TURKISH FACTORING INDUSTRY

August 2011

TURKrating
Global Experience - Local Insight

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Preface

Among all financial institutions in Turkey, the factoring sector was the least affected by the global financial crisis[1]. Providing financing to more than 50,000 small and medium-sized companies in Turkey, factoring companies contribute significantly to the country's economic activity. In recent years factoring companies have enjoyed an increase of market share among non-bank financial institutions partly because they have been successful in providing quick and practical solutions to companies' funding requirements.

This report, prepared at the request of the Factoring Association which demanded an objective and impartial assessment, aims to present a detailed and analytical account of the factoring industry in Turkey. The analysis herein seeks to inform readers, in particular creditors and investors interested in factoring companies, rather than question customer satisfaction.

This report summarizes the regulatory framework and the operating environment of recent years, compares developments in the factoring sector with that of the banking sector and discusses the developments in the Turkish factoring industry by presenting extensive data. In light of the present state of the sector and current industry trends, risks and opportunities are discussed at length. In that respect, this report will hopefully serve as a handbook to international banks, correspondents and to all interested investors.

Characteristics of the Turkish factoring industry have been shaped by the requirements of small and medium-sized Turkish companies and the extent to which post-dated checks which, unlike in other countries, legal in Turkey, are used. There are 1.3 million companies in Turkey, and 64% employ three or fewer people. Additionally, the total volume of post-dated checks was approximately US$150 billion in 2010. Therefore it is no coincidence that a large number of factoring companies in Turkey have positioned themselves to work with a large number of small SME customers financing small ticket receivables.

Details on the ownership structure of factoring companies and their quantitative data reveals the existence of a number of sub-sectors within the industry. Although they all operate under the same regulations, Turkish factoring companies are not easily comparable with one another. They have different organizational structures, they service different segments of customers and even provide different services. In that respect, it was not possible to make general comments and judgments that would apply to all.

We are very grateful to the members of the Turkish Factoring Association for contributing valuable data and information to this report, and to all the representatives of the many companies who assisted us in understanding the problems of the sector.

[1] *Structural Developments in Banking*, BRSA, December 2009, page 84.

1. AN OVERVIEW OF THE FACTORING SECTOR IN 2011

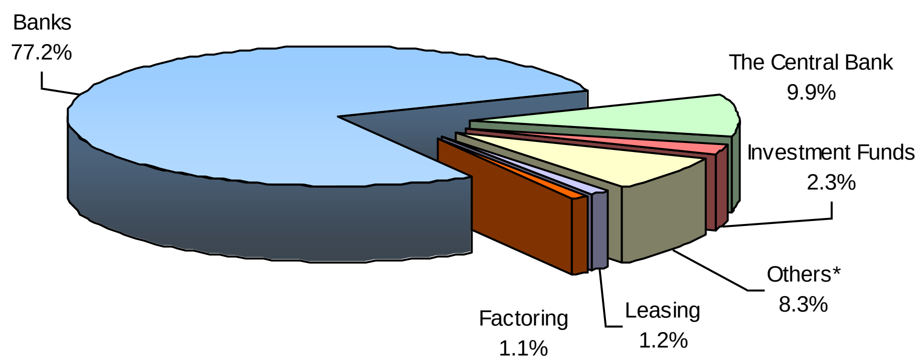
As a result of the Banking Regulatory and Supervisory Agency (BRSA)'s support and encouragement driven by its aim to diversify and strengthen the financial system in Turkey, non-bank financial institutions have shown steady growth in recent years. Among these institutions, the factoring industry has been increasing its market share.

Table 1– The Share of Factoring in the Non-bank Financial Sector

	2006	2007	2008	2009	2010
Share in the Financial System (%)	0.9	1.0	0.8	1.0	1.1
Share in the Non-Bank Financial System (%)	32.2	30.0	26.3	34.9	39.2

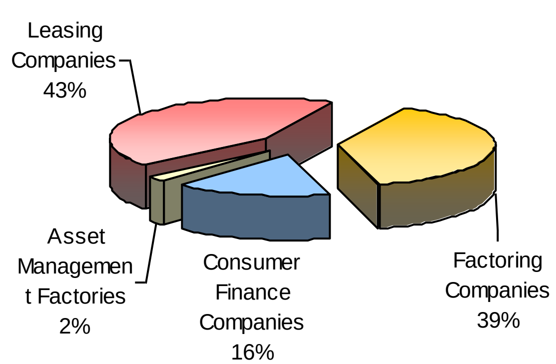
Source: BRSA

Figure 1– The Financial System in Turkey



* Others: Brokerage Houses, Trusts, Mutual Funds, Venture Capital, Asset Management Companies
Source: BRSA

Figure 2 – Non-Bank Financial Institutions



Source: BRSA Financial Markets Report, December 2010

Although the total number of factoring companies declined from 88 in 2005 to 76 in 2010, and even though the sector maintains a very small share (1.1%) of Turkey's financial system, factoring companies have steadily increased their share among the non-bank financial institutions to 39.2% (2005: 32%).

In 2010 the factoring sector grew by 38.5% compared to 7.5% growth in the leasing sector and 33.6% growth in the consumer finance sector.

In Turkey factoring services started in the 1980's as a service offered by a bank. By the 1990s a few companies had been established, paving the way to the formation of a factoring sector. Economic production in Turkey is undertaken by 1.3 million companies, 80% of which employ 10 or fewer people. To illustrate, in 2009, among of the top 1,000 companies in Turkey according to the ranking of the Istanbul Chamber of Industry, the smallest had an asset size of TL10.2 million (US$7.0 million). This gives an idea of how small in size Turkish companies can be. Such an economic structure, where small businesses with small asset bases find difficulty in obtaining bank financing, generates a large demand for factoring.

At the end of 2010 there were 76 factoring companies operating in 16 provinces with 28 branches and 175 representative offices. During 2010, 59 new rep offices were opened, and total staff increased by 598. The economic recovery triggered a larger demand for factoring operations, and this along with the addition of new rep offices resulted in an increase of 39.3% in the number of customers and an increase of 35.7% in the number of factoring operations.

Table 2 - Main Indicators of the Factoring Sector

	2005	2006	2007	2008	2009	2010
Number of Companies	88	86	86	81	78	76
Branches	v.y..	3	16	20	26	28
Rep Offices	n.a.	147	119	128	116	175
Number of Personnel	v.y.	2.425	2.912	3.009	2.959	3.557
Number of Customers	v.y.	v.y.	v.y.	50,228	40,997	57.094
Number of Transactions	v.y.	v.y.	v.y.	146,558	65,952	89.516

Source: BRSA

The sector has traditionally adhered to a structure whereby the top few bank-owned companies dominate the business volume. For example, at the end of 2010 the asset size of the top two companies accounted for 44.4% of the total assets of the sector. In terms of receivables, the same top two accounted for 46% of turnover. Eventually, the share of the smaller companies will be diminishing as already the combined market share of the top five companies has been diminishing since 2008.

There is also a stark difference between the asset size of the eight most dominant factoring companies. To illustrate, the average asset size of the top eight companies in 2010 was TL1 billion, whereas the average asset size of the remainder was TL100 million. The average factoring receivables of these top eight companies of TL890 million was in sharp contrast to TL93 million of the remaining 69.

The total number of factoring companies may be considered high, for in Turkey factoring companies outnumber banks and leasing companies. However the sector is made up of a number of sub-sectors differing one from the other in terms of organizational structure, customer base, services provided, and business strategies. In this respect, each company competes with its individual strengths and weaknesses within its particular sub-sector. For instance, those factoring companies that are subsidiaries or affiliates of banks, or those that are part of an industrial group owning a bank, carry a number of bank-related competitive advantages over the rest. The most obvious competitive advantage is that these companies have unlimited credit lines from the group bank. Secondly, some, if not all, benefit from the large branch network of its parent bank. To be sure, there are exceptions to these general comments, as in the case of one or two factoring companies who fund themselves from other sources. Even in such cases, it is not possible to know whether the parent bank provided the lenders with some sort of guarantee.

Factories companies secure 77% of their funding requirements from bank loans and 20% from equity. Smaller companies operate by also purchasing the receivables of larger factoring companies. In 2008 an additional funding source became available with some companies issuing bonds in the domestic market. Turkey has a very large export volume (US$135 billion expected in 2011) and, needless to say, there exists a large potential in the area of export financing. Even still, export financing remains low, accounting for only 7% of total Turkish exports in 2010.

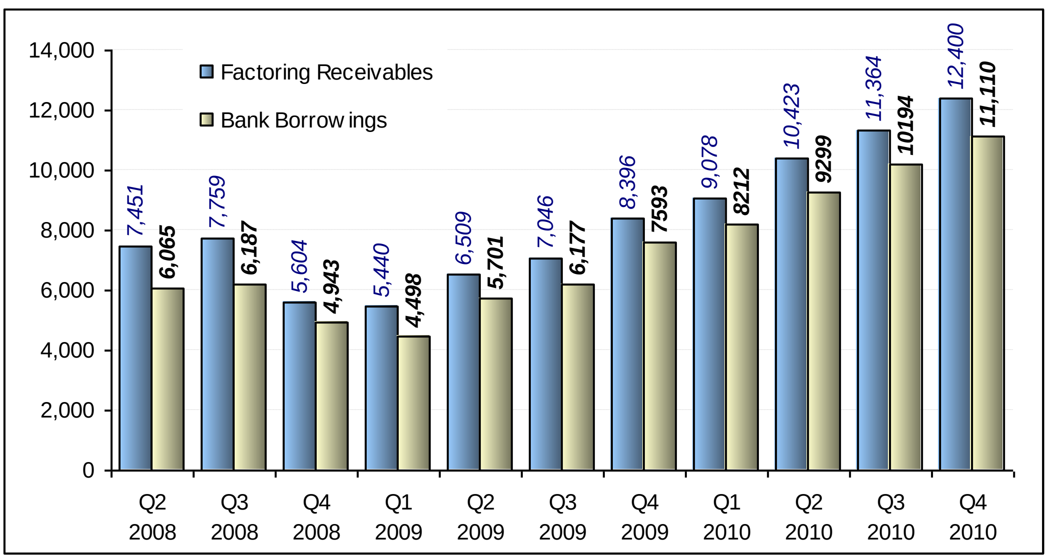
Since 2006 the factoring sector has shown a very rapid growth pattern and total turnover has doubled since then. Similarly asset size has grown to TL14.5 billion in 2010 from TL7.8 billion in 2008. Compared to 2008, a year of no growth at all, total assets grew by 34.6% in 2009 and 38.5% in 2010. Factoring receivables grew by 46.1% in 2009 and 44.8% in 2010, in large part enabled by the 53.6% increase in the use of bank loans in 2010 (46.3% in 2009).

Table 3 – Factoring Companies – Financial Indicators (1000 TL)

	2006	2007	2008	2009	2010
Total Assets	6,332,000	7,552,000	7,796,460	10,490,340	14,530,820
Factoring Receivables	5,107,000	6,223,000	5,603,620	8,396,050	12,399,700
Shareholders Equity	1,758,000	2,005,000	2,373,590	2,536,770	2,969,810
Loans	4,210,000	4,915,000	4,945,350	7,595,230	11,112,850
Net Profit/Loss	491,000	427,000	439,310	328,820	389,770

Source: BRSA

Figure 3 – Total Factoring Receivables and Use of Bank Loans (1000 TL)



Source: BRSA

Shareholders equity was up by 17.1% in 2010 and reached nearly TL3.0 billion. As a result, factoring companies' funding of the real sector advanced to 4.4 times their equity. This ratio is still well below the 30x limit imposed by the BRSA.

The year 2006 constituted an important turning point for the sector because the regulation and supervision of factoring companies was transferred to the BRSA. Since then there has been continuous progress in the sector driven by the BRSA's modifications on legislative requirements. This process, which continues to date, has strengthened the factoring industry.

Between 1 January, 2006 (the date the BRSA took over the factoring companies) and the end of 2010, the licenses of 27 factoring companies were annulled. The majority of the annulment decisions were based on non-compliance with the new regulations, though some were due to voluntary withdrawal. Meanwhile, the applications of 15 new factoring companies were accepted. Thus, while 27 companies exited from the sector, there were 15 new entries. Additionally, the BRSA has entitled four banks to conduct factoring operations. The BRSA's annual reports show that in recent years the highest number of license applications was made by factoring companies. (Table 4)

Table 4 – Annual License Applications to BRSA

	2007	**2008**	**2009**	**2010**
Leasing Companies	3	2	2	0
Factoring Companies	19	12	14	13
Consumer Finance Companies	4	3	2	0

As illustrated in Table 5, most factoring receivables in Turkey are domestic. Among the current 64 members of the Factoring Association, only 20 engage in international factoring.

Table 5 – Factoring Receivables (Million TL)

	2008	**2009**	**2010**
Factoring Receivables	**5,603.62**	**8,396.05**	**12,399.70**
A) Discounted Factoring Receivables	2,862.29	3,877.62	5,514.31
a) Domestic	2,984.18	3,991.98	5,633.69
b) International	0.00	0.00	26.11
c) Unearned Revenues (-)	121.89	114.36	145.49
B) Other Factoring Receivables	2,741.34	4,518.43	6,885.40
a) Domestic	2,290.90	4,094.97	5,907.17
b) International	450.44	423.46	978.23

With the number of factoring companies currently standing at 76, competition is steadily increasing, and companies are finding it more and more difficult to maintain high profitability ratios. Nonetheless, it looks like competition is set to be even fiercer in the future given that the BRSA licensed three additional companies in the first quarter of 2011.

BRSA's Report dated May 2010 prepared by the Implementation Department II, underlines the organization's future intentions in the final section:

"The assurance that the sector will remain under strict supervision and that the violators of regulations will face punitive action has enhanced the industry's prestige vis-à-vis the industry players, the financial system, and the customers, and led to a more competitive environment.

To maintain and develop industry standards, factoring companies' compliance with regulations is strictly supervised through reporting and on sight inspections. At this stage, as a short term goal, a proactive role to prevent the violation of regulations requires setting internal control standards as well as standards of IT systems which support such internal control systems. Moreover, studies are underway to align external *audit rules and procedures of factoring companies to that of banks and ascertain whether the utmost benefit is derived from the audit mechanism."*

Factoring in the World

Annex 4 (Page 73) lists the members of Factors Chain International and their respective domestic and international factoring turnovers. In 2010, total world factoring turnover reached €1.6 trillion, a 28.4% increase over the previous year. The highest turnovers are in Europe, particularly in the UK, France, Italy and Spain. As a result of its own rapid economic growth, China's turnover has approached that of European countries. In Asia, turnover volumes are low except for Japan and Taiwan. Volumes are also low in the Middle East. With its €39.0 billion turnover, Turkey ranks twelfth among the 69 countries.

Table 6 - Distribution of Turnover among FCI Members (Million Euro)

	2005	2006	2007	2008	2009	2010	2010/2009 % Ch.
FCI Members							
Invoice Discounting	160,141	193,829	219,914	206,915	197,993	204,527	3.30
Recourse Factoring	116,626	139,978	168,683	167,860	159,037	234,889	47.69
Non-Recourse Factoring	232,683	247,818	237,585	243,413	242,444	283,198	16.81
Collections	13,120	12,604	13,934	25,940	23,806	23,394	-1.73
Total Domestic Factoring	**522,569**	**594,229**	**640,116**	**644,128**	**623,280**	**746,008**	**19.69**
Export Factoring	42,073	59,302	68,424	88,244	75,654	126,032	66.59
Import Factoring	13,190	14,944	17,416	22,363	17,626	23,584	33.80
Export Invoice Discounting	21,716	24,179	32,430	33,801	40,353	29,818	-26.11
Total International Factoring	**76,979**	**98,425**	**118,271**	**144,408**	**133,633**	**179,434**	**34.27**
Total FCI	**599,548**	**692,654**	**758,386**	**788,537**	**756,913**	**925,442**	**22.27**
World Domestic Factoring	930,061	1,030,598	1,153,131	1,148,943	1,118,100	1,402,331	25.42
World International Factoring	86,486	103,690	145,996	176,168	165,459	245,898	48.62
TOTAL	**1,016,547**	**1,134,288**	**1,299,127**	**1,325,111**	**1,283,559**	**1,648,229**	**28.41**

Source: Factors Chain International http://www.factors-chain.com/?p=ich&uli=AMGATE_7101-2_1_TICH_L1403780046

Table 6 illustrates the distribution of various types of factoring of the FCI member countries between years 2005 and 2010. We noted that while the share of "with recourse" factoring increased the share of "non-recourse" factoring decreased since 2005. In 2010, likewise, with-recourse factoring increased by 48% compared to 17% increase in non-recourse factoring.

The Factoring Association in Turkey

The Factoring Association is a professional association established in 1995. Among the 64 members of the Association 16 companies are also members of Factors Chain International and four are members of International Factors Group (IFG). The Turkish Factoring Association, of which 64 companies out of the 76 factoring companies licensed by the BRSA are members, represents the industry.

The functions of the Association are primarily:

- The development of factoring in Turkey.
- Participation in the preparations and modifications of the regulatory framework.
- Standardization of factoring services.
- Development and introduction of new ideas and opinions that will contribute to the improvement of the sector, and the conveying to the public and related authorities these suggestions.
- Conducting training for factoring employees.
- Promoting solidarity among its members.

The Association selects the five members of the Executive Board and the Chairman of the Association every two years. In addition to the Executive Board there is a Supervisory Committee and a Disciplinary Committee. The Association has also organized committees responsible for regulations, legal matters, financial matters and MASAK.

The Factoring Association's activities have been particularly concentrated on trainings, legislative improvements and the enhancement of the industry's public image in recent months. Courses have been designed to train the new recruits to the industry and to upgrade the skills of the existing staff.

These activities are conducted by the General Secretary of the Association, Ms. Filiz Ünal, and its small staff under the guidance of the Chairman of the Association Mr. Zafer Ataman. The Board convenes very regularly to discuss matters related to the industry and to resolve current problems. In 2010 the Association moved to larger premises in Maslak and now has meeting rooms suitable for trainings.

Trainings - Since October 2010 the Association conducts proficiency courses designed for all factoring company employees, a Certificate of Fundamental Factoring is issued upon completion. The training is given by university lecturers and experienced members of the industry. In May 2011 a new 3-month training program was initiated together with the Istanbul Bilgi University. This 65 hours training is also jointly given by academic and industry staff with extensive experience on specific topics.

Improving the Image - The Association sponsored Nielsen a survey on the public image of factoring in Turkey. Nielsen's survey revealed that the image of the factoring industry still suffered from its heritage of being confused with money lenders and that there existed some uncertainty with regards to the role and functions of factoring and how banks evaluated customers who also used factoring services. Following the results of the survey new ethical standards were adopted by the Association.

Participation in the Preparation of the New Legal Framework - The President of the Association, Mr. Zafer Ataman, and the Secretary General, Ms. Filiz Ünal, represent the factoring industry in all platforms including governmental entities, other NGOs, and they liaise with the Banking Regulatory and Supervisory Board. The Association has taken active part in recent years in the drafting of new regulations on factoring activities, voicing the concerns of its members, responding to legislative changes with clear objections and suggestions. A new draft law was prepared by BRSA and sent to the Prime Ministry on 25 August 2008. This draft law has been waiting to be included on the agenda of the General Assembly since 2008.

The Factoring Symposium in March 2011 - In March 2011 a symposium was held in Istanbul with the participation of all factoring companies, their customers and related institutions such as audit companies. The government gave a clear indication of its support of the factoring industry as evidenced by the attendance of the Deputy Prime Minister for Economic and Financial Affairs Mr. Ali Babacan and the BRSA's Chairman Mr. Tevfik Bilgin. They were both very articulate in expressing the importance they attached to factoring in its role in the diversification and deepening of the financial markets. They also indicated the role played by the factoring industry in addressing the needs of SMEs in Turkey. The video recording of the symposium is available on the web pages of the Association.

Such events undoubtedly contribute significantly to the enhancement of the public image of the factoring industry in Turkey. Even if not in the short-term, gradually the efforts of the Association, coupled with the promulgation of a new law, will bear its results and factoring companies will gain a much different standing among non-financial institutions.

Advantages of Factoring

In many respects factoring constitutes an alternative financing model to banking. It is often referred to as supplier financing or agency financing in Turkey. This is because the suppliers of financially strong and well respected companies can easily generate cash by factoring their receivables from such customers. This system facilitates the cash flow of SMEs by providing them with working capital and liquidity. Corporations with a wide network of agencies can reduce their operational expenses by transferring to factoring companies the credit assessment of and payment collection from their agencies.

From the point of SME customers who use factoring services, the foremost advantage of factoring services is the relative simplicity of documentation and the speed of services. The time period between an application to factor a receivable and getting the payment is significantly shorter than the period necessary to obtain a bank loan.

Another advantage for all companies, large and small, is balance sheet enhancement whereby receivables are replaced by cash items subsequent to a guaranteed factoring of receivables. By employing factoring services, companies may improve their liquidity positions and, thereby, the appearance of their balance sheets.

One of the core functions of factoring companies is collection of debts. They provide prompt collection and minimize costs to the company. In this way companies effectively outsource the administration (and any related legal procedures) of collections.

Factoring companies also provide exporters wider market access by using their international network. Additionally, they provide information related to overseas buyers.
Factoring companies usually gain a wealth of market information on companies as a result of maintaining close contact with SMEs. This market information is usually very valuable and can be of use to companies

when advising their customers on the credit worthiness and financial strength of their business counterparties.

There are three broad advantages to those seeking to invest, in whole or in part, in factoring companies:

- The required initial capital outlay of only TL7.5 million is much less onerous than the $300 million required to establish a bank.
- There is the opportunity to be involved in the financial services sector under a more flexible regulatory framework.
- The sector still enjoys high growth potential.

2. REGULATORY AND LEGISLATIVE FRAMEWORK

Between 2007 and 2011 the BRSA brought discipline to the factoring sector through the introduction of a series of legislative changes. Following the transfer of regulation of factoring companies to the BRSA, entry to the sector became more difficult as a result of new licensing regulations which, inter alia, introduced higher capital requirements. The licenses of a number of companies were reconsidered in that period.

The current implementation under the framework of regulations dated 10 October 2006 No. 26315 (based on the Banking Law No.5411 dated 1 November 2005) has been effective since its introduction in that year.

This regulation establishes the procedures and principles governing:

a. Accounting, reporting and audits concerning financial leasing companies, factoring companies and financing companies
b. Amendments made to the articles of association and share transfers
c. Cancellation of operation licenses
d. Contracts to be drawn up
e. Establishment and operation licenses
f. Managers
g. Mergers, transfers, divisions and liquidation
h. Transaction limits

License Requirements

Companies are required to maintain paid up capital of not less than TL7.5 million and to have issued all of the shares as registered and payable in cash. The commercial title of the company must contain the description “Factoring Company”. Articles of association shall comply with applicable laws and regulations, and the partnership structure is to be transparent and open, not hindering effective audits by the Board in case their founders are legal entities.

There is a two-stage establishment permission procedure. At the first stage permission is granted for the establishment of the company. Once the procedures related to the establishment are completed (including registration with the Trade Registers Office; designating persons with signing powers; establishment of appropriate service units and internal controls; establishment of accounting, data processing and reporting systems; development of adequate staff positions for such units, including defining staff duties identifying staff powers and responsibilities) the company may apply to obtain an operating license. Establishment permissions of companies failing to apply for operating licenses within one hundred eighty days from the establishment permission are rendered null and void.

Qualifications of founders

Company founders and natural persons and legal entities holding a share of ten per cent or more in or controlling the founders of the company with a legal entity are expected to meet the following conditions:

a. They have not been declared bankrupt, have not declared any forced restructuring and postponement of debts, have not any applications for restructuring through reconciliation, which have not yet been upheld or do not face any rulings for postponement of bankruptcy;

b. They have not directly or indirectly held a share of ten percent or more in, or the control of, banks, the operational permissions of which have been discontinued or which have been transferred to the Savings Deposit Insurance Fund or the banks transferred to the Fund before entry into force of Banking Law Nr. 5411, excluding discretional bankruptcy;
c. They have not directly or indirectly held a share of ten percent or more in or the control of any factoring, financial leasing, financing and insurance companies and in any other organizations operating in the money and capital markets, the operating licenses of which have been abrogated, excluding voluntary liquidation and brokers forced into liquidation of their businesses;
d. They have not received a sentence of any heavy imprisonment or imprisonment of more than five years pursuant to the abolished Turkish Criminal Code Nr. 765 dated March 1, 1926 and other laws, a sentence of imprisonment of more than three years pursuant to Turkish Criminal Code Nr. 5327 dated September 26, 2004 and other laws or they have not been convicted of opposition to the imprisonment requiring provisions of the abolished Law on Banking Nr. 3182 dated April 25, 1985, abolished Law on Banking Nr. 4389 dated June 18, 1989, Banking Law Nr. 5411, Capital Market Law Nr. 2499 dated July 28, 1981, Law on Money Lending Nr. 2279 dated June 8, 1933 and Financial Leasing Law Nr. 3226 or of infamous crimes such as simple or complicated embezzlement, extortion, bribery, theft, swindling, forgery, misuse of beliefs and offenses of fraudulent bankruptcy and smuggling offences other than smuggling of labor and consumers' goods, rigging of public tenders and purchases and sales, money laundering and tax evasion or participation in such offenses pursuant to the abolished Turkish Penal Code Nr. 765, Turkish Penal Code Nr. 237 or other laws;
e. They must enjoy such financial capability and standing which can meet the sums of capital subscribed by them.

Opening of local branches and representation offices by companies operating in Turkey

Opening of local branches and representation offices is subject to permission of the Board. A paid-up capital amount of TL1.0 million is required for each branch or representation office. The applications made to the Board should be accompanied by a feasibility report detailing the justification for opening such a branch or representation office.

Branches and representation offices commence operation after they are registered with the Trade Registers Office, with relevant registration particulars being publicly announced thereafter, within ninety days from receipt of respective permissions. Failure to start operation within this deadline renders branch or representation opening permission null and void.

Opening of first branches in Turkey by companies established abroad

Companies established abroad may open branches in Turkey. The required capital is also TL7.5 million. The company has to evidence that where it has been established it has been operating for a minimum of three years. Opening of branches by these companies other than first branches are subject to the same procedures and principles applicable for opening of first branches. However, in this case, one of the branches must be designated as head office and this must be notified to the Board. The opening of representation offices is similar.

Overseas organizations of companies operating in Turkey

Companies are free to organize abroad provided that the provisions of other applicable legislation are reserved. It is conditional that commencement and conclusion of overseas operations be notified to the Board no later than thirty days thereafter.

Bans Related to Factoring Companies

Transactions that cannot be performed by companies are listed as:

- Companies cannot engage in activities other than those specifically indicated by their articles of association
- Issue Letters of Guarantee.
- Collect funds through instruments such as deposits or any other similar things for any consideration other than issues of securities and borrowing of funds from international markets as per the Law on Capital Market Nr. 2499 dated July 28, 1981.

Also, factoring companies cannot buy or assume collection of any receivables arising from sales of goods or services which cannot be certified by means of invoices or other similar documents, even if they are based on bills of exchange, nor receivables arising from sales of goods and services that cannot be certified within the scope of procedures and principles specified by the Board. (This section of legislation was added on 24 February 2011)

Limitations to transactions and provisions

1. The total sum of the receivables of factoring companies, which stem from the extension of funds, may not exceed thirty folds of their own-funds.

2. Companies have to set aside provisions subject to the procedures and principles to be laid down by the Board for the purpose of covering their losses already arisen or expected to arise out of their receivables from transactions, which cannot be precisely determined.

3. Minimum own funds amount of factoring companies cannot be lower than the minimum paid-up capital amount. Companies of which minimum own funds amount falls below this amount shall re-increase their own funds to this amount within one year. (This section of the legislation was added on 24 February 2011)

External Audit Requirements

Since 24 February 2011 factoring companies are required to present their annual balance sheets and income statements to the General Assembly. The external audits may be made only by independent audit companies authorized by the BRSA in compliance with the Regulation on the Authorization and Activities of Institutions to Realize Independent Audits in Banks, published in the Official Gazette dated 11 November 2006 Nr. 26333.

Companies are required to send to the BRSA the independent audit contracts until the end of October of the related year and to send the Annual Audit Report no later than April 15th.

Box 1

List of Related Legislation

Regulation on Principles for the Establishment and Operations of Financial Leasing, Factoring and Financing Companies - Published in Official Gazette dated October 10, 2006 Nr. 26315 prepared on the basis of the Article 93 (1a) of Banking Law Nr. 5411 dated October of 19, 2005, Articles 10, 12 and 32 of Financial Leasing Law Nr. 3226 dated June 10, 1985 and Articles 12 and 13 of Decree-Law Nr. 90 on Transactions of Lending Loans dated September 30, 1983.

Amendments:

- Official Gazette dated 23/03/2008 No. 26825
- Official Gazette dated 26.03.2009 No. 27270
- Official Gazette dated 14.01.2011 No. 27815
- Official Gazette dated 24.02.2011 No. 27856

MASAK (The Financial Crimes Investigation Board of the Ministry of Finance)

Regulations published in the Official Gazette dated January 9, 2008 No. 26751 on "The Prevention of Financing of Terrorism and the Prevention of Laundering Proceeds of Crime"

Circulars:

Circular announced by the BRSA Implementation II Department on 8 July 2010

Circular announced by the BRSA Implementation II Department on 4 January 2011

By-Laws:

Communiqué on Uniform Chart of Accounts to be Implemented by Financial Leasing, Factoring and Financing Companies and its explanation as well as the Form and Scope of Financial Statements to be Announced to the Public - Published in the Official Gazette dated May 17, 2007Nr. 26525

Communiqué on Procedures and Principles for the Provisions to be set aside by Financial Leasing, Factoring and Financing Companies for their Receivables - Published in Official Gazette dated July 20, 2007 Nr. 26588

3. CHARACTERISTIC OF THE SECTOR AND STRUCTURE OF FACTORING COMPANIES

Large Number of Companies – High Concentration

According to the BRSA, there are 76 companies in the factoring industry in Turkey with total receivables of only TL12.4 billion (US$9.0 billion). As mentioned earlier, the industry is structured to include several competitive groups targeting different niches and competition remains within the boundaries of each sub-group.

The BRSA's report[2] revealed the market shares of the top 10 players. In 2009 the top five companies accounted for 46.2% of the market (51.5% in 2008), whereas the top ten accounted for 65.3% (66.4% in 2008). With such high concentration, the financial performance of the top ten factoring companies dictates the industry's financial indicators. Therefore, averages such as average profitability ratio can be highly misleading. As illustrated in Table 8, eight out of the top 10 companies are bank subsidiaries. If a parent bank chose to prioritize consolidated profits, the subsidiary factoring company would tend to operate under low profitability, pulling down the average ratio for the entire sector.

A similar concentration study was conducted using data from the Factoring Association. In 2010 the share of the top five shows a decrease to 44% and the share of the top ten to 64%. The distribution by size shows lower but still large, 50%, concentration of the large companies. The shares of the medium and small companies have gained only one percentage point.

Table 7 - Concentration of Assets (%)

	2006	2007	2008	2009	2010
Top 5 companies	42	40	52	46	44
Top 10 Companies	60	57	66	65	64
Distribution by Size					
Large*	44	35	55	52	50
Medium**	36	46	24	32	33
Small***	20	19	21	16	17
Total	100	100	100	100	100

Source: BRSA and the Factoring Association

Note – According to 2010 results

*Large Companies: Total assets more than TL700 million

** Medium Size Companies: Total assets between TL150 million and TL700 million

*** Small Size Companies: : Total assets less than TL150 million

Table 8 gives us the list of the 64 factoring companies in 2010. What is striking is that out of these 64 companies (listed by the Association), 53 have market shares below 2% (41 with a market share of less than 1%). This structure looks set to continue although a number of companies will in time enlarge their shares. But, the important point is that quite a large number of companies are comfortable with their 2% shares and will remain within their respective customer segments.

[2] Structural Developments in Banking, BRSA, December 2008 and 2009

Table 8 – List of Factoring Companies by Asset Size

Rank	Factoring Company	2009 Thousand TL	2010 Thousand TL	Share in 2010 (%)	2010/2009 Change (%)
1	Yapı Kredi Faktoring A.Ş	1,537,409	2,024,252	14.22	31.67
2	Garanti Faktoring Hizmetleri A.Ş.	1,132,913	1,565,565	11.00	38.19
3	Deniz Factoring A.Ş	602,487	924,484	6.50	53.44
4	Fiba Factoring Hizmetleri A.Ş	849,649	854,343	6.00	0.55
5	Vakıf Finans Factoring Hizmetleri A.Ş	572,781	823,018	5.78	43.69
6	TEB Factoring A.Ş	437,565	781,569	5.49	78.62
7	Girişim Faktoring A.Ş.	673,646	627,922	4.41	-6.79
8	Kapital Faktoring Hizmetleri A.Ş	397,232	537,190	3.77	35.23
9	Iş Factoring Finansman Hizmetleri A.Ş	276,099	477,505	3.36	72.95
10	Creditwest Faktoring Hizmetleri A.Ş.	247,017	392,781	2.76	59.01
11	Lider Faktoring Hizmetleri A.Ş.	306,987	371,592	2.61	21.04
12	Finans Faktoring Hizmetleri A.Ş.	116,214	264,652	1.86	127.73
13	Şirinoğlu Factoring Fins.Hizm.T.A.Ş.	154,718	256,738	1.80	65.94
14	Destek Finans Factoring Hizmetleri A.Ş	176,658	250,176	1.76	41.62
15	Ekspo Faktoring A.Ş.	152,606	223,966	1.57	46.76
16	C Faktoring A.Ş.	220,051	212,569	1.49	-3.40
17	Eko Factoring Hizmetleri A.Ş.	118,525	201,247	1.41	69.79
18	Pamuk Factoring A.Ş	129,614	178,189	1.25	37.48
19	Yaşar Factoring Hizm.A.Ş.	141,335	168,355	1.18	19.12
20	Şeker Faktoring Hizmetleri A.Ş.	115,936	167,059	1.17	44.10
21	MNG Factoring Hizmetleri A.Ş.	70,489	158,375	1.11	124.68
22	ING Faktoring A.Ş.		150,682	1.06	--
23	Anadolu Faktoring	144,906	149,881	1.05	3.43
24	Strateji Factoring Hizmetleri A.Ş.	86,895	127,947	0.90	47.24
25	Bayramoğlu Finans Faktoring Hizmetleri A.Ş.	129,880	127,515	0.90	-1.82
26	Ulusal Faktoring A.Ş.	85,631	126,311	0.89	47.51
27	Tekstil Factoring Hizmetleri A.Ş	158,647	125,744	0.88	-20.74
28	Optima Faktoring Hizmetleri A.Ş	86,895	127,947	0.90	47.24
29	Fortis Faktoring A.Ş.	43,272	119,222	0.84	175.52
30	Tek Faktoring Hizmetleri A.Ş.	56,337	101,400	0.71	79.99
31	Atılım Faktoring A.Ş.	68,111	103,240	0.73	51.58
32	Akın Faktoring Hizmetleri A.Ş	63,860	100,960	0.71	58.10
33	Akdeniz Factoring Hizmetleri A.Ş.	62,774	99,963	0.70	59.24
34	Başer Faktoring A.Ş	46,475	93,306	0.66	100.77
35	Çağdaş Finans Factoring Hizmetleri A.Ş.		92,413	0.65	--
36	Para Finans Factoring Hizm.A.Ş.	58,296	89,406	0.63	53.37
37	Kent Factoring A.Ş	37,164	79,963	0.56	115.16
38	Demir Factoring A.Ş	60,095	67,537	0.47	12.38
39	Huzur Faktoring Finansal Hizm.A.Ş.	27,551	67,217	0.47	143.97
40	Süzer Faktoring A.Ş	23,162	66,691	0.47	187.93
41	Yeditepe Faktoring Hizm.A.Ş.	51,313	64,531	0.45	25.76
42	Ar Faktoring Finansal Hizmetleri A.Ş.	v,y,	56,197	0.39	--

43	Erişim Finans Faktoring Hizm.A.Ş.	30,676	55,969	0.39	82.45
44	Arena Faktoring Hizm.A.Ş.	13,863	49,934	0.35	260.20
45	Devir Factoring Hizmetleri A.Ş	31,956	49,522	0.35	54.97
46	Analiz Faktoring A.Ş.	15,862	47,448	0.33	199.13
47	First Factoring A.Ş.	42,785	46,426	0.33	8.51
48	Çözüm Finans Faktoring Hizmetleri A.Ş.	30,573	41,280	0.29	35.02
49	Tuna Faktoring Hizm.A.Ş.	29,575	40,326	0.28	36.35
50	Trend Finans Faktoring Hizm.A.Ş.	19,381	32,102	0.23	65.64
51	Merkez Faktoring Hizmetleri A.Ş	22,149	29,756	0.21	34.34
52	Doğa Faktoring Hizmetleri A.Ş.	21,072	27,819	0.20	32.02
53	EDF Finans Faktoring Hizmetleri A.Ş.		26,837	0.19	--
54	Makro Factoring A.Ş.	18,653	24,312	0.17	30.34
55	Sümer Faktoring Hizm.A.Ş.	13,535	24,156	0.17	78.47
56	Kredi Finans Faktoring Hizmetleri A.Ş.	6,217	22,279	0.16	258.36
57	ACL Finans Faktoring A.Ş.	12,260	21,877	0.15	78.44
58	Doğan Factoring Hizm.A.Ş.	28,012	19,792	0.14	-29.34
59	Acar Factoring A.Ş	12,598	16,044	0.11	27.35
60	Değer Faktoring A.Ş.		14,422	0.10	--
61	Met-ay Faktoring Finans Hizmetleri A.Ş.	17,548	13,946	0.10	-20.53
62	vdf Faktoring Hizmetleri A.Ş.		12,633	0.09	--
63	Atak Faktoring Hizmetleri A.Ş	6,865	8,706	0.06	26.82
64	Eren Finans Faktoring Hizmetleri A.Ş.		6,153	0.04	-99.94
	TOTAL	**9,998,326**	**14,039,404**	**100.00**	**40.40**

The top ten companies have largely remained the same (Table 9). Also, considering the annual changes in asset size, it is evident that companies have been pursuing very different growth strategies. Their rates of growth diverged to a large extent.

Table 9 – Top 10 Factoring Companies and Market Shares Accoring to Asset Size

	2008	Share (%)	Küm. Pay (%)	**2009**	Share (%)	Küm. Pay (%)	**2010**	Share (%)	Küm. Pay (%)
1	Yapı Kredi Fakt.	18.7	18.7	Yapı Kredi Fakt.	14.7	14.7	Yapı Kredi Fakt.	14.42	14.4
2	Garanti Fakt.	11.6	30.3	Garanti Fakt.	10.9	25.6	Garanti Fakt.	11.14	25.6
3	Fiba Fakt.	6.9	37.2	Fiba Fakt.	8.2	33.8	Deniz Fakt.	6.74	32.3
4	TEB Fakt.	8.2	45.4	Girişim Fakt.	6.4	40.2	FİBA Fakt.	6.04	38.3
5	Deniz Fakt.	6.1	51.5	Deniz Fakt.	6.0	46.2	Vakıf Finans Fakt.	5.86	44.2
6	Kapital Fakt.	4.2	55.7	Vakıf Finans Fakt.	5.5	51.7	TEB Fakt.	5.57	49.8
7	Lider Fakt.	3.3	59.0	TEB Fakt.	4.2	55.9	Girişim	4.44	54.2
8	Vakıf Finans Fakt.	2.8	61.8	Kapital Fakt.	3.9	59.8	Kapital Fakt.	3.79	58.0
9	Girişim Fakt.	2.6	64.4	Lider Fakt.	2.9	62.7	İş Fakt.	3.40	61.4
10	Şeker Fakt.	2.0	66.4	İş Fakt.	2.6	65.3	Lider Fakt.	2.65	64.0

Source: 2008 BRSA , 2009 Turkrating, 2010 Factoring Association

The 2010 data has been given by the Factoring Association excluding Anadolu Factoring. Some of the data was corrected in cases where the company’s financials were disclosed on their web pages before the completion of the report.

Diversification by Shareholder Structure

Turkish factoring companies can be grouped in terms of asset size, turnover size, as well as shareholder structure. It is also possible to group them according to the services they offer or by their target customer base. In fact, the factoring industry has a "multi-cultural" structure in that companies with differing organizational setups and differing business strategies operate under common regulations. Each company has the opportunity to choose its own business strategy and customer base under such an industry structure. However, the existence of such different types of companies within the industry complicates efforts to improve the negative image of the industry.

Bank Subsidiaries:

The group that stands out first consists of subsidiaries of banks or parts of holding companies that also own banks. There are 14 factoring companies in this group classified by shareholder structure (note that Fortis Factoring ceased operations in 2011). While dissimilarities exist among these companies, it can be said that they generally benefit from the branch network, customer base and risk management system of the parent bank as well as from funds provided by the parent bank.

Those same 14 factoring companies can be re-grouped by 1) joint ventures with foreign banks, and 2) wholly owned by foreign banks. Yapı Kredi, Garanti, Fiba, TEB and Turkish Bank Factoring Companies are participations of banks jointly owned by foreign banks, whereas Deniz Faktoring, Finans Faktoring ve ABN Amro Faktoring are participations of banks owned wholly by foreign banks.

For many years Yapı Kredi Factoring has remained the top factoring company in the market. Yapı Kredi Factoring benefits from the 867 local branches of the parent Yapı Kredi Bank and from the international network of the UniCredit Group. Such a structure is undoubtedly an important element in its success in maintaining a dominant market share.

TEB Factoring has a somewhat similar structure and has gained a significant international factoring turnover. The data of the Factoring Association shows that TEB Factoring has a 25% share of the market in international factoring volume, just next to Yapı Kredi Factoring's 30% share. Third in line comes FIBA Factoring with 8% share. Others with significant shares are Strategy (5%), ING Factoring (4.5%) and Garanti Factoring (4.3%).

Vakıf Factoring is the subsidiary of Turkey's sixth largest bank, Vakıfbank. Anadolu Factoring and Tekstil Factoring are subsidiaries of smaller banks.

Also in this group are FIBA and Girişim Faktoring Companies which are associated with the FIBA Group of companies with banks in Europe. In 2011, the FIBA Group acquired a bank in Turkey and renamed it Fibabank.

Creditwest Faktoring has a similar shareholder structure; it is owned by Altınbaş Group of Companies which owns banks in Ukraine and Northern Cyprus. Demirhalk Bank BNV has shares in C Faktoring.

Companies Wholly Owned by Foreign Capital:

First Faktoring is owned by a German private equity fund. The company received establishment permission in November 2007 and subsequently the operation permission in April 2008. The majority shareholder is First Holding GmbH which was established in 2007 wholly with German capital. The shareholders of the equity fund are predominantly Turkish citizens living in Germany. The capital of First Faktoring is an equity fund established with German capital and owned by Turks living in Germany.

Companies with Foreign Partners:

In this group there is only Lider Factoring in which Credit Suisse Investments Nederland B.V. participated with 9.9% stake in 2008.

Companies Serving a Single Industry:

VDF Factoring services dealers and distributors of automotive companies, while Doğan Factoring factors receivables of companies in the media industry.

Companies Owned by Groups with More than One Factoring Company:

There were three such groups, but now there are only two since Süzer and Kent Factoring merged in 2011 under Süzer Holding. One is the Cıngıllıoğlu family group which owns Demir and C Faktoring, and the other is the Fiba Group Companies which owns Girişim and Fiba Faktoring.

Banks Elligible to Conduct Factoring Operations:

As far as we are able to identify, there are three banks: Eurobank Tekfen, HSBC and Akbank.

Publicly Listed Companies:

Creditwest Faktoring and Garanti Faktoring are the only two companies that are publicly listed. Their market capitalizations are quite similar, around US$70 million. Another company, Öz Finans Faktoring, was previously listed but ceased operations in 2008 and restructured as Özderici Real Estate Investment Trust.

Management and Managers

Regulations introduced on October 10, 2006 brought a set of minimum eligibility requirements to shareholders and managers. It is now mandatory that members of executive boards of companies, as well as their officers who hold signature powers of the first degree, have at least a bachelor's degree earned at a university and have at least seven years of professional work experience in finance or management. Deputy general managers are required to have graduate education with a bachelor's degree and have at least seven years' professional experience in finance or management. Other managers performing duties of an executive nature in positions equivalent to those of deputy generals, in respect of powers and duties, even if they are employed under other titles, are also subject to the provisions applicable for deputy general managers. These eligibility requirements have been effective in setting standards with respect to qualified and experienced managers in the factoring industry.

Under Corporate Governance principles, the following information should be open to the public and all stakeholders:

- Shareholder structure
- Ultimate controlling individual shareholder/s (amount and proportion of their shares)
- Roles and responsibilities of the board of directors
- Organizational and managerial structure

- Management strategies
- Annual and financial reports
- CVs of executives

Contrastingly, one aspect that stands out as positive in the factoring industry is gender equality. While no data exists on the exact numbers of female executives, we observed that the number of female general managers and assistant general managers is significantly high and possibly an exemplary case.

While it is not possible to express an opinion on managerial cadres based on factual data, it appears that there are currently three types of executives: those with predominantly banking backgrounds, those who have spent most of their careers working for factoring companies, and those who actually run (and own) companies or who practically grew up in the factoring industry.

There is no eligibility requirement for executive board members other than that related to Article 5 which stipulates a clean legal track record. In the case of companies established abroad and operating in Turkey, the regulations call for the establishment of a board of directors with at least three members, including the manager of the central branch, having the powers and responsibilities of an executive board, with their managerial head offices in Turkey.

Factoring Companies have Simple Balance Sheets

Factoring companies have very simple balance sheets which can be summarized as assets comprising cash plus factoring receivables, and liabilities comprising equity plus borrowings. Balance sheets are mostly short-term. The Uniform Standard of Accounting, compulsory in reporting financials, is unnecessarily long and detailed, though in essence balance sheets can be simplified as in Table 10.

Table 10 – Sector Balance Sheet (Million TL)

	2006	2007	2008	2009	2010
Total Assets	6,332.0	7,552.2	7,796.46	10,490.34	14,530.42
Factoring Receivables	5,250.7	6,482.2	5,603.62	8,396.05	12,399.70
Non-Performing Loans	143.6	259.7	503.85	524.84	516.27
Provisions	132.3	226.1	387.80	439.54	440.56
Total Liabilities	6,332.0	7,552.2	7,796.46	10,490.34	14,530.42
Borrowings	4,210.2	4,914,8	4,943.14	7,592.53	11,110.06
Shareholders Equity	1,757.8	2,005,2	2,373.59	2,536.77	2,969.73
Funding/Total Assets (%)	66.5	65.1	66.6	73.8	77.9
Shareholders Equity/Total Assets (%)	27.8	26.6	30.5	24.2	20.4

Source: BRSA

Rapid Growth

Presently the factoring industry has gained a strong growth momentum as evidenced by the 34.6% growth in 2009 and the 38.5% growth in 2010. In the same years the banking sector grew at much lower rates, 12.9% and 20.8%, respectively. In 2009 while credit volume expanded by only 6.9% (33.9% in 2010), the factoring industry increased its factoring receivables by 46.1% (44.8% in 2010). Such increase in the volume of business was funded by increased bank borrowings rather than by an increase in shareholders' equity.

Table 11 – Annual Growth Rates

	2007	2008	2009	2010
Total Assets (%)	19.3	3.2	34.6	38.5
Gross Factoring Receivables (%)	23.5	-5.8	46.1	44.8
Loans (%)	16.7	0.6	53.6	46.3
Shareholders Equity (%)	14.1	18.4	6.9	17.1
Non-cash Operations				
Collaterals Given (%)	n.a.	n.a.	-0.6	-38.2
Commitments (%)	n.a.	n.a.	-32.1	62.4
Derivative Financial Instruments (%)	n.a.	n.a.	-29.1	82.0

Turnover is Mostly Domestic

Although a BRSA license allows both domestic and international factoring, only 20 companies conduct international business. In this respect, the Turkish factoring industry has limited export and import factoring operations. This is also noticeable from the fact that only 8.2% of assets were denominated in a foreign currency (FC) at the end of 2009. In terms of funding however, the share of FC is 16.9% due to FC and FC indexed borrowings.

Figure 4 – Annual Turnover (Million USD)

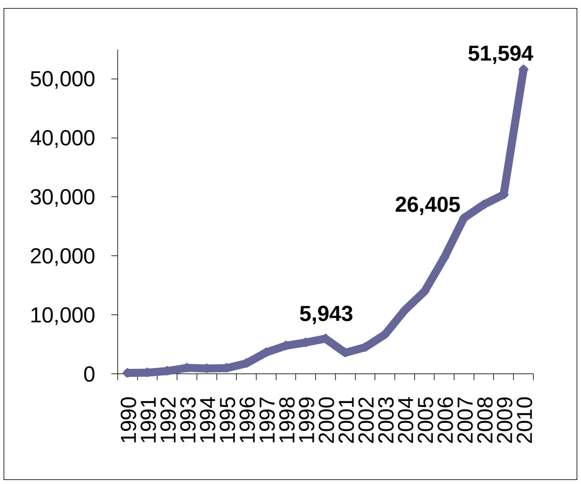


Figure 5 - Distribution of Turnover (2010)

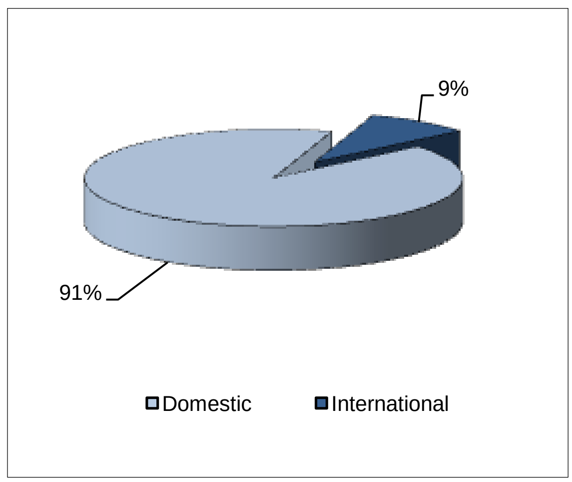


Table 12 - Factoring Sector Distribution of Turnover

	2002	2003	2004	2005	2006	2007	2008	2009	2010
World (Billion $)*	**760.4**	**950.5**	**1,161.3**	**1,199.6**	**1,497.3**	**1,896.8**	**1,869.7**	**1,835.5**	**2,175.7**
Domestic	733.5	890.8	1,069.1	1,097i5	1,360.4	1,683.6	1,621.4	1,598.9	1,851.0
International	53.7	59.7	92.2	102.1	136.9	213,2	248,3	236,6	324.7
Turkey (Million $)	**4,476**	**6,663**	**10,733**	**13,959**	**19,701**	**26,405**	**28,677**	**30,370**	**51,594**
Domestic	3,216	5,250	8,640	11,607	16,216	22,470	24,447	27,110	46,919
International	1,260	1,413	2,093	2,352	3,485	3,935	4,230	3,260	4,675

Source: The Factoring Association
* Year 2010 has been converted to USD from Euro.

In 2010 world factoring turnover volume increased by 28.4% to reach €1,648.3 billion. Total international turnover grew by 48.6% to €245.9, whereas domestic turnover grew by 25.4% to €1,402.3 billion.

The Factoring Association of Turkey's data indicates a 100% increase in turnover in 2010 (Table 13). We noticed that a number of companies have increased their turnover without a meaningful increase in revenues. Lower yields on receivables have called for larger turnovers. One way of increasing turnover has been to roll-over receivables four to five times a year at shorter maturities.

Table 13 – Annual Turnover (1000 TL)

	2006	2007	2008	2009	2010
Total Turnover	28,163,120	34,736,931	32,468,866	37,951,986	75,978,107
Annual Growth (%)	n.a.	23.3	-6.5	1.9	100.2
- International Factoring	n.a.	n.a.	n.a.	3,410,000	6,777,000

Table 14 - Sectoral Distribution of Annual Turonover (Million TL)

SECTOR	2008	2009	2010	% Ch.	Share
Nuclear Fuel, Refined Petroleum and Coke	1,171	658	14,966	2.174.5	19.70
Extracting of Mines Not Product Energy	157	1,396	9,490	579.8	12.49
Construction	3,271	4,007	5,940	48.2	7.82
Textile and Textile Products Industry	4,497	4,335	5,401	24.6	7.11
Extracting of Mines Product Energy	208	270	4,677	1.632.2	6.16
Main Metal Industry and Processed Material	2,791	2,051	3,557	73.4	4.68
Wholesale and Retail Trade Motor Vehicle Services	1,977	1,681	2,874	71.0	3.78
Paper Raw Materials and Paper Products Industry.	1,154	1,244	2,294	84.4	3.02
Transportation Vehicles Industry	2,942	6,034	2,537	-58.0	3.34
Machinery and Equipment Industry	1,291	1,679	2,459	46.5	3.24
Transportation. Warehousing and Communication	915	964	2,421	151.1	3.19
Other Non-Metal Industry	1,730	1,457	2,041	40.1	2.69
Food, Beverage and Tobacco Industry	1,580	1,413	2,015	42.6	2.65
Chemicals, Chemical Products and Synthetic Fiber Industry	1,552	1,525	1,485	-2.6	1.95
OTHER	10,133	9,238	13,821	49.6	18.19
GROSS TOTAL	**35,369**	**37,952**	**75,978**	**100.2**	**100.00**

Diversification of Services

Browsing through web pages of various Turkish factoring companies, one identifies three major services: Financing collection, and guaranteeing of domestic and international future receivables through the assignment of receivables to the factoring company. The association makes it a point of specifying "receivables" as all receivables arising from the sale of goods and services including "receivables that will arise from future sale of goods and/or the rendering of services".

"Prepayment" the customer means financing post-dated receivables against the assignment of future receivables to the factoring company, providing the company with cash. Guaranteeing the receivables refers to a payment guarantee of the receivables in case a debtor falls into payment difficulty or goes bankrupt. "Collection" is purely undertaking the responsibility of the payment of all receivables on the due dates, regardless of a guarantee, and reporting to the customer. Presently, collection of receivables has a relatively small share in these services but is rapidly growing.

Table 15 - Distribution of Domestic/International and Recourse/Non-Recourse Factoring (1000 TL)

	2008	**2009**	**2010**
Discounted Factoring Receivables-Domestic-Recourse	3,099,750	3,779,256	4,836,396
Discounted Factoring Receivables-Domestic-Non-Recourse	203,088	97,356	170,373
Discounted Factoring Receivables-Domestic – Total	**3,302,838**	**3,876,612**	**5,006,769**
Discounted Factoring Receivables-International-Recourse	0	0	0
Discounted Factoring Receivables-International-Non-Recourse	22	29	24,936
Discounted Factoring Receivables-International-Total	22	29	24,936
Other Factoring Receivables- Domestic-Recourse	2,377,882	5,564,043	3,459,791
Other Factoring Receivables- Domestic-Non-Recourse	381,192	1,001,393	5,339,863
Other Factoring Receivables- Domestic-Total	**2,759,074**	**6,565,436**	**8,799,654**
Other Factoring Receivables-International-Recourse	374,738	278,418	605,113
Other Factoring Receivables-International-Non-Recourse	928,113	575,865	1,124,942
Other Factoring Receivables-International-Total	**1,302,851**	**854,283**	**1,730,055**
Factoring- GROSS TOTAL*	**7,364,785**	**11,296,360**	**15,561,414**

Source: BRSA

Note: The above Gross Total of Factoring Receivables is higher than the Factoring Receivables given in the Balance Sheet because factoring companies report to BRSA their receivables amount, including interest and commission revenues.

Table 15 illustrates the distributions of factoring services. The sudden hike in the energy sector has significantly altered the distribution structure. The number of factors servicing energy companies was limited, therefore this distribution gives a misleading picture. Although these tables are statistically correct, representatives of the factoring industry confirm that 90% of all receivables are under with-recourse arrangements.

Figure 6 - Distribution of Discounted and Other Factoring Receivables

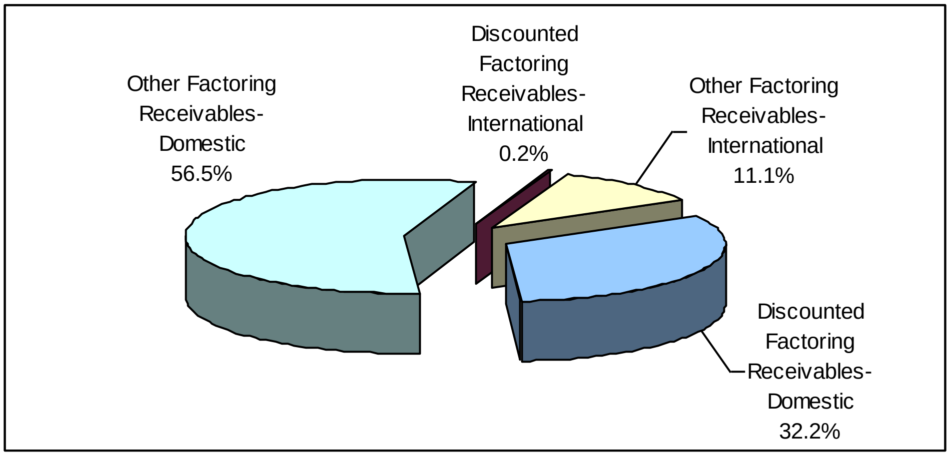


Table 16 – Distribution of Factoring Receivables (1000 TL)

	2008	2009	2010
Recourse	5,852,370	9,621,717	8,901,300
Non-Recourse	1,512,415	1,674,643	6,660,114
Total	7,364,785	11,296,360	15,561,414

Table 17 – Distribution of Domestic/International Factoring (1000 TL)

	2008	2009	2010
Domestic	6,061,912	10,442,048	13,806,423
International	1,302,873	854,312	1,754,991

Figure 7 – With-recourse and Non-recourse Fac. Rec.

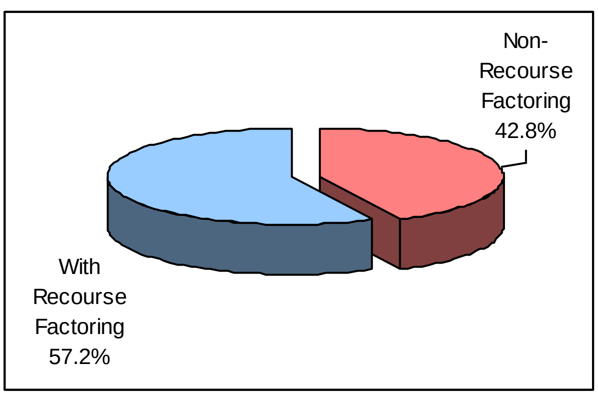
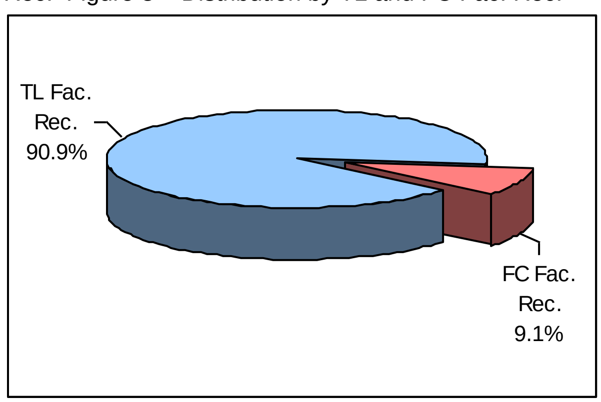


Figure 8 – Distribution by TL and FC Fac. Rec.



Among Turkish factoring companies only 20 have international operations. Yapı Kredi Factoring and TEB Factoring together account for 52% of Turkey's volume of export and import factoring. Due to the international partners of their parent banks, they appear to have natural advantages over the others. In this respect, it is difficult for small companies to compete with them. Needless to say, relatively smaller companies that have qualified staff are also conducting export and import factoring.

Risk Concentration by Industry

The factoring industry has traditionally served predominantly the textiles, construction and main metal industries. However, in 2010 the share of these industries declined as a result of large energy companies entering the factoring market. In three energy-related sectors (The Extraction of Energy Generating Minerals, The Extraction of Non-Energy Generating Minerals, Nuclear Fuel and Refined Petroleum and Coke Coal Industries), total factoring volume suddenly rose from TL1.1 billion to TL3.5 billion in 2010. When added together, these three sectors advance the share of energy in total factoring volume to 22.4% (10.1% in 2009 and 4.7% in 2008). Clearly, this energy company contributed to a total re-allocation of industry concentration.

Among the current 76 factoring companies, those active in the energy market are believed to be few in number. Therefore, a study which excludes the energy sectors would seem to better indicate where the small and medium-sized factoring companies are concentrated. To this end, Table 18 was prepared excluding the energy sectors. Excluding energy concentration appeared on six industries: textiles, construction, wholesale and retail trade, machinery and equipment and transport vehicles. We noted that the sector "Electricity, Gas and Water Sources" had also gained 5% share. The drop of more than 50% in "Transport Vehicles Industry" can be attributed to the establishment of new consumer finance companies in that sector. At the same time, it was not possible to ascertain whether the growth in "Transportation, Warehousing and Communication" came from logistics, telecommunications or car rental companies.

Table 18 – Sector shares excluding three energy sectors (%)

	2008	2009	2010
Textiles and Textile Products	14.98	12.54	11.75
Construction	10.17	9.73	11.32
Wholesale and Retail Trade	6.80	3.32	8.16
Machinery and Equipment Industry	4.02	5.99	8.10
Main Metal Industry and Processed Material	9.97	7.26	7.84
Transport Vehicles Industry	8.52	14.03	7.42
Electrcity, Gas and Water Sources	0.38	2.96	5.08

Figure 9 - 2008 Distribution by Sector

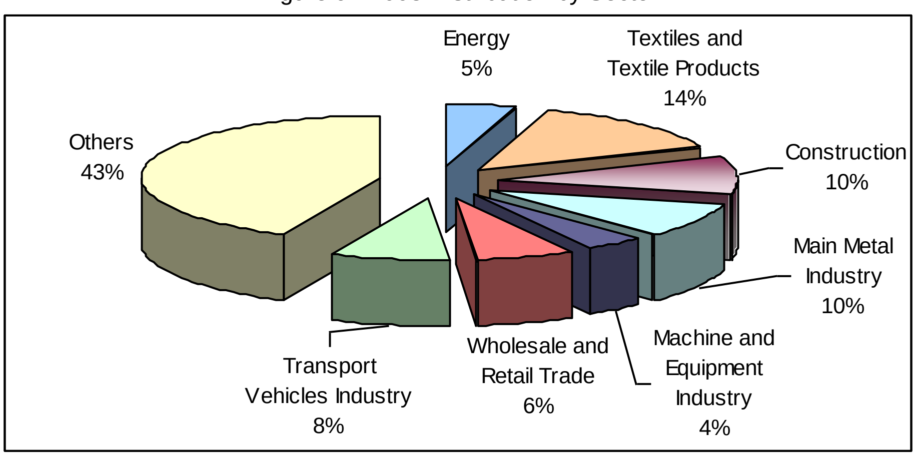


Figure 10 - 2010 Distribution by Sector

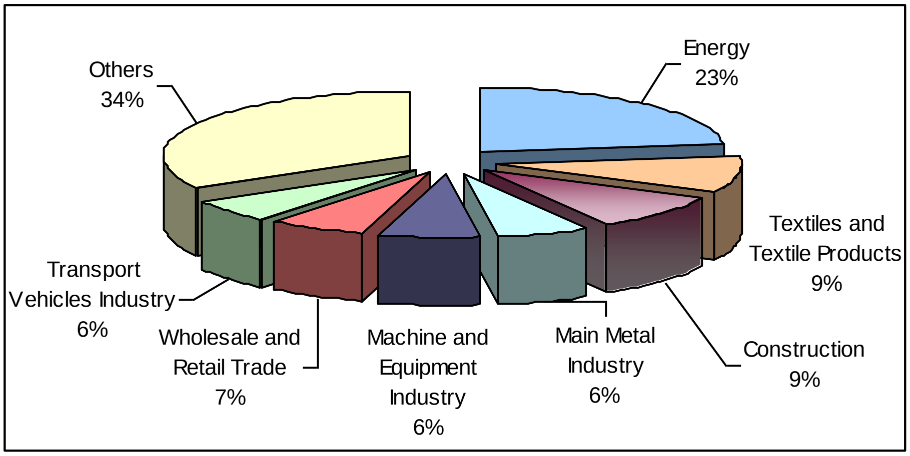


Table 19 - Factoring Receivables by Sector (1000 TL)

	2008	2009	2010	% Change
Total Agriculture	**95,805**	**195,820**	**221,199**	**12.96**
Total Manufacturing Industry	**5,397,604**	**7,722,261**	**11,414,858**	**47.82**
Extracting of Energy Producing Mines	85,296	169,527	1,451,132	755.99
Extracting of None-Energy Producing Mines	23,885	796,298	274,738	-65.50
Food, Beverage and Tobacco Ind,	304,366	350,054	508,976	45.40
Textile and Textile Products Industry	1,050,976	1,273,851	1,419,056	11.40
Leather and Leather Products Industry	85,440	37,077	62,201	67.76
Wood and Wood Products Industry	177,720	160,230	176,400	10.09
Paper Raw Materials and Paper Products Industry	226,397	371,740	483,374	30.03
Nuclear Fuel and Refined Petroleum and Coke Coal Ind,	238,226	171,395	1,762,662	9.028.42
Chemical Products Industry	396,651	266,133	338,499	27.19
Rubber and Plastic Products Industry	174,761	193,212	250,009	29.40
Other Mines Excluding Metal Industry	430,763	506,114	444,989	-12.08
Other	1,064,205	1,625,077	1,461,692	-10.05
Total Services	**1,802,147**	**3,149,444**	**3,873,545**	**22.99**
Construction	713,873	988,957	1,366,581	38.18
Wholesale and Retail Trade, Motor Vehicles Services	477,373	337,592	984,913	191.75
Hotels and Restaurants (Tourism)	68,422	555,996	174,679	-68.58
Transportation, Warehousing and Communication	190,471	367,729	432,454	17.60
Financial Intermediation	92,958	183,835	299,662	63.01
Other	159,720	763,765	422,161	-44.73
Other	**69,229**	**228,835**	**51,812**	**-77.36**
TOTAL	**7,364,785**	**11,296,360**	**15,561,414**	**37.76**

In view of the above concentrations we wondered whether factoring companies set risk limits in terms of customer and debtor, and whether they were making reliable risk assessments on their industry exposures.

It was not clear whether factoring companies had credit policies in consideration of industry risks or whether they observed limits per industry.

Table 20 – Sector Shares Including Energy (%)

	2008	2009	2010
Energy	**4.71**	**10.07**	**22.43**
Nuclear Fuel and Refined Petroleum and Coke Coal Industry	3.23	1.52	11.33
The Extraction of Energy Generating Minerals	1.16	1.50	9.33
The Extraction of Non-Energy Generating Minerals	0.32	7.05	1.77
Textiles and Textile Products	14.27	11.28	9.12
Construction	9.69	8.75	8.78
Main Metal Industry	9.50	6.53	6.09
Machinery and Equipment Industry	3.84	5.39	6.29
Wholesale and Retail Trade	6.48	2.99	6.33
Transportation Vehicles Industry	8.12	12.62	5.75
Total	**56.61**	**57.63**	**64.79**

Maturities

The typical maturity in the industry is 90 to 120 days. Factor financing is usually for receivables under three months.

Number of Transactions

Information on the number of customers and transactions is available from 2008 onwards. The BRSA's recent report indicates that Turkish factoring companies have 57,904 customers. If this number has been derived by adding the number of customers reported by each company then there must be a significant amount of double counting as the same customer usually works with several factoring companies.

These numbers can be useful when analyzing a particular factoring company. The number of customers and transactions can give an indication of the average size of transactions. Otherwise, the industry average does not say much given that there are companies factoring US$20 million transactions and others factoring small denominations such as TL2,000.

Table 21 – Number of Customer and Transaction

	2008	2009	2010
Number of Customers	50,228	40,997	57,094
Number of Transactions	146,558	65,952	89,516

Source: BRSA

Employment

As of the end of 2010 total employment in the industry was 3,557. Although total factoring receivables trebled in the three years following 2007, employment increase was limited to 22%. In 2010 there were 598 additional employed. In 2011 no major increase is expected.

Table 22 – Number of Staff Members and Personnel Expenditures

	2006	2007	2008	2009	2010
Number of Personnel	2,425	2,912	3,009	2,959	3,557
Personnel Expenditures (1000 TL)	106,000	140,000	193,730	180,770	232,030

Source: BRSA

The number of employees compared to the volume of factoring receivables shown in Table 23 also shows differences in the business strategies adopted by different factoring companies. There are a few companies that employ more than 100 staff although they are not big enough to rank among the top five companies. These companies have adopted business strategies that address very large customer bases and are willing to discount small-denominated receivables.

Table 23 – Number of Staff (2010)

	Company	Factoring Receivables (1000 TL)	Number of Employee
1.	Yapı Kredi Faktoring A.Ş	1,829,737	65
2.	Garanti Faktoring Hizmetleri A.Ş.	1,425,654	155
3.	Deniz Factoring A.Ş	876,479	85
4.	Fiba Factoring Hizmetleri A.Ş	766,313	121
5.	TEB Factoring A.Ş	601,074	81
6.	Kapital Faktoring Hizmetleri A.Ş	522,206	44
7.	Vakıf Finans Factoring Hizmetleri A.Ş	465,373	31
8.	Girişim Faktoring A.Ş.	403,572	29
9.	Lider Faktoring Hizmetleri A.Ş.	357,777	132
10.	Iş Factoring Finansman Hizmetleri A.Ş	331,320	26
11.	Creditwest Faktoring Hizmetleri A.Ş.	319,136	67
12.	Destek Finans Factoring Hizmetleri A.Ş	236,662	31
13.	Finans Faktoring Hizmetleri A.Ş.	222,025	39
14.	Ekspo Faktoring A.Ş.	221,080	30
15.	Şirinoğlu Factoring Fins.Hizm.T.A.Ş.	192,370	292
16.	Eko Factoring Hizmetleri A.Ş.	181,060	105
17.	Şeker Faktoring Hizmetleri A.Ş.	163,221	50
18.	Yaşar Factoring Hizm.A.Ş.	161,596	219
19.	MNG Factoring Hizmetleri A.Ş.	146,970	79
20.	ING Faktoring A.Ş.	136,178	31
21.	Tekstil Factoring Hizmetleri A.Ş	124,422	27
22.	Strateji Factoring Hizmetleri A.Ş.	119,885	60
23.	Ulusal Faktoring A.Ş.	117,988	33
24.	Fortis Faktoring A.Ş.	117,583	19
25.	Bayramoğlu Finans Faktoring Hizmet. A.Ş.	114,816	45
26.	Optima Faktoring Hizmetleri A.Ş	110,906	75
27.	Pamuk Factoring A.Ş	107,302	14
28.	Akın Faktoring Hizmetleri A.Ş	100,486	23
29.	Akdeniz Factoring Hizmetleri A.Ş.	98,857	21

30.	Atılım Faktoring A.Ş.	98,305	64
31.	Tek Faktoring Hizmetleri A.Ş.	95,899	70
32.	Başer Faktoring A.Ş	88,698	67
33.	Çağdaş Finans Factoring Hizmetleri A.Ş.	86,216	64
34.	Kent Factoring A.Ş	78,332	26
35.	Para Finans Factoring Hizm.A.Ş.	77,785	90
36.	C Faktoring A.Ş.	75,125	36
37.	Huzur Faktoring Finansal Hizm.A.Ş.	64,082	45
38.	Yeditepe Faktoring Hizm.A.Ş.	61,455	23
39.	Süzer Faktoring A.Ş	59,268	24
40.	Ar Faktoring Finansal Hizmetleri A.Ş.	55,294	25

Customers and Debtors

Although a factor takes the customer's risk when the agreement is "with-recourse", in reality the factor looks at the non-payment risk of the debtor. But statistics give us the sector distribution of customers, not debtors. If we had access to the identity of the debtors, we could have a better idea of the size of the debtor companies and their respective industries.

The majority of customers are small and medium-size companies. In fact, some believe that they are too small to qualify for bank loans and therefore come to factoring companies for assistance. In view of the large range of opportunities offered by banks nowadays, this view does not appear to be valid. Nonetheless, about 20% of factoring customers could be described as such.

The data of the Turkish Social Security Administration shows the existence of 1.3 million companies. Table 24 illustrates that 79% of these companies were employing fewer than 10 people at the end of December 2010.

Table 24 – The Distribution of SMEs in Turkey

Size of Company	Number of Companies	% Share
1-3 person	834,302	64.05
4-9 person	196,007	15.05
10-49 person	247,116	18.97
50-99 person	13,759	1.06
100-249	8,82	0.64
250-499	2,160	0.17
500-999	693	0.05
1000+	222	0.02
Total	**1,302.41**	**100.00**

Source: December 2010 Bulletin of Statistics of the Social Security Administration

A small number of employees does not necessarily mean that a company is not up to standards in terms of management and accounting. However, in Turkey the majority of companies would not be able to present financial statements that would satisfy the banks. They would be selling goods and services to companies who are creditworthy in the view of banks. Therefore, receivables from creditworthy customers give them the advantage of generating cash by factoring. Such a structure obviously sets the stage for a high demand for factoring services including financing and cash management.

Customer information is undoubtedly a very important strength for a factoring company. A company that has been active in the industry for many years will have a large collection of records on a particular customer segment. That will give that company a clear competitive advantage over the others. It will not be easy for a new entrant to the factoring industry to build up a customer base from among these small companies and obtain complete and accurate information on them. New entrants will require robust internal control mechanisms to avoid the vulnerabilities associated with going to riskier customer segments. One common practice to offset the information and data vacuum is to recruit experienced staff from other companies.

There are also factors that address large companies and handle very large ticket transactions. Industry representatives have indicated that in recent years the share of large corporations has increased and that they expect this trend to continue. As the share of large corporations increases, likewise the share of non-recourse factoring is due to increase.

Contribution to Development

An interesting aspect of the factoring industry which is often overlooked is its valuable contribution to economic development. By providing working capital and liquidity to these very small enterprises, factoring companies accelerate production and increase employment opportunities. While the factoring industry's contribution to the diversification and deepening of the financial sector is being acknowledged, its contribution to economic development is not given its due merit. This particular aspect of the factoring industry should be brought to the attention of international financial institutions such as the IBRD and EBRD which provide development funds in order that factoring companies could benefit from such funds.

Moreover, it is not emphasized enough that factoring does not allow for any unrecorded transactions and therefore is a tool to minimize the grey economy.

Geographical Diversification and Concentration

Turkish factoring companies maintain a presence through their representative offices and branches in a number of provinces across Anatolia. Several companies have their headquarters in Ankara, Adana or Izmir, for example – outside of Istanbul. Some companies have a large number of rep offices within Istanbul (for example, one company works with 30 rep offices in Istanbul). At the end of 2010 six companies had a total of 28 branches and 175 offices in 16 different provinces. (Annex 2)

The opening of local branches and representation offices is subject to the permission of the BRSA which requires a feasibility report detailing the justifications for opening such a branch or representation office, along with a capital payment of one million TL for each such branch or representation office. If the BRSA finds the application appropriate, the license is given. Branches and representation offices commence operation after they are registered with the Trade Registers Office, within ninety days from receipt of respective permissions. Opening branches and representation offices in free zones is subject to the same principles as those for opening local branches and representation offices.

The regulations also regulate the international expansion of Turkish factoring companies. The establishment of an office abroad requires that provisions of the host country, including local and applicable legislation, be adhered to. It is conditional that commencement and conclusion of overseas operations be notified to the Board within 30 days.

4. THE FINANCIAL ANALYSIS OF FACTORING COMPANIES

Balance Sheet Structure and Growth Rates

Year 2010 was a year of high growth for the factoring industry: total assets grew by 38% and factoring receivables increased by 44.8%. Asset size rose to TL14.5 billion and gross receivables to TL12.5 billion enabled by a higher level of bank borrowings. Total borrowings were up by 11% and reached TL11.1 billion. Shareholders' equity also grew by 17%.

Factoring companies have short and simple balance sheets. Assets are 85% factoring receivables, 7% bank accounts and other liquid items and the remainder small items. There are quite a number of companies with receivables corresponding to more than 90% of their total assets. They rarely carry securities on their balance sheets. One or two have financial or non-financial participations.

Table 25 - The Composition of Assets and Liabilties (Million TL)

				% Change	
	2008	**2009**	**2010**	**2009**	**2010**
Cash and Banks	1,153	1,096	1,176		
Factoring Receivables	5,604	8,396	12,400	49.8	47.7
Others	1,039	998	954		
Total Assets	7,796	10,490	14,530	34.5	38.5
Borrowings	4,943	7,593	11,110	53.6	46.3
Equity	2,374	2,537	2,970		
Others	479	360	450		
Total Liabilities	7,796	10,490	14,530	34.5	38.5

Figure 11 – Distribution of Assets(2010)

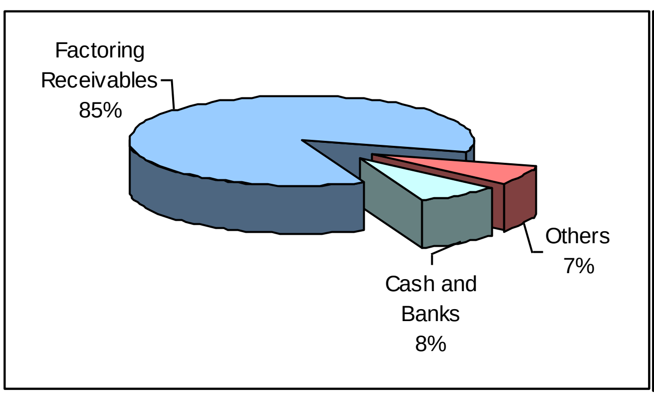
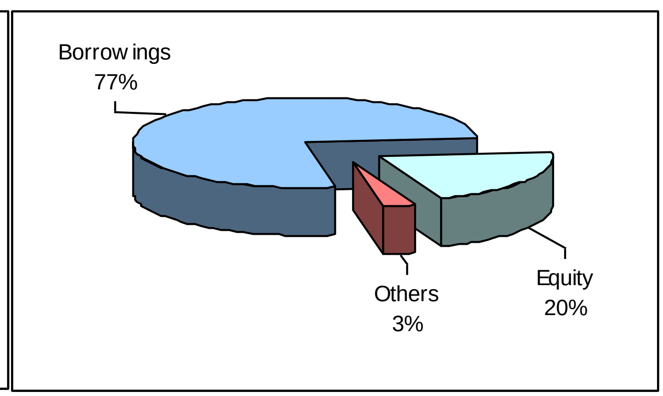


Figure 12 – Distribution of Liabilities (2010)



There is a similar simple liabilities' composition with 77% borrowings, 20% equity, and the remaining 3% provisions and other small items. The share of equity declined from 30% to 20% in the last three years. As factoring companies gain access to more bank funds the share of equity is likely to continue to fall.

The evaluations of Turkrating have been confined to data pertaining to year 2007 and after because the BRSA's web pages do not provide very detailed data related to previous years. Externally-audited financial reports became mandatory in 2007. Therefore only data pertaining to 2007 and onwards is reliable for comparative purposes. Although the balance sheets of factoring companies in Turkey can easily be reduced to fewer than 10 lines, they are subject to the Uniform Chart of Accounts[3] which covers leasing and financing companies. Therefore the format includes lines for all three types of companies and creates a complicated tool for analysis. Table 26 gives the summary version of the balance sheet (the full balance sheet as given in BRSA's web page can be found in Annex 1).

Table 26 - Factoring Sector- Summary Balance Sheet (1000 TL)

	2006	2007	2008	2009	2010
Cash	18,000	16,000	10,960	4,320	9,930
Banks	571,000	446,000	1,130,810	1,067,660	1,156,690
Securities (1)	6,000	35,000	12,410	166,260	90,900
Derivative Financial Assets	0	0	27,840	7,960	3,530
Gross Factoring Receivables	**5,251,000**	**6,483,000**	**6,107,470**	**8,920,890**	**12,915,970**
Allowance for Impaired Factoring Receivables	132,000	226,000	387,800	439,540	440,560
Impaired Factoring Receivables	144,000	260,000	503,850	524,840	516,270
Net Factoring Receivables	**5,107,000**	**6,223,000**	**5,603,620**	**8,396,050**	**12,399,700**
Assets Held for Sale	437,000	538,000	640,000	530,020	513,530
Tangible Assets	70,000	97,000	112,360	111,250	121,310
Intangible Assets	15,000	17,000	7,580	8,050	13,110
Deferred Tax Assets	0	0	9,440	17,270	36,850
Other Assets (2)	96,000	146,000	125,390	96,200	109,160
Total Assets	**6,332,000**	**7,552,000**	**7,796,460**	**10,490,340**	**14,530,420**
Derivative Financial Liabilities (3)			7,650	2,790	8,160
Loans (4)	4,210,000	4,915,000	4,945,350	7,595,230	11,112,860
Factoring Payables	0	0	152,520	33,070	57,640
Marketable securities Issued	0	0	92,850	113,950	214,000
Other Liabilities	176,000	264,000	129,900	63,390	42,120
Income Tax Payable (5)	33,000	196,000	35,140	36,310	32,180
Reserves	155,000	172,000	59,460	108,830	93,720
Subordinated loans	0	0	0	0	0
Total Liabilities	**4,574,000**	**5,547,000**	**5,422,870**	**7,953,570**	**11,560,680**
Paid-in Capital	748,000	880,000	1,032,330	1,031,620	1,108,310
Capital Reserves	537,000	815,000	93,340	222,890	248,930
Retained Earnings /Loss and Minority Interests (6)	-18,000	-117,000	808,600	953,440	1,222,800
Net Period Profit/Loss	491,000	427,000	439,320	328,820	389,700
Total Equity	**1,758,000**	**2,005,000**	**2,373,590**	**2,536,770**	**2,969,740**
Total Liabilities and Equity	**6,332,000**	**7,552,000**	**7,796,460**	**10,490,340**	**14,530,420**

Source: BRSA

(1) Trading Financial Assets + Financial Assets Where fair value Change is reflected to Income Statement + receivables from Reverse Repurchase Agreements + Financial Assets Held for Sale(Net)
(2) Other Assets = Other Assets + Assets Held for Sale Purpose and Held from Terminated Operations (Net)
(3) Trading DFL + DFL held for Hedging
(4) Loans Borrowed + Factoring payables + Lease Payables
(5) Income Tax Payable + Deferred Tax
(6) Profit Reserves + Retained Earnings or Loss

Annual growth rates significantly improved in 2010 after a difficult period. Net income was up by 18.5%, reaching TL389.7 million, but remained below the TL 493.3 million net income of 2008. In some ways it is

[3] The Communiqué on the Uniform Standards of Accounts was Published in the Official Gazette dated May 17, 2007Nr. 26525

inappropriate to compare 2010 with 2008 given that not only were economic conditions entirely different in those years, but the composition (i.e. the companies) of the sector was also significantly different. Some of the companies that existed in 2008 are now replaced with others.

Table 27 – Annual Growth Rates

	2007	2008	2009	2010
Factoring Operating Income	36.1	14.4	-22.9	11.4
Net Factoring Interest Income	50.5	0.3	-10.3	-7.3
Factoring operating Margin	62.1	-27.4	23.6	-3.0
Operating Expenses	29.3	28.9	-7.9	24.0
Operating Income	74.1	-8.1	-16.9	13.9
Income before Tax	-8.5	0.3	-16.5	12.7
Allowance for Impaired Factoring Receivables	86.0	9.0	-19.0	23.2
Net Profit	-13.0	2.9	-25.2	18.5

Off Balance Sheet Accounts

The commitment and contingencies have two major items: “Collaterals Taken” and “Items Held in Custody”. Collaterals taken grew by 66.6% in tandem with the growth in factoring receivables. Collaterals given have decreased by 38.2%. One of the striking developments is the increase in “irrevocable commitments” which is probably associated with the increase in the factoring volume of an energy company. “Items held in custody” consist of checks and commercial bills that are to be collected.

Table 28 – Commitments and Contingencies (1000 TL)

	2008	2009	2010
Recourse Factoring Operations	**815.27**	**589.18**	**1,781.37**
Non-Recourse Factoring Operations	**3,870.02**	**2,399.93**	**3,104.17**
Collaterals Taken	**15,558.34**	**10,454.86**	**17,414.67**
Collaterals Given	**758.90**	**754.65**	**466.22**
Commitments	**252.85**	**361.71**	**556.54**
A) Irrevocable Commitments	53.69	149.07	365.18
B) Revocable Commitments	199.16	212.64	191.35
a) Lease Commitments	0.00	0.00	0.00
b) Other Irrevocable Commitments	199.16	212.64	191.35
Derivative Financial Instruments	**1,434.89**	**1,017.28**	**1,851.49**
A) Derivative Financial Instruments held for Hedging	1074.57	872.05	1041.79
a) Fair Value Hedges	664.54	563.49	226.43
b) Cash flow Hedges	410.04	308.56	815.37
c) Foreign Investment Hedges	0.00	0.00	0.00
B) Trading Transactions	360.32	145.23	809.70
a) Forward Foreign Currency Buy- Sell Transactions	79.11	1.00	2.45
b) Currency and Interest rate Swaps	234.20	135.60	680.98
c) Currency, Interest Rate and Security Options	47.01	8.64	8.20
d) Currency, Interest Rate Futures	0.00	0.00	35.72
e) Other	0.00	0.00	82.36
Items held in Custody	**7,898.52**	**12,759.33**	**12,748.85**
Total Off balance Sheet Commitments	**30,588.79**	**28,336.94**	**37,923.31**

Profitability

In recent years the factoring companies' operational profits have decreased under declining interest rates and increased competition. Operational costs have either remained stable or decreased. As the economy recovers and business becomes more robust, operational income and operational costs also rise. Factoring companies made net profits of TL440 million when total net factoring receivables were TL5.6 billion in 2008. In 2010, although net factoring receivables were much higher, TL12.4 billion, net profits were TL390 million.

Table 29 – Income Statement (1000 TL)

	2006	**2007**	**2008**	**2009**	**2010**
Factoring Interest Income	1,022,000	1,401,000	1,584,750	1,208,290	1,325,500
Factoring Commission Income	104,000	130,000	172,160	149,570	188,580
Factoring Commission Expenses -	(9,000)	(11,000)	(18,330)	(17,140)	(20,350)
Factoring Operating Income	**1,117,000**	**1,520,000**	**1,738,580**	**1,340,720**	**1,493,730**
Financial Expenses	(495,000)	(608,000)	(789,760)	(495,270)	(664,410)
Interest on Loans Borrowed -	(495,000)	(608,000)	(772,700)	(467,580)	(635,650)
Other Financial Expenses	-	-	(17,060)	(27,690)	(28,760)
Foreign Exchange Gain/Loss (net)	(70,000)	5,000	(234,430)	3,320	11,180
FX Gains	696,000	2,107,000	1,505,570	1,571,120	2,642,980
FX Loss-	(766,000)	(2,102,000)	(1,740,000)	(1,567,800)	(2,631,800)
Trading Income (net)	-	-	14,450	(28,100)	(4,710)
Specific Provision for nonperforming Factoring Receivables -	(93,000)	(173,000)	(188,620)	(152,720)	(188,100)
Total Factoring Operating Expenses	**(658,000)**	**(776,000)**	**(1,198,360)**	**(672,770)**	**(846,040)**
Factoring Operating Margin	**459,000**	**744,000**	**540,220**	**667,950**	**647,690**
Factoring Operations Non-Interest Income	40,000	28,000	60,900	65,270	83,450
Personnel Expenses -	(106,000)	(140,000)	(193,730)	(180,770)	(232,030)
Operating Expenses -	(99,000)	(125,000)	(147,900)	(133,990)	(158,190)
General Administration Expenses -	(89,000)	(111,000)	(111,460)	(107,510)	(137,010)
Other Operating Expenses-	(10,000)	(14,000)	(33,070)	(23,050)	(17,950)
Retirement Pay Provision Expenses -	-	-	(3,370)	(3,430)	(3,230)
Other Operating Income/Expenses-	22,000	43,000	245,730	1,240	136,980
Total Operating Expenses	**(205,000)**	**(265,000)**	**(341,630)**	**(314,760)**	**(390,220)**
OPERATING PROFIT	**316,000**	**550,000**	**505,220**	**419,700**	**477,900**
Subsidiaries, Affiliates and Joint Venture Gain/Loss	22,000	14,000	3,660	10,640	2,340
Other Income	225,000	8,000	330	-	330
Other Expenses-	(11,000)	(67,000)	(2,810)	(7,610)	(4,050)
Net Other Income/Loss	236,000	(45,000)	1,180	3,030	(1,380)
Income Before Tax	**552,000**	**505,000**	**506,400**	**422,730**	**476,520**
Tax	(61,000)	(78,000)	(67,090)	(93,910)	(86,750)
Net Period Profit	**491,000**	**427,000**	**439,310**	**328,820**	**389,770**

Source: BRSA

The cumulative balance sheets of all factoring companies as reported by the BRSA indicate a 12% increase in the period net income of the industry. In this case an average ratio is misleading; we calculated that out of the 63 members of the Factoring Association 12 had reported loss and 27 had reported lower earnings compared to 2009. Yet, 10 companies had increased their net profits by more than 100%.

Again, BRSA reports that the ROAA of the sector is 3.1%. The members of the Association had 3.2% ROAA ratio but if one excludes the eight bank-owned companies out of the top 10 companies, then this ratio rises to 3.4%. If one excludes the loss making factoring companies, it rises to 5.6%. There were 17 companies in 2010 with ROAA ratios above 6, and five of the 17 had ratios above 10%.

This goes to show that the performances of Turkish factoring companies are extremely divergent. Some are very profitable, some not profitable at all. Quite a sizeable number of companies have evidenced that you can be very profitable in this sector.

The Impact of Falling Interest Rates

In the last five years the highest volume of interest income was earned in 2008. In 2009 income from factoring operations decreased by 23% to TL1.3 billion compared to TL1.7 billion in 2008. In 2010, total factoring income was TL1.5 billion despite an 11% increase in interest income.

The financial stability program in Turkey, launched in 2001 following the financial crisis, continued to be implemented over the years. As a result, even despite the temporary hike during the global crisis, interest rates have been on a steady decline ever since. The borrowing rate of the factoring sector was on average 23% in 2006. By June 2010 it had declined to 8%.

Similarly, the rates charged on financed receivables declined from 36% in 2006 to 13% in 2010 leading to the net interest margin falling from 19% in 2006 to 7% in 2010. In the same period, Turkish banks experienced a fall in their net interest margins to 5.5% - 6.5% levels. While the net interest margin was on a declining trend, commission income increased. Nonetheless, average returns on assets and average return have also remained on a declining trend in parallel to declining interest margins.

Figure 13 – Funding Cost and Yield on Assets

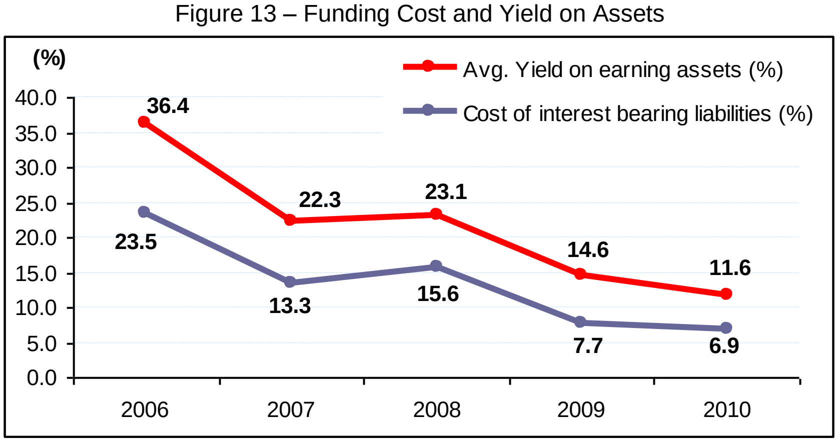
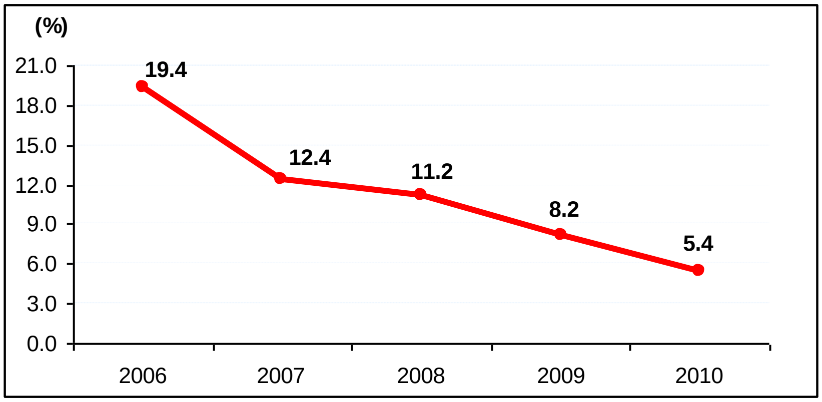


Figure 14 - Net Interest Margin



In years 2008-2010 the share of foreign currency interest and commission income was less than 4%. This amount also includes income from FC indexed receivables. This is not compatible with the volume of FC receivables having 9% share in the total. This suggests that the earnings of some of the bank-owned factoring companies which dominate the international factoring business remain with their parent banks.

Table 30 - Factoring Income (Million TL)

	2008			**2009**			**2010**		
	TL	FC	Total	TL	FC	Total	TL	FC	Total
Interest Income	1,542	43	1,585	1,178	31	1,208	1,291	35	1,326
Commission Fee Income	153	19	172	133	17	150	167	21	189
Total Factoring Income	1,695	62	1,757	1,310	48	1,358	1,458	56	1,514

Source: BRSA

Considering that there have been a total of 44 applications to BRSA to establish factoring companies, one tends to view that this is an extremely attractive business segment. However, considering that 11 companies reported no profits at all or reported losses in 2009, it is hard to say that factoring is a profitable business. On the other hand, it is clear that the combination of management skills, appropriate strategies, low-cost funding and cautious risk policies have enabled many companies to double their net income that same year.

Another development that stands out in these annual results is that the increase in commission income has remained very low. Representatives in the sector reported that rates dropped from 2% to 1% and that some companies do not charge any commission at all in order to look more competitive.

Table 31 - Factoring Companies Main Income Items (Million TL)

	2006	**2007**	**2008**	**2009**	**2010**
Factoring Interest and Commission Income	1,021.2	1,530.8	1,756.9	1,357.9	1,514.1
Interest Income			1584.7	1208.3	1325.5
Commission Income			172.0	150.0	189.0
Other Income	1,015.0	2,203.3	1,925.9	1,707.5	2,945.0
Factoring Interest and Commission Expenses	503.9	619.5	808.1	512.4	648.8
Other Expenses	874.1	2,285.0	1,838.4	1,662.7	2,719.8
Operating Expenses	205.7	264.7	345.4	314.7	390.1

Source: BDDK

Table 32 – Profitability Ratios (%)

	2007	2008	2009	2010
Average Yield on Earning Assets	22.3%	23.1%	14.6%	11.6%
Cost of Interest bearing Liabilities	13.3%	15.6%	7.7%	6.9%
Faktoring Alacaklarından alınan Faiz/Faiz Gelirleri	98.0%	96.3%	94.9%	94.1%
Net Factoring Interest Margin	**13.5%**	**12.6%**	**9.5%**	**6.1%**
Net Interest Margin	**12.4%**	**11.2%**	**8.2%**	**5.4%**
Factoring Operations Margin / Avg. Net Factoring Receivables	13.1%	9.1%	9.5%	6.2%
Factoring Operations Margin / Avg. Assets	10.7%	7.0%	7.3%	5.2%
Recurring Earning Power (operating profit / avg. assets)	7.9%	6.6%	4.6%	3.8%
Return on Average Assets ROAA	6.2%	5.7%	3.6%	3.1%
Return on Equity (period end) ROE	21.3%	18.5%	13.0%	13.1%
Net factoring interest income coverage of loan loss provision	4.58	4.21	4.67	3.51
Total Operating Cost / Operating Income	48.2%	67.6%	75.0%	81.7%
Loan loss provisions / Operating, income	31.5%	37.3%	36.4%	39.4%
Factoring Operations margin coverage of loan loss provision	3.29	1.39	1.52	1.47
Factoring operations income coverage of loan loss provision	5.27	5.03	5.54	4.41
Net Loan Loss Provision/Operating profit	41.1%	76.8%	104.7%	92.2%

Asset Quality

Due to uncertainties in the economic environment, the asset quality of factoring companies deteriorated as of the fourth quarter of 2008. As illustrated in Figure 16, the non-performing loan (NPL) ratio of the factoring sector rose to 5.3% in March 2008 from 4.0% in 2007 and continued to rise reaching 9.8% as of March 2009. In nominal terms the NPLs increased by 94% during 2008 from TL260 million to TL504 million. In 2009 in nominal terms there was no decrease in NPLs, but because the volume of receivables increased, the ratio eased to 5.9%.

In many respects year 2010 was a year of recovery, and the NPL ratio improved to 4.0%. Yet, there has only been a decrease of TL8.0 million (2%) in NPLs and we believe that a good portion of the uncollected receivables of 2008 has still not been totally liquidated.

Table 33 – Asset Quality

	2006	2007	2008	2009	2010
Factoring Receivables (Million TL)	5.251	6.482	5.603,62	8.396,05	12.399,70
Impaired Factoring Receivables (Million TL)	143,6	259,7	503,85	524,84	516,27
Impaired F. Receivables / Factoring Receivables (%)	2,7	4,0	8,2	5,9	4,0
Impaired F. Receivables / (Equity+ Allowances for Imp. Fact. Receivables.) (%)		11,7	18,2	17,6	15,1
Specific Reserves (Million TL)	132,3	226,1	387,80	439,54	440,56
Reserve Ratio (%)	92,1	86,9	77,0	83,7	85,3

Source: BRSA

Figure 15 – Annual NPLs and NPL Ratios

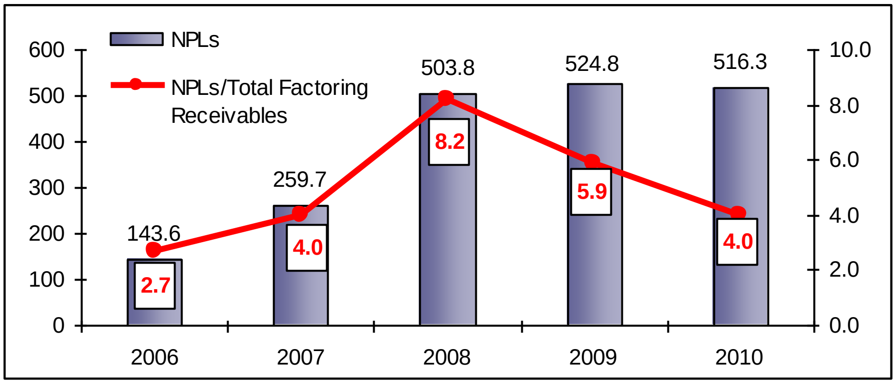
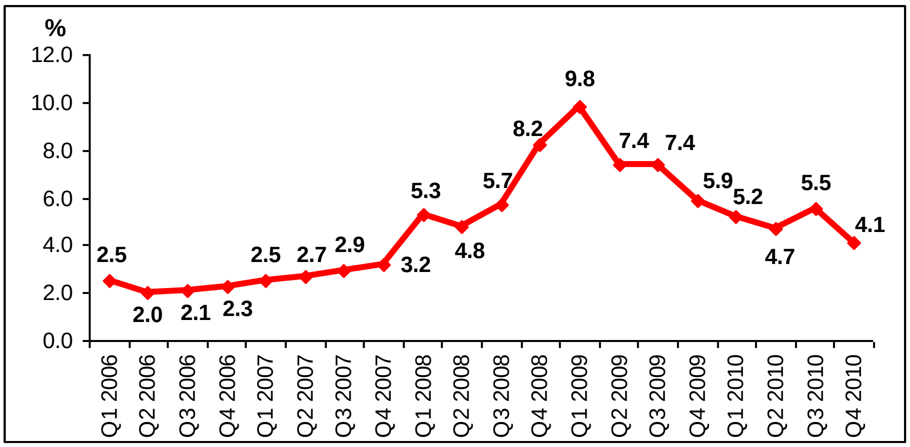
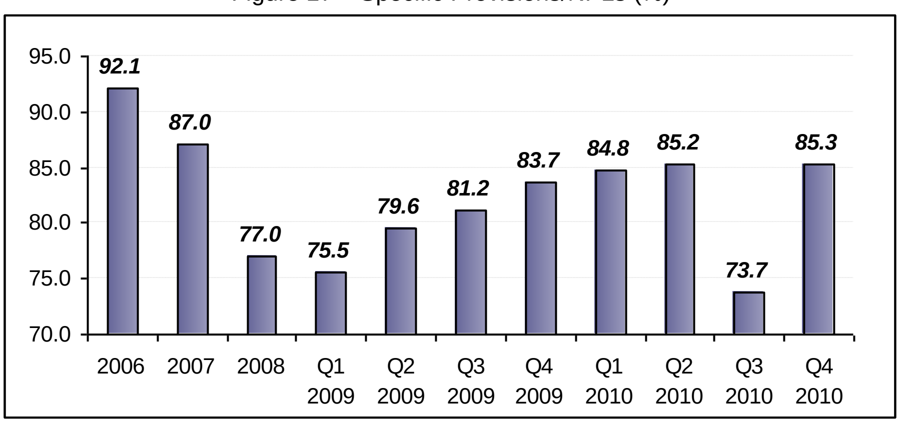


Figure 16 - NPLs/Factoring Receivables (Quarterly)



In compliance with the BRSA's regulatory provisioning requirements, specific provisions cover 85% of impaired factoring receivables.

Figure 17 – Specific Provisions/NPLs (%)



Funding

In most cases a factoring company can have a business volume only in as much as funding allows. In 2010, 76.5% of the operations were funded by market funds, the remainder by equity. BRSA regulations allow a company to grow its factoring receivables up to 30 times its equity. Hence a company's funding capacity is critically important. Strong funding power translates into funding as much as business requires and funding at competitive costs. Obviously, under a declining interest rate environment, a company's competitive strength and its annual net income is closely related to its ability to access lower-cost funding.

A. Credits

Items other than loans (such as factoring liabilities) appear to be very small. Bank loans represent the main source of funding of factoring companies these loans are provided by both domestic and international banks. In the last four years bank borrowings have increased and represented 70% of their assets. In that respect, the creditworthiness attributed to a company by banks, the diversity of banks that extend lines of credit, and the volume of the credit lines which are available to a company, are fundamental to any factoring company.

In 2008 foreign currency borrowings advanced to 54.8% of total borrowings and subsequently regressed to 23% in years 2009 and 2010. It appears that several banks incurred significant foreign exchange losses as a result of their FC borrowings in 2008 and turned to local currency in subsequent years.

Table 34 – Factoring Industry Funding (Million TL)

	2007	2008	2009	2010
Total Liabilities	7,552.2	7,796.5	10,490.3	14.530.4
Loans	4,914.8	4,943.1	7,592.5	11,110.1
FC Loans / Total Loans		54.78	23.20	22.82
Loans / Assets (%)	65.1	63.4	72.4	76.5
Avg. Securities Issued / Average Total Funding (%)	0.0	0.9	1.6	1.7
Equity	2,005.2	2,373.59	2,536.77	2,969.73

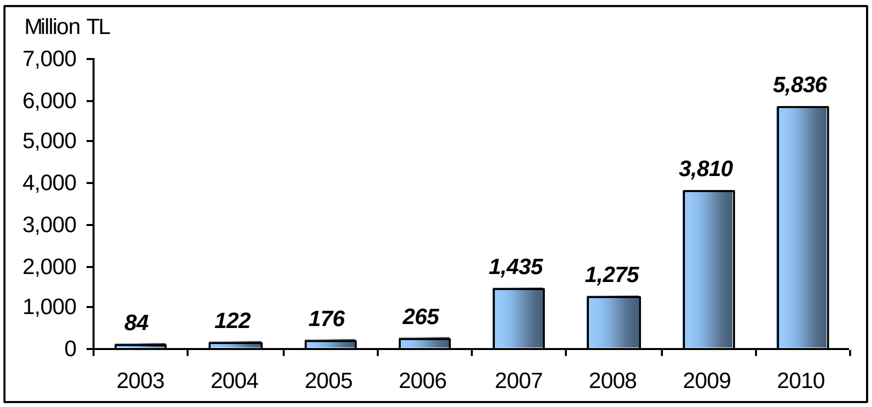
Table 35 – Loans (Million TL)

	2008	2009	2010
Loans	**4,943.14**	**7,592.53**	**11,110.06**
Factoring Payables	152.52	33.07	57.64
Lease Payables	2.21	2.70	2.80
A) Financial Lease Payables	2.60	3.28	3.23
B) Operational Lease Payables	0.00	0.00	0.00
C) Other	0.00	0.00	0.00
D) Deferred Financial Lease Expenses (-)	0.40	0.59	0.43
Securities Issued (Net)	**92.85**	**113.95**	**214.00**
A) Bills	0.00	0.00	0.00
B) Asset-backed Securities	0.00	0.00	0.00
C) Bonds	92.85	113.95	214.00
Miscellaneous Payables	125.09	46.24	35.96
Other Foreign Liabilities	4.82	17.15	6.13

Turkey's central bank data shows that bank loans extended to factoring companies from deposit taking Turkish banks increased by 53% in 2010 reaching TL5.8 billion. Compared to the data of the BRSA and the Factoring Association, this amount accounts for only 52% of the sector's funding. The remaining 48% is probably sourced from international banks.

Yapı Kredi Factoring, Garanti Factoring, Deniz Factoring and FİBA Factoring, who rank among the top five factoring companies, have shareholder structures which allow them to obtain 30% to 40% of their funding internationally. They pull up the average. On the opposite end of the spectrum there are a number of small and medium-sized banks that only borrow TL-denominated loans from Turkish banks – specifically to avoid any foreign currency risk.

Figure 18 – Loans Obtained from Deposit Taking Banks in Turkey



Source: Central Bank of Turkey: Money and Banking Statistic

B. Bond Issues

The opportunity to issue domestic bonds has opened up a new source of funding and, hence, the opportunity to diversify funding sources to factoring companies. This is an important development although the share in total funding remains almost negligible. If market conditions allow, many more factoring companies will be issuing bonds in the near term. In 2007 a factoring company made the first issue of TL30.0 million (a private placement). The same company completed a second issue in 2008. When the market revived in 2010, three factoring companies completed issues totaling TL270.0 million nominal value and with maturities of two years. Issues have continued in 2011.

Table 36 - 2010 Factoring Companies- Bond Issues

	Maturity	Application for Registration	Registration Date	**Face Value TL**	**Face Value $**
1. Company	2 years	14.04.2010	25.05.2010	100,000,000	62,609,567
2. Company	2 years	12.04.2010	03.06.2010	150,000,000	95,183,705
3. Company	2 years	20.08.2010	12.10.2010	20,000,000	14,022,295

Source: The Capital Markets Board of Turkey

Table 37 – 2008-2010 Total Bond Issues of the Factoring Sector (Million TL)

	2008	2009	2010
Securities Issued (Net)	92.85	113.95	214.00
A) Bills	0.00	0.00	0.00
B) Asset Backed Securities	0.00	0.00	0.00
C) Bonds	92.85	113.95	214.00

Source: BRSA

C. Subordinated Loans

To date, no Turkish factoring company has obtained a subordinated loan.

D. No Borrowing

In 2009, eight factoring companies appeared to have operated with only equity (i.e. no bank borrowings). In 2010, there were only four such companies. In the absence of quarterly financial statements we only see the year-end financial situation. It is possible that these companies were using bank loans and closed those accounts by the end of the year.

Equity

Total equity amounted to TL3.0 billion at the end of 2010. Equity growth was limited to 17% in 2010 compared to 38.5% growth in factoring receivables due to relatively weaker profits. Paid-in capital showed a 7.4% increase, in part due to the entrance of new companies to the sector.

Table 38 – Composition of Equity (Million TL)

	2008	2009	2010
	2008	**2009**	**2010**
Equity	**2,373.59**	**2,536.77**	**2,969.73**
A) Paid-in Capital	1,032.33	1,031.62	1,108.31
B) Capital Reserves	93.34	222.89	248.92
a) Share Premium	0.00	0.00	0.00
b) Share cancellation Profits	0.00	0.00	0.00
c) Valuation Changes of Marketable Securities	-1.06	48.94	77.30
d) Revaluation Changes of Property and Equipment	0.79	1.55	5.04
e) Free Share from Investment and Associates, Subsidiaries and Joint Ventures	50.40	35.77	35.73
f) Hedging Funds (Active part)	0.00	0.00	0.00
g) Value increase in Property and Equipment Held for sale Purpose and Held from Terminated Operations	0.00	0.00	0.00
h) Other Capital Reserves	43.20	136.63	130.86
C) Profit Reserves	729.82	996.90	1149.38
a) Legal Reserves	93.93	101.62	117.25
b) Status Reserves	10.06	10.50	38.26
c) Extraordinary Reserves	425.38	503.45	616.73
d) Other profit Reserves	200.46	381.34	377.14
D) Profit or Loss (97+98)	518.10	285.36	463.11
a) Prior Year Income or Loss	78.78	-43.46	73.42

Table 39 – Capital Ratios (Period End) (%)

	2006	2007	2008	2009	2010
Equity/ Total Assets (%)	27.8	26.6	30.5	24.2	20.4
Earning Assets / Interest Bearing Liabilities (%)	138.4	141.7	140.3	131.3	127.0
(Loan loss reserves)/ Equity (%)	0.6	1.7	4.7	3.4	2.9

On 24 February 2011, the BRSA raised the minimum capital requirement for factoring companies to TL7.5 million. At the end of 2010 there were 16 companies with equity under TL7.5 million, ten companies under TL7.0 million, and eight below TL5.0 million. Since the deadline to meet this requirement is 31 December 2011, it is entirely plausible that shareholders may fail to inject the required capital in one or more of the 16 companies which are currently inadequately capitalized. There may be acquisitions and/or changes in ownership.

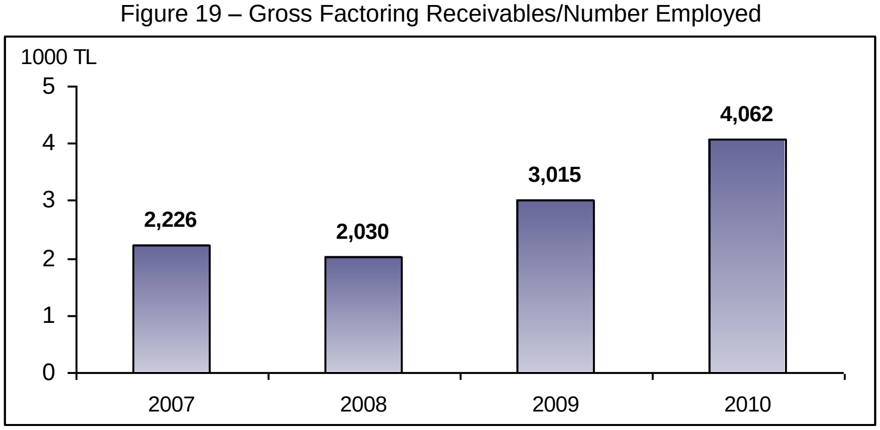
Efficiency and Productivity

There is a clear worsening in the cost income ratio of the factoring industry. In 2007 operating expenses accounted for only half of operational income. By 2010 it went up to 82% under declining interest rates and fierce competition. In fact, even the operating income per employee ratio has declined from TL187,000 in 2007 to TL150,000 in 2010. In the same period operating expenses per employee increased by 35% from TL91,000 to TL123,000.

Table 40 – Efficiency Ratios

	2007	2008	2009	2010
Cost / Income Ratio (Operating Expenses / Operating Income) (%)	48.2	67.6	75.0	81.7
Operating expenses % Average Assets (%)	3.8	4.5	3.4	3.1
Commission Income / Total Factoring Turnover (%)	0.4	0.5	0.4	0.2
Operating income/ No. of employee (1,000 TL)	189	168	142	150
Operating expenses/No. of employee (1,000 TL)	91	114	106	123
Total assets/employee (1,000 TL)	2,593	2,591	3,545	4,569
Gross Factoring Receivables / No. of employee (1,000 TL)	2,226	2,030	3,015	4,062
Gross Factoring Receivables / No. Branches and Rep, Offices (1,000 TL)	48,022	41,267	62,823	71,755

Figure 19 – Gross Factoring Receivables/Number Employed



5. RISK MANAGEMENT

Risk Management

The information on the debtor is usually first hand information on the business he does, how punctual he is on his payments, whether the goods (or services) have been actually delivered, whether his business has been stable or expanding or contracting lately. This market information is complemented by the Central Bank's records on un-paid checks and, if necessary, with reference obtained from the debtor's banks.

Since the factoring sector's customers are to a large extent SMEs, risk management gains added importance given that these companies are known to be more risky than larger companies and more vulnerable to cyclical economic developments. The sharp contraction of the business volume in 2008 is a good evidence of how factoring companies can be impacted by their exposure to SMEs.

Table 41 - Ratios

	2007	2008	2009	2010
Gross Factoring Receivables / Assets (%)	85.8	78.3	85.0	88.9
Gross Factoring Receivables / Equity (X)	3.2	2.6	3.5	4.3
Securities / Assets (%)	0.5	0.2	1.6	0.6
Loans / Assets (%)	65.1	63.4	72.4	76.5
Equity / Loans (%)	40.8	48.0	33.4	26.7
Equity / Total Funding (%)	40.8	45.7	32.8	26.1
Equity / Assets (%)	26.5	30.4	24.2	20.4
Collaterals Given / Equity (%)	n,a,	32.0	29.7	15.7
Commitments / Equity (%)	n,a,	208.0	132.1	183.2
Derivative Financial Instruments / Equity (%)	n,a,	60.5	40.1	62.3

Risk Management Criteria

It was not easy to obtain information on what risk management systems were used. The prospectuses related to bond issues on the Capital Market Board's web pages gave us some idea on limitations observed by some of the companies. In one case the business model was based on the observance of the following limits:

- Credit Limit per Customer – Not to exceed 10% of equity
- Credit Limit per Debtor – Not to exceed 4% of equity
- Exposure to a particular industry cannot exceed 20% of total Factoring Receivables, and
- Equity/Total Factoring Receivables ratio to be kept at minimum 15% level

Another company had adopted a different set of targets:

- Credit Limit per Customer – Not to exceed 10% of equity
- Exposure to any industry – Not to exceed 10% of equity

- Capital Adequacy Ratio – Minimum 20%
- Foreign Currency Exposure/Equity maximum 10%
- Commissions Paid to Receivables Guarantee – Not to exceed 10% of total Expenditures

A number of other factoring companies probably observe similar rules but such practice is not common. Credit rating agencies attach importance to the existence and implementation of such risk limits and these can contribute to upgrading a company's rating.

Market Risk

Market risk is what factoring companies are primarily exposed to. Market risk includes interest risk and foreign currency risk. Additionally, factoring companies are exposed to concentration on industries.

Interest Rate Risk

Factoring companies' core earnings come from the margin between interest received from discounted receivables and their interest expenses paid to funding sources. In recent years Turkey has experienced very volatile interest rate levels and this has increased the significance of interest risk. The average financing period is 90 days. There can often be a difference between the fixed interest rate charged to the customer and the interest rates of borrowing during those 90 days. The balance between fixed and floating rate interest income and expenditures should also be observed. Some companies are taking the risk of funding their activities with fixed interest rates while financing their customers with floating rate interest.

Exchange Rate Risk

There are a considerable number of factoring companies who have confined their activities to domestic factoring. These companies do not borrow in FC and do not carry any exchange rate risk.

In 2008 a few companies have taken significant exchange rate risks and incurred losses. That year 54% of the funding was FC compared to only 9.6% FC receivables. In the following years FC funding has dropped to 23.2% in 2009 and 22.8% in 2010. The 9.6% FC share in factoring receivables in 2008, fell to 6.1% in 2009, then rose to 9.3% in 2010.

Table 42 – FX Transaction Profit/Loss (1000 TL)

	2008	2009	2010
Profit from Foreign Exch. Transactions	1,505.57	1,571.12	2,642.98
Loss from Foreign Exch. Transactions	1,740,00	1,567,80	2,631.80
Net Foreign Exch. Trans. Profit/Loss	-234.43	3.32	11.18

Table 43 – Factoring Receivables TL/FC Distribution (Million TL)

	TL	YP	Total
2008	5.66	538	5,604
2009	7.883	514	8,396
2010	11.248	1.151	12,400

Table 44 – Loans TL/FC Distribution (Million TL)

	TL	YP	Total
2008	2,235	2,708	4,943
2009	5,831	1,762	7,593
2010	8,574	2,538	11,110

Source: BRSA

Business/Sector Risk

Unlike banks who carry industry risk based on the composition of their credits, factoring companies are exposed to industry risks due to the industry mix of both their customers and the debtors of their receivables. To what extent this sector risk is taken seriously and limits are observed is not documented. There is no question that this is one of their important risk factors.

Regional Risk

As part of market risk factors, factoring companies also carry regional risk. At present there are companies standing at the two extreme ends: there are companies that are spread out in a large geographical area through their branches and representative offices and others entirely focused on one small market.

Maturity Risk

Maturity risk results from the maturity mismatch between assets and liabilities. As a large number of the companies are confined to 90-120 days maturity or less than one year, the maturity mismatch impacts the liquidity and interest rate risks.

Liquidity Risk

Liquidity risk stems from the inability to cover cash payments in full and in due time with the level and quality of cash receipts. There is no liquidity requirement for factoring companies. In general, factoring companies keep 10% of their assets in cash and quasi-cash instruments. The ratios of a number of companies are well below or well above this ratio

Table 45 – Cash, Funding & Balance Sheet Structure (%)

	2007	2008	2009	2010
Avg.Liquid Assets / Avg. Total Assets	7.9	10.9	13.3	10.0
Avg.Liquid Assets / Avg. Total Funding	12.0	16.6	18.8	13.1
Avg. Equity / Avg. Total Funding	41.2	43.3	38.0	28.8
Avg. Gross Factoring Receivables / Avg. Total Assets	84.5	82.0	82.2	87.3

Operational Risks

Operational risks are defined as risks of loss a company undertakes due to inadequate or failed processes, people and systems, or from external events. The purpose of sound operational risk management systems is to identify these risks in advance and introduce strict internal rules that will ensure that proper insurance coverage is obtained, back-up systems are in place and necessary measures are taken to minimize potential losses. External events include unforeseen natural incidents such as floods and earthquakes and accidents like fire. The operational risks incurred by a company residing at a main street due to street demonstrations would also be considered an operational risk.

Losses arising from negligent behavior or human failure to meet a professional obligation are the most common operational risks: errors due to the implementation of software programs, systems failure, reporting mistakes, inappropriate payments, theft and fraud and failure of the internal control system.

Operational risks would also cover the losses incurred by the company as a result of loss of prestige vis-à-vis customers and banks due to the unethical behavior of employees.

Additionally, all sorts of illegal behavior such as intended corruption, fraud and theft are operational risks that would cause significant damage to the company. Basel II does not include systemic risks and loss of prestige among the list of operational lists but includes the legal process under operational risks.

6. CHALLENGES AND EXPECTATIONS

Expectations remain very positive in the factoring industry. On 28 February 2011 Dünya newspaper (roughly equivalent to the Financial Times for Turkey) printed a special supplement on the factoring industry. The editor had interviewed executives of most factoring companies and all expressed favorable outlook expectations. Nearly all indicated that the steady growth would continue and that growth potential existed in several areas. However, all executives shared two fundamental concerns which remain to be addressed: negative public perception and imposition of unfair taxes.

In terms of the negative public image, the majority of executives are expecting that when the new law regulating the factoring industry is promulgated, the public image will turn positive to a large extent.

The Image Dilemma

As discussed in the previous sections of the report, factoring companies suffer from a negative image problem which has its roots in the absence of strict supervision before the supervision was passed on to BRSA. The Factoring Association is determined to change this image and is currently undertaking a series of initiatives including events like the Symposium in March 2011, media coverage, publications and the observance of a code of ethics among its members. Trainings are also part of these efforts to upgrade the standards of the workforce of the factoring industry.

In the past even some banks discriminated against companies who discounted their receivables or worked with factoring companies. Nowadays, the approach of the banking sector is much more positive and highly unlikely that any Turkish bank would discriminate against a customer who also arranged financing from factoring.

Tax Issues

In 2010 the factoring industry encountered a serious tax problem due to the different approaches of BRSA and the Ministry of Finance in the accounting practices of specific provisions held against impaired receivables. The divergence in the interpretation of accounting standards plays a vital role in the profitability of factoring companies. The BRSA attempted to solve this issue by specifically mentioning in the Draft Legislation on Factoring Companies that factoring companies would be allowed to book provisions as expenditures. This draft has been modified at the Prime Ministry before being dispatched to parliament and that phrase has been taken out.

While the above tax issue retains its top priority for factoring companies, there are other various smaller problems related to the implementation of taxes. Most of these difficulties stem from the fact that the BRSA regards factoring companies as “financial institutions” whereas tax regulations do not consider them as such. As a result, factoring companies are unable to benefit from a series of exemptions granted to all financial institutions, and they (quite rightly) object to this unfair treatment. Yet another unfair implementation of tax regulations is the double BITT taxation applied to factoring companies. Factoring companies pay five percent BITT tax on the principal and interest of their domestic bank borrowings. Then, they are charged another five percent BITT on the interest and commission earned from their customers. They end up being exposed to double taxation which no doubt impacts their earnings.

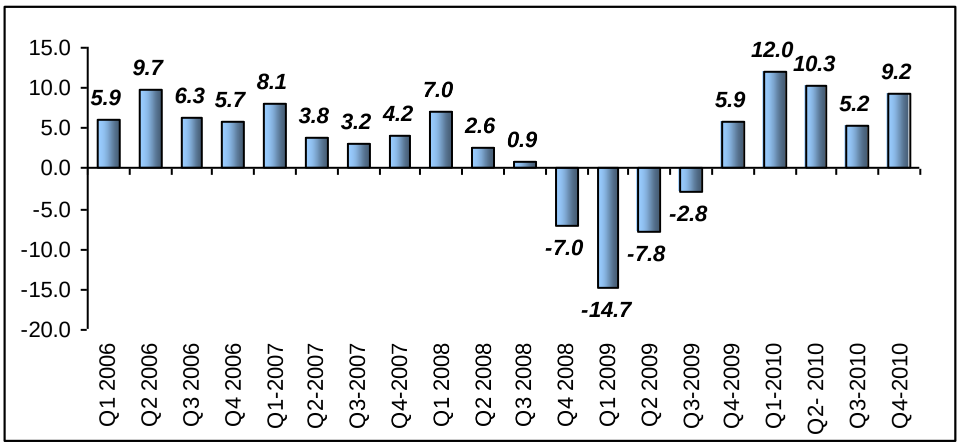
7. ECONOMIC AND FINANCIAL ENVIRONMENT

A comprehensive analysis of factoring companies calls for an assessment of the economic environment for the period 2008-2010 as well as an understanding of the sector's regulatory framework. With these objectives in mind, this section summarizes the fundamental developments experienced in the Turkish economy in the last three years.

Economic Contraction

As illustrated in Figure 20 the Turkish economy entered into a severe contraction in mid-2008. The impact of the global crisis resulted in a 4.7% GDP contraction in 2009, with manufacturing industries hit particularly hard. Following a steep contraction in 2009, consumption and investments recovered in 2010 and entered into a rapid growth trend. The increase in capital investments in 2010, 29.9%, was in stark contrast with the decreases of 6.2% in 2008 and 19.1% in 2009.

Figure 20 – Quarterly GDP increase/decrease (%)



Inflation

Inflation (based on the consumer price index) slowed to 6.5% from the 10% level of 2008 and 2009 largely due to lower domestic demand.

Table 46 – Annual Increase in the Consumer Price Index

	2005	2006	2007	2008	2009	2010
Consumer Prices	7.72	9.65	8.39	10.06	6.53	6.40

Lower Interest Rates

The decline in inflation has been instrumental in bringing about a significant decline in interest rates. The gradual fall in interest rates since 2002 was accelerated by stringent fiscal and monetary policies. As a result of the reduction in the Treasury's borrowing requirement and the Central Bank's lowering of interest rates by 15% between November 2008 and the end of 2010. The Central Bank's interest rate policy enabled the Treasury to borrow at a lower cost and banks to charge lower interest rates on consumer and commercial loans.

Figure 21 – Cost of Turkish Treasury Borrowing

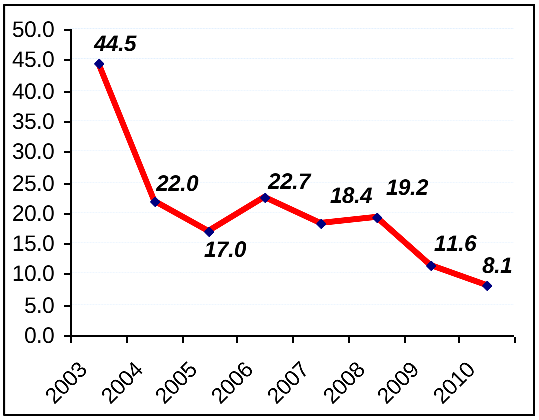


Figure 22 – Deposit Rates on 3-month Deposits

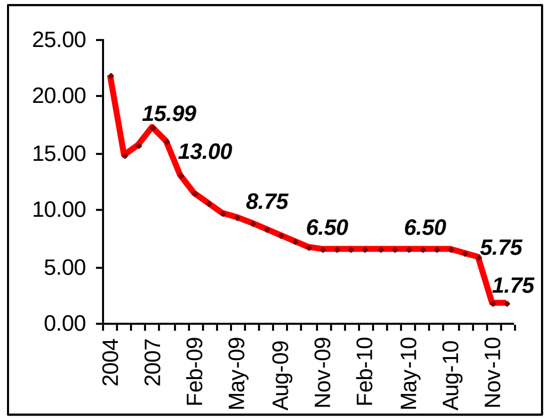


Figure 23 – Interest Rates on Loans and Deposits

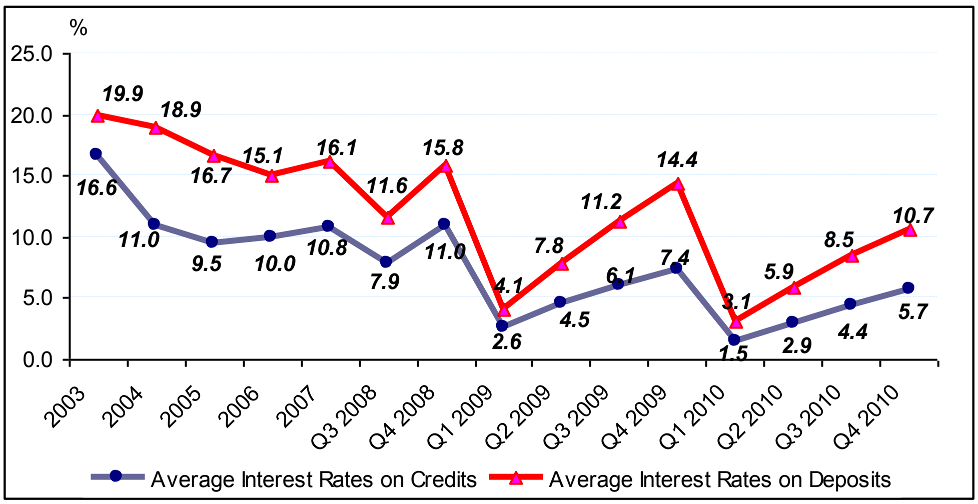
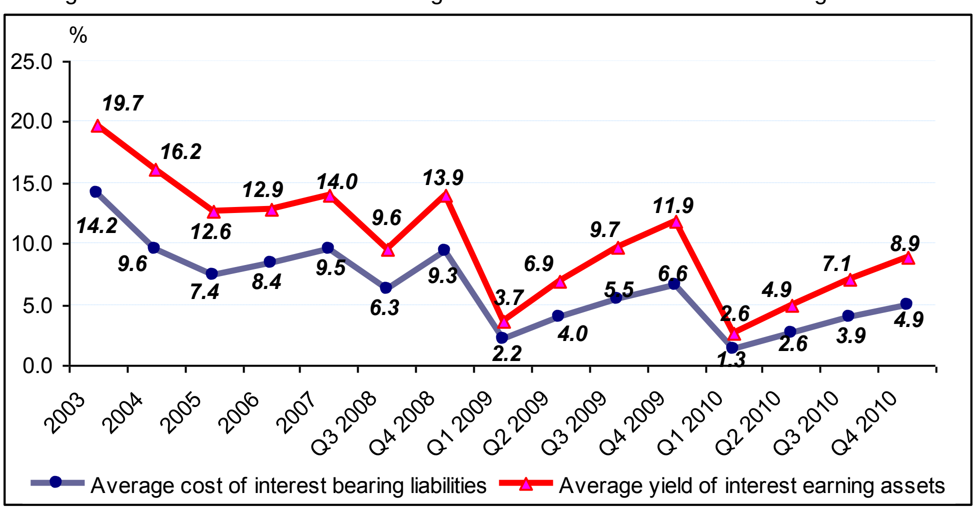


Figure 24 – Yields of Interest Yielding Assets and Cost of Interest Bearing Liabilities



Source: BRSA

Figures 23 and 24 illustrate the cost of interest bearing assets and the yields of interest bearing liabilities including securities based on data from the BRSA's reports. The downward trend since 2003 is very clear. Yet despite this downward trend, there was high volatility with the interest rate margin which narrowed and widened significantly at certain periods. In the second half of 2009, in particular, banks were able to readily reflect the Central Bank interest rates in their deposit customers' rates and widen their interest margins, resulting in a 50% increase in their net income that year.

The volatility experienced in the banking sector may be responsible for diverting some banking customers to the factoring companies.

The Impact of Falling Interest Rates on the Factoring Sector

The fall in interest rates also affected factoring companies. We note that funding costs have come down to 6.9% in 2010 from 13.3% in 2007. The average yield of interest bearing liabilities, on the other hand, eased to 11.6% from 22.6% in the same period. Consequently, the net interest margin was down from 12.4% in 2007 to 5.4% in 2010, impacting profit margins (Graph 13 and 14). Competition among factoring companies was further fueled by excessive price cuts to valued customers at a time when interest margins were already declining. Diminishing interest earnings had to be offset by doing much larger volumes of factoring business. In 2010 net interest margins remained around 4-5%, and factoring companies that were bank subsidiaries, in particular, turned to financially stronger companies and tried to increase their profits with much higher turnovers.

Despite having focused on generating more commissions with higher turnover under lower interest margins, the factoring sector's overall net commission income in 2010 could only come close to the 2008 level. There has been a severe competition in the last three years leading to the weakening of commissions' income. Compared to TL32.5 billion turnover in 2008, turnover was TL76.0 in 2010 but commission earnings remained low.

The impact of lower interest margins on profitability is also seen on the rates of return on assets and equity. ROAA and ROAE have been 3.1% and 16.3%, respectively, in 2010 – almost half of the 2007 levels.

Small and Medium Size Companies in Turkey and Payment Channels

A survey of conditions shaping demand for factoring services in Turkey usually opens up the subject of the role of SMEs in the Turkish economy. In 2004 a study on "Macro Credit Sources in the Turkish Economy" was prepared by Dr. Ercan Türkan, advisor to the Central Bank of Turkey[4]. This report was the result of a comprehensive research covering years 2001-2003 analyzing the various channels of payment and credits. During those years the credit volume as a percentage of GDP in Turkey was very low, around 20%. The study indicated that there were several sources of unofficial payment and credit channels used by companies in addition to the official bank credits such as suppliers' credits, post-dated checks and borrowing from international banks. In fact, the study revealed that only 41.3% of total credit sources (i.e. credits extended by banks and other non-bank financial institutions) of what the author called "Macro Credit

[4] http://www.tcmb.gov.tr/yeni/evds/yayin/kitaplar/temkk.pdf

Channels" were "official". The rest he called "quasi-official" and "not official". Consequently, the volume of total credit use in Turkey was in fact 2.6 times larger than the volume of bank loans.

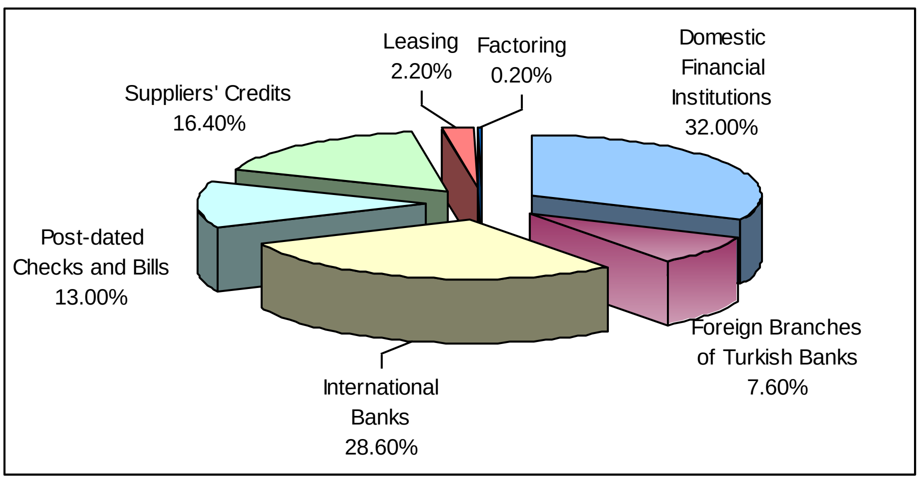
Table 47 – Macro Credit Channels

	% Share
A. Official Credit Channels	**41.3**
1. Deposit Banks	34.8
2. Investment Banks	3.3
3. Development Banks	1.6
4. Leasing Companies	1.1
5. Factoring Companies	0.2
6. Consumer Finance Companies	0.3
B. Semi-official Credit Channels	**42.3**
7. International Sources	29.3
8. Post-dated checks and bills	13.0
C. Unofficial Credit Channels	**16.4**
9. Suppliers' Credits	16.4
MACRO CREDIT CHANNEL (A+B+C)	**100.0**

Source: Macro Credit Sources in the Turkish Economy, The Central Bank of Turkey

This research was conducted in 2004 based on year 2003 data. We estimate that if it is to be adjusted to the present day, the 2.6 coefficient would decrease to 1.6. We attempted to reconstruct these numbers to date and found that these semi-official payment channels are clearly still in use.

Figure 25 – Credit Channels (2003)



We do know that excluding consumer credits (inclusive of credit card loans) the total volume of bank loans was US$300 billion at the end of 2010. We could add US$15 billion leasing and factoring receivables to that number. Also at the end of 2010 the corporate sector's use of international loans was US$82.6 billion, suppliers'' credits were US$20 billion and the credits extended through Turkish banks' foreign branches was US$30.8 billion. These numbers indicate that the growth of Turkish banking has increased the share of official credit channels. Nonetheless, the widespread use of future dated checks continues.

The Central Bank's May 2011 Financial Stability Report underlines that the widespread use of commercial bills and post-dated checks continues and that the average volume of transactions over the last five years has been TL200.0 billion. The year 2010 transaction volume was TL228.0 billion (US$150 billion). When checks are sorted by value, we noted that 57.28% were under TL5,000 (US$2,800 in today's exchange rate), 77.98% were under TL10,000. These numbers are important in explaining to us how factoring companies dealing with a large number of customers financing small ticket checks have built their strategies in response to market behaviour.

Table 48 - Volume of Transactions of Post-Dated Checks in Turkey

	2006	2007	2008	2009	2010
Transaction Volume (BilionTL)	188,3	220,5	234,3	200,8	228,0

Kaynak: T.C. Merkez Bankası

Table 49 – Distribution of Checks by Value (%)

	≥ 2,000 TL	2,000-5,000 TL	5,000-10,000 TL	10,000 – 50,000 TL	50,000 ≤ TL
2007	35,71	31,51	16,63	14,30	1,85
2008	30,33	32,62	18,24	16,42	2,38
2009	27,70	34,07	19,10	16,73	2,40
2010	22,81	34,47	20,70	18,94	3,08

Source: T.C. The Central Bank of Turkey and BTM (Interbank Settlement Center)

Developments in the Banking Sector

In 2010 banking sector credits increased by 33.9% (6.9% in 2009). Non-performing loans decreased in nominal terms, but the decline in the NPL ratios from 5.6% in 2009 to 3.8% in 2010 was particularly due to the rapid growth in credits. Shareholders' equity also rose by 21% following the 28% increase in 2009, and capital adequacy ratios were as high as 20%.

While lower interest rates had a negative impact on the factoring industry, the impact was different for banks. Banks were able to offset losses due to interest income from credits with interest income from government securities, thereby achieving a 50% increase in net income that year. The factoring industry could not use this opportunity, however, as factoring companies do not carry securities. Interestingly, in spite of such a situation the factoring industry reported better ROAA and ROAE compared to the leasing and banking sectors (Table 34).

Table 50 – Comparison of Profitabiity Ratios in Banking and Leasing

		2006	2007	2008	2009	2010
Factoring	Net Profit/Loss (Million TL)	491.0	427.0	439.3	328.8	389.7
	ROAA (%)	**15.5**	**6.2**	**5.7**	**3.6**	**3,1**
	ROAE (%)	27.9	30.0	25.0	15.9	16.3
Leasing	Net Profit/Loss (Million TL)	363	348	590	529	463
	ROAA (%)	**n.a.**	**n.a.**	**2.8**	**2.8**	**2.8**
	ROAE (%)	**n.a.**	**n.a.**	15.7	13.6	9.1
Banks	Net Profit/Loss (Million TL)	11,364	14,916	13,422	20,076	21,931
	ROAA (%)	**2.3**	**2.6**	**1.8**	**2.4**	**2.2**
	ROAE (%)	19.1	19.6	15.5	18.2	16.3

http://www.bddk.org.tr/WebSitesi/english/Reports/Financial_Markets_Report/8127FMR_Dec_2009.pdf and Turkrating's calculations

Table 51 – Financial Indicators of Banks

	2007	2008	2009	2010
Total Assets (Million)	581,606	732,536	834,014	1,007,556
Annual Increase (%)	**16.3**	**25.9**	**13.9**	**20.8**
Credits (Million)	285,616	367,445	392,621	525,905
Annual Increase (%)	**30.4**	**28.6**	**6.9**	**33.9**
Non-Performing Loans (Million)	8,550	10,345	21,853	19,932
NPLs /Total Credits	3.5	3.7	5.2	3.7
Net Income (Million)	14,916	13,422	20,076	21,931
Annual Increase (%)	**31.3**	**-10.0**	**49.6**	**9.2**
Shareholders Equity (Million)	75,850	86,402	110,887	134,290
Annual Increase (%)	**27.0**	**13,9**	**28,3**	**21.1**

Source: BRSA

Statistics show that in the 3rd quarter of 2008 Turkish banks stopped lending altogether and froze their level of loans. Until the 3rd quarter of 2009 bank loans show no increase. It was reported that many SMEs turned to the factoring sector in that period because banks had reduced or discontinued their lines, yet statistics point to the contrary. The factoring sector put a sudden break on loans in the 4th quarter of 2008 and decreased receivables by 28%. In 2009, factoring companies resumed lending earlier, in June, and posted a 49% increase in factoring receivables that year.

Figure 26 - 2007-2010 Banking Sector Credit Volume (Million TL)

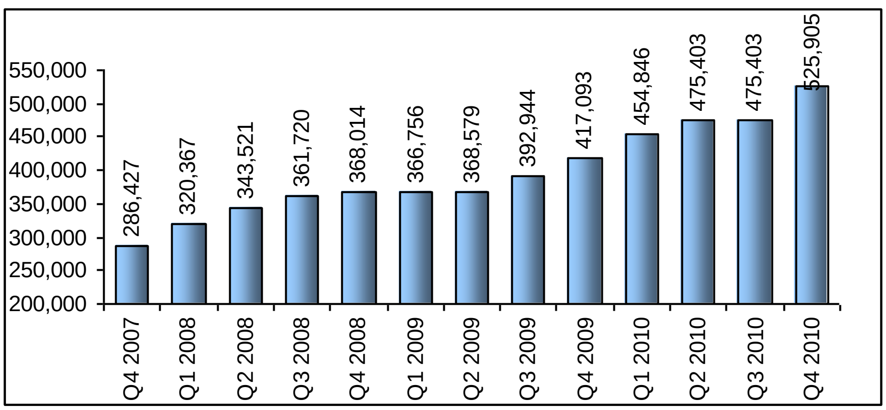
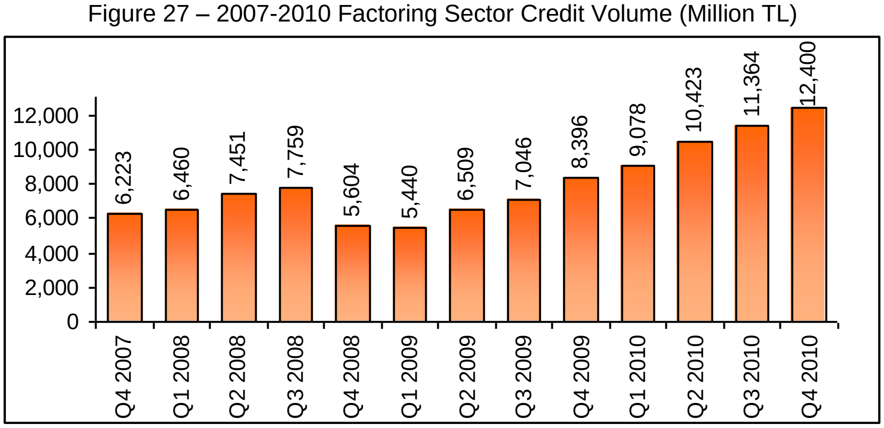
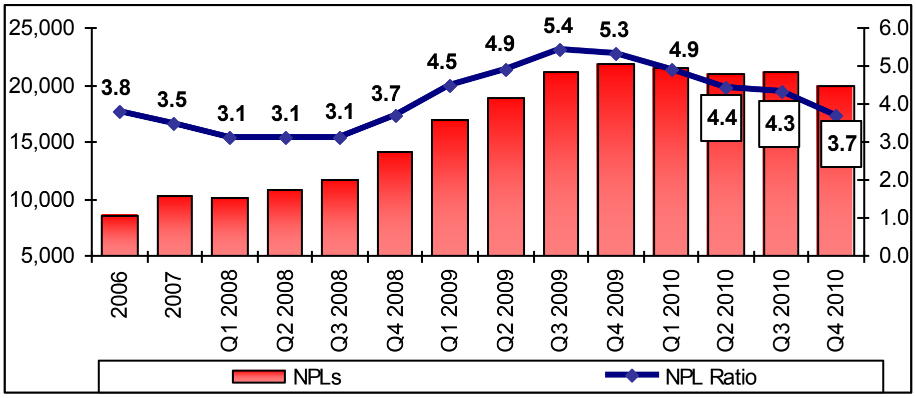


Figure 27 – 2007-2010 Factoring Sector Credit Volume (Million TL)



There is also an interesting comparison between the banking and factoring sectors: In 2008 when the NPL ratio on factoring receivables rose to 8.2%, this ratio was still 3.7% in the banking sector. The banking sector experienced its peak level of NPL ratio by the third quarter of 2009 at a time when the ratio in factoring was improving.

Figure 28 – Banking Sector Credit Volume and NPL Ratios



8. GENERAL ASSESMENT

The data we examined, along with the analysis of the various aspects of the factoring industry, reveal a strong and vital sector which clearly contributes to the diversification of Turkey's financial markets. Factoring meets the requirements of SMEs and the wide use of check payments particular to Turkish companies. Moreover the factoring industry provides SMEs with the opportunity to outsource the collection of their receivables.

Major conclusions of the study:

1. **Economic structure determines demand**. Existing structural factors have interacted to build demand for factoring services. The existence of very small companies that are responsible for 90% of Turkey's production, along with a significant degree of unrecorded production and employment, coupled with the existence of widespread use of future dated checks, have all combined to create the demand for a factoring infrastructure.

2. **The development of factoring services is part of the government's program**. The sector has the support of official government policies. All annual programs include targets that underline the development of the factoring sector among others. A similar target is also part of The Strategy and Action Plan for Istanbul International Financial Center announced in October 2009. The Action Plan covers the 2009-2012 period.

Strategy and Action Plan For Istanbul International Financial Center[5]

30. It shall be ensured that private sector and local government debt instruments markets shall be functioning by reducing the cost of issuing and shortening issue duration; necessary infrastructure shall be established for the over-the-counter derivatives market; securitization transactions shall be facilitated; specialized commodity exchanges, energy and carbon emission exchanges and diamond and precious stones markets shall be created; and service diversity that could be offered by insurance, financial leasing, factoring and consumer finance companies shall be enhanced.

Action No 23 - Enhancing financial leasing and factoring services
i) The draft bill of "Law on Financial Leasing, Factoring and Finance Companies" which would strengthen the legal infrastructure for financial leasing and factoring operations and allow various activities shall be speedily legislated within the framework of the views provided by the sector representatives.
ii) The legal and actual infrastructure to carry out factoring as in the developed financial markets shall be created.

The participation of Deputy Prime Minister Ali Babacan and BRSA Chairman Tevfik Bilgin in the Factoring Association's Symposium held on March 10, 2011 is further indication of the importance and support the sector receives from government officials.

[5] http://www.dpt.gov.tr/DocObjects/View/5066/Strategy_and_Action_Plan_for_Istanbul_International.pdf

3. **High growth potential**. Most companies have confidence that the factoring sector presents strong prospects for growth. Among the three major areas of growth potential, the first is the increase in factoring volume that will come as a result of better promotion. As more company executives will be acquainted with the services provided by factoring companies, they will adopt a more positive approach and embrace those services, and this will lead to higher demand.

   The second potential growth area is increase in export and import factoring. It should be possible to increase export factoring volume, for instance, in a country where annual exports are expected to reach US$150 billion. While the potential is there, there doesn't appear to be enough will amongst many companies to engage in such activity.

Table 52 - Annual Volume of Exports and Imports (Billion USD)

	2003	2004	2005	2006	2007	2008	2009	2010
Exports	47.3	63.2	73.5	85.5	107.3	132.0	102.1	113.9
Imports	69.3	97.5	116.8	139.6	170.1	202.0	140.9	185.5

   Finally, the third area that presents potential is geographical expansion. There seems to be a ready supply of untapped areas in Turkey where services could be increased by facilitating access to services. Factoring services are largely concentrated in and around Istanbul. There is already a trend towards opening branches and rep offices in large commercial and industrial centers. That is likely to continue in the future.

4. **Market shares are likely to change given different growth targets**. Where companies operate under different management styles and strategies, it is fair to expect major changes in market shares in future years. Besides, we observed that while some companies have no growth target at all, others pursue quite aggressive growth strategies. In the meantime, those small companies having approximately 1% market share will continue to work with their particular customer segment and be able to survive despite their small scale.

5. **Foreign investor interest will continue**. This sector will remain attractive to foreign investors. Private equity funds are showing interest, and they are likely to invest in the factoring industry with the expectation that companies will gain market value. There also could be strategic partnerships with international banks.

6. **Tighter regulatory rules are to be expected**. The BRSA's regulations published in July 2010 have already indicated that tighter rules are to be introduced in the future. This process will undoubtedly continue and, as a result, it is likely that some companies will either voluntarily close down or their licenses will be annulled by the regulator. As pointed out earlier, those companies that are unable to raise their equity to TL7.5 million before the end of 2011 may have to terminate their factoring activities, or be acquired by new shareholders

7. **A difficult period has passed under the impact of the global crisis and adjustment to new regulations.** It would not be accurate to evaluate the factoring industry using only the limited data available since 2007 – the year regulation and supervision of factoring companies transferred to the BRSA. This report highlights the fact that factoring companies are not uniform…they all have a different story. From that perspective we have avoided making sweeping generalizations. More

importantly, the period 2007 to 2010, when factoring companies were adjusting to new BRSA regulations, coincides with very severe economic turbulence both in Turkey and globally. During these years economic activity and investments exhibited tremendous volatility, and a number of factoring companies weakened financially. The financial analysis of a company, therefore, calls for an understanding of the prevailing economic conditions. Overall, while the factoring industry has been one of the least affected by the global recession, some companies have endured great hardship and others have emerged better off and better able to benefit from new opportunities.

8. Risk management systems will gradually improve

The absence of rigid risk management principles provides an important degree of flexibility to managers. They can grow their businesses depending on opportunities, and/or switch to whichever sector or borrower that brings business. We observed that a number of factoring companies which are subsidiaries of banks are implementing risk management systems. These are companies which, to a large extent, adhere to the generally accepted principles of good management and operation. Nonetheless, there is still room for improvement in risk management.

There are small factoring companies which do not use any bank loans at all, doing only as much business their equity allows. Among them, there are a few who have lost considerable amounts in bad loans, but even this has not kept them from continuing their operations. It could be argued that since these companies do not collect deposits it is for them to determine whether they should implement a risk management system in place or not. However, both bank analysts and credit rating agency analysts attach importance to the existence and effective implementation of risk management systems. A large number of factoring companies use bank loans. Larger banks have been improving their scoring systems by incorporating qualitative factors in addition to financial data. In this respect, the reinforcement of risk management systems is a key factor in upgrading those factoring companies' profiles and ratings.

In 2011 these turbulences are left behind. The adaptation period for the sector is also over. Yet, there is a degree of uncertainty about the Turkish economy resulting from the planned measures to counter overheating. Expectations of higher inflation also lead to uncertainty vis-à-vis the direction of interest rates. Factoring companies that had difficulty maintaining their profit levels in 2010 due to harsh competition and lower interest rates are finding that this same competitive environment continues to exit. Notwithstanding these risk factors, the opportunities presented by the factoring industry render it still vibrant and attractive to newcomers. 2011 could be a more profitable year for those companies who succeed in diversifying their product range and enlarging their customer base.

All improvements on transparency and accountability issues will most certainly contribute significantly to changing the present perception.

We have noted that along with the various strengths and opportunities of the factoring industry in Turkey, the main area of concern appears to be the need to improve corporate governance. While making this general comment, we would like to underline that there are exceptions (e.g., factoring companies that are robust in terms of transparency and disclosure).

Sources:

- BRSA Reports and Statistics
- Interviews with the members and representatives of the Factoring Association
- Interviews with various sector representatives
- Dünya Daily dated 28 February 2011

ANNEX 1 – FINANCIAL STATEMENTS

BALANCE SHEET (Million TL)

ASSETS (Million TL)

		2008	**2009**	**2010**
1	CASH	10.96	4.32	9.93
2	FINANCIAL ASSETS AT FAIR VALUE CHANGE IS REFLECTED TO INCOME STATEMENT (Net)	5.52	11.97	4.68
3	A) Financial Assets Held for Trading	4.19	2.93	0.80
4	B) Financial Assets Where Fair value Change is Reflected to Income statement	0.76	1.10	0.35
5	C) Derivative Financial Assets held for Trading	0.57	7.94	3.53
6	BANKS	1,130.81	1067.66	1.156.69
7	RECEIVABLES FROM REVERSE REEPURCHASE AGREEMENTS	7.42	0.00	0.06
8	FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	0.04	162.23	89.69
9	**FACTORING RECEIVABLES (10+14)**	**5,603.62**	**8,396.05**	**12,399.70**
10	A) Discount Factoring Receivables (11+12-13)	2,862.29	3,877.62	5,514.31
11	a) Domestic	2,984.18	3,991.98	5,633.69
12	b) Foreign	0.00	0.00	26.11
13	c) Unearned Income (-)	121.89	114.36	145.49
14	B) Other Factoring receivables (15+16)	2,741.34	4,518.43	6,885.40
15	a) Domestic	2,290.90	4,094.97	5,907.17
16	b) Foreign	450.44	423.46	978.23
29	**NON-PERFORMING RECEIVABLES**	**116.05**	**85.30**	**75.71**
30	A) Non-Performing Factoring Receivables	503.85	524.84	516.27
31	B) Non-Performing Financial Loans	0.00	0.00	0.00
32	C) Non-Performing Lease Receivables	0.00	0.00	0.00
33	D) Specific Provisions (-)	387.80	439.54	440.56
34	DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGİNG	27.27	0.02	0.00
35	A) Fair Value Hedges	21.47	0.02	0.00
36	B) Cash Flow Hedges	5.80	0.00	0.00
37	C) Net Foreign Investment Hedging	0.00	0.00	0.00
38	INVESTMENTS HELD TO MATURITY (Net)	33.94	12.69	8.61
39	SUBSIDIARIES (Net)	98.08	92.48	93.33
40	AFFILIATES (Net)	507.98	424.85	411.59
41	JOINT VENTURES (Net)	0.00	0.00	0.00
42	TANGIBALE ASSETS (Net)	112.36	111.25	121.31
43	INTANGIBALE ASSETS (Net) (44+45)	7.58	8.05	13.11
44	A) Goodwill	0.80	0.40	3.76
45	B) Other	6.78	7.65	9.35
46	DEFERRED TAX ASSETS	9.44	17.27	36.85
47	ASSETS HELD FOR SALE PURPOSE AND HELD FROM TERMINATEDOPERATIONS (Net)	2.51	4.65	5.96
48	A) Held for Sale	2.51	4.65	4.16
49	B) Terminated Operations	0.00	0.00	1.80
50	OTHER ASSETS	122.86	91.55	103.18
51	TOTAL ASSETS	7,796.46	10,490.34	14,530.41

LIABLITIES (Million TL)

		2008	2009	2010
52	DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	1.29	2.79	8.07
53	**LOANS AND BORROWINGS**	**4,943.14**	**7,592.53**	**11,110.06**
54	FACTORING PAYABLES	152.52	33.07	57.64
55	LEASE PAYABLES (56+57+58-59)	2.21	2.70	2.80
56	A) Finance Lease Payables	2.60	3.28	3.23
57	B) Operational Lease Payables	0.00	0.00	0.00
58	C) Other	0.00	0.00	0.00
59	D) Deferred Financial Lease Expenses (-)	0.40	0.59	0.43
60	**MARKETABLE SECURITIES ISSUED (Net) (61+62+63)**	**92.85**	**113.95**	**214.00**
61	A) Bills	0.00	0.00	0.00
62	B) Asset Back Securities	0.00	0.00	0.00
63	C) Bonds	92.85	113.95	214.00
64	MISCELLANEAOUS PAYABLES	125.09	46.24	35.96
65	OTHER EXTERNAL RECOURCES	4.82	17.15	6.13
66	DERIVATIVE FINANCIAL LIABILITIES HELD FOR HEDGİNG (67+68+69)	6.36	0.00	0.09
67	A) Fair Value Hedges	1.93	0.00	0.08
68	B) Cash Flow Hedges	4.43	0.00	0.02
69	C) Net foreign Investment Hedging	0.00	0.00	0.00
70	TAXES PAYABLES AND OTHER LIABILITIES	28.80	32.94	30.19
71	PROVISIONS (72+73+74)	59.46	108.83	93.72
72	A) Provisions for Restructuring	0.00	0.03	0.19
73	B) Reserve for Employee Benefits	4.22	10.93	16.44
74	C) Other Reserves	55.24	97.88	77.09
75	DEFERRED TAX LIABILITIES	6.34	3.37	1.99
76	PAYAV-BLES RELATED TO ASSETS HELD FOR SALE PURPOSE AND HELD FROM TERMINATED OPERATIONS (Net) (77+78)	0.00	0.00	0.03
77	A) Held for Sale	0.00	0.00	0.03
78	B) Terminated Operations	0.00	0.00	0.00
79	**SUBORDINATED LOANS**	**0.00**	**0.00**	**0.00**
80	**SHAREHOLDERS' EQUITY (81+82+91+96)**	**2,373.59**	**2,536.77**	**2,969.74**
81	A) Paid-in Capital	1,032.33	1,031.62	1,108.31
82	B) Capital Reserves (83+84+85+86+87+88+89+90)	93.34	222.89	248.93
83	a) Share Premium	0.00	0.00	0.00
84	b) Share Cancellation Profits	0.00	0.00	0.00
85	c) Valuation Changes of Marketable Securities	-1.06	48.94	77.30
86	d) Revaluation Changes of Property and Equipment	0.79	1.55	5.04
87	e) Free Share from Investment and Associates. Subsidiaries and Joint Ventures	50.40	35.77	35.73
88	f) Hedging Funds (Active part)	0.00	0.00	0.00
89	g) Value increase in Property and Equipment Held for sale Purpose and Held from Terminated Operations	0.00	0.00	0.00
90	h) Other Capital Reserves	43.20	136.63	130.86
91	C) Profit Reserves (92+93+94+95)	729.82	996.90	1149.38
92	a) Legal Reserves	93.93	101.62	117.25
93	b) Status Reserves	10.06	10.50	38.26
94	c) Extraordinary Reserves	425.38	503.45	616.73

95	d) Other Profit Reserves	200.46	381.34	377.14
96	D Profit or Loss (97+98)	518.10	285.36	463.11
97	a) Prior Year Income or Loss	78.78	-43.46	73.42
98	**b) Current Year Income or Loss**	**439.32**	**328.82**	**389.70**
99	**TOTAL LIABILITIES (52+53+54+55+60+64+65+66+70+71+75+76+79+80)**	**7,796.46**	**10,490.34**	**14,530.41**

STATEMENT OF OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS (Million TL)

		2008	**2009**	**2010**
100	GUARANTEED FACTORING OPERATIONS	815.27	589.18	1781.37
101	UNGUANTEED FACTORING OPERATIONS	3,870.02	2.399.93	3.104.17
102	GUARANTESS TAKEN	15,558.34	10,454.86	17,414.67
103	GUARANTEES GIVEN	758.90	754.65	466.22
104	COMMITMENTS (105+106)	252.85	361.71	556.54
105	A) Irrevocable Commitments	53.69	149.07	365.18
106	B) Revocable Commitments (107+110)	199.16	212.64	191.35
107	a) Lease Commitments (108+109)	0.00	0.00	0.00
110	b) Other Revocable Commitments	199.16	212.64	191.35
111	DERIVATIVE FINANCIAL INSTRUMENTS (112+116)	1,434.89	1,017.28	1,851.49
112	A) Derivative Financial Assets Held for Hedging (113+114+115)	1,074.57	872.05	1,041.79
113	a) Fair Value hedges	664.54	563.49	226.43
114	b) Cash Flow Hedges	410.04	308.56	815.37
115	c) Foreign Investment Hedges	0.00	0.00	0.00
116	B) Trading Transactions (117+118+119+120+121)	360.32	145.23	809.70
117	a) Forward Foreign Currency Buy- Sell Transactions	79.11	1.00	2.45
118	b) Currency and Interest rate Swaps	234.20	135.60	680.98
119	c) Currency. Interest Rate and Security Options	47.01	8.64	8.20
120	d) Currency. Interest Rate Futures	0.00	0.00	35.72
121	e) Other	0.00	0.00	82.36
122	ITEMS HELD IN CUSTODY	7,898.52	12,759.33	12,748.85
123	TOTAL OFF BALANCE SHEET (100+101+102+103+104+111+122)	30,588.79	28,336.94	37,923.31

INCOME STATEMENT (Million TL)

		2008	2009	2010
1	**OPERATING INCOME (2+9+12)**	**1,756.91**	**1,357.85**	**1,514.07**
2	**FACTORİNG INCOME (3+6)**	**1,756.91**	**1,357.85**	**1,514.07**
3	A) Factoring Interest Income (4+5)	1,584.75	1,208.29	1,325.50
4	a) Discount	1,086.55	735.47	762.27
5	b) Other	498.20	472.82	563.23
6	B) Factoring Commission Income (7+8)	172.16	149.57	188.58
7	a) Discount	114.14	91.56	116.61
8	b) Other	58.02	58.01	71.97
16	OPERATING EXPENSE (-) (17+…+21)	341.62	314.76	390.09
17	A) Personnel Expenses	193.73	180.77	232.03
18	B) Retirement Pay Provision Expenses	3.37	3.43	3.23
19	C) Research and Development Expenses	0.01	0.00	0.00
20	D) General Administration Expenses	111.46	107.51	137.01
21	E) Other	33.06	23.05	17.82
22	OTHER OPERATING INCOME (23+24+25+30+31+34+35)	1,925.88	1,707.49	2,945.03
23	A) Interest income from Deposits	48.08	62.70	76.95
24	B) Interest income from Reverse Repurchase Agreements	1.00	0.42	0.04
25	C) Interest income from Marketable Securities Portfolio (26+…+29)	11.82	2.15	6.46
26	a) Financial Assets held for trading	9.93	1.33	5.68
27	b) Financial assets where value change is reflected to Income Statement	0.01	0.00	0.19
28	c) Financial Assets Available for Sale	0.00	0.00	0.08
29	d) Investments Held to Maturity	1.87	0.81	0.52
30	D) Dividend Income	3.66	10.64	2.34
31	E) Capital Market Operations Profit (32+33)	33.31	15.05	0.80
32	a) Derivative Financial Operations	32.71	14.93	0.62
33	b) Other	0.61	0.12	0.18
34	F) Foreign Exchange Gains	1,505.57	1,571.12	2,642.98
35	G) Other	322.43	45.41	215.46
36	**FİNANCIAL EXPENSES (-) (37+…+42)**	**808.08**	**512.41**	**684.76**
37	A) Interest on Loans Borrowed	772.70	467.58	635.65
38	B) Interest on Factoring Payables	6.78	5.71	12.47
39	C) Financial Lease Expenses	0.03	0.09	0.07
40	D) Interest on Marketable Securities Issued	7.78	16.62	15.86
41	E) Other Interest Expenses	2.47	5.27	0.36
42	F) Other Fees and Commissions	18.33	17.14	20.35
43	**SPECIFIC PROVISION FOR NON-PERFORMING FACTORING RECEIVABLES (-)**	**188.62**	**152.72**	**188.10**
44	**OTHER OPERATING EXPENSES (-) (45+49+55+56+57)**	**1,838.39**	**1,662.73**	**2,719.81**
45	A) Expense from Decrease in Value of marketable Securities (46+47+48)	1.58	0.00	0.27
46	a) Financial Assets at Fair value Through Profit and loss	1.58	0.00	0.15
47	b) Financial Assets Available for Sale	0.00	0.00	0.11
48	c) Financial assets Held to maturity	0.00	0.00	0.00
49	B) Expenses from decrease in Value of Fixed Assets (50+…+54)	2.83	7.61	4.02
50	a) Expense from Decrease in Value of Tangible Assets	1.32	1.47	1.20
51	b) Expense from Decrease in Value of Assets Held for sale and Terminated Operations	1.43	0.05	0.00
52	c) Expense from Decrease in Value of Goodwill	0.00	0.00	0.00
53	d) Expense from Decrease in Value of Other Intangible Assets	0.09	0.79	0.83

54	e) Expense from Decrease in Value of Subsidiaries. Affiliates and Joint Ventures (Business partners)	0.00	5.30	1.99
55	C) Losses from derivative Financial Operations	17.28	43.15	5.24
56	D) Foreign Exchange Loss	1,740.00	1,567.80	2,631.80
57	E) Other	76.70	44.17	78.48
58	**NET OPERATING PROFIT/LOSS (1+22)-(16+36+43+44)**	**506.07**	**422.73**	**476.35**
59	AMOUNT EXSESS RECORDED AS GAIN AFTER MERGER	0.00	0.00	0.00
60	NET MONETARY POSITION GAIN OR LOSS	0.00	0.00	0.00
61	PROFIT/LOSS ON CONTINUING OPERATIONS BEFORE TAX (58+59+60)	506.07	422.73	476.35
62	TAX PROVISIONS FOR CONTINUING OPERATIONS (±) (63+64+65)	65.56	91.90	86.94
63	A) Current Tax Provision	60.04	98.82	95.83
64	B) Loss Effect of Deferred Tax (+)	6.69	3.23	1.30
65	C) Gain Effect of Deferred Tax (-)	-1.17	-10.15	-10.19
66	NET PROFIT/LOSS FOR CONTINUING OPERATIONS (61±62)	440.51	330.83	389.41
67	INCOME ON TERMINATED OPERATIONS (68+69+70)	0.38	0.00	0.33
68	A) Income on Assets Held for Sale	0.00	0.00	0.33
69	B) Income on Sale of Subsidiaries. Affiliates and Joint ventures (Business partners)	0.38	0.00	0.00
70	C) Other Income on Terminated Operations	0.00	0.00	0.00
71	TERMINATED OPERATIONS EXPENSES (-) (72+73+74)	0.05	0.00	0.03
72	A) Assets Held to Maturity Expenses	0.00	0.00	0.03
73	B) Loss on Sale of Subsidiaries. Affiliates and Joint ventures (Business partners)	0.05	0.00	0.00
74	C) Terminated Operations Expenses	0.00	0.00	0.00
75	PERIOD PROFIT/LOSS ON TERMINATED OPERATIONS BEFORE TAX (67-71)	0.33	0.00	0.31
76	TAX PROVISION FOR TERMINATED OPERATIONS (±) (77+78+79)	1.40	2.01	0.02
77	A) Current Tax Provision	1.40	2.01	0.00
78	B) Loss Effect of Deferred Tax (+)	0.00	0.00	0.02
79	C) Gain Effect of Deferred Tax (-)	0.00	0.00	0.00
80	NET PERIOD PROFIT/LOSS ON TERMINATED OPERATIONS (75±76)	-1.20	-2.01	0.29
81	**NET PERIOD PROFIT/LOSS (66+80)**	**439.31**	**328.82**	**389.70**
82	Earnings/Loss Per Share	0.02	0.07	0.70

Sector Turnover Distribution (1000 TL)

		2007	2008	2009	2010	
1	Agriculture. Hunting. Forest Products	433,828	362,344	548,575	818,426	49.19
2	Fishing	38,262	45,957	38,195	62,116	62.63
3	**Total Agriculture (1+2)**	**472,090**	**408,301**	**586,770**	**880,542**	**50.07**
4	Extracting of Mines Product Energy	118,600	207,708	270,037	4,676,760	1631.90
5	Extracting of Mines Not Product Energy	111,799	156,867	1,396,000	9,490,450	579.83
6	Food. Beverage and Tobacco Ind.	2,086,900	1,580,030	1,412,866	2,015,216	42.63
7	Textile and Textile Products Industry	5,347,832	4,497,337	4,334,646	5,400,970	24.60
8	Leather and Leather Products Industry	283,837	339,425	167,962	252,204	50.16
9	Wood and Wood Products Industry	888,993	762,998	605,079	686,310	13.42
10	Paper Raw Materials and Paper Products Industry	1,796,839	1,153,588	1,244,192	2,293,747	84.36
11	Nuclear Fuel and Refined Petroleum and Coke Coal Ind.	530,922	1,171,185	658,253	14,966,133	2173.61
12	Chemical Products Industry	1,566,939	1,551,801	1,525,118	1,485,452	-2.60
13	Rubber and Plastic Products Industry	875,070	755,329	672,126	992,663	47.69
14	Other Mines Excluding Metal Industry	1,338,464	1,730,433	1,457,021	2,040,684	40.06
15	Main Metal Industry	2,947,185	2,791,265	2,050,944	3,556,881	73.43
16	Machine and Equipment Industry	1,451,527	1,290,884	1,679,008	2,459,446	46.48
17	Electrical and Optical Devices Industry	804,330	1,437,433	1,067,894	1,438,430	34.70
18	Transportation Vehicles Industry	2,639,027	2,942,022	6,034,296	2,536,760	-57.96
19	Manufacturing Industry Not Classified In Another Places	919,605	867,556	602,490	1,468,416	143.72
20	Electric. Gas and Water Resources	255,785	123,838	1,343,005	2,016,192	50.13
21	**Total Manufacturing (4+…+20)**	**23,963,654**	**23,359,699**	**26,520,937**	**57,776,714**	**117.85**
22	Construction	3,217,347	3,270,543	4,006,767	5,940,184	48.25
23	Wholesale and Retail Trade. Motor Vehicles Services	2,462,576	1,976,641	1,681,031	2,874,484	71.00
24	Hotels and Restaurants (Tourism)	274,258	330,166	862,262	998,588	15.81
25	Transportation. Warehousing and Communication	1,037,544	914,516	964,450	2,421,434	151.07
26	Financial Intermediation	897,597	533,864	578,478	1,368,765	136.61
27	a) Financial Institutions	786,142	510,135	532,716	1,184,862	122.42
28	b) Other Financial Intermediation	111,455	23,729	45,762	183,903	301.87
29	Real Estate Brokerage	183,897	184,012	212,523	475,961	123.96
30	Defense and Public Administration And Social Security Institutions	1,772	8,339	38,677	6,788	-82.45
31	Education	14,044	23,081	25,046	70,100	179.89
32	Health and Social Services	400,689	213,430	309,356	505,522	63.41
33	Other Social and Personal Services	464,658	630,542	1,148,914	1,726,253	50.25
34	Private Person Employing Worker	97,917	98,563	16,130	50,767	214.74
35	International Organizations and Institutions	1,636	56,810	1,691	311	-81.61
36	**Total Services (22+…+35) - (27+28)**	**9,053,935**	**8,240,507**	**9,845,325**	**16,439,157**	**66.97**
37	**OTHER**	**1,247,252**	**460,359**	**998,954**	**881,694**	**-11.74**
38	**GENERAL TOTAL (3+21+36+37)**	**34,736,931**	**32,468,866**	**37,951,986**	**75,978,107**	**100.20**

Sector Turnover Distribution (%)

		2007	2008	2009	2010
1	Agriculture. Hunting. Forest Products	1.25	1.12	1.45	1.08
2	Fishing	0.11	0.14	0.10	0.08
3	**Total Agriculture (1+2)**	**1.36**	**1.26**	**1.55**	**1.16**
4	Extracting of Mines Product Energy	0.34	0.64	0.71	6.16
5	Extracting of Mines Not Product Energy	0.32	0.48	3.68	12.49
6	Food. Beverage and Tobacco Ind.	6.01	4.87	3.72	2.65
7	Textile and Textile Products Industry	15.40	13.85	11.42	7.11
8	Leather and Leather Products Industry	0.82	1.05	0.44	0.33
9	Wood and Wood Products Industry	2.56	2.35	1.59	0.90
10	Paper Raw Materials and Paper Products Industry	5.17	3.55	3.28	3.02
11	Nuclear Fuel and Refined Petroleum and Coke Coal Ind.	1.53	3.61	1.73	19.70
12	Chemical Products Industry	4.51	4.78	4.02	1.96
13	Rubber and Plastic Products Industry	2.52	2.33	1.77	1.31
14	Other Mines Excluding Metal Industry	3.85	5.33	3.84	2.69
15	Main Metal Industry	8.48	8.60	5.40	4.68
16	Machine and Equipment Industry	4.18	3.98	4.42	3.24
17	Electrical and Optical Devices Industry	2.32	4.43	2.81	1.89
18	Transportation Vehicles Industry	7.60	9.06	15.90	3.34
19	Manufacturing Industry Not Classified In Another Places	2.65	2.67	1.59	1.93
20	Electric. Gas and Water Resources	0.74	0.38	3.54	2.65
21	**Total Manufacturing (4+…+20)**	**68.99**	**71.94**	**69.88**	**76.04**
22	Construction	9.26	10.07	10.56	7.82
23	Wholesale and Retail Trade. Motor Vehicles Services	7.09	6.09	4.43	3.78
24	Hotels and Restaurants (Tourism)	0.79	1.02	2.27	1.31
25	Transportation. Warehousing and Communication	2.99	2.82	2.54	3.19
26	Financial Intermediation	2.58	1.64	1.52	1.80
27	a) Financial Institutions	2.26	1.57	1.40	1.56
28	b) Other Financial Intermediation	0.32	0.07	0.12	0.24
29	Real Estate Brokerage	0.53	0.57	0.56	0.63
30	Defense and Public Administration And Social Security Institutions	0.01	0.03	0.10	0.01
31	Education	0.04	0.07	0.07	0.09
32	Health and Social Services	1.15	0.66	0.82	0.67
33	Other Social and Personal Services	1.34	1.94	3.03	2.27
34	Private Person Employing Worker	0.28	0.30	0.04	0.07
35	International Organizations and Institutions	0.00	0.17	0.00	0.00
36	**Total Services (22+…+35) - (27+28)**	**26.06**	**25.38**	**25.94**	**21.64**
37	**OTHER**	**3.59**	**1.42**	**2.63**	**1.16**
38	**GENERAL TOTAL (3+21+36+37)**	**100.00**	**100.00**	**100.00**	**100.00**

Factoring Receivables Distribution (1000 TL)

		2008	2009	2010
1	Agriculture. Hunting. Forest Products	83,395	186,608	204,455
2	Fishing	12,410	9,212	16,744
3	**Total Agriculture (1+2)**	**95,805**	**195,820**	**221,199**
4	Extracting of Mines Product Energy	85,296	169,527	1,451,132
5	Extracting of Mines Not Product Energy	23,885	796,298	274,738
6	Food. Beverage and Tobacco Ind.	304,366	350,054	508,976
7	Textile and Textile Products Industry	1,050,976	1,273,851	1,419,056
8	Leather and Leather Products Industry	85,440	37,077	62,201
9	Wood and Wood Products Industry	177,720	160,230	176,400
10	Paper Raw Materials and Paper Products Industry	226,397	371,740	483,374
11	Nuclear Fuel and Refined Petroleum and Coke Coal Ind.	238,226	171,395	1,762,662
12	Chemical Products Industry	396,651	266,133	338,499
13	Rubber and Plastic Products Industry	174,761	193,212	250,009
14	Other Mines Excluding Metal Industry	430,763	506,114	444,989
15	Main Metal Industry	699,905	737,774	947,031
16	Machine and Equipment Industry	282,447	608,829	978,392
17	Electrical and Optical Devices Industry	390,797	181,753	449,333
18	Transportation Vehicles Industry	597,754	1,425,633	895,277
19	Manufacturing Industry Not Classified In Another Places	205,748	172,127	359,845
20	Electric. Gas and Water Resources	26,472	300,514	612,944
21	**Total Manufacturing (4+…+20)**	**5,397,604**	**7,722,261**	**11,414,858**
22	Construction	713,873	988,957	1,366,581
23	Wholesale and Retail Trade. Motor Vehicles Services	477,373	337,592	984,913
24	Hotels and Restaurants (Tourism)	68,422	555,996	174,679
25	Transportation. Warehousing and Communication	190,471	367,729	432,454
26	Financial Intermediation	92,958	183,835	299,662
27	a) Financial Institutions	89,683	152,068	260,024
28	b) Other Financial Intermediation	3,275	31,767	39,638
29	Real Estate Brokerage	33,056	89,566	108,695
30	Defense and Public Administration And Social Security Institutions	333	3,316	1,860
31	Education	5,470	7,135	21,696
32	Health and Social Services	48,718	101,598	102,673
33	Other Social and Personal Services	167,752	507,566	367,774
34	Private Person Employing Worker	1,423	6,154	12,024
35	International Organizations and Institutions	2,298	0	534
36	**Total Services (22+…+35) - (27+28)**	**1,802,147**	**3,149,444**	**3,873,545**
37	**OTHER**	69,229	228,835	51,812
38	**GENERAL TOTAL (3+21+36+37)**	**7,364,785**	**11,296,360**	**15,561,414**

Factoring Receivables Distribution (% Share)

		2008	2009	2010
1	Agriculture. Hunting. Forest Products			
2	Fishing			
3	**Total Agriculture (1+2)**	**0.01**	**0.02**	**0.01**
4	Extracting of Mines Product Energy	1.16	1.50	9.33
5	Extracting of Mines Not Product Energy	0.32	7.05	1.77
6	Food. Beverage and Tobacco Ind.	4.13	3.10	3.27
7	Textile and Textile Products Industry	14.27	11.28	9.12
8	Leather and Leather Products Industry	1.16	0.33	0.40
9	Wood and Wood Products Industry	2.41	1.42	1.13
10	Paper Raw Materials and Paper Products Industry	3.07	3.29	3.11
11	Nuclear Fuel and Refined Petroleum and Coke Coal Ind.	3.23	1.52	11.33
12	Chemical Products Industry	5.39	2.36	2.18
13	Rubber and Plastic Products Industry	2.37	1.71	1.61
14	Other Mines Excluding Metal Industry	5.85	4.48	2.86
15	Main Metal Industry	9.50	6.53	6.09
16	Machine and Equipment Industry	3.84	5.39	6.29
17	Electrical and Optical Devices Industry	5.31	1.61	2.89
18	Transportation Vehicles Industry	8.12	12.62	5.75
19	Manufacturing Industry Not Classified In Another Places	2.79	1.52	2.31
20	Electric. Gas and Water Resources	0.36	2.66	3.94
21	**Total Manufacturing (4+…+20)**	**0.73**	**0.68**	**0.73**
22	Construction	9.69	8.75	8.78
23	Wholesale and Retail Trade. Motor Vehicles Services	6.48	2.99	6.33
24	Hotels and Restaurants (Tourism)	0.93	4.92	1.12
25	Transportation. Warehousing and Communication	2.59	3.26	2.78
26	Financial Intermediation	1.26	1.63	1.93
27	a) Financial Institutions	1.22	1.35	1.67
28	b) Other Financial Intermediation	0.04	0.28	0.25
29	Real Estate Brokerage	0.45	0.79	0.70
30	Defense and Public Administration And Social Security Institutions	0.00	0.03	0.01
31	Education	0.07	0.06	0.14
32	Health and Social Services	0.66	0.90	0.66
33	Other Social and Personal Services	2.28	4.49	2.36
34	Private Person Employing Worker	0.02	0.05	0.08
35	International Organizations and Institutions	0.03	0.00	0.00
36	**Total Services (22+…+35) - (27+28)**	**24.47**	**27.88**	**24.89**
37	OTHER	0.94	2.03	0.33
38	**GENERAL TOTAL (3+21+36+37)**	100.00	100.00	100.00

ANNEX 2 – BRANCHES AND REP OFFICES

	Branch	Rep Office
Analiz Faktoring A.Ş.		1
Atılım Faktoring A.Ş.		1
Arena Faktoring Hizm.A.Ş.		1
Başer Faktoring A.Ş		3
Bayramoğlu Finans Faktoring Hizmetleri A.Ş.		3
C Faktoring A.Ş.		1
Creditwest Faktoring Hizmetleri A.Ş.		1
Çözüm Finans Faktoring Hizmetleri A.Ş.		3
Demir Factoring A.Ş		1
Deniz Factoring A.Ş		13
Doğa Faktoring Hizmetleri A.Ş.		3
EDF Finans Faktoring Hizmetleri A.Ş.		6
Eko Factoring Hizmetleri A.Ş.		9
Erişim Finans Faktoring Hizm.A.Ş.		4
Fiba Factoring Hizmetleri A.Ş		7
Finans Faktoring Hizmetleri A.Ş.		1
Fortis Faktoring A.Ş.		1
Garanti Faktoring Hizmetleri A.Ş.		13
Kapital Faktoring Hizmetleri A.Ş		6
Kent Factoring A.Ş		1
Lider Faktoring Hizmetleri A.Ş.		14
Met-ay Faktoring Finans Hizmetleri A.Ş.		6
MNG Factoring Hizmetleri A.Ş.	1	7
Optima Faktoring Hizmetleri A.Ş	4	3
Para Finans Factoring Hizm.A.Ş.	4	-
Strateji Factoring Hizmetleri A.Ş.		10
Şeker Faktoring Hizmetleri A.Ş.		8
Şirinoğlu Factoring Fins.Hizm.T.A.Ş.		31
TEB Factoring A.Ş	6	-
Tek Faktoring Hizmetleri A.Ş.	-	7
Yaşar Factoring Hizm.A.Ş.	7	-
Yapı Kredi Factoring A.Ş.		5
TOPLAM	**22**	**170**

ANNEX 3 – CLOSED FACTORING COMPANIES

Factoring Companies Whose License was cancelled by BRSA

	Date of Cancellation
1. KIZILKAPLAN FAKTORİNG FİNANS HİZMETLERİ A.Ş.	20.07.2006
2. KOÇ FAKTORİNG HİZMETLERİ A.Ş.	14.12.2006
3. K FAKTORİNG A.Ş.	25.01.2007
4. ÖZ FİNANS FACTORİNG HİZMETLERİ A.Ş.	22.11.2007
5. EURO FACTORİNG ALACAK ALIMI A.Ş.	28.02.2008
6. TASFİYE HALİNDE ADK FAKTORİNG FİNANS HİZMETLERİ A.Ş.	28.02.2008
7. AVRASYA FAKTORİNG HİZMETLERİ A.Ş.	17.04.2008
8. BAYINDIR FAKTORİNG HİZMETLERİ A.Ş.	17.04.2008
9. PERA FAKTORİNG HİZMETLERİ A.Ş.	17.04.2008
10. KÖROĞLU FİNANS FAKTORİNG HİZMETLERİ A.Ş.	15.05.2008
11. GOLD FAKTORİNG HİZMETLERİ A.Ş.	26.06.2008
12. SAFİR FİNANS VE FACTORİNG A.Ş.	08.10.2008
13. ÜNİVERSAL FİNANS FAKTORİNG A.Ş.	01.10.2009
14. KURTULUŞ FACTORİNG HİZMETLERİ A.Ş.	02.04.2009
15. ORTAK FAKTORİNG A.Ş.	02.07.2009
16. ŞARK FİNANS FAKTORİNG A.Ş.	22.07.2009
17. BEST FACTORİNG A.Ş.	05.08.2009
18. SERAY FAKTORİNG A.Ş.	07.01.2010
19. AKÇE FİNANS FAKTORING HİZMETLERİ A.Ş.	15.04.2010
20. ANA FAKTORİNG HİZMETLERİ A.Ş.	15.04.2010
21. FON FACTORİNG HİZMETLERİ A.Ş.	15.09.2010
22. GİSAD FAKTORİNG A.Ş.	06.10.2010
23. ULUS FAKTORİNG A.Ş.	21.10.2010
24. D FAKTORİNG A.Ş.	21.10.2010
25. ERA FİNANS FAKTORİNG HİZMETLERİ A.Ş.	21.10.2010
26. İLKE FAKTORİNG HIZMETLERI A.Ş.	11.11.2010

ANNEX 4 – FACTORING TURNOVER BY COUNTRIES IN 2010

Factoring Turnover by Country in 2010 (Million Euro)

Nr. of Companies	Country	Domestic	International	Total
	EUROPE			
5	Austria	6,646	1,661	8,307
6	Belgium	24,203	8,000	32,203
1	Bosnia & Herzegovina	30	15	45
7	Bulgaria	400	150	550
19	Croatia	2,736	57	2,793
3	Cyprus	3,400	50	3,450
8	Czech Rep.	3,425	985	4,410
6	Denmark	5,000	3,000	8,000
4	Estonia	992	235	1,227
5	Finland	10,800	1,600	12,400
11	France	127,193	26,059	153,252
100	Germany	99,411	30,125	129,536
12	Greece	13,465	1,250	14,715
22	Hungary	3,024	315	3,339
8	Ireland	18,947	1,250	20,197
45	Italy	125,777	17,968	143,745
8	Latvia	235	93	328
8	Lithuania	590	950	1,540
1	Luxembourg	177	144	321
2	Malta	105	31	136
5	Netherlands	25,000	10,000	35,000
7	Norway	13,150	1,925	15,075
14	Poland	12,823	3,387	16,210
14	Portugal	18,800	1,956	20,756
13	Romania	1,300	500	1,800
28	Russia	12,083	80	12,163
12	Serbia	430	70	500
6	Slovakia	701	280	981
5	Slovenia	550	100	650
23	Spain	101,796	11,113	112,909
40	Sweden	17,760	1,000	18,760
5	Switzerland	3,500	500	4,000
70	Turkey	34,931	4,057	38,988
25	Ukraine	530	10	540
44	United Kingdom	210,745	15,498	226,243
592	**Total Europe**	**900,655**	**144,415**	**1,045,069**
	AMERICAS			
5	Argentina	330	20	350
1	Bolivia	18	0	18
1,120	Brazil	49,000	50	49,050
53	Canada	3,158	565	3,723
130	Chile	15,108	1,314	16,422
30	Colombia	2,726	58	2,784
3	Honduras	5	155	160

11	Mexico	14,507	31	14,538
12	Panama	600	0	600
9	Peru	2,613	99	2,712
300	United States	85,000	10,000	95,000
1674	**Total Americas**	**173,065**	**12,292**	**185,357**
	AFRICA			
5	Egypt	50	150	200
4	Morocco	905	166	1,071
5	South Africa	14,895	225	15,120
4	Tunisia	260	35	295
18	**Total Africa**	**16,110**	**576**	**16,686**
	ASIA			
4	Armenia	10	4	14
23	China	119,960	34,590	154,550
15	Hong Kong	6,000	8,400	14,400
11	India	2,600	150	2,750
6	Israel	1,300	350	1,650
7	Japan	97,700	800	98,500
1	Jordan	35	8	43
2	Korea	0	5,079	5,079
1	Lebanon	354	96	450
6	Malaysia	1,030	28	1,058
2	Mauritius	122	3	125
1	Qatar	20	3	23
9	Singapore	3,800	2,000	5,800
18	Taiwan	30,300	36,700	67,000
10	Thailand	2,000	95	2,095
4	United Arab Emirates	1,800	200	2,000
7	Vietnam	40	25	65
127	**Total Asia**	**267,071**	**88,531**	**355,602**
	AUSTRALASIA			
19	Australia	44,830	85	44,915
7	New Zealand	600	0	600
26	**Total Australasia**	**45,430**	**85**	**45,515**
2437	**TOTAL WORLD**	**1,402,331**	**245,898**	**1,648,229**

Total Factoring Volume by Country (Million Euro)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
EUROPE										
Austria	2,181	2,275	2,932	3,692	4,273	4,733	5,219	6,350	6,630	8,307
Belgium	9,000	9,391	11,500	13,500	14,000	16,700	19,200	22,500	23,921	32,203
Bosnia & Herzegovina				0	0	0	0	0	35	45
Bulgaria	2	0	0	0	0	35	300	450	340	550
Croatia	0	0	0	28	175	340	1,100	2,100	2,450	2,793
Cyprus	1,554	1,997	2,035	2,140	2,425	2,546	2,985	3,255	3,350	3,450
Czech Rep.	1,230	1,681	1,880	2,620	2,885	4,025	4,780	5,000	3,760	4,410
Denmark	5,488	5,200	5,570	6,780	7,775	7,685	8,474	5,500	7,100	8,000
Estonia	1,400	2,143	2,262	3,920	2,400	2,900	1,300	1,427	1,000	1,227
Finland	7,445	9,067	8,810	9,167	10,470	11,100	12,650	12,650	10,752	12,400
France	67,660	67,398	73,200	81,600	89,020	100,009	121,660	135,000	128,182	153,252
Germany	29,373	30,156	35,082	45,000	55,110	72,000	89,000	106,000	96,200	129,536
Greece	2,050	2,694	3,680	4,430	4,510	5,230	7,420	10,200	12,300	14,715
Hungary	546	580	1,142	1,375	1,820	2,880	3,100	3,200	2,520	3,339
Ireland	7,813	8,620	8,850	13,150	23,180	29,693	22,919	24,000	19,364	20,197
Italy	124,823	134,804	132,510	121,000	111,175	120,435	122,800	128,200	124,250	143,745
Latvia				155	20	276	1,160	1,520	900	328
Lithuania				1,040	1,640	1,896	2,690	3,350	1,755	1,540
Luxembourg	0	197	257	285	280	306	490	600	349	321
Malta	0	0	0	0	0	1	25	52	105	136
Netherlands	17,800	20,120	17,500	19,600	23,300	25,500	31,820	30,000	30,000	35,000
Norway	5,700	7,030	7,625	8,620	9,615	11,465	17,000	15,000	15,100	15,075
Poland	3,330	2,500	2,580	3,540	3,700	4,425	7,900	7,800	12,000	16,210
Portugal	10,189	11,343	12,181	14,700	16,965	16,886	16,888	18,000	17,711	20,756
Romania	98	141	225	420	550	750	1,300	1,650	1,400	1,800
Russia	0	168	485	1,130	2,540	8,555	13,100	16,150	8,580	12,163
Serbia	0	0	0	0	0	150	226	370	410	500
Slovakia	240	240	384	665	830	1,311	1,380	1,600	1,130	981
Slovenia	71	75	170	185	230	340	455	650	650	650
Spain	23,600	31,567	37,486	45,376	55,515	66,772	83,699	100,000	104,222	112,909
Sweden 5,250	5,250	10,229	10,950	14,500	19,800	21,700	21,700	16,000	18,760	18,760
Switzerland	1,430	2,250	1,514	1,400	1,900	2,000	2,513	2,590	5,000	4,000
Turkey	3,947	4,263	5,330	7,950	11,830	14,925	19,625	18,050	20,280	38,988
Ukraine	0	0	0	0	333	620	890	1,314	530	540
United Kingdom	136,080	156,706	160,770	184,520	237,205	248,769	286,496	188,000	195,613	226,243
Total Europe	468,326	522,851	546,935	612,488	715,471	806,958	932,264	888,528	876,649	1,045,069
AMERICAS										
Argentina	1,017	71	70	101	275	333	362	355	335	350
Bolivia									18	18
Brazil	11,020	11,030	12,040	15,500	20,050	20,054	21,060	22,055	29,640	49,050
Canada	2,699	3,100	3,161	3,157	3,820	3,386	4,270	3,000	3,250	3,723
Chile	3,123	3,130	3,500	4,200	9,500	11,300	14,620	15,800	14,500	16,422
Colombia	0	0	0	0	0	100	2,030	2,100	2,392	2,784
Honduras										160
Mexico	6,890	6,340	4,535	4,600	7,100	8,150	9,200	9,550	2,120	14,538

Panama	220	0	160	201	240	607	483	460	500	600
Peru	0	0	0	0	95	563	648	875	758	2,712
United States	101,744	91,143	80,696	81,860	94,160	96,000	97,000	100,000	88,500	95,000
Total Americas	127,157	115,301	104,542	109,619	135,240	140,493	149,673	154,195	142,013	185,357
AFRICA										
Egypt	0	0	0	1	1	3	20	50	110	200
Morocco	50	190	160	300	430	440	660	850	910	1,071
South Africa	5,580	5,860	5,470	7,100	5,580	7,800	9,780	12,110	13,500	15,120
Tunisia	171	153	210	185	226	270	245	253	276	295
Total Africa	5,801	6,203	5,840	7,586	6,237	8,513	10,705	13,263	14,796	16,686
ASIA										
Armenia				0	1	50	50	7	7	14
China	1,234	2,077	2,640	4,315	5,830	14,300	32,976	55,000	67,300	154,550
Hong Kong	2,690	3,029	3,250	4,800	7,700	9,710	7,700	8,500	8,079	14,400
India	690	1,290	1,615	1,625	1,990	3,560	5,055	5,200	2,650	2,750
Israel	429	354	190	155	325	375	800	1,400	1,400	1,650
Japan	61,556	50,380	60,550	72,535	77,220	74,530	77,721	106,500	83,700	98,500
Jordan									43	43
Korea	85	55	38	32	850	850	955	900	2,937	5,079
Lebanon	10	22	35	41	61	95	176	306	420	450
Malaysia	842	610	718	730	532	480	468	550	700	1,058
Mauritius									121	125
Qatar									23	23
Singapore	2,480	2,600	2,435	2,600	2,880	2,955	3,270	4,000	4,700	5,800
Taiwan	4,511	7,919	16,000	23,000	36,000	40,000	42,500	48,750	33,800	67,000
Thailand	1,240	1,274	1,425	1,500	1,640	1,925	2,240	2,367	2,107	2,095
UAE	0	0	37	145	440	810	340	1,860	1,910	2,000
Vietnam	0	0	0	0	2	16	43	85	95	65
Total Asia	76,078	69,850	89,096	111,478	135,470	149,606	174,244	235,418	209,991	355,602
AUSTRALASIA										
Australia	7,910	9,527	13,716	18,181	23,130	27,573	33,080	32,546	39,410	44,915
New Zealand	410	465	263	236	250	280	700	700	700	600
Total Australasia	8,320	9,992	13,979	18,417	23,380	27,853	33,780	33,246	40,110	45,515
TOTAL WORLD	**685,682**	**724,197**	**760,392**	**859,588**	**1,015,798**	**1,133,423**	**1,300,666**	**1,283,559**	**1,283,559**	**1,648,229**

- In years 2001-2003 the data of Lithuania and Latvia and given under Estonia.
- Costa Rica, Cuba, El Salvador, Indonesia, Oman, Philippines, S. Arabia, Sri Lanka figures are not listed but included in the sub-total

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