YapıKredi Faktoring

ANNUAL REPORT 2011

Dedication to Deliver

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Part I

Introduction

Financial Highlights

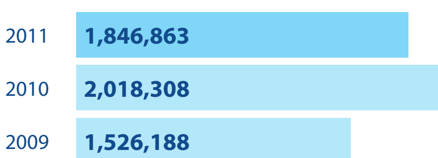
Turnover (US$ million)

	2011	2010	2009
Branch			
- Domestic	5,149	9,929	6,134
- International	1,896	1,348	1,135
Export	1,876	1,332	1,106
Import	20	16	29
Total Turnover	7,045	11,277	7,269

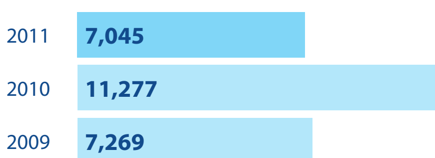
Major Balance Sheet and Income Statement Accounts (TL thousand)

	2011	2010	2009
Factoring Receivables (net)	1,754,989	1,823,892	1,419,961
Total Assets	1,846,863	2,018,308	1,526,188
Factoring Payables	7,190	5,500	-
Shareholders' Equity	155,662	168,778	146,378
Net Profit	17,155	23,800	31,057
Factoring Revenue	151,650	114,493	127,895
Interest Income	135,842	103,864	121,829
Commission Income	20,062	14,185	6,066

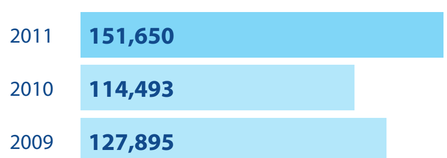
Total Assets (TL thousand)



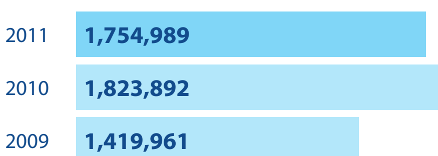
Total Turnover (US$ million)



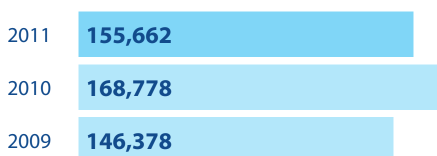
Factoring Revenue (TL thousand)



Factoring Receivables (net) (TL thousand)



Shareholders' Equity (TL thousand)



Yapı Kredi Faktoring in Brief

For 11 years, Yapı Kredi Faktoring has been the undisputed leader of its sector in terms of turnover

Yapı Kredi Faktoring, Turkey's pioneering and innovative factoring company, has a strong market position thanks to its robust operational performance, well-established presence and high quality of service. As the clear Turkish factoring market leader, Yapı Kredi Faktoring controls 17.7% of the sector's total transaction volume with a 27% share of export factoring services in the country. Yapı Kredi Faktoring conducts its operations from six locations: its headquarters in Istanbul and regional representative offices in Izmir, Ankara, Bursa, Antalya and Adana. The synergy resulting from our close relationship with Yapı Kredi Bank, and in particular its nationwide sales and service organization, is one of Yapı Kredi Faktoring's most important service and competitive advantages. With more than 900 branches, Yapı Kredi Bank's service points provide us with extensive reach.

Yapı Kredi Faktoring is a full member of Factors Chain International (FCI), headquartered in Amsterdam; the Company is also a member of the Turkish Factoring Association.

For each of the last nine years, Yapı Kredi Faktoring has been ranked among the "Best Export Factoring Companies" by Factors Chain International; in 2011, FCI ranked the Company fourth. Yapı Kredi Faktoring has also received an excellent evaluation in terms of service quality. Yapı Kredi Faktoring has a strong presence in both domestic and international markets. The Company delivers an outstanding operational performance with its well-defined strategies, ensures sustainable quality in factoring services with its brilliant and dedicated team and provides unique solutions to its strategic client portfolio. Yapı Kredi Faktoring is the undisputed sector leader thanks to its robust capital structure, wealth of experience, proven service quality and expert human resources.

Chairman's Statement

Yapı Kredi Faktoring captured 27% of the total export factoring transaction volume in Turkey and maintained leadership by a wide margin in 2011 with a 17.7% market share

Turkey witnessed strong macroeconomic recovery throughout 2011. In this positive environment, the Turkish factoring sector maintained its profitability level, driven by a strong improvement in asset quality, as well as its robust capital structure and solid liquidity position.

Yapı Kredi Faktoring recorded US$ 7,045 million in transaction volume in 2011, with 73% originating from domestic factoring and 27% from international.

Leading the sector since 2001, Yapı Kredi Faktoring has assumed the important mission of promoting wider usage of factoring transactions and expanding the overall market. With a sound capital structure, high credibility and extensive funding facilities, Yapı Kredi Faktoring's strategic objective is to maintain its sector leadership in Turkey and continue its international expansion.

For the last nine years, Yapı Kredi Faktoring has been ranked among the "Best Export Factoring Companies" by Factors Chain International; in 2011, FCI ranked the Company fourth. Yapı Kredi Faktoring has also received an excellent evaluation in terms of service quality.

The foundations of Yapı Kredi Faktoring's customer focused approach to service include the ability to develop market-oriented functional solutions that satisfy client demand, provide rapid service at the highest standards of quality, and design products and services customized according to client needs. This approach not only supports improvement and development in all of the Company's business processes but also most accurately reflects Yapı Kredi Faktoring's corporate culture.

Yapı Kredi Faktoring captured 27% of the total export factoring transaction volume in Turkey and maintained leadership by a wide margin in 2011 with a 17.7% market share.

In 2011, Yapı Kredi Faktoring posted TL 70.1 million in revenue. Yapı Kredi Faktoring provides factoring services throughout Turkey from its head office in Istanbul and representative offices in Izmir, Ankara, Bursa, Antalya and Adana as well as Yapı Kredi Bank's branch network throughout the country.

In the coming year, our responsibility is to ensure that the Group will maintain its leadership through our exemplary operational performance and become the first choice of customers with our full range of financial services. Yapı Kredi Faktoring, as part of the Yapı Kredi Group, plans to continue growing and meeting the changing needs of our customers.

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

Faik AÇIKALIN
Chairman of the Board of Directors

1,847	156	17
TL million Total Assets	TL million Shareholders' Equity	TL million Net Profit

Board of Directors

Faik Açıkalın
Chairman

Carlo Vivaldi
Vice Chairman

Mert Güvenen
Member

Feza Tan
Member

Marco Cravario
Member

Nida Bektaş
Member

Executive Management

Nida Bektaş
General Manager

Ali Koç
Assistant General Manager

Mete Ünsal
Assistant General Manager

Can Özyurt
Vice President

Nur Özsoy
Head of Treasury and Foreign Relations

Zeynep Emecen Kandemir
Head of Administration and Financial Control

The Year in Review

In addition to its own marketing and sales organization, the Yapı Kredi Faktoring's most important delivery channel is the extensive network of more than 900 Yapı Kredi Bank branches located across the country

Sales

Yapı Kredi Faktoring's marketing strategies aim to ensure the strong and dependable business partner view of the Company in the sight of customers.The Company believes that coming up with solutions that satisfy customer needs - in other words, that provide complete customer satisfaction - is more important than anything else. Yapı Kredi Faktoring's Sales Unit pursues new and existing business generation both in international and domestic markets. The Unit provides client relationship services under three segments: Corporate (large scale companies), Commercial (small scale entities) and Supplier Group (subcontractors of Koç Group companies or other industrial conglomerates).

As one of Turkey's leading factoring companies, Yapı Kredi Faktoring recorded total factoring turnover of US$ 7,045 million in 2011; of which, 27% originated from the international business and the remaining 73% came from domestic operations.

Yapı Kredi Faktoring commands a 17.7% share of the Turkish factoring market, a 27% share of the international market originating in Turkey with 16% coming from the domestic factoring market in Turkey. In 2011, Yapı Kredi Faktoring ranked first in both total factoring volume and international factoring volume. Yapı Kredi Faktoring closely monitored market and sector developments and added 730 new clients to its portfolio during the year. In addition to its own marketing and sales organization, the Company's most important delivery channel is the extensive network of more than 900 Yapı Kredi Bank branches located across the country.

As Turkey's economy continues to develop in the coming years, factoring will become an increasingly important financing instrument. The Company plans to focus on promoting services to prospective clients and entities in the sector by making personal visits and engaging in telemarketing activities. The distribution of our domestic factoring business by business segment is as follows: Energy 20%; Automotive 21%; Metal processing 15%; Construction 5%; Medicine, chemicals and dyes 3.5%; Textiles 2.5%; Food and beverage 2.5%; Manufacturing 1%; Other 29.5%.

Credit Risk Management

Yapı Kredi Faktoring strives to establish an effective common risk management culture throughout the organization and minimize the higher and reputational risk transactions. At the same time, the Company supports sales by focusing on risk management for key segments and key products to reach the common targets. Credit lines are assigned for those transactions that are against a predetermined reimbursement process or explicitly associated with a commercial/trade-related transaction. In order to implement these, the Credit Risk Management Unit focuses on four core areas:

- Establishing an appropriate credit risk management environment;
- Operating under a sound credit-extending process;
- Maintaining an appropriate credit administration; measurement and monitoring process; and
- Ensuring adequate controls over credit risk.

With the aim of implementing more pro-active control over credit risk exposure, the Risk Management Unit expanded its areas of control by adding new reporting tools and increasing its headcount.

Product Development and Monitoring

The Unit develops and implements marketing strategies which serve to acquire new customers and identify opportunities to work with existing clients over the long term. The main activities of the Unit include developing new products and new business in line with market needs, playing a key role in expanding the customer base and achieving sustainable growth in order to realize the Company's objectives.

According to the conditions of the customers and the results of market research, developing marketing strategies and carrying out planning and follow-up activities enable Yapi Kredi Faktoring to be positioned appropriately in accordance with market needs. Thanks to the synergy created with Yapi Kredi Bank, which has over 900 branches throughout the country, a great deal of advertising and promotional activity is executed across a broad spectrum for existing and prospective customers.

Treasury & Foreign Relations

Funding activities are performed within the Treasury & Foreign Relations Unit. Treasury aims to serve client needs without taking directional risk on the market. Treasury's general strategy is to actively manage the Company's assets and liabilities structure by hedging interest rate, liquidity and foreign exchange rate risk. Yapı Kredi Faktoring obtains credit facilities from a wide variety of sources. Yapı Kredi Faktoring has always had an excellent reputation among creditor institutions and foreign correspondent factoring companies; the Company also maintains a widespread bank portfolio and numerous credit lines.

Accounting, Financial Control and Operation

The Unit measures the Company's operational performance in terms of revenue, profitability and turnover in order to achieve the corporate performance targets while taking financial risk, market risk and operational risk into consideration. Additionally, the Unit works to comply with all BRSA regulations, IFRS and Group principles, policies and procedures. The Unit also supports Yapı Kredi Faktoring's strategic objectives by presenting the financial position of the Company and providing relevant information to facilitate decision–making.

The Future

Continued leadership

With its solid capital structure, high level of credibility and extensive sources of funding, Yapı Kredi Faktoring plans to maintain its lead in the sector while continuing to develop new factoring products and services.

Yapı Kredi Faktoring's target is to increase active cooperation with Yapı Kredi Bank & the UCI network. As the strong market leader within the Turkish factoring sector, Yapı Kredi Faktoring aims to be one of the largest factoring companies in Europe in the near future.

Shareholder Information

Yapı Kredi serves 6.2 million customers in retail banking; corporate and commercial banking; private banking and wealth management

Yapı Kredi Bank

Yapı Kredi is Turkey's first retail-focused private bank with a nationwide presence. It creates value for its customers through a customer-centered approach, strong competitive advantages and extensive service network.

Yapı Kredi serves 6.2 million customers in retail banking (including credit card, individual banking and SME banking); corporate and commercial banking; private banking and wealth management. Yapı Kredi's customer-focused service model is supported by its local subsidiaries in asset management, brokerage, leasing, factoring, private pension and insurance as well as international subsidiaries in the Netherlands, Russia and Azerbaijan.

Yapı Kredi is the fourth largest private bank in Turkey with total assets of TL 117.5 billion as of end-2011. Yapı Kredi's loan book grew by 28% year over year in 2011 and reached TL 69.3 billion. Meanwhile, the total deposit base reached TL 66.2 billion, up 20% over the previous year.

Yapı Kredi leads the market in value generating segments and products, supported by its strong franchise, large network and well-respected brand. The Bank is also the market leader in credit cards with an 18.3% share in cards outstanding and a 20.3% share in acquiring volume. In addition to its sector leadership in factoring, Yapı Kredi holds top positions in leasing (#1 with 19.6% market share), asset management (#2 with 17.4% market share), equity transaction volume (#3 with 5.7% market share), private pension funds (#4 with 16.1% market share) and in life and non-life insurance (6.4% and 6.7% market shares, respectively). Yapı Kredi, with 964 branches located in more than 70 cities, has the fifth largest branch network in the Turkish banking sector. A wide variety of innovative products and services are provided to customers through advanced alternative delivery channels that include 2,697 ATMs, two award winning call centers, and leading internet and mobile banking services.

Yapı Kredi's main shareholder is Koç Financial Services (KFS) with an 81.8% stake. KFS is a 50-50% joint venture between the Koç Group and UniCredit Group. The remaining 18.2% of the Bank's shares are publicly traded and held by minority shareholders and are listed on the Istanbul Stock Exchange. Additionally, Global Depository Receipts that represent the Bank's shares are quoted on the London Stock Exchange.

Koç Holding

Koç Group is Turkey's largest industrial and services group in terms of revenues, total value of exports, share in Istanbul Stock Exchange market capitalization and employment generation. Following an average annual growth rate of 22% in revenues and 35% in operating profit in US$ terms between 2002-2011, Koç Holding ranks as the 222nd largest company in the world.

Koç Holding generated 11% of Turkey's total exports in 2011. Koç Group continues to create significant value for the country, generating combined revenue equivalent to 9% of Turkey's total GDP in 2011.

Koç Holding holds leading market positions with strong competitive advantages in the energy, automotive, consumer durables and finance sectors, which offer strong long term growth potential.

Koç Holding's foremost objective is to continue to create higher added value for all its stakeholders and to conduct all of its activities according to international standards of corporate governance, customer satisfaction, social responsibility and environmental protection principles.

UniCredit

UniCredit Group is a global financial institution operating in 22 countries with more than 160,000 employees and over 9,500 branches. UniCredit benefits from a strong European identity, extensive international presence and broad customer base. Its strategic market position in both Western and Eastern Europe gives the Group one of the region's highest market shares.

The Group focuses on full-service financial services and is engaged in a wide range of banking, financial and related activities (including deposit-taking, lending, asset management, securities trading and brokerage, investment banking, international trade finance, corporate finance, leasing, factoring and the distribution of certain life insurance products) through bank branches located across Italy, Germany, Austria and other Central and East European countries. As of December 31, 2011, the Group served more than 35 million customers through its multi-channel distribution network comprised of 9,500 branches throughout 22 countries and a network of licensed financial consultants operating in Italy, as well as its internet and telephone banking capabilities.

Part II

Financial Statements at 31 December 2011 Together with Independent Auditor's Report

Contents

ERNST & YOUNG

Independent auditors' report

To the Shareholders of
Yapı Kredi Faktoring A.Ş.

We have audited the accompanying financial statements of Yapı Kredi Faktoring A.Ş. (the Company), which comprise the statement of financial position as at December 31, 2011, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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 about 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 auditors' 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 auditors consider 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 financial statements present fairly, in all material respects, the financial position of Yapı Kredi Faktoring A.Ş. as of December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

April 13, 2012
Istanbul, Turkey

Yapı Kredi Faktoring A.Ş.
Statement of Financial Position as of December 31, 2011

(Amounts expressed in thousands of Turkish lira ("TL"), unless otherwise indicated)

	Notes	2011	2010
Assets			
Cash and cash equivalents	5	**2.896**	101.217
Factoring receivables, net	6	**1.754.989**	1.823.892
Derivative financial instruments	14	**-**	2.082
Other assets and prepaid expenses	7	**289**	206
Available-for-sale investment securities	10	**78.558**	89.369
Property and equipment, net	8	**419**	508
Intangible assets, net	9	**93**	146
Deferred income tax assets, net	13	**9.619**	888
Total assets		**1.846.863**	2.018.308
Liabilities			
Borrowings	11	**1.661.224**	1.835.435
Factoring payables, net	6	**7.190**	5.500
Derivative financial instruments	14	**12.500**	3.153
Current income taxes payable	13	**4.699**	2.307
Other liabilities and accrued expenses	12	**5.398**	2.942
Reserve for employment termination benefits	15	**190**	193
Total liabilities		**1.691.201**	1.849.530
Equity			
Share capital	16	**16.802**	16.802
Adjustment to share capital	16	**31.069**	31.069
Total paid-in share capital		**47.871**	47.871
Financial assets fair value reserve		**53.331**	63.602
Retained earnings	17	**54.460**	57.305
Total equity		**155.662**	168.778
Total liabilities and equity		**1.846.863**	2.018.308

The accompanying notes set out on pages 7 to 45 form an integral part of these financial statements.

Yapı Kredi Faktoring A.Ş.
Income Statement for the Year Ended December 31, 2011

(Amounts expressed in thousands of Turkish lira ("TL"), unless otherwise indicated)

	Notes	2011	2010
Factoring interest income		**135.842**	103.864
Factoring commissions		**20.062**	14.185
Commission expense		**(4.254)**	(3.556)
Income from factoring operations		**151.650**	114.493
Interest expense on borrowings		**(81.112)**	(69.626)
Interest expense on derivative financial instruments		**(2.756)**	(3.259)
Foreign exchange gains and (losses), net		**(105)**	(68)
Impairment loss on factoring receivables	6	**(39.070)**	(6.511)
Recoveries from impaired factoring receivables	6	**765**	231
Income after foreign exchange gains and (losses), net and provision for impaired factoring receivables		**29.372**	35.260
Interest income other than factoring		**951**	2.906
Other operating income, net	19	**3.216**	1.760
Operating profit		**33.539**	39.926
Salaries and other employee benefits		**(8.201)**	(6.759)
General administration expenses	18	**(4.016)**	(3.446)
Profit before income tax		**21.322**	29.721
Taxation on income	13	**(4.167)**	(5.921)
Profit for the year		**17.155**	23.800

The accompanying notes set out on pages 7 to 45 form an integral part of these financial statements.

Yapı Kredi Faktoring A.Ş.
Statement of Comprehensive Income
for the Year Ended December 31, 2011

(Amounts expressed in thousands of Turkish lira ("TL"), unless otherwise indicated)

	Notes	2011	2010
Profit for the year		**17.155**	23.800
Net (losses)/gains on available-for-sale financial assets		**(10.811)**	21.684
- Unrealised net (losses)/gains arising during the year, before tax		**(10.811)**	21.684
Income tax relating to components of other comprehensive income	13	**540**	(1.084)
Other comprehensive (loss)/income for the year, net of tax		**(10.271)**	20.600
Total comprehensive income for the year		**6.884**	44.400

The accompanying notes set out on pages 7 to 45 form an integral part of these financial statements.

Yapı Kredi Faktoring A.Ş.
Statement of Changes in Equity for the Year Ended December 31, 2011

(Amounts expressed in thousands of Turkish lira ("TL"), unless otherwise indicated)

	Paid-in share capital				
	Share capital (Note 16)	Adjustment to share capital (Note 16)	Financial assets fair value reserve	Retained Earnings (Note 17)	Total equity
Balance at January 1, 2010	16.802	31.069	43.002	55.505	146.378
Net change in available-for-sale investments, net of tax	-	-	20.600	-	20.600
Profit for the year	-	-	-	23.800	23.800
Total comprehensive income for the year	-	-	20.600	23.800	44.400
Dividends paid	-	-	-	(22.000)	(22.000)
Balance at December 31, 2010	16.802	31.069	63.602	57.305	168.778
Balance at January 1, 2011	**16.802**	**31.069**	**63.602**	**57.305**	**168.778**
Net change in available-for-sale investments, net of tax	**-**	**-**	**(10.271)**	**-**	**(10.271)**
Profit for the year	**-**	**-**	**-**	**17.155**	**17.155**
Total comprehensive income for the year	**-**	**-**	**(10.271)**	**17.155**	**6.884**
Dividends paid	**-**	**-**	**-**	**(20.000)**	**(20.000)**
Balance at December 31, 2011	**16.802**	**31.069**	**53.331**	**54.460**	**155.662**

The accompanying notes set out on pages 7 to 45 form an integral part of these financial statements.

Yapı Kredi Faktoring A.Ş.
Statement of Cash Flows for the Year Ended December 31, 2011
(Amounts expressed in thousands of Turkish lira ("TL"), unless otherwise indicated)

	Notes	2011	2010
Cash flows from operating activities			
Profit for the year		**17.155**	23.800
Adjustments for:			
Depreciation and amortization	8, 9	**243**	414
Provision for employment termination benefits	15	**85**	89
Provision for personnel premium		**1.049**	(338)
Provision for impaired factoring receivables	6	**39.070**	6.511
Remeasurement of derivative financial instruments at fair value	14	**11.429**	4.708
Interest income, net		**(52.925)**	(33.885)
Interest paid		**(76.027)**	(80.344)
Interest received		**134.869**	104.813
Income tax expense	13	**4.167**	5.921
Provision for tax penalty	12	**762**	440
Payment for employment termination benefits	15	**(88)**	(25)
Other non-cash items		**(889)**	(67)
Operating profit before changes in operating assets and liabilities		**78.900**	32.037
Changes in operating asset and liabilities:			
Net decrease/(increase) in factoring receivables		**31.805**	(401.063)
Net (increase)/decrease in other assets and prepaid expenses		**(83)**	(44)
Net increase/(decrease) in factoring payables		**1.690**	5.500
Net increase/(decrease) in other liabilities		**645**	330
Income taxes paid		**(9.966)**	(8.207)
Net cash provided from/(used in) operating activities		**102.991**	(371.447)
Cash flows from investing activities:			
Purchase of property and equipment	8	**(87)**	(361)
Purchase of intangible assets	9	**(49)**	(59)
Proceeds from sale of property and equipment		**35**	-
Net cash used in investing activities		**(101)**	(420)
Cash flows from financing activities:			
Proceeds/(repayment) from borrowings		**(182.052)**	463.327
Dividends paid		**(20.000)**	(22.000)
Net cash (used in)/provided from financing activities		**(202.052)**	441.327
Effects of foreign exchange-rate changes on cash and cash equivalents		**889**	68
Net (decrease)/increase in cash and cash equivalents		**(98.273)**	69.528
Cash and cash equivalents at beginning of the year	**5**	**101.169**	31.641
Cash and cash equivalents at end of the year	**5**	**2.896**	101.169

The accompanying notes set out on pages 7 to 45 form an integral part of these financial statements.

Yapı Kredi Faktoring A.Ş.
Notes to the Financial Statements as of December 31, 2011
(Amounts expressed in thousands of Turkish lira ("TL"), unless otherwise indicated)

1. General information

Yapı Kredi Faktoring A.Ş. ("the Company") was established on March 25, 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 March 16, 2001 for the purpose of combining the financial sector companies of the Koç Group. On October 12, 2002, Koç Group entered into a joint strategic partnership with UniCredito Italiano S.p.A ("UCI"), in KFS. KFS transferred its shares to Yapı ve Kredi Bankası A.Ş on October 31, 2007 and Yapı ve Kredi Bankası A.Ş. is the ultimate shareholder (99.94%) of the Company.

Koç Faktoring Hizmetleri A.Ş. legally merged with Yapı Kredi Faktoring A.Ş. on December 29, 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 Büyükdere Caddesi Yapı Kredi Plaza A Blok Kat:14 Levent İstanbul - Türkiye.

The Company has 66 employees at December 31, 2011 (2010: 65).

These financial statements as at and for the year ended December 31, 2011 have been approved for issue by the management of the Company on April 13, 2012. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2. Summary of significant accounting policies

The principal accounting policies adapted in the preparation of these 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 ("IAS") 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 Turkish Lira ("TL") which is the Company's functional and presentation currency, in accordance with the communiqué "Uniform Chart of Accounts, Disclosures and Form and Nature of Financial Statements to be Issued by Leasing, Factoring and Consumer Finance Companies" ("Financial Statements' Communiqué") issued by the Banking Regulation and Supervision Agency ("BRSA") in the Official Gazette dated May 17, 2007, numbered 26525; and in accordance with Turkish Accounting Standards/Turkish Financial Reporting Standards ("TAS/TFRS") and their additions and comments issued by the Turkish Accounting Standards Board ("TASB").

The financial statements are based on the historical cost convention, except for the derivative instruments and available for sale investment securities which are stated at their fair market values.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Accounting for the effects of hyperinflation

Prior to January 1, 2006, the adjustments and reclassifications made to the statutory records for the purpose of fair presentation in accordance with IFRS included the restatement of balances and transactions for the changes in the general purchasing power of the TL 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 January 1, 2006, the Company no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at December 31, 2005 are treated as the basis for the carrying amounts in these financial statements.

Changes in accounting policy and disclosures

The accounting policies adopted in preparation of the financial statements as at December 31, 2011 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2011. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

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The new standards, amendments and interpretations which are effective as at January 1, 2011 are as follows:

IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction— Prepayments of a Minimum Funding Requirement (Amended)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Company is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position or performance of the Company.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This interpretation addresses the accounting treatment when there is a renegotiation between the entity and the creditor regarding the terms of a financial liability and the creditor agrees to accept the entity's equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies such equity instruments are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognized and the equity instruments issued are treated as consideration paid to extinguish that financial liability. This interpretation does not apply when the creditor is acting in the capacity of a shareholder, in common control transactions or when the issue of equity shares was part of the original terms of the liability. The adoption of the interpretation did not have any impact on the financial position or performance of the Company.

IAS 32 Financial Instruments: Presentation - Classifications on Rights Issues (Amended)

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has no effect on the financial position or performance of the Company.

IAS 24 Related Party Disclosures (Revised)

Amended standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. In addition, the revised standard introduces a partial exemption of general disclosure requirements for transactions with government-related entities. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

Improvements to IFRSs

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Company. There are separate transitional provisions for each standard. The amendments that are effective as at January 1, 2011 are as follows:

IFRS 3 Business Combinations

i) Transition requirements for contingent consideration from a business combination that occurred before the effective date of revised IFRS

This improvement clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

ii) Measurement of non-controlling interests

This improvement limits the scope of the measurement choices (fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets) only to the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets.

iii) Unreplaced or voluntarily replaced share-based payment awards

This improvement requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration paid and post combination expenses.

IFRS 7 Financial Instruments: Disclosures

This improvement gives clarifications of disclosures required by IFRS 7 and emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. Among others, the improvement remove the disclosure requirement of the collateral held as security and other credit enhancements and estimate of their fair value for financial assets that are past due but not impaired and that are individually impaired; and instead include a disclosure requirement of financial effect of collateral held as security and other credit enhancements for all financial assets.

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IAS 1 Presentation of Financial Statements

This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

IAS 27 Consolidated and Separate Financial Statements

This improvement clarifies that the consequential amendments from IAS 27 made to IAS 21 "The Effect of Changes in Foreign Exchange Rates", IAS "28 Investments in Associates" and IAS 31 "Interests in Joint Ventures" apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when IAS 27 is applied earlier.

IAS 34 Interim Financial Reporting

This improvement provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements on i) the circumstances likely to affect fair values of financial instruments and their classification, ii) transfers of financial instruments between different levels of the fair value hierarchy, iii) changes in classification of financial assets, and iv) changes in contingent liabilities and assets.

IFRIC 13 Customer Loyalty Programmes

This improvement clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the financial statements are as follows. The Company will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, after the new standards and interpretations become in effect.

IAS 1 Presentation of Financial Statements (Amended) – Presentation of Items of Other Comprehensive Income

The amendments are effective for annual periods beginning on or after July 1, 2012, but earlier application is permitted. The amendments to IAS 1 change only the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments will be applied retrospectively. This standard has not yet been endorsed by the EU. The amendment affects presentation only and will have no impact on the financial position or performance of the Company.

IAS 12 Income Taxes: Recovery of Underlying Assets (Amendment)

The amendments are mandatory for annual periods beginning on or after January 1, 2012, but earlier application is permitted. IAS 12 has been updated to include i) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and ii) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. These amendments will be applied retrospectively. This standard has not yet been endorsed by the EU. The Company does not expect that this amendment will have significant impact on the financial position or performance of the Company.

IAS 19 Employee Benefits (Amended)

Amended standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. This standard has not yet been endorsed by the EU. The Company is in the process of assessing the impact of the amended standard on the financial position or performance of the Company.

IAS 27 Separate Financial Statements (Amended)

As a consequential amendment to IFRS 10 and IFRS 12, the IASB also amended IAS 27, which is now limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Transitional requirement of this amendment is similar to IFRS 10. This standard has not yet been endorsed by the EU. This amendment will not have any impact on the financial position or performance of the Company.

IAS 28 Investments in Associates and Joint Ventures (Amended)

As a consequential amendment to IFRS 11 and IFRS 12, the IASB also amended IAS 28, which has been renamed IAS 28 Investments in Associates and Joint Ventures, to describe the application of the equity method to investments in joint ventures in addition to associates. Transitional requirement of this amendment is similar to IFRS 11. This standard has not yet been endorsed by the EU. The Company does not expect that this amendment will have any impact on the financial position or performance of the Company.

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IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amended)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. This standard has not yet been endorsed by the EU. These amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Company does not expect that these amendments will have significant impact on the financial position or performance of the Company.

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (Amended)

The purpose of this amendment is to allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g. securitizations), including understanding the possible effects of any risks that may remain with the entity which transferred the assets. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. This amendment has not yet been endorsed by the EU. The amendment is effective for annual periods beginning on or after July 1, 2011.Comparative disclosures are not required. The amendment affects disclosures only and will have no impact on the financial position or performance of the Company.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amended)

New disclosures would provide users of financial statements with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analysing and comparing financial statements prepared in accordance with IFRSs and other generally accepted accounting standards. This standard has not yet been endorsed by the EU. The amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The amendment affects disclosures only and will have no impact on the financial position or performance of the Company.

IFRS 9 Financial Instruments – Classification and measurement

As amended in December 2011, the new standard is effective for annual periods beginning on or after January 1, 2015. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial instruments. The amendments made to IFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. This standard has not yet been endorsed by the EU. The amendment will have no impact on the financial position or performance of the Company.

IFRS 10 Consolidated Financial Statements

The standard is effective for annual periods beginning on or after January 1, 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities should be also adopted early.

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. A new definition of control is introduced, which is used to determine which entities are consolidated. This is a principle based standard and require preparers of financial statements to exercise significant judgment. This standard has not yet been endorsed by the EU. This standard will have no impact on the financial position or performance of the Company.

IFRS 11 Joint Arrangements

The standard is effective for annual periods beginning on or after January 1, 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities should be also adopted early.

The standard describes the accounting for joint ventures and joint operations with joint control. Among other changes introduced, under the new standard, proportionate consolidation is not permitted for joint ventures. This standard will have no impact on the financial position or performance of the Company.

IFRS 12 Disclosure of Interests in Other Entities

The standard is effective for annual periods beginning on or after January 1, 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements should be also adopted early.

IFRS 12 includes all of the disclosures that were previously in IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. This standard has not yet been endorsed by the EU. Under the new standard the Company will provide more comprehensive disclosures for interests in other entities.

IFRS 13 Fair Value Measurement

The new Standard provides guidance on how to measure fair value under IFRS but does not change when an entity is required to use fair value. It is a single source of guidance under IFRS for all fair value measurements. The new standard also brings new disclosure requirements for fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and will be adopted prospectively. Early application is permitted. The new disclosures are only required for periods beginning after IFRS 13 is adopted — that is, comparative disclosures for prior periods are not required. This standard has not yet been endorsed by the EU. The Company is in the process of assessing the impact of the new standard on the financial position or performance of the Company.

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Related parties

For the purposes of these financial statements, shareholders, key management personnel and Board of Directors' Members, in each case together with companies controlled by/or affiliated with them and their close family members, associated companies and other companies within the UniCredit ("UCI") and Koç Holding A.Ş. group companies are considered and referred to as related parties (Note 20).

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and cash on hand. For the purposes of the cash flow statement, cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

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 amortized cost. All factoring receivables are recognized 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 year.

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.

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Derivative financial instruments

Derivative financial instruments are initially recognized in the balance sheet at their fair value on the date a derivative contract is entered into 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 from 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 December 31, 2011 and 2010. 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 are classified as available-for-sale assets as these 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. The Company management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of it. Available-for-sale investment securities are subsequently remeasured at fair value based on quoted bid prices, or at 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 recognized at the settlement date, which is the date that the asset is delivered to/from the Company.

Property and equipment

All property and equipment is carried at cost, restated equivalent to purchasing power of TL at December 31, 2005 less accumulated depreciation. Depreciation is calculated over the restated amounts of property and equipment by using the straight-line method to write down 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	Shorter of lease period or useful life

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.

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

Operating leases (where the Company is a lessee)

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor, are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognized as a reduction of rental expense over the lease term on a straight-line basis.

Intangible assets

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

Financial liabilities

Financial liabilities including borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequently, financial liabilities are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the financial liability using the effective yield method.

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Income taxes

a. Income taxes currently payable

Income taxes ("corporation tax") currently payable are calculated in accordance with the Turkish tax legislation (Note 13).

Taxes other than on income are recorded within operating expenses (Note 18).

b. Deferred income taxes

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

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

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 investment securities and provision for employment termination benefits (Note 13).

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet dates.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss, on assets carried at amortised cost, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

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Employment termination benefits

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

(a) Defined benefit plans:

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

Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the "Projected Unit Credit Method" based upon factors derived using the Company's experience of personnel terminating their services and being eligible to receive benefits, discounted by using the current market yield at the balance sheet date on government bonds. Changes in the key assumptions and other sources of estimation regarding benefit fund are recognized in actuarial gains/losses in the year of the change in the estimates. All actuarial gains and losses are recognized in the income statement (Note 15).

(b) Defined contribution plans:

The Company pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Revenue recognition

Revenues from factoring services are recognized in the period to which they relate on an accrual basis. When factoring receivables become doubtful of collection, they are written down to their recoverable amounts.

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 recognized in the income statement for all instruments measured at amortized cost using the effective interest method.

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 recognized in the income statement.

Dividend income

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Company's shareholders.

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 recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Share capital and dividends

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

Contingent assets and liabilities

Contingent liabilities are not recognized but disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent events

Post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

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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.

Financial risk factors

The Company's activities expose 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 minimize potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyze 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.

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.

a. 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 liquidity risk, foreign exchange risk and interest rate risk by considering market risk.

The core business of the Company is to serve clients' financial needs; therefore typically the Company acts as a commercial institution, an activity which could expose the Company to risks such as foreign exchange risk, interest rate risk and liquidity risk. The Treasury mainly focuses on the structure of the Company's assets and liabilities while analyzing 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; in addition it tries to achieve the projected revenues of the Treasury budget, while minimizing the volatility of the results. The Treasury also aims to satisfy the Regulator's requirements.

For the market risk management the below general guidelines apply;

- 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,
- Financial 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.

b. Credit risk

Financial instruments contain an element of risk that the counterparty may be unable to meet the terms of the agreements. This 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.

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Geographical concentration of assets and liabilities as at December 31, 2011 and 2010 is as follows:

2011	Total assets	%	Total Liabilities	%
Turkey	1.846.863	100,0	719.265	42,5
European countries	-	-	971.936	57,5
Other countries	-	-	-	-
	1.846.863	100,0	1.691.201	100,0

2010	Total assets	%	Total Liabilities	%
Turkey	2.018.307	100,0	1.118.661	60,0
European countries	1	-	730.869	40,0
Other countries	-	-	-	-
	2.018.308	100,0	1.849.530	100,0

Maximum exposure to credit risk

Credit risk exposures relating to balance sheet items:

	2011	2010
Due from banks	2.895	101.217
Factoring receivables, net	1.754.989	1.823.892
Derivative financial instruments	-	2.082
Available-for-sale investment securities	78.558	89.369
Other assets	289	206

The above table represents a worst case scenario of credit risk exposure.

c. 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 Financial Control. A maximum limit of (+/-) EUR 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.

As at December 31, 2011, if the TL had weakened/strengthened by 10% against the US$ with all other variables held constant, profit for the year would have been TL 103 higher/lower (2010: TL 140 lower/higher), mainly as a result of foreign exchange gains/losses on translation of US$ denominated factoring receivables, and borrowings.

At December 31, 2011, if the TL had weakened/strengthened by 10% against the EUR with all other variables held constant, profit for the year would have been TL 4.727 lower/higher (2010: TL 51 lower/higher), mainly as a result of foreign exchange losses/gains on translation of EUR denominated factoring receivables, and borrowings.

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Assets and liabilities denominated in foreign currency at December 31, 2011 and 2010 are as follows:

2011	US$Thousand	EURThousand	Foreign currency OtherThousand	TL	Total
Assets					
Cash and cash equivalents	198	896	63	1.739	2.896
Factoring receivables, net	360.838	584.000	20.067	790.084	1.754.989
Derivative financial instruments	-	-	-	-	-
Other assets and prepaid expenses	-	22	-	267	289
Available-for-sale securities	-	-	-	78.558	78.558
Property and equipment	-	-	-	419	419
Intangible assets	-	-	-	93	93
Deferred income tax assets, net	-	-	-	9.619	9.619
Total assets	361.036	584.918	20.130	880.779	1.846.863
Liabilities					
Borrowings	176.857	820.572	19.101	644.694	1.661.224
Factoring payables, net	1.898	3.260	106	1.926	7.190
Derivative financial instruments	1	12.499	-	-	12.500
Current income taxes payable	-	-	-	4.699	4.699
Other liabilities andaccrued expenses	34	535	79	4.750	5.398
Reserve for employment termination benefits	-	-	-	190	190
Total liabilities	178.790	836.866	19.286	656.259	1.691.201
Net balance sheet position	182.246	(251.948)	844	224.520	155.662
Off-balance sheet derivative instruments net notional position	(181.218)	204.680	-	(36.195)	(12.733)

2010	US$Thousand	EURThousand	Foreign currency OtherThousand	TL	Total
Assets					
Cash and cash equivalents	201	256	167	100.593	101.217
Factoring receivables, net	345.209	385.855	15.005	1.077.823	1.823.892
Derivative financial instruments	-	2.082	-	-	2.082
Other assets and prepaid expenses	-	-	-	206	206
Available-for-sale securities	-	-	-	89.369	89.369
Property and equipment	-	-	-	508	508
Intangible assets	-	-	-	146	146
Deferred income tax assets, net	-	-	-	888	888
Total assets	345.410	388.193	15.172	1.269.533	2.018.308
Liabilities					
Borrowings	128.775	598.944	14.766	1.092.950	1.835.435
Factoring payables, net	1.068	2.428	265	1.739	5.500
Derivative financial instruments	3.130	-	-	23	3.153
Current income taxes payable	-	-	-	2.307	2.307
Other liabilities andaccrued expenses	47	412	61	2.422	2.942
Reserve for employment termination benefits	-	-	-	193	193
Total liabilities	133.020	601.784	15.092	1.099.634	1.849.530
Net balance sheet position	212.390	(213.591)	80	169.899	168.778
Off-balance sheet derivative instruments net notional position	(213.792)	215.165	-	(2.134)	(761)

At December 31, 2011, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 2,4438 = EUR 1 and TL 1,8889 = US$ 1 (2010: TL 2,0491 = EUR 1 and TL 1,5460 = US$ 1).

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d. Interest rate risk

The 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 Department that follows up the Company's interest sensitive assets, liabilities and off-balance sheet items. In addition, Financial Control Department 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 by Market Risk Department of YKB using Basis Point Value Analysis on currency and maturity basis. Additionally, the Value at Risk calculations are performed, the limits are checked with Market Risk Rule Books and reported on a monthly basis.

The interest rate risk is measured on a monthly basis using Economic Value Sensitivity Analysis and Interest Rate Stress Testing and various scenarios for the year 2010. According to the Economic Value Sensitivity Analysis as at December 31, 2010, in the scenario of a 6% increase in the TL interest rate and a 2% increase in the foreign currency interest rate with all other variables being constant, there will be a TL 14.436 decrease in the net present value of interest sensitive assets and liabilities. The difference must be within the limit of 10% of the core Tier 1 Capital. According to the Interest Rate Stress Testing at December 31, 2010, in the scenario of a 10% increase in the TL interest rate and a 3% increase in foreign currency interest rate with all other variables being constant, there will be a TL 23.315 decrease in the net present value of interest sensitive assets and liabilities.

The tables below summarize average effective interest rates by major currencies for monetary financial instruments at December 31, 2011 and 2010:

		2011			2010	
	US$ (%)	EUR (%)	TL (%)	US$ (%)	EUR (%)	TL (%)
Assets						
Cash and due from banks						
- time deposits	-	-	8,00	-	-	8,52
Factoring receivables, net	6,00	6,00	16,00	4,83	5,11	9,76
Liabilities						
Borrowings	2,80	2,80	12,90	3,70	2,47	7,46

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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.

2011					
Assets	**Up to 3 months**	**3 to 12 months**	**1 year to 5 years**	**Non-interest bearing**	**Total**
Cash and cash equivalents	353	-	-	2.543	2.896
Factoring receivables, net	1.456.777	261.239	33.381	3.592	1.754.989
Derivative financial instruments				-	
Other assets and prepaid expenses	-	-	-	289	289
Available-for-sale securities	-	-	-	78.558	78.558
Property and equipment	-	-	-	419	419
Intangible assets	-	-	-	93	93
Deferred income tax assets, net	-	-	-	9.619	9.619
Total assets	1.457.130	261.239	33.381	95.113	1.846.863
Liabilities					
Borrowings	1.126.774	470.669	63.781	-	1.661.224
Factoring payables, net	7.190	-	-	-	7.190
Derivative financial instruments	-	-	-	12.500	12.500
Current income taxes payable	-	-	-	4.699	4.699
Other liabilities and accrued expenses	-	-	-	5.398	5.398
Reserve for employment termination benefits	-	-	-	190	190
Total liabilities	1.133.964	470.669	63.781	22.787	1.691.201
Net position	323.166	(209.430)	(30.400)	72.326	155.662

2010					
Assets	Up to 3 months	3 to 12 months	1 year to 5 years	Non-interest bearing	Total
Cash and cash equivalents	100.046	-	-	1.171	101.217
Factoring receivables, net	1.527.104	252.114	44.061	613	1.823.892
Derivative financial instruments	-	-	-	2.082	2.082
Other assets and prepaid expenses	-	-	-	206	206
Available-for-sale securities	-	-	-	89.369	89.369
Property and equipment	-	-	-	508	508
Intangible assets	-	-	-	146	146
Deferred income tax assets, net	-	-	-	888	888
Total assets	1.627.150	252.114	44.061	94.983	2.018.308
Liabilities					
Borrowings	1.710.679	74.281	50.475	-	1.835.435
Factoring payables, net	5.500	-	-	-	5.500
Derivative financial instruments	-	-	-	3.153	3.153
Current income taxes payable	-	-	-	2.307	2.307
Other liabilities and accrued expenses	-	-	-	2.942	2.942
Reserve for employment termination benefits	-	-	-	193	193
Total liabilities	1.716.179	74.281	50.475	8.595	1.849.530
Net position	(89.029)	177.833	(6.414)	86.388	168.778

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e. Liquidity risk

Liquidity risk is the possibility that the Company will be unable to fund its net funding requirements. 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.

The following table presents the cash flows payable by the Company under derivative and non-derivative financial liabilities remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on expected undiscounted cash flows.

2011	**Demand and up to 3 months**	**3 to 12 months**	**Over 1 year**	**No definite maturity**	**Total**
Liabilities					
Borrowings	**1.035.415**	**573.188**	**63.836**		**1.672.439**
Total liabilities	**1.035.415**	**573.188**	**63.836**		**1.672.439**
Assets held for managing liquidity risk (contractual maturity dates)	**1.468.477**	**261.244**	**33.381**	**3.593**	**1.766.695**
Derivative financial instruments held for trading					
Cash inflows	**154.443**	**52.126**	**-**	**-**	**206.569**
Cash outflows	**164.226**	**55.076**	**-**	**-**	**219.302**

2010	Demand and up to 3 months	3 to 12 months	Over 1 year	No definite maturity	Total
Liabilities					
Borrowings	1.712.897	74.523	51.137	-	1.838.557
Total liabilities	1.712.897	74.523	51.137	-	1.838.557
Assets held for managing liquidityrisk (contractual maturity dates)	1.638.649	254.761	44.062	611	1.938.083
Derivative financial instrumentsheld for trading					
Cash inflows	114.451	99.545	1.169	-	215.165
Cash outflows	115.775	99.017	1.134	-	215.926

f. 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.

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g. Fair value of financial instruments

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

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize 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, carrying values are considered to be a reasonable estimate of the fair value.

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, based on discounted cash flows using interest rates for new debts with similar maturity, is TL 1.672.439 (2010: TL 1.832.836).

Fair value hierarchy

Fair values of financial assets and liabilities, those are carried with their fair values on the balance sheet, are determined as follows:

- Level 1: Financial assets and liabilities are valued at the stock exchange price in an active market for exactly the same assets and liabilities.
- Level 2: Financial assets and liabilities are valued with the inputs used to determine a directly or indirectly observable price other than the stock market price of the relevant asset or liability mentioned in Level 1.
- Level 3: Financial assets and liabilities are valued with inputs that cannot be based on data observable in the market and used to determine the fair value of the asset or liability.

There are not any significant transfers between Level 1 and Level 2 of the fair value hierarchy.

According to these classification principles stated, the Company's classification of financial assets and liabilities carried at their fair value are as follows:

2011			
	Level 1	**Level 2**	**Level 3**
Trading derivative financial assets Available-for-sale investment securities	**78.531**	**-**	**-**
Total assets	**78.531**	**-**	**-**
Trading derivative financial liabilities	**-**	**12.500**	**-**
Total liabilities	**-**	**12.500**	**-**

2010			
	Level 1	Level 2	Level 3
Trading derivative financial assets	-	2.082	-
Available-for-sale investment securities	89.342	-	-
Total assets	89.342	2.082	-
Trading derivative financial liabilities	-	3.153	-
Total liabilities	-	3.153	-

Since the share certificates of Yapı Kredi Emeklilik A.Ş., which is classified as available for sale investment securities, are not quoted in the exchange, it is carried at cost and is not included in the table above.

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h. 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 October 10, 2006, total volume of factoring receivables in statutory accounts cannot exceed 30 times of the statutory equity.

As of December 31, 2011, total volume of factoring receivables granted by the Company in its statutory records is 9,81 (2010: 10,93) times of statutory equity.

	2011	2010
Factoring receivables from customers (A)	**1.797.959**	1.830.342
Total equity (B)	**183.272**	167.479
Factoring receivable/statutory equity ratio (A/B)	**9,81**	10,93

4. Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary significant accounting policies (Note 2) and financial risk management (Note 3). Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

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.

Fair value of derivatives: Where valuation techniques (for example. models) are used to determine fair values, they are validated and periodically reviewed. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values.

Deferred income tax asset recognition
Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by Management and extrapolated results thereafter. The business plan is based on Management expectations that are believed to be reasonable under the circumstances.

Employee termination benefit
The cost of defined benefit plans is determined using actuarial valuations which involve making assumptions about discount rates, future salary increases and employee turnover rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. These estimations which are disclosed in Note 15 are reviewed regularly. The carrying value of employee termination benefit provisions as of December 31, 2011 and 2010 is TL 190 and TL 193, respectively.

Uncertain tax positions: As explained in Note 12, the Ministry of Finance Revenue Administration of the Republic of Turkey ("Revenue Administration") has initiated a sector wide investigation with respect to the tax treatment for unearned revenue and tax treatment for the impairment loss on factoring receivables by the factoring companies. During this sector wide investigation corporate income tax calculations of the Company for the years 2007 and 2008 were also investigated. As a result of this investigation, Revenue Administration concluded on an additional corporate income tax to be paid by the Company amounting to TL 5.965 including penalties and interest. The Company appealed the conclusion of Revenue Administration and based on their best estimate, the Company management, by also taking into consideration legal developments in the sector regarding the same topic, has taken a provision amounting to TL 1.202 as of December 31, 2011 (2010: TL 440).

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5. Cash and cash equivalents

As of December 31, 2011 and 2010, cash and cash equivalents comprised of the following:

	2011			2010		
	Foreign currency	**TL**	**Total**	Foreign currency	TL	Total
Cash on hand	-	1	1	-	1	1
Due from banks:				624	100.592	101.216
- demand deposits	1.157	1.385	2.542	624	546	1.170
- time deposits	-	353	353	-	100.046	100.046
	1.157	1.739	2.896	624	100.593	101.217

For the purposes of the cash flow statement, cash and cash equivalents amounting to TL 2.896 (2010: TL 101.169) comprised of cash on hand and due from banks excluding accrued interest.

6. Factoring receivables, net

	2011	2010
Domestic transactions	1.254.780	1.465.536
Export and import transactions	510.528	369.857
Impaired factoring receivables	60.692	18.044
Gross factoring receivables	**1.826.000**	1.853.437
Impairment provision - impaired factoring receivables	(55.429)	(17.431)
Impairment provision - portfolio provision	(6.771)	(6.453)
Less: unearned revenue	(8.811)	(5.661)
Factoring receivables, net	**1.754.989**	1.823.892

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

As of December 31, 2011, TL 518.228 (2010: TL 780.378) of domestic factoring receivables, net and TL 342.240 (2010: TL 278.500) of export factoring receivables, net are non-recourse. In addition, non-recourse transactions amounting to TL 523.158 (2010: TL 1.142.243) are recognized in off-balance sheet accounts at December 31, 2011.

	2011	2010
Factoring receivables		
Fixed rate	816.617	562.480
Floating rate	1.009.383	1.290.957
	1.826.000	1.853.437

Factoring receivables can be analyzed as follows:		
		2011
Neither past due nor impaired	1.758.154	1.829.732
Past due but not impaired	-	-
Impaired	59.035	18.044
Gross	**1.817.189**	1.847.776
Less: allowances for impairment	(62.200)	(23.884)
Net factoring receivables	**1.754.989**	1.823.892

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As of December 31, 2011, the Company received TL 283.911 (2010: TL 264.362) post-dated cheques and notes which are recognized in off balance sheet accounts.

The total impairment provision for factoring receivables at December 31, 2011 amounts to TL 62.200 (2010: TL 23.884) of which TL 55.429 (2010: TL 17.431) represents the individually impaired receivables and the remaining amount of TL 6.771 (2010: TL 6.453) represents the portfolio provision.

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.

Maturity analysis of the factoring receivables is as follows:

	2011	2010
Up to 1 month	**144.977**	148.604
1 month to 3 month	**1.315.392**	1.378.502
3 month to 1 year	**261.239**	252.114
1 year and over	**33.381**	44.672
	1.754.989	1.823.892

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

	2011	2010
At 1 January	**23.884**	17.588
Charge for the year (*)	**39.070**	6.511
Recoveries of amounts previously provided	**(765)**	(231)
Exchange rate differences, other expenses	**11**	16
At 31 December	**62.200**	23.884

(*) Subsequent to December 31, 2011 the Company has identified that one of its customers has alienated fraudulent invoices to the Company. The Company management provided a provision amounting to TL 36.199 for the exposure related with this customer.

There are no renegotiated factoring receivables that would otherwise be past due or impaired as of December 31, 2011 (2010: TL 1.237).

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

	2011	**%**	2010	%
Medicine, chemical and dyes	**62.095**	**3**	630.047	34
Metal processing	**383.791**	**21**	289.582	16
Textiles	**261.661**	**15**	168.445	9
Automotive	**176.616**	**10**	147.103	8
Food and beverage	**59.708**	**3**	59.101	3
Construction	**72.752**	**4**	38.525	2
Manufacturing	**92.418**	**5**	21.407	1
Electronics and optics	**49.548**	**3**	5.827	1
Other	**667.411**	**36**	493.400	26
	1.826.000	**100**	1.853.437	100

Factoring payables amounting to TL 7.190 (2010: TL 5.500) consist of collections from debtors which have not been transferred to the customers as of December 31, 2011.

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7. Other assets and prepaid expenses

	2011	2010
Prepaid expenses	204	198
Advances given	63	4
Other	22	4
	289	206

8. Property and equipment

	January 1,2011	Additions	Disposals	December 31, 2011
Cost:				
Furniture and fixtures	1.982	73	-	2.055
Leasehold improvements	644	14	-	658
Motor vehicles	106	-	(106)	-
Total cost	2.732	87	(106)	2.713
Accumulated depreciation:				
Furniture and fixtures	(1.853)	(53)	-	(1.906)
Leasehold improvements	(319)	(69)	-	(388)
Motor vehicles	(52)	(19)	71	-
Total accumulated depreciation	(2.224)	(141)	71	(2.294)
Net book value	508			419

	January 1, 2010	Additions	Disposals	December 31, 2010
Cost:				
Furniture and fixtures	1.930	98	(46)	1.982
Leasehold improvements	735	263	(354)	644
Motor vehicles	106	-	-	106
Total cost	2.771	361	(400)	2.732
Accumulated depreciation:				
Furniture and fixtures	(1.848)	(50)	45	(1.853)
Leasehold improvements	(560)	(113)	354	(319)
Motor vehicles	(31)	(21)	-	(52)
Total accumulated depreciation	(2.439)	(184)	399	(2.224)
Net book value	332			508

As at December 31, 2011, there are no restrictions on property, plant and equipment (2010: None).

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9. Intangible assets

	January 1, 2011	Additions	Disposals	December 31,2011
Cost:				
Software	**2.155**	**49**	**-**	**2.204**
Total cost	**2.155**	**49**	**-**	**2.204**
Accumulated amortization:				
Software	**(2.009)**	**(102)**	**-**	**(2.111)**
Total accumulated amortization	**(2.009)**	**(102)**	**-**	**(2.111)**
Net book value	**146**	**(53)**	**-**	**93**

	January 1,2010	Additions	Disposals	December 31,2010
Cost:				
Software	2.096	59	-	2.155
Total cost	2.096	59	-	2.155
Accumulated amortization:				
Software	(1.779)	(230)	-	(2.009)
Total accumulated amortization	(1.779)	(230)	-	(2.009)
Net book value	317			146

10. Available-for-sale investment securities

Available for sale equity securities as of December 31, 2011 and 2010 are set out below:

		2011		2010
	%	**TL**	%	TL
Yapı Kredi Sigorta A.Ş.	**7,95**	**78.531**	7,95	89.342
Yapı Kredi Emeklilik A.Ş.	**0,04**	**27**	0,04	27
		78.558		89.369

The investment amount in Yapı Kredi Sigorta A.Ş., which is a listed company in Istanbul Stock Exchange, is measured at fair value based on the quoted best bid price as of December 31, 2011 and 2010.

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11. Borrowings

Borrowings at December 31, 2011 and 2010 are set out below according to their currencies:

		2011			2010		
		Effective interest %	Original currency	TL	Effective interest %	Original currency	TL
Domestic banks							
	TL	13,39	561.166	561.166	7,47	1.013.257	1.013.257
	US$	4,28	59.076	111.590	4,08	64.809	100.195
	EUR	1,97	7.030	17.181	-	-	-
Foreign banks							
	EUR	3,11	328.747	803.391	2,47	292.296	598.944
	TL	13,23	83.528	83.528	7,39	79.691	79.691
	US$	2,25	34.553	65.267	2,40	18.487	28.581
	GBP	2,55	6.101	17.797	2,40	5.890	14.069
	SEK	4,39	4.790	1.304	3,65	3.086	698
				1.661.224			1.835.435

12. Other liabilities and accrued expenses

	2011	2010
Payroll and withholdings payable	1.389	882
Commissions payable	648	520
Accrual for tax penalty (*)	1.202	440
Accrual for personnel performance bonus	1.449	400
Reserve for annual leave	346	323
Miscellaneous expenses accruals	138	128
Others	226	249
	5.398	2.942

(*) The Ministry of Finance Revenue Administration of the Republic of Turkey ("Revenue Administration") conducted an investigation with respect to the tax treatment for unearned revenue and tax treatment for the impairment loss on factoring receivables by the Company for the year 2007 and 2008. As a result of this investigation, Revenue Administration concluded on an additional corporate income tax to be paid by the Company amounting to TL 5.965 including penalty and interest. The Company management tried to compromise with Revenue Administration but the Company and Revenue Administration could not agree on the compromise. As a result the Company filed a claim against Revenue Administration. As of the date of the authorization of the financial statements as of December 31, 2011, the court is ongoing. The Company, by also taking into consideration the legal developments in the sector regarding the same topic, has taken a provision amounting to TL 1.202 as of December 31, 2011 (December 31, 2010 – TL 440).

13. Taxation

	2011	2010
Current income tax payable	12.358	7.797
Prepaid taxes	(7.659)	(5.490)
Income taxes payable	**4.699**	**2.307**
Deferred tax asset	12.585	4.400
Deferred tax liability	(2.966)	(3.512)
Deferred income tax assets/(liabilities), net	**9.619**	**888**

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

Current tax expense	**12.358**	7.797
Deferred taxation	**(8.191)**	(1.876)
Income tax expense	**4.167**	5.921

The movement of deferred income tax asset/(liability) is as follows:

	2011	2010
At January 1	**888**	96
Tax charged to the income statement	**8.191**	1.876
Tax charged to equity	**540**	(1.084)
At December 31	**9.619**	888

Corporate Tax Law numbered 5422 was altered by Law No.5520 on 13 June 2006 which is published at the Official Gazette numbered 26205 and dated 21 June 2006 and many of its articles have become effective retrospectively starting from January 1, 2006. Corporation tax rate in Turkey starting from January 1, 2006 is 20%. 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 and 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 an investment incentive allowance utilized within the scope of 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 is not considered as a profit distribution.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax declaration is made by the 14th day and payable by the 17th day of the second month following each calendar quarter end by companies. Advance tax paid by corporations is credited against the annual corporation tax liability. If, despite offsetting, there remains a paid advance tax amount, it may be refunded or offset against other liabilities to the government.

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 for the tax authorities' review who have the right to audit tax returns, and the related accounting records on which they are based, and they may issue re-assessments based on their findings.

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:

	2011	2010
Profit before income taxes	**21.322**	29.721
Theoretical tax charge at the applicable tax rate of 20%	**4.264**	5.944
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income exempt from taxation	**(532)**	(23)
Non-deductible expenses	**435**	-
Total tax charge for the year	**4.167**	5.921

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Deferred income taxes

Deferred income taxes are calculated on temporary differences that are expected to be realized or settled based on the taxable income in following years under the liability method using a principal tax rate of 20% as of December 31, 2011 (2010: 20%). 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 income tax liabilities are as follows:

	Cumulative temporary differences		Deferred income tax assets/(liabilities)	
	2011	2010	**2011**	2010
Provision for impaired factoring receivables	**47.727**	20.326	**9.545**	4.065
Reserve for annual leave	**346**	323	**69**	65
Provision for employment termination benefits	**190**	193	**38**	39
Expense accrual on forward contracts	**12.500**	1.071	**2.500**	215
Bonus provision	**1.449**	-	**290**	-
Other	**711**	80	**143**	16
Deferred income tax assets			**12.585**	4.400
Difference between carrying value and tax base of property and equipment	**(216)**	(245)	**(43)**	(49)
Difference between carrying value and tax base of available for sale investments (income statement)	**(2.330)**	(2.330)	**(116)**	(116)
Difference between carrying value and tax base of available for sale investments (equity)	**(56.138)**	(66.949)	**(2.807)**	(3.347)
Deferred income tax liabilities			**(2.966)**	(3.512)
Deferred income tax asset/(liability), net			**9.619**	888

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14. Derivative financial instruments

Derivative financial instruments are as follows:

		Fair values	
2011	**Contract/notional amount**	**Assets**	**(Liabilities)**
Foreign exchange derivatives			
Currency forwards	**425.871**	**-**	**(12.500)**
Total over the counter	**425.871**	**-**	**(12.500)**

		Fair values	
2010	Contract/notional amount	Assets	(Liabilities)
Foreign exchange derivatives			
Currency forwards	431.091	2.082	(3.153)
Total over the counter	431.091	2.082	(3.153)

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. Since the legislation was changed on September 8, 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 full TL 2.731 as of December 31, 2011, (December 31, 2010: full TL 2,517) for each year of service.

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

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

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

	2011	2010
Discount rate (%)	**4.66**	4,66
Turnover rate to estimate the probability of retirement (%)	**12**	11

Additionally, the principal actuarial assumption is that the maximum liability of full TL 2.805 for each year of service would increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of full TL 2.805 (January 1, 2011: full TL 2,623) which is effective from January 1, 2012, has been taken into consideration in calculating the reserve for employee benefits of the Company.

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

	2011	2010
At January 1	**193**	129
Paid during the year	**(88)**	(25)
Interest expense	**19**	14
Service cost	**60**	66
Actuarial gain/(loss)	**6**	9
At December 31	**190**	193

16. Share capital

Share capital of the Company is TL 16.802 (2010: TL 16.802) and consists of 16.802.326 (2010: 16.802.326) authorized shares of nominal value of full TL 1 each.

As of December 31, 2011 and 2010, the paid-in share capital held is as follows:

		2011		2010
	Share (%)	TL	Share (%)	TL
Yapı ve Kredi Bankası A.Ş.	**99,94**	**16.793**	99,94	16.793
Other	**0,06**	**9**	0,06	9
Historical share capital	**100,00**	**16.802**	100,00	16.802
Adjustment to share capital		**31.069**		31.069
Total paid-in share capital		**47.871**		47.871

Adjustment to share capital represents the restatement effect of cash contributions to share capital in year-end equivalent purchasing power.

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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.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

At December 31, 2011 and 2010, the reserves held by the Company in the statutory financial statements which are not allowed to be distributed are as follows:

	2011	2010
Legal reserves	**13.864**	11.820

18. General administration expenses

	2011	2010
Management fee charges	**477**	495
Rent expenses	**533**	442
Tax penalty provision expense	**762**	440
Depreciation and amortization expenses (Note 8 and 9)	**243**	414
Duties and taxes expenses	**308**	351
Travel expenses	**548**	288
Audit and consultancy fees	**201**	201
Information technology expenses	**170**	148
Communication expenses	**138**	119
Marketing and advertisement costs	**250**	85
Membership fees	**70**	69
Donation expenses	**172**	50
Disallowable expenses	**32**	18
Other	**112**	326
	4.016	3.446

19. Other operating income, net

	2011	2010
Transaction expenses charged to customers	**1.815**	1.449
Dividend income	**1.788**	10
Others	**105**	867
Other operating income	**3.708**	2.326
Bank charges	**262**	261
Sundry tax expenses	**63**	89
Others	**167**	216
Other operating expenses	**492**	566
Other operating income/(expense), net	**3.216**	1.760

Yapı Kredi Faktoring A.Ş.

Notes to the Financial Statements as of December 31, 2011

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20. Transactions and balances with related parties

i) Balances with related parties

	2011	2010
Due from banks		
Shareholders		
Yapı ve Kredi Bankası A.Ş.		
Time deposits	**-**	100.046
Demand deposits	**1.529**	744
	1.529	100.790
Factoring receivables		
Other related parties		
Karsan Otomotiv San. Ve Tic. A.Ş.	**46.557**	-
Callus Bilgi ve İletişim Hizmetleri	**3.511**	-
Karsan Otomotiv San. Mamulleri Paz. A.Ş.	**2.509**	-
Karland Otomotiv Ürünleri San. ve Tic. A.Ş.	**412**	-
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	**1.442**	-
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	**44**	20.000
Koç Net Haberleşme Teknolojileri ve İletişim Hiz.A.Ş.	**1**	-
Türkiye Petrol Rafinerileri A.Ş.	**-**	409.000
Opet Petrolcülük A.Ş.	**-**	6.102
Beldeyama Motorlu Vasıtalar San.ve Ticaret A.Ş.	**-**	37
Harranova Besi ve Tarım Ürünleri A.Ş.	**-**	3
	54.476	435.142
	2011	2010
Other assets		
Other related parties		
Otokoç Otomotiv Tic. ve San A.Ş.		
	76	-
Borrowings		
Shareholders		
Yapı ve Kredi Bankası A.Ş.	**154.511**	70.733
Other related parties		
Unicredito Italiano S.p.A		
Unicredito Austria S.p.A	**253.776**	
357.194	**510.904**	
-		
Yapı Kredi Nederland N.V.	**110.070**	70.542
	875.551	652.179

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	2011	2010
Other liabilities and accrued expenses		
Shareholders		
Yapı ve Kredi Bankası A.Ş.	21	-
Other related parties		
Zer Merkezi Hizmetler ve Ticaret A.Ş.	11	17
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	17
Otokoç Otomotiv Tic. ve San. A.Ş.	17	11
Setur Servis Turistik A.Ş.	1	4
Opet Petrolcülük A.Ş.	3	2
Yapı Kredi Sigorta A.Ş.	136	-
	189	51

	2011	2010
Contingent liabilities		
Guarantee letters:		
Shareholders		
Yapı ve Kredi Bankası A.Ş.	1.965	1.276

	2011	2010
ii) Transactions with related parties		
Factoring interest income		
Other related parties		
Türkiye Petrol Rafinerileri A.Ş.	4.837	26.522
Karsan Otomotiv San. ve Tic. A.Ş.	2.755	-
Callus Bilgi ve İletişim Hizmetleri	466	-
Karsan Otomotiv Sanayi Mamülleri Paz. A.Ş.	310	-
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	-	1.198
Harranova Besi ve Tarım Ürünleri A.Ş.	88	521
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	439
Ford Otomotiv Sanayi A.Ş.	-	97
Koçnet Haberleşme Teknoloji ve İletişim Hizm. A.Ş.	32	72
Karland Otomotiv Ürünleri San. ve Tic. A.Ş.	18	-
	8.506	28.849

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Interest income other than factoring	**2011**	2010
Shareholders		
Yapı ve Kredi Bankası A.Ş. Bahreyn Branch	**-**	2.687
Yapı ve Kredi Bankası A.Ş.	**949**	2
	949	2.689

Factoring commissions		
Other related parties		
Karsan Otomotiv San. ve Tic. A.Ş.	**334**	-
Callus Bilgi ve İletişim Hizmetleri	**18**	-
Karsan Otomotiv San. Mamulleri Pazarlama A.Ş.	**10**	-
Koçnet Haberleşme Teknoloji ve İletişim Hizm. A.Ş.	**6**	31
Aygaz A.Ş	**2**	-
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	**-**	20
Ford Otomotiv Sanayi A.Ş.	**-**	3
	370	54

Income other than factoring		
Other related parties		
Otokoç Otomotiv Tic.ve San A.Ş.		
Aygaz A.Ş		
Karsan Otomotiv San. ve Tic. A.Ş.	**58**	-
	1	-
	1	-
	60	-

General administration expenses		
Shareholders		
Yapı ve Kredi Bankası A.Ş.	**780**	504
Other related parties		
Zer Merkezi Hizmetler ve Ticaret A.Ş.	**351**	373
Yapı Kredi Sigorta A.Ş.	**279**	258
Yapı Kredi Emeklilik A.Ş.	**192**	136
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	**156**	123
Opet Petrolcülük A.Ş.	**71**	56
YKS Tesis Yönetim Hizmetleri A.Ş.	**120**	56
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	**35**	47
Setur Servis Turistik A.Ş.	**68**	43
Koç Holding A.Ş.	**74**	27
Others	**1**	-
	2.127	1.623

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Interest expenses	2011	2010
Shareholders		
Yapı ve Kredi Bankası A.Ş.	**5.774**	1.939
Other related parties		
Unicredito Italiano S.p.A	**13.336**	10.284
Yapı Kredi Nederland N.V.	**5.453**	2.458
Unicredito Austria S.p.A	**2.861**	-
	27.424	14.681
Dividend Income		
Other Related Party		
Yapı Kredi Sigorta A.Ş.	**1.781**	-
Yapı Kredi Emeklilik A.Ş.	**7**	10
	1.788	10

Benefits to the Board and key management personnel		
Benefits to the Board and key management personnel	**1.046**	764

Off balance sheet transactions

Derivative transactions made with Yapı ve Kredi Bankası A.Ş.

		2011		2010	
		Foreign currency	**TL**	**Foreign currency**	**TL**
Forward purchases					
	EUR	**83.755**	**204.680**	105.004	215.165
	US$	**1.000**	**1.889**	-	-
			206.569		215.165
Forward sells					
	TL	**36.195**	**36.195**	2.134	2.134
	US$	**96.938**	**183.107**	138.287	213.792
			219.302		215.926

Yapı Kredi Faktoring A.Ş.
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21. Commitments and contingent liabilities

Letters of guarantees given to third parties at December 31, 2011 and 2010:

		2011		
	Up to 1 year	**Over 1 year**	**Indefinite**	**Total**
Guarantee letters given for lawsuits	**-**	**-**	**1.965**	**1.965**

		2010		
	Up to 1 year	Over 1 year	Indefinite	Total
Guarantee letters given for lawsuits	-	-	1.276	1.276

Commitments under derivative instruments:

			2011		2010
		Original currency	**TL**	Original currency	TL
Forward currency purchases					
	EUR	**83.755**	**204.680**	105.004	215.165
	US$	**1.000**	**1.889**	-	-
			206.569		215.165
Forward currency sales					
	TL	**36.195**	**36.195**	2.134	2.134
	US$	**96.938**	**183.107**	138.287	213.792
			219.302		215.926

22. Post balance sheet events

In accordance with the decision taken in the Ordinary General Assembly meeting dated March 13, 2012, the Company distributed dividends amounting to TL 40.000 in March 2012.

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