18,2%. The Bank's shares are traded on the İstanbul Stock Exchange under the ticker " YKBNK".

Koç Group

Established in 1926, Koç Group is Turkey's leading industrial and services Group with leading positions in four core sectors: energy, consumer durables, automotive and finance. The Group has an outstanding track record of establishing and managing successful joint ventures with leading multinational groups such as Ford, Fiat and UniCredit.

For over 80 years, Koç Group has been the engine of development in the Turkish private sector. The Group plays a major role in the national economy with around 90 thousand employees and over 14 thousand authorized dealers and after sale services. The Group has leading positions not only in Turkey but also in Europe. Today, Koç Holding is listed within the top 200 largest companies in the world as the only Turkish company in the Fortune Global 500.

UniCredit

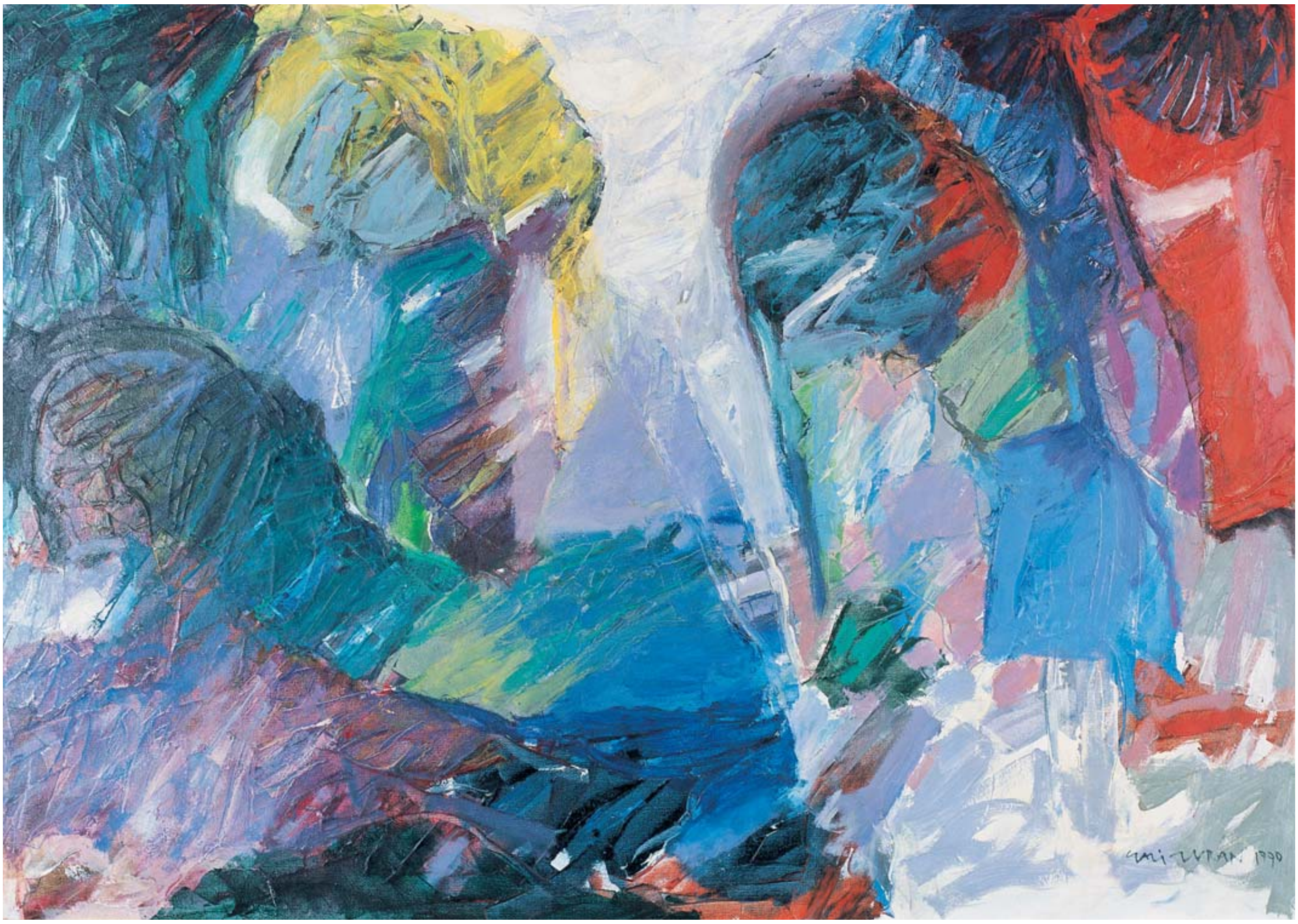
UniCredit is one of Europe's biggest banking groups with strong roots in 23 European countries as well as representative offices in 27 other markets. The group has total assets of EUR 1,021,758 as of December 2007 and serves more than 40 million customers through over 9,714 branches and 170 thousand employees.

UniCredit has its roots and a leading position in one of the wealthiest regions of Western Europe: Austria, Germany and Italy. This position was strengthened in 2007 through the integration in Italy with the Capitalia Group.

The undisputed leader in Central and Eastern Europe* with a market share that is double that of the closest competitors, UniCredit extended its operations in this area to 20 countries in 2007. Through the acquisition of ATF Bank, UniCredit Group has entered three new markets: Kazakhstan, Kyrgyzstan and Tajikistan in 2007. The Group also moved to strengthen its already strong presence in the Ukraine through the acquisition of Ukrsotsbank in 2007.

* CEE countries (including Central Asia) where UniCredit operates: Poland, Romania, Russia, Ukraine, Serbia, Slovakia, Turkey Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kazakhistan, Kyrgyzstan, Latvia, Lithuania, Slovenia and Tajikistan.

Auditor’s Report and Financial Information



Sali Turan, No Name, 1990, Various Techniques on Paper, 50 x 70 cm (detail)
Yapı Kredi Collection

YAPI KREDİ FAKTORİNG A.Ş.
INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Yapı Kredi Faktoring A.Ş.

1. We have audited the accompanying financial statements of Yapı Kredi Faktoring A.Ş. ("the Company") which comprise the balance sheet as of 31 December 2007 and income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Alper Önder, SMMM

Istanbul, 21 March 2008

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FINANCIAL STATEMENTS AT 31 DECEMBER 2007

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YAPI KREDİ FAKTORİNG A.Ş.
BALANCE SHEETS FOR THE YEARS ENDED AT 31 DECEMBER 2007 AND 2006

(Amounts expressed in New Turkish lira ("YTL"), unless otherwise indicated)

	Notes	2007	2006
ASSETS			
Cash and due from banks	5	41,005,057	97,813,688
Factoring receivables, net	6	804,994,067	780,810,292
Other assets and prepaid expenses	7	2,179,677	694,117
Available-for-sale investment securities	10	63,233,476	40,469,018
Property and equipment	8	402,054	514,439
Intangible assets	9	40,821	81,343
Deferred tax asset	13	3,826,008	2,579,422
Total assets		**915,681,160**	**922,962,319**
LIABILITIES			
Borrowings	11	749,626,543	792,178,239
Other liabilities and accrued expenses	12	3,353,423	3,502,418
Income taxes payable	13	-	3,203,829
Derivative financial instruments	14	13,780,536	8,214,169
Reserve for employment termination benefits	15	199,733	151,496
Deferred tax liability	13	2,193,926	1,070,599
Total liabilities		**769,154,161**	**808,320,750**
EQUITY			
Share capital	16	16,802,326	16,802,326
Adjustment to share capital	16	31,069,468	31,069,468
Total paid-in share capital		47,871,794	47,871,794
Financial assets fair value reserve		38,772,624	17,146,391
Retained earnings	17	59,882,581	49,623,384
Total equity		**146,526,999**	**114,641,569**
Total liabilities and equity		**915,681,160**	**922,962,319**
Commitments and contingent liabilities	20		

These financial statements as at and for the year ended 31 December 2007 have been approved for issue by the Board of Directors on 29 February 2008.

The accompanying notes set out on pages 5 to 35 form an integral part of these financial statements.

YAPI KREDİ FAKTORİNG A.Ş.
INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Amounts expressed in New Turkish lira (“YTL”), unless otherwise indicated)

	Notes	2007	2006
Factoring revenues:			
Factoring interest income		101,456,704	81,643,419
Factoring commissions		11,087,161	12,534,228
Commission expense		(5,315,098)	(5,422,473)
Income from factoring operations		**107,228,767**	**88,755,174**
Interest expense on bank borrowings		(74,942,332)	(65,825,351)
Foreign exchange gains and losses, net		(17,983)	577,137
Impairment loss on factoring receivables	6	(578,644)	(1,291,810)
Recoveries from impaired factoring receivables	6	131,983	2,552,524
Income after foreign exchange gains and losses, net and provision for impaired factoring receivables		**31,821,791**	**24,767,674**
Interest income other than factoring		521,064	7,318,538
Other operating income		1,951,218	3,591,858
Operating income		**34,294,073**	**35,678,070**
Salaries and employee benefits		(7,106,889)	(6,559,713)
General administration expenses	18	(2,535,177)	(3,247,281)
Income before taxes		**24,652,067**	**25,871,076**
Taxation on income	13	(4,892,870)	(5,676,862)
Net income for the year		**19,759,197**	**20,194,214**

The accompanying notes set out on pages 5 to 35 form an integral part of these financial statements.

YAPI KREDİ FAKTORİNG A.Ş.
CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006
(Amounts expressed in New Turkish lira ("YTL"), unless otherwise indicated)

	Notes	2007	2006
Cash flows from operating activities			
Net income for the year		19,759,197	20,194,214
Adjustments for:			
Depreciation and amortisation	8, 9	208,035	289,643
Reserve for employment termination benefits	15	48,237	(84,693)
Provision for personnel premium		801,545	376,365
Income tax expense	13	4,892,870	5,676,862
Provision for impaired factoring receivables, net of recoveries	6	279,173	(1,382,305)
Fair value for derivative financial instruments	14	5,566,367	8,214,169
Interest income - net		(26,514,373)	(31,350,775)
Interest paid		(76,497,437)	(57,791,925)
Interest received		105,553,248	94,171,083
Operating profit before changes in operating assets and liabilities		**34,096,862**	**38,312,638**
Changes in operating asset and liabilities:			
Net increase in factoring receivables		(28,235,215)	(210,680,843)
Net increase/(decrease) in other assets and prepaid expenses		(2,610,817)	139,068
Net increase in other liabilities		172,787	873,180
Income taxes paid		(9,358,183)	(5,259,451)
Net cash used in operating activities		**(5,934,566)**	**(176,615,408)**
Cash flows from investing activities:			
Purchase of property and equipment - net of disposals	8	(51,106)	(91,579)
Purchase of intangible assets - net of disposals	9	(2,089)	(18,189)
Net cash used in investing activities		**(53,195)**	**(109,768)**
Cash flows from financing activities:			
Proceeds from borrowings		(40,996,591)	204,612,037
Dividends paid		(9,500,000)	(3,750,000)
Net cash provided from financing activities		**(50,496,591)**	**200,862,037**
Net decrease in cash and cash equivalents		(56,484,352)	24,136,861
Cash and cash equivalents at beginning of the year		97,255,688	73,118,827
Cash and cash equivalents at end of the year		**40,771,336**	**97,255,688**

The accompanying notes set out on pages 5 to 35 form an integral part of these financial statements.

YAPI KREDİ FAKTORİNG A.Ş.
STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Amounts expressed in New Turkish lira ("YTL"), unless otherwise indicated)

	Paid-in share capital				
	Share capital	**Adjustment to share capital**	**Financial assets fair value reserve**	**(Accumulated deficit)/ Retained earnings**	**Total equity**
Balance at 1 January 2006	29,000,000	58,638,421	(1,537,000)	(6,587,457)	79,513,964
Dividends paid	-	-	-	(3,750,000)	(3,750,000)
Transfer due to legal merge (*)	(12,197,674)	-	-	12,197,674	-
Transfer from adjustment to share capital to retained earnings	-	(27,568,953)	-	27,568,953	-
Fair value reserve, net of taxes	-	-	18,683,391	-	18,683,391
Net income	-	-	-	20,194,214	20,194,214
Balance at 31 December 2006	**16,802,326**	**31,069,468**	**17,146,391**	**49,623,384**	**114,641,569**
Balance at 1 January 2007	16,802,326	31,069,468	17,146,391	49,623,384	114,641,569
Dividends paid	-	-	-	(9,500,000)	(9,500,000)
Fair value reserve, net of taxes	-	-	21,626,233	-	21,626,233
Net income	-	-	-	19,759,197	19,759,197
Balance at 31 December 2007	**16,802,326**	**31,069,468**	**38,772,624**	**59,882,581**	**146,526,999**

(*) Please refer to Note 15 for detailed explanation.

The accompanying notes set out on pages 5 to 35 form an integral part of these financial statements.

YAPI KREDİ FAKTORİNG A.Ş.
NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2007

(Amounts expressed in New Turkish lira ("YTL"), unless otherwise indicated)

NOTE 1 - ORGANISATION AND PRINCIPAL ACTIVITIES

Yapı Kredi Faktoring A.Ş. ("the Company") was established on 25 March 1999. The Company is a member of the Koç Finansal Hizmetler A.Ş. ("KFS") and provides domestic and foreign debt factoring services. The Company operates in the domestic and international markets (imports and exports) and it is a member of international group of factoring companies, Factors Chain International ("FCI").

KFS was incorporated on 16 March 2001 for the purpose of combining the financial sector companies of the Koç Group. KFS transferred its shares to Yapı ve Kredi Bankası A.Ş on 31 October 2007 and Yapı ve Kredi Bankası A.Ş is the ultimate shareholder (99.94%) of the Company. On 12 October 2002, Koç Group entered into a joint strategic partnership with UniCredito Italiano S.p.A ("UCI"), in KFS.

As explained in detail in Note 2, Koç Faktoring Hizmetleri A.Ş. has legally merged with Yapı Kredi Faktoring A.Ş. on 29 December 2006 and the new Company's name has been amended to Yapı Kredi Faktoring A.Ş. as of the same date.

The Company's head office is located at Barbaros Bulvarı Morbasan Sokak Koza İş Merkezi C Blok Beşiktaş, İstanbul-Turkey. The Company has 100 employees at 31 December 2007 (31 December 2006: 87 employees).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation of financial statements

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The Company maintains its books of account and prepares its statutory financial statements in New Turkish lira ("YTL") which is the Company's functional and presentation currency. In accordance with the Turkish Commercial Code, tax legislation, and starting from 1 January 1994, the Uniform Chart of Accounts issued by the Ministry of Finance. The financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Accounting for the effects of hyperinflation

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

Standards, amendment and interpretations effective in 2007:

• IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Company's financial instruments, or the disclosures relating to taxation and trade and other payables.

• IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Company's financial statements.

YAPI KREDİ FAKTORİNG A.Ş.
NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2007

(Amounts expressed in New Turkish lira (“YTL”), unless otherwise indicated)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

• IFRIC 10, ‘Interim financial reporting and impairment’, prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Company’s financial statements.

Standards, amendments and interpretations effective in 2007 but not relevant:

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Company’s operations:

• IFRS 4, ‘Insurance contracts’,
•IFRIC 7, ‘Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies’,
• IFRIC 9, ‘Re-assessment of embedded derivatives’.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company’s accounting periods beginning on or after 1 January 2008 or later periods, but the Company has not early adopted them:

• IAS 23 (Amendment), ‘Borrowing costs’ (effective from 1 January 2009),
• IFRS 8, ‘Operating segments ‘ (effective from 1 January 2009),
• IFRIC 14, ‘IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’ (effective from 1 January 2008),
• IFRIC 12, ‘Service concession arrangements’ (effective from 1 January 2008),
• IFRIC 13, ‘Customer loyalty programmes’ (effective from 1 July 2008).

Related parties
For the purpose of these financial statements, the shareholders, key management personnel and Board members, the Koç Group and the UCI Group Companies and the companies controlled by or affiliated with them are considered and referred to as related parties (Note 20).

Factoring receivables and provision for impaired factoring receivables
Factoring receivables originated by the Company by providing money directly to the borrower are considered as factoring receivables and are carried at amortised cost. All factoring receivables are recognised when cash is advanced to borrowers against their domestic and foreign receivables.

A credit risk provision for impairment of the factoring receivables is established if there is objective evidence that the Company will not be able to collect all amounts due as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the receivables. The amount of the provision for impaired factoring receivables is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including the amount recoverable from guarantees and collateral, discounted based on the interest rate at inception. For restructured receivables, the Company initially determines as to whether there has been an impairment as a result of the restructuring, and if so, a provision for impairment is recorded representing the difference between the recoverable amount, being the present value of expected cash flows from restructured receivables discounted using the interest rate of the original receivables, and the carrying amount.

The provision also covers losses where there is objective evidence that probable losses are present in components of the portfolio at the balance sheet date. These have been estimated based upon historical loss experience which is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The provision made during the year is charged against the income for the period.

YAPI KREDİ FAKTORİNG A.Ş.
NOTES TO FINANCIAL STATEMENTS
AT 31 DECEMBER 2007

(Amounts expressed in New Turkish lira ("YTL"), unless otherwise indicated)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables that cannot be recovered are written off and charged against the provision for impaired factoring receivables. These receivables are written off after all the necessary legal procedures have been completed and the amount of the loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction of the charge for provision for impaired factoring receivables for the period.

Derivative financial instruments
Derivative financial instruments, including forward foreign exchange contracts are initially recognised in the balance sheet at their fair value and are subsequently remeasured at their fair value. Transaction costs that are directly attributable to the acquisition are expensed immediately. All derivative financial instruments are classified as held for trading. Certain derivative transactions, even though providing effective economic hedges under the Company's risk management position, do not qualify for hedge accounting under the specific rules in IAS 39 "Financial Instruments: Recognition and Measurement", 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 2007. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative (Note 14).

Investment securities
Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at fair value plus transaction costs. Available-for-sale investment securities are subsequently remeasured at fair value based on quoted bid prices, or amounts derived from cash flow models. Unrealised 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 should be transferred to income statement. Unlisted equity securities for which fair values cannot be measured reliably are recognised at cost after deductions for any impairment (Note 10).

All regular way purchases and sales of investment securities are recognised at the settlement date, which is the date that the asset is delivered to/from the Company.

Property and equipment
All property and equipment carried at cost, restated equivalent to purchasing power of YTL at 31 December 2005, less depreciation. Depreciation is calculated on the restated amounts of property and equipment using the straight-line method to write-off the restated cost of each asset to their residual values over their estimated useful life as follows:

Furniture and fixtures	5 years
Motor vehicles	5 years
Leasehold improvements	5 years or shorter of lease period

Where the carrying amount of an asset is greater than its estimated recoverable amount ("higher of net selling price" and "value in use"), it is written down immediately to its recoverable amount. The recoverable amount of the impaired property and equipment represents the net selling price.

Expenses for the repair of property and equipment are normally charged against income. They are, however, capitalized in exceptional cases if they result in an enlargement or substantial improvement of the respective assets.

Finance leases (where the Company is a lessee)
Assets acquired under finance lease agreements are capitalised at the inception of the lease at the lower of fair value of the leased asset or the present value of minimum lease payments. 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.

YAPI KREDİ FAKTORİNG A.Ş.
NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2007

(Amounts expressed in New Turkish lira ("YTL"), unless otherwise indicated)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets
Intangible assets mainly comprise of rights and are carried at cost, restated equivalent to purchasing power of YTL at 31 December 2005, less amortisation. Amortisation is calculated by using the straight-line method over their useful lives of 4 or 5 years.

Financial liabilities
Financial liabilities which consist of bank borrowings are recognised initially at fair value, net of transaction costs incurred.

Subsequently, financial liabilities are measured at amortised cost 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 yield method.

Deferred income taxes

Deferred income tax is provided in full, using the liability method, on 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 provision for impaired factoring receivables, reserve for annual leave, derivative financial instruments, property and equipment, available-for-sale securities and provision for employment termination benefits (Note 13).

Deferred 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 Company. Deferred tax assets resulting from temporary differences in the recognition of expense for income tax, and for financial reporting purposes are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised.

Provisions
Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Employment termination benefits
Employment termination benefits, as required by the Turkish Labour Law, are recognised in the accompanying financial statements as they are earned. The total provision represents the present value of the future probable obligation of the Company arising from the retirement of the employees (Note 15).

Notice pay liability
In accordance with the social security legislation in Turkey the Company is required to give notice of between two and eight weeks to employees for termination of employment or to make payments for the notice period calculated on the basis of the current salary of the employee.

No provision for notice pay has been made in the financial statements, as the directors do not expect the Company to make any significant terminations in the foreseeable future.

Revenue recognition
Revenues from debt factoring services are recognised in the period to which they relate under the accrual basis. When factoring receivables become doubtful of collection, they are written down to their recoverable amounts.

YAPI KREDİ FAKTORİNG A.Ş.
NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2007

(Amounts expressed in New Turkish lira ("YTL"), unless otherwise indicated)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fee and commission income and expense
Fee and commission income and expense on factoring services are recorded as income or expense at the time of affecting the transactions to which they relate.

Interest income and expense
Interest income and expense are recognised in the income statement for all interest bearing financial instruments on an accrual basis using the effective yield method based on the actual purchase price.

Foreign currency transactions
Transactions denominated in foreign currencies are recorded in Turkish lira at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Reporting of cash flows
For the purposes of statement of cash flows, cash and cash equivalents include balances of cash and due from banks with original maturity periods of less than three months (Note 5).

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

Comparatives
Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year so that the reclassification will result in a more appropriate presentation of events or transactions.

Accounting for legal merger
In the Extraordinary General Assembly of the Company on 27 December 2006, it was decided to legally merge Yapı Kredi Faktoring A.Ş. ("YK Faktoring") with Koç Faktoring Hizmetleri A.Ş. ("Koç Faktoring") where all the rights, receivables, liabilities and obligations of YK Faktoring were transferred to Koç Faktoring.

The Istanbul Trade Registry Office announced that the Extraordinary General Assembly Decision dated 27 December 2006 and the registration of the legal merger contract on 29 December 2006 in the Trade Registry Gazette dated 4 January 2007 No.6716.

As the legal merger has been realised between two companies both controlled by Koç Finansal Hizmetler A.Ş., this transaction has been accounted for using the pooling of interest method. Accordingly, the transferred assets and liabilities of YK Faktoring have been carried forward at their carrying amounts as of the transfer date. The income statement items of YK Faktoring are included in the income statement for the entire year of 2006.

NOTE 3 - FINANCIAL RISK MANAGEMENT
The activities of the Company are principally related to the use of financial instruments.

The Company borrows funds at both fixed and floating rates for various periods and seeks to earn above-average interest margins by investing these funds in high quality assets.

The Company's activities expose it to a variety of financial risks including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance. The Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

YAPI KREDİ FAKTORİNG A.Ş.
NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2007
(Amounts expressed in New Turkish lira ("YTL"), unless otherwise indicated)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

Financial risk management is carried out by the Treasury department under policies approved by the Board of Directors. The Treasury department identifies, evaluates and hedges financial risks in close co-operation with the operating units. The Treasury mainly focuses on the structure of the Company's assets and liabilities while analysing these risks. The Treasury's mission is to provide funds to the Company, to manage the structural excess of liquidity to match the foreign currency exposure and interest rate risk of the Company. For the market risk management some general guidelines apply;

• Koç Finansal Hizmetler A.Ş. ("KFS") Risk Management and the Company's Board of Directors are informed of and they approve any major change in the risk portfolio or any important decision regarding market risk before any action is taken.
• All market risks are managed by the Company's Treasury,
• Planning and Control is independent from the Treasury and reports directly to general manager and Asset Liability Committee,
• Interest rate and foreign exchange risk is managed by the Treasury and it is the Treasury's responsibility to keep these within the limits,

Credit risk
Financial instruments contain an element of risk that the counterparty may be unable to meet the terms of the agreements. Credit risk is the most important risk for the Company's business; management therefore carefully manages its exposure to credit risk. These risks are monitored by reference to credit ratings and limiting the aggregate risk to any individual counterparty. The credit risk is generally diversified due to the large number of entities comprising the customer bases and their dispersion across different industries.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location.

The Company seeks to manage its credit risk exposure through diversification of sales activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

Geographical concentration of assets and liabilities is as follows:

31 December 2007	Total assets	%	Total liabilities	%
Turkey	876,728,513	95.7%	272,087,660	35.4%
Other European countries	-	-	455,538,343	58.2%
Malta, Bahrain and other countries	38,952,647	4.3%	41,528,158	5.4%
	915,681,160	**100%**	**769,154,161**	**100%**

Market risk
Market risk is the risk that the Company's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates including credit spreads, foreign exchange rates, equity prices and commodity prices. The Company manages currency risk, interest rate risk and liquidity risk by considering market risk.

Currency risk
Foreign currency denominated assets and liabilities give rise to foreign exchange exposure. Currency risk is monitored within the developments in foreign exchange markets. The Treasury monitors daily the foreign currency position of the Company. Monthly reporting of the foreign currency position, in detailed tables by maturity and currency, is the responsibility of Planning and Control. A maximum limit of (+/-) US$ 2,000,000 for foreign currency exposure is projected by the Company. The Company invests in derivative financial instruments to match its assets and liabilities denominated in foreign currencies.

YAPI KREDİ FAKTORİNG A.Ş.
NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2007
(Amounts expressed in New Turkish lira ("YTL"), unless otherwise indicated)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

At 31 December 2007, if the YTL had weakened/strengthened by 10% against the US$ with all other variables held constant, profit for the year would have been YTL41,789 (2006: if the YTL had weakened/strengthened by 10% against the US$ with all other variables held constant, profit for the year would have been YTL43,979 higher/lower) higher/lower, mainly as a result of foreign exchange losses/gains on translation of US$ denominated factoring receivables, and borrowings.

At 31 December 2007, if the YTL had weakened/strengthened by 10% against the EUR with all other variables held constant, profit for the year would have been YTL11,841 (2006: if the YTL had weakened/strengthened by 10% against the EUR with all other variables held constant, profit for the year would have been YTL114,033 higher/lower) lower/higher, mainly as a result of foreign exchange gains/losses on translation of EUR denominated factoring receivables, and borrowings.
Assets and liabilities denominated in foreign currency at 31 December 2007 and 2006 are as follows:

	Foreign Currency				
31 December 2007	**US$**	**EUR**	**Other**	**YTL**	**Total**
Assets					
Cash and due from banks	440,928	377,433	316,485	39,870,211	41,005,057
Factoring receivables, net	64,214,789	203,693,968	12,037,943	525,047,367	804,994,067
Other assets and prepaid expenses	-	1,891	-	2,177,786	2,179,677
Available-for-sale securities	-	-	-	63,233,476	63,233,476
Property and equipment	-	-	-	402,054	402,054
Intangible assets	-	-	-	40,821	40,821
Deferred tax asset	-	-	-	3,826,008	3,826,008
Total assets	**64,655,717**	**204,073,292**	**12,354,428**	**634,597,723**	**915,681,160**
Liabilities					
Borrowings	134,049,187	357,496,263	11,820,044	246,261,049	749,626,543
Other liabilities and accrued expenses	70,638	613,434	90,525	2,578,826	3,353,423
Derivative financial instruments		-		13,780,536	13,780,536
Reserve for employment termination benefits	-	-	-	199,733	199,733
Deferred tax liability	-	-	-	2,193,926	2,193,926
Total liabilities	**134,119,825**	**358,109,697**	**11,910,569**	**265,014,070**	**769,154,161**
Net balance sheet position	**(69,464,108)**	**(154,036,405)**	**443,859**	**369,583,653**	**146,526,999**
Off-balance sheet derivative instruments net notional position	**69,882,000**	**153,918,000**	**-**	**(242,404,500)**	**(18,604,500)**

YAPI KREDİ FAKTORİNG A.Ş.
NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2007

(Amounts expressed in New Turkish lira ("YTL"), unless otherwise indicated)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

	Foreign Currency				
31 December 2006	**US$**	**EUR**	**Other**	**YTL**	**Total**
Assets					
Cash and due from banks	566,538	467,832	132,518	96,646,800	97,813,688
Factoring receivables, net	17,528,209	152,310,106	62,109,695	548,862,282	780,810,292
Other assets and prepaid expenses	-	2,707	-	691,410	694,117
Available-for-sale securities	-	-	-	40,469,018	40,469,018
Property and equipment	-	-	-	514,439	514,439
Intangible assets	-	-	-	81,343	81,343
Deferred tax asset	-	-	-	2,579,422	2,579,422
Total assets	**18,094,747**	**152,780,645**	**62,242,213**	**689,844,714**	**922,962,319**
Liabilities					
Borrowings	101,912,000	280,747,000	61,281,000	348,238,239	792,178,239
Other liabilities and accrued expenses	78,959	498,317	107,724	2,817,418	3,502,418
Income taxes payable	-	-	-	3,203,829	3,203,829
Derivative financial instrument	-	-	-	8,214,169	8,214,169
Reserve for employment termination benefits	-	-	-	151,496	151,496
Deferred tax liability	-	-	-	1,070,599	1,070,599
Total liabilities	**101,990,959**	**281,245,317**	**61,388,724**	**363,695,750**	**808,320,750**
Net balance sheet position	**(83,896,212)**	**(128,464,672)**	**853,489**	**326,148,964**	**114,641,569**
Off-balance sheet derivative Instruments net notional position	**84,336,000**	**129,605,000**	**-**	**(229,159,500)**	**(15,218,500)**

At 31 December 2007, assets and liabilities denominated in foreign currency were translated into YTL using a foreign exchange rate of YTL1.7102= EUR1 and YTL1.1647= US$1 (2006: YTL1.8515= EUR1 and YTL1.4056= US$1).

Interest rate risk

The management of interest rate risk is the exposure of movements in market interest rates which lead to price fluctuations in financial instruments of the Company. It is the Treasury that follows up the Company's interest sensitive assets, liabilities and off-balance sheet items. In addition Planning and Control reports the interest rate risk by distributing interest rate risk into time bands according to their maturity. The interest rate risk is measured on a monthly basis using Economic Value Sensitivity Analysis, Interest Rate Stress Testing and various scenarios.

As at 31 December 2007, in the scenario of a 5% increase/(decrease) in the YTL interest rate and a 1% increase/(decrease) in the foreign currency interest rate with all other variables being constant, there will be a YTL26,632/(26,638) (2006: 443,268/(198,682)) (decrease)/increase in the profit before tax of the year mainly as a result of higher/lower interest expense on floating rate borrowings.

YAPI KREDİ FAKTORİNG A.Ş.
NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2007

(Amounts expressed in New Turkish lira ("YTL"), unless otherwise indicated)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

The tables below summarize average effective interest rates by major currencies for monetary financial instruments at 31 December 2007 and 2006:

	31 December 2007			31 December 2006		
	US$ (%)	EUR (%)	YTL (%)	US$ (%)	EUR (%)	YTL (%)
Assets						
Cash and due from banks						
- time deposits	3.10	1.50	18.10	4.35	2.35	21.22
Factoring receivables, net	6.80	6.39	19.60	7.10	6.45	22.68
Liabilities						
Borrowings	5.95	5.54	18.15	6.12	5.47	20.22

The table below summaries the Company's exposure to interest rate risk on the basis of the remaining period at the balance sheet to the re-pricing or contractual dates whichever is earlier.

31 December 2007	Up to 3 months	3 to 12 months	1 year to 5 years	Non-interest bearing	Total
Assets					
Cash and due from banks	39,324,059	-	-	1,680,998	41,005,057
Factoring receivables, net	764,439,322	40,554,745	-	-	804,994,067
Other assets and prepaid expenses	-	-	-	2,179,677	2,179,677
Available-for-sale securities	-	-	-	63,233,476	63,233,476
Property and equipment	-	-	-	402,054	402,054
Intangible assets	-	-	-	40,821	40,821
Deferred tax asset	-	-	-	3,826,008	3,826,008
Total assets	**803,763,381**	**40,554,745**	**-**	**71,363,034**	**915,681,160**
Liabilities					
Borrowings	317,340,544	426,319,567	5,966,432		749,626,543
Other liabilities and accrued expenses	-	-	-	3,353,423	3,353,423
Derivative financial instruments	-	-	-	13,780,536	13,780,536
Reserve for employment termination benefits	-	-	-	199,733	199,733
Deferred tax liability	-	-	-	2,193,926	2,193,926
Total liabilities	**317,340,544**	**426,319,567**	**5,966,432**	**19,527,618**	**769,154,161**
Net position	**486,422,837**	**(385,764,822)**	**(5,966,432)**	**51,835,416**	**146,526,999**

YAPI KREDİ FAKTORİNG A.Ş.
NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2007
(Amounts expressed in New Turkish lira ("YTL"), unless otherwise indicated)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

31 December 2006	Up to 3 months	3 to 12 months	1 year to 5 years	Non-interest bearing	Total
Assets					
Cash and due from banks	97,351,159	-	-	462,529	97,813,688
Factoring receivables, net	732,089,832	48,720,460	-	-	780,810,292
Other assets and prepaid expenses	-	-	-	694,117	694,117
Available-for-sale securities	-	-	-	40,469,018	40,469,018
Property and equipment	-	-	-	514,439	514,439
Intangible assets	-	-	-	81,343	81,343
Deferred tax asset		-	-	2,579,422	2,579,422
Total assets	**829,440,991**	**48,720,460**	**-**	**44,800,868**	**922,962,319**
Liabilities					
Borrowings	567,420,977	93,812,544	130,944,718	-	792,178,239
Other liabilities and accrued expenses	-	-	-	3,502,418	3,502,418
Income taxes payable	-	-	-	3,203,829	3,203,829
Derivative financial instruments	-	-	-	8,214,169	8,214,169
Reserve for employment termination benefits	-	-	-	151,496	151,496
Deferred tax liability	-	-	-	1,070,599	1,070,599
Total liabilities	**567,420,977**	**93,812,544**	**130,944,718**	**16,142,511**	**808,320,750**
Net position	**262,020,014**	**(45,092,084)**	**(130,944,718)**	**28,658,357**	**114,641,569**

Liquidity risk

The Company is exposed to daily calls on its available cash resources from factoring customers. The Company does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The ability to fund the existing and prospective debt requirements is managed by maintaining the availability of adequate funding lines.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Company. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Company and its exposure to changes in interest rates and exchange rates.

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NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

The table below analyses assets and liabilities of the Company into relevant maturity groupings at 31 December 2007 and 2006, based on the remaining period at the balance sheet date to the contractual maturity date.

31 December 2007	Demand and up to 3 months	3 to 12 months	Over 1 year	No definite maturity	Total
Assets					
Cash and due from banks	41,057,510	-	-	-	41,057,510
Factoring receivables, net	790,874,638	52,031,827	-	-	842,906,465
Other assets and prepaid expenses	1,540,725	305,208	-	333,744	2,179,677
Available-for-sale securities	-	-	-	63,233,476	63,233,476
Property and equipment	-	-	-	402,054	402,054
Intangible assets	-	-	-	40,821	40,821
Deferred tax asset	-	-	-	3,826,008	3,826,008
Total assets	**833,472,873**	**52,337,035**	**-**	**67,836,103**	**953,646,011**
Liabilities					
Borrowings	453,296,929	299,389,869	6,399,367	-	759,086,165
Other liabilities and accrued expenses	3,078,243	-		275,180	3,353,423
Derivative financial instruments	3,871,831	9,908,705			13,780,536
Reserve for employment termination benefits	-	-	-	199,733	199,733
Deferred tax liability	-	-	-	2,193,926	2,193,926
Total liabilities	**460,247,003**	**309,298,574**	**6,399,367**	**2,668,839**	**778,613,783**
Net liquidity gap	**373,225,870**	**(256,961,539)**	**(6,399,367)**	**65,167,264**	**175,032,228**
Derivative financial instruments held for trading					
Inflows	166,302,000	57,498,000	-	-	223,800,000
Outflows	(171,536,000)	(70,868,500)	-	-	(242,404,500)

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NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

31 December 2006	Demand and up to 3 months	3 to 12 months	Over 1 year	No definite maturity	Total
Assets					
Cash and due from banks	98,036,924	-	-	-	98,036,924
Factoring receivables, net	769,296,354	52,400,405	-	-	821,696,759
Other assets and prepaid expenses	211,000	150,118	-	332,999	694,117
Available-for-sale securities	-	-	-	40,469,018	40,469,018
Property and equipment	-	-	-	514,439	514,439
Intangible assets	-	-	-	81,343	81,343
Deferred tax asset	-	-	-	2,579,422	2,579,422
Total assets	**867,544,278**	**52,550,523**	**-**	**43,977,221**	**964,072,022**
Liabilities					
Borrowings	549,628,423	120,425,457	131,171,181	-	801,225,061
Other liabilities and accrued expenses	3,097,999	183,419	-	221,000	3,502,418
Income taxes payable	3,203,829	-	-	-	3,203,829
Derivative financial instruments	-	8,214,169	-	-	8,214,169
Reserve for employment termination benefits	-	-	-	151,496	151,496
Deferred tax liability	-	-	-	1,070,599	1,070,599
Total liabilities	**555,930,251**	**128,823,045**	**131,171,181**	**1,443,095**	**817,367,572**
Net liquidity gap	**311,614,027**	**(76,272,522)**	**(131,171,181)**	**42,534,126**	**146,704,450**
Derivative financial instruments held for trading					
Inflows	27,772,500	186,168,500	-	-	213,941,000
Outflows	(29,325,000)	(199,834,500)	-	-	(229,159,500)

Operational risk
The most comprehensive meaning of operational risk is considered to be any risk which is not classified as market and credit risk. In managing operational risk, increasing the skills of the staff, improving the job technology and job definitions, establishing the necessary internal controls and various insurances are employed as main methods.

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 Company 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 Company could realise in a current market exchange.

A market does not presently exist for factoring receivables which would facilitate obtaining prices for comparative instruments, and if sold or settled prior to their stated maturity dates, these instruments would bear transaction costs in the form of fees or discounts. Fair value has not been computed for these instruments because of the impracticability of determining fair value with sufficient reliability. Furthermore, net book amounts are considered to be a reasonable estimate of the fair value.

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NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

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

i) Financial assets
The fair values of certain financial assets carried at cost, including cash and due from banks and financial assets are considered to approximate their respective carrying values due to their short-term nature.

The fair value of factoring receivables is also considered to approximate the carrying value due to their short-term nature.

ii) Financial liabilities
The estimated fair value of borrowings is based on discounted cash flows using interest rates for new debts with similar maturity as YTL742,673,682.

The fair values of other monetary liabilities are considered to approximate their respective carrying values due to their short term nature.

iii) Capital management
According to 23rd article of “Regulation on the Establishment and Operations of Factoring, Leasing and Consumer Finance Companies” which was published in the Official Gazette dated 10 October 2006, total volume of factoring receivables granted by consumer financing companies cannot exceed 30 times of the statutory equity.

As of 30 September 2007, total volume of factoring receivables granted by the Company in its records are 8.40 times of statutory equity.

	30 September 2007
Factoring receivables from customers (A)	**785,991,152**
Share capital	16,802,326
Reserves	66,273,802
Net income for the year	10,472,326
Total equity (B)	**93,548,454**
Factoring receivable/statutory equity ratio (A/B)	**8.40**

NOTE 4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS
Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions
The Company makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant effect to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of factoring receivables
A credit risk provision for impairment of factoring receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The estimates used in evaluating the adequacy of the provision for impairment of factoring receivables are based on the aging of these receivable balances and the trend of collection performance.

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NOTE 5 - CASH AND DUE FROM BANKS

At 31 December 2007 and 2006 cash and due from banks comprised of the following:

	2007			2006		
	Foreign Currency	**YTL**	**Total**	**Foreign Currency**	**YTL**	**Total**
Cash in hand	-	182	182	-	30	30
Due from banks:	1,134,846	39,870,029	41,004,875	1,166,888	96,646,571	97,813,459
- demand deposits	244,453	1,436,363	1,680,816	373,817	88,483	462,300
- time deposits	890,393	38,433,666	39,324,059	793,071	96,558,088	97,351,159
Other cash equivalents	-	-	-	-	199	199
	1,134,846	**39,870,211**	**41,005,057**	**1,166,888**	**96,646,800**	**97,813,688**

For the purposes of the cash flow statement, cash and cash equivalents amounting to YTL40,771,336 (2006: YTL97,255,688) comprised from cash and due from banks excluding accrued interest.

NOTE 6 - FACTORING RECEIVABLES, NET

	2007	2006
Domestic transactions	647,702,557	540,122,090
Export and import transactions	426,261,402	481,515,287
Impaired factoring receivables	4,072,653	4,311,568
Factoring payables	(260,049,535)	(227,095,239)
Gross factoring receivables	**817,987,077**	**798,853,706**
Less: provision for impaired factoring receivables	(8,110,160)	(7,830,987)
Less: unearned revenue	(4,882,850)	(10,212,427)
Factoring receivables, net	**804,994,067**	**780,810,292**

Unearned revenue represents advance collections of factoring fees, recognised on pro-rata basis over the term of the collection of factoring receivables.

At 31 December 2007, YTL228,322,391 of domestic factoring receivables, net and YTL92,674,311 of export factoring receivables, net is without recourse.

	2007	2006
Factoring receivables:		
Fixed rate	496,886,629	474,955,991
Floating rate	321,100,448	323,897,715
	817,987,077	**798,853,706**

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NOTE 6 - FACTORING RECEIVABLES, NET (Continued)

Factoring receivables can be analysed as follows:

	2007	2006
Neither past due nor impaired	808,762,686	784,329,711
Past due but not impaired	268,888	-
Impaired	4,072,653	4,311,568
Gross	**813,104,227**	**788,641,279**
Less: allowances for impairment	(8,110,160)	(7,830,987)
Net factoring receivables	**804,994,067**	**780,810,292**

The total impairment provision for factoring receivables at 31 December 2007 amounts to YTL8,110,160 (2006: YTL7,830,987) of which YTL4,072,653 (2006: YTL4,311,568) represents the individually impaired receivables and the remaining amount of YTL4,037,507 (2006: YTL3,519,419) represents the portfolio provision.

Factoring receivables past due but not impaired are as follows:

	2007	2006
Past due 30-90 days	268,888	-
	268,888	**-**

Examples of exposures designated past due but not considered impaired include factoring receivables fully secured by cash collateral, mortgages past due for technical reasons such as delays in documentation, but where is no concern over the creditworthiness of the counterparty.

Movements in the provision for impaired factoring receivables during the year are as follows:

	2007	2006
Balance at 1 January	**7,830,987**	**9,213,292**
Charge for the year	578,644	1,291,810
Foreign currency loss	(167,488)	(121,591)
Recoveries of amounts previously provided	(131,983)	(2,552,524)
Balance at 31 December	**8,110,160**	**7,830,987**

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Renegotiated factoring receivables that would otherwise be past due or impaired amounts to YTL37,556 at 31 December 2007 (2006: YTL144,475).

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NOTE 6 - FACTORING RECEIVABLES, NET (Continued)

As of 31December 2007 and 2006 the Company obtained the following collaterals from its customers against their outstanding exposures:

	2007	2006
Cheques and notes received	269,635,977	199,522,973
Correspondents' guarantee	92,674,311	88,412,424
	362,310,288	**287,935,397**

Economic sector risk concentrations of gross factoring receivables are as follows:

	2007	%	2006	%
Metal processing	230,563,556	28	337,160,035	42
Automotive	92,035,152	11	48,856,674	6
Car rental	90,999,655	11	21,909,466	3
Textiles	65,460,678	8	67,425,503	8
Food and beverage	53,774,987	7	42,399,395	5
Medicine, chemical and dyes	49,295,345	6	73,266,906	9
Electronics and optics	16,637,476	2	42,197,945	5
Construction	14,607,897	2	31,657,231	4
Manufacturing	6,453,135	1	400,890	1
Other	198,159,196	24	133,579,661	17
	817,987,077	**100**	**798,853,706**	**100**

NOTE 7 - OTHER ASSETS AND PREPAID EXPENSES

	2007	2006
Prepaid taxes and funds	1,537,858	10,094
Advances given (*)	333,744	333,744
Prepaid expenses	305,209	345,669
Other	2,866	4,610
	2,179,677	**694,117**

(*) Represents the advances given for the development of new factoring software that is planned to start to fully operate in 2008.

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NOTE 8 - PROPERTY AND EQUIPMENT

	Furniture and fixtures	Leasehold improvements	Motor vehicles	Total
At 1 January 2006				
Cost	2,211,544	891,782	247,106	3,350,432
Accumulated depreciation	(1,859,730)	(622,364)	(217,836)	(2,699,930)
Net book amount	**351,814**	**269,418**	**29,270**	**650,502**
Year ended 31 December 2006				
Opening net book amount	351,814	269,418	29,270	650,502
Additions	30,239	334,360	-	364,599
Disposal	(314,329)	(506,001)	-	(820,330)
Depreciation charge-additions	(131,497)	(81,498)	(14,648)	(227,643)
Depreciation charge-disposals	213,632	333,679	-	547,311
Closing net book amount	**149,859**	**349,958**	**14,622**	**514,439**
At 31 December 2006				
Cost	1,927,455	720,140	247,106	2,894,701
Accumulated depreciation	(1,777,596)	(370,182)	(232,484)	(2,380,262)
Net book amount	**149,859**	**349,958**	**14,622**	**514,439**
Year ended 31 December 2007				
Opening net book amount	149,859	349,958	14,622	514,439
Additions	50,535	571	-	51,106
Disposals	-	-	(245,006)	(245,006)
Depreciation charge-additions	(81,007)	(67,862)	(16,555)	(165,424)
Depreciation charge-disposals	-	-	246,939	246,939
Closing net book amount	**119,387**	**282,667**	**-**	**402,054**
At 31 December 2007				
Cost	1,977,990	720,711	2,100	2,700,801
Accumulated depreciation	(1,858,603)	(438,044)	(2,100)	(2,298,747)
Net book amount	**119,387**	**282,667**	**-**	**402,054**

Leased assets included in property and equipment, where the Company is the lessee, amounted to YTL20,575 (2005: YTL51,999).

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NOTE 9 - INTANGIBLE ASSETS

	Software
At 1 January 2006	
Cost	1,463,962
Accumulated amortisation	(1,338,807)
Net book amount	**125,155**
Year ended 31 December 2006	
Opening net book amount	125,155
Additions	20,029
Disposals	(1,841)
Amortisation charge	(62,000)
Closing net book amount	**81,343**
At 31 December 2006	
Cost	1,482,150
Accumulated amortisation	(1,400,807)
Net book amount	**81,343**
Year ended 31 December 2007	
Opening net book amount	81,343
Additions	2,089
Disposals	-
Amortisation charge	(42,611)
Closing net book amount	**40,821**
At 31 December 2007	
Cost	1,484,239
Accumulated amortisation	(1,443,418)
Net book amount	**40,821**

NOTE 10 - AVAILABLE-FOR-SALE SECURITIES

Available for sale equity securities at 31 December 2007 and 2006 are set out below:

		2007		2006
	%	YTL	%	YTL
Yapı Kredi Sigorta A.Ş.	7.95	63,206,343	7.95	40,441,885
Yapı Kredi Emeklilik A.Ş.	0.04	27,133	0.04	27,133
		63,233,476		**40,469,018**

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NOTE 10 - AVAILABLE-FOR-SALE SECURITIES (Continued)

The investment amount in Yapı Kredi Sigorta A.Ş., which is a listed company in Istanbul Stock Exchange, is remeasured at fair value based on quoted bid price at 31 December 2007 and 2006.

NOTE 11 - BORROWINGS

Borrowings at 31 December 2007 and 2006 are set out below according to their currencies:

		2007			2006		
		Effective Interest Rate%	Original Currency	YTL	Effective Interest Rate%	Original Currency	YTL
Domestic banks							
	YTL	15.9	187,327,670	187,327,670	19.5	162,514,905	162,514,905
	EUR	5.4	38,234,714	65,389,008	5.7	8,950,080	16,571,074
	US$	5.7	529,448	616,648	5.5	47,865	67,278
Foreign banks							
	EUR	5.5	170,802,979	292,107,255	4.5	142,682,110	264,175,926
	YTL	16.8	58,933,379	58,933,379	20.6	185,723,334	185,723,334
	US$	5.8	114,563,870	133,432,539	6.1	72,456,404	101,844,722
	GBP	5.5	5,081,923	11,820,044	6.0	22,228,227	61,281,000
				749,626,543			**792,178,239**

NOTE 12 - OTHER LIABILITIES AND ACCRUED EXPENSES

	2007	2006
Accrual for personnel performance bonus	984,000	785,000
Payroll and withholdings payable	834,550	1,024,030
Commissions payable	774,597	673,561
Reserve for annual leave	275,180	220,772
Miscellaneous expenses accruals	80,666	131,750
Rent accrual	50,000	225,376
Others	354,430	441,929
	3,353,423	**3,502,418**

NOTE 13 - TAXATION

	2007	2006
Income taxes currently payable	6,154,351	6,708,785
Prepaid taxes	(6,154,351)	(3,504,956)
Income taxes payable	**-**	**3,203,829**
Deferred tax asset	3,826,008	2,579,422
Deferred tax liability	(2,193,926)	(1,070,599)
Deferred tax asset, net	**1,632,082**	**1,508,823**

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NOTE 13 - TAXATION (Continued)

The taxation on income for the years ended 31 December are summarised as follows:

Current tax expense	6,154,351	6,708,785
Deferred tax benefit	(1,261,481)	(1,031,923)
Income tax expense	**4,892,870**	**5,676,862**

The movement of deferred taxes is as follows:

	Net	
	2007	**2006**
Balance at 1 January	**1,508,823**	**1,379,342**
Tax credited to income statement	1,261,481	1,031,923
Tax charged to equity	(1,138,222)	(902,442)
Balance at 31 December	**1,632,082**	**1,508,823**

Corporate Tax Law has been altered by Law No: 5520 on 13 June 2006. Although the new Corporate Tax Law No: 5520, has become effective on 21 June 2006, many of its articles have become effective retrospectively starting from 1 January 2006. Accordingly, the corporation tax rate of the fiscal year 2006 is 20% (30% if the entity elects to use investment incentive exception) (2005: 30%). Corporation tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption, investment allowance, etc) and corporate income tax deductions (like research and development expenditures deduction). No further tax is payable unless the profit is distributed (except withholding tax at the rate of 19,8% on the investment incentive allowance utilised within the scope of the Income Tax Law Transitional Article 61).

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax is payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 25th 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.

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NOTE 13 - TAXATION (Continued)

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.

The reconciliation between the expected and the actual taxation charge is as follows:

	2007	2006
Income before income taxes	24,652,067	25,871,076
Theoretical tax charge at the applicable tax rate 20%	4,930,413	5,174,215
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income exempt from taxation	(199,733)	(34,278)
Non-deductible expenses	45,741	420,476
Difference between carrying value tax base of investments	116,449	116,449
Total tax charge for the year	**4,892,870**	**5,676,862**

Deferred taxes

Deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in following years under the liability method using a principal tax rate of 20% at 31 December 2007. With the enactment of the Corporate Tax Law numbered 5520, an amendment has been brought to the application of tax exemption of gains from sale of immovables and participations. According to the amendment, 75% of gains from sale of immovables and participations which have been carried at least two years in the financial statements of the Company are exempt from taxation. The remaining portion will subject to corporate tax rate of 20%. Thus, a deferred tax liability with an effective tax rate of 5% has been calculated from fair value gains arising from available-for-sale investments. The temporary differences giving rise to the deferred income tax assets and the deferred tax liabilities are as follows:

	Cumulative temporary differences		Deferred tax assets/(liabilities)	
	2007	2006	2007	2006
Provision for impaired factoring receivables	4,874,592	4,310,677	974,918	862,135
Employment termination benefits	199,733	151,496	39,947	30,299
Reserve for annual leave	275,180	220,772	55,036	44,154
Expense accrual on forward contracts	13,780,536	8,214,169	2,756,107	1,642,834
Deferred tax asset			**3,826,008**	**2,579,422**
Difference between carrying value tax base of property and equipment	(184,062)	(258,542)	(36,813)	(51,708)
Difference between carrying value tax base of investments (income statement)	(2,328,975)	(2,328,975)	(116,449)	(116,449)
Difference between carrying value tax base of investments (equity)	(40,813,289)	(18,048,832)	(2,040,664)	(902,442)
Deferred tax liability			**(2,193,926)**	**(1,070,599)**
Deferred tax asset, net			**1,632,082**	**1,508,823**

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NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2007

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NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments for 2007 and 2006 as follows:

	Contract/notional amount	Fair values Assets	(Liabilities)
31 December 2007			
Foreign exchange derivatives			
Currency forwards	466,204,500	-	13,780,536
Total Over the Counter ("OTC")	**466,204,500**	**-**	**13,780,536**

	Contract/notional amount	Fair values Assets	(Liabilities)
31 December 2006			
Foreign exchange derivatives			
Currency forwards	440,129,000	-	8,214,169
Total Over the Counter ("OTC")	**440,129,000**	**-**	**8,214,169**

NOTE 15 - RESERVE FOR EMPLOYMENT TERMINATION BENEFITS

Under the Turkish Labour Law, the Company is 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 YTL 2,030.19 (2006: YTL 1,857.44) for each year of service.

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

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

IAS 19 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 total liability as at 31 December 2007 and 2006:

	2007	2006
Discount rate (%)	5.71	5.71
Turnover rate to estimate the probability of retirement (%)	16.4	9.5

The principal assumption is that the maximum liability for each year service will increase in line with inflation. As the maximum liability is revised semi-annually the maximum amount of YTL2,087.92
(1 January 2007: YTL1,960.69) which is effective from 1 January 2008 has been taken into consideration in calculating the provision for employment termination benefits of the Company.

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NOTE 15 - RESERVE FOR EMPLOYMENT TERMINATION BENEFITS (Continued)

Movement of the reserve for employment termination benefits for the year is as follows:

	2007	2006
1 January	**151,496**	**236,189**
Paid during the year	(90,322)	(66,805)
Increase during the year	251,416	145,510
Reversed during the year	(112,857)	(163,398)
Balance at 31 December	**199,733**	**151,496**

NOTE 16 - SHARE CAPITAL

Share capital of the Company is YTL16,802,326 (2006: YTL16,802,326) and consists of 16,802,326 (2006: YTL16,802,326) authorised shares of nominal value of YTL1 each.

At 31 December 2007 and 2006, the paid-in share capital held was as follows:

	2007		2006	
	Share (%)	YTL	Share (%)	YTL
Yapı ve Kredi Bankası A.Ş.	99.94	16,793,303	40.48	6,801,303
Koç Finansal Hizmetler A.Ş.	-	-	59.46	9,992,000
Other	0,06	9,023	0,06	9,023
Historical share capital	100.00	16,802,326	100.00	16,802,326
Adjustment to share capital		31,069,468		31,069,468
Total paid-in share capital		**47,871,794**		**47,871,794**

In the Extraordinary General Assembly of the Company on 27 December 2006, it was decided to legally merge YK Faktoring with Koç Faktoring, where all rights, receivables, liabilities and obligations of YK Faktoring were transferred to the Company.

The equity of the merging companies has been determined in accordance with the reports prepared by experts. According to the expert report as of 5 October 2006, Koç Faktoring’s historical share capital has been increased by YTL6,802,326 to YTL16,802,326. After deducting the effect of the share capital of YK Faktoring amounting to YTL19,000,000, the remaining amount of capital decrease of YTL12,197,674 has been adjusted as merger reserve through the retained earnings of the Company Accordingly the exchange ratio has been determined as 0.3580 for the shareholders of YK Faktoring.

NOTE 17 - RETAINED EARNINGS AND LEGAL RESERVES

Retained earnings according to 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 Law the Company is required to create the following legal reserves from appropriations of earnings, which are available for distribution only in the event of liquidation or losses:

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

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

YAPI KREDİ FAKTORİNG A.Ş.
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(Amounts expressed in New Turkish lira ("YTL"), unless otherwise indicated)

NOTE 17 - RETAINED EARNINGS AND LEGAL RESERVES (Continued)

At 31 December 2007 and 2006 the reserves held by the Company in the statutory financial statements were as follows:

	2007	2006
Legal reserves	4,567,644	2,757,869
Unappropriated profit	36,933,502	28,289,076
	41,501,146	**31,046,945**

NOTE 18 - GENERAL ADMINISTRATION EXPENSES

	2007	2006
Rent expenses	429,894	393,877
Travel expenses	421,520	329,498
Audit and consultancy fees	272,184	305,989
Depreciation and amortisation expenses (Note 8 and 9)	208,035	289,643
Membership fees	185,962	263,655
Marketing and advertisement costs	180,500	325,340
Communication expenses	133,639	125,981
Donation expenses	120,000	300,050
Stationary expenses	81,926	69,402
Other	501,457	843,846
	2,535,117	**2,347,281**

YAPI KREDİ FAKTORİNG A.Ş.
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NOTE 19 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

i) Balances with related parties:

	2007	2006
Due from banks:		
Yapı ve Kredi Bankası A.Ş.		
Demand Deposits	1,166,458	422,274
Time Deposits	917,431	97,351,160
Yapı Kredi Nederland N.V.		
Demand Deposits	-	19
	2,083,889	**97,773,453**
Factoring receivables:		
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	90,999,655	-
Ram Dış Ticaret A.Ş.	20,876,955	488,305
Tat Konserve Sanayi A.Ş.	20,777,234	-
Beldeyama Motorlu Vasıtalar San. ve Ticaret A.Ş.	12,482,010	5,630,997
Koçnet Haberleşme Teknolojileri ve İletişim Hizmetleri A.Ş.	3,999,958	-
Arçelik A.Ş.	1,476,911	20,876,825
Palmira Turizm Ticaret A.Ş.	975,010	4,870,000
Set Oto Ticaret ve Turizm Ticaret A.Ş.	-	25,000,000
Otoyol Sanayi A.Ş.	-	24,597,887
Birleşik Motor Sanayi ve Tic. A.Ş.	-	6,999,999
Opet Petrolcülük A.Ş.	-	148,613
Türk Demirdöküm Fabrikaları A.Ş.(*)	-	124,238,717
Döktaş Dökümcülük Ticaret ve Sanayi A.Ş. (*)	-	14,948,034
Other	129,123	1,482,623
	151,716,856	**229,282,000**

(*) Türk Demirdöküm Fabrikaları A.Ş., and Döktaş Dökümcülük Ticaret ve Sanayi A.Ş., are no longer related party since October 2007 and January 2007, respectively.

YAPI KREDİ FAKTORİNG A.Ş.
NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2007

(Amounts expressed in New Turkish lira ("YTL"), unless otherwise indicated)

NOTE 19 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Other assets and prepaid expenses:		
Yapı Kredi Teknoloji Hizmetleri A.Ş.	333,744	333,744
Yapı Kredi Sigorta A.Ş.	-	101,362
	333,744	**435,106**

	2007	**2006**
Borrowings:		
Yapı ve Kredi Bankası A.Ş.	38,901,959	13,813,969
Yapı Kredi Nederland N.V.	30,014,000	5,674,105
	68,915,959	**19,488,074**
Other liabilities and accrued expenses:		
Yapı Kredi Sigorta A.Ş.	83,124	62,140
Other	-	129,935
	83,124	**192,075**

Contingent liabilities

Guarantee letters:		
Yapı ve Kredi Bankası A.Ş.	66,087,081	74,071,421
	66,087,081	**74,071,421**

ii) Transactions with related parties:

	2007	**2006**
Discounting charge:		
Türk Demirdöküm Fabrikaları A.Ş. (*)	11,355,786	12,931,867
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	6,714,032	-
Ram Dış Tic. A.Ş.	4,466,013	570,930
Beldeyama Motorlu Vasıtalar San. ve Tic. A.Ş.	712,232	809,043
Otoyol Sanayi A.Ş.	699,098	1,092,981
Opet Petrolcülük A.Ş.	103,043	266,261
Opet Madeni Yağ San. ve Ticaret .A.Ş.	22,902	208,972
Beko Elektronik A.Ş.	2,565	2,415,999
Arçelik A.Ş.	1,039	2,714,008
Set Oto Tic. Turizm A.Ş.	-	3,480,879
Aygaz A.Ş.	-	907,383
Koç Ata Besi ve Tarım Ürünleri A.Ş.	-	5,280
Döktaş Dökümcülük Ticaret ve Sanayi A.Ş. (*)	-	639,725
Other	2,649,861	1,246,150
	26,726,571	**27,289,478**

(*) Türk Demirdöküm Fabrikaları A.Ş. is no longer related party since October 2007 and discounting charge represents the balance for the nine-month period ending 30 September 2007. Döktaş Dökümcülük Ticaret ve Sanayi A.Ş. is no longer related party since January 2007.

YAPI KREDİ FAKTORİNG A.Ş.
NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2007
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NOTE 19 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	2007	2006
Interest income other than factoring:		
Yapı ve Kredi Bankası A.Ş.	267,456	5,704,942
	267,456	**5,704,942**
Factoring commission:		
Türk Demirdöküm Fabrikaları A.Ş. (*)	335,018	379,099
Arçelik A.Ş.	106,323	240,668
Beldeyama Motorlu Vasıtalar San. ve Tic. A.Ş.	51,043	49,422
Beko Elektronik A.Ş.	940	604,821
Aygaz A.Ş.	-	26,544
Döktaş Dökümcülük Ticaret ve Sanayi A.Ş. (*)	-	155,601
Others	101,323	25,423
	594,647	**1,481,578**

(*) Türk Demirdöküm Fabrikaları A.Ş. is no longer related party since October 2007 and factoring commission represents the balance for the nine-month period ending 30 September 2007. Döktaş Dökümcülük Ticaret ve Sanayi A.Ş. is no longer related party since January 2007.

YAPI KREDİ FAKTORİNG A.Ş.
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NOTE 19 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

General administration expenses:

Beko Elektronik A.Ş.	391,456	-
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	124,098	-
Setur Servis Turistik A.Ş.	102,456	40,715
Opet Petrolcülük A.Ş.	86,798	67,764
Sanal Merkez	77,890	55,037
Vehbi Koç Vakfı	-	300,050
Beko Ticaret A.Ş.	-	274,403
Set Oto Tic. Turizm A.Ş.	-	57,885
Palmira Turizm Sanayi A.Ş.	-	27,918
Yapı ve Kredi Bankası A.Ş.	-	27,000
Koç Holding A.Ş.	-	3,590
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	3,587
Others	17,566	4,615
	800,264	**862,564**

Interest expenses:

Yapı ve Kredi Bankası A.Ş.	4,035,435	5,892,035
Yapı Kredi Nederland N.V.	2,928,768	2,038,990
	6,964,203	**7,931,025**

Commission expenses:

Yapı ve Kredi Bankası A.Ş.	634,456	348,686
Uni Credit Factoring	-	208,038
	634,456	**556,724**

Payments made to members of the Board and key management personnel amounted to YTL332,130 for the year ending 31 December 2007.

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NOTE 20 - COMMITMENTS AND CONTINGENT LIABILITIES

Letters of guarantees given to third parties at 31 December 2007 and 2006:

		2007		
	Up to 1 year	**Over 1 year**	**Indefinite**	**Total**
Guarantee letters	-	-	US$16,500,000	US$16,500,000
Guarantee letters	-	-	EUR27,000,000	EUR27,000,000
Guarantee letters	-	-	YTL702,388	YTL702,388

		2006		
	Up to 1 year	**Over 1 year**	**Indefinite**	**Total**
Guarantee letters	-	-	US$16,500,000	US$16,500,000
Guarantee letters	-	-	EUR27,000,000	EUR27,000,000
Guarantee letters	-	-	YTL888,521	YTL888,521

Guarantee letters in the amount of US$16,500,000 and EUR27,000,000 (2006: US$16,500,000 and EUR27,000,000) have been given to Lloyds Bank PLC, as a security for overdraft borrowings. The guarantee letters in the amount of US$16,500,000 and EUR27,000,000 are terminated as 8 January 2008.

Commitments under derivate instruments:

		2007		2006	
		Original Currency	**YTL**	**Original Currency**	**YTL**
Forward currency purchases					
	US$	60,000,000	69,882,000	60,000,000	84,336,000
	EUR	90,000,000	153,918,000	70,000,000	129,605,000
			223,800,000		**213,941,000**
Forward currency sales					
	YTL	242,404,500	242,404,500	229,159,500	229,159,500

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