

PAMUK FİNANSAL KİRALAMA A.Ş.

FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Pamuk Finansal Kiralama A.Ş.

1. We have audited the accompanying financial statements of Pamuk Finansal Kiralama A.Ş. ("the Company") which comprise the balance sheet as of 31 December 2009 and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

4. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Z. Alper Önder, SMMM

Istanbul, 30 April 2010

PAMUK FİNANSAL KİRALAMA A.Ş.

INDEX TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

CONTENTS	PAGE
BALANCE SHEET	1
INCOME STATEMENT	2
STATEMENT OF COMPREHENSIVE INCOME	3
STATEMENT OF CHANGES IN EQUITY	4
STATEMENT OF CASH FLOW	5
NOTES TO THE FINANCIAL STATEMENTS	6-40
NOTE 1 ORGANISATION AND PRINCIPAL ACTIVITIES	6
NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	6-13
NOTE 3 FINANCIAL RISK MANAGEMENT.....	14-21
NOTE 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS	22
NOTE 5 CASH AND DUE FROM BANKS	23
NOTE 6 FINANCE LEASE RECEIVABLES	23-26
NOTE 7 OTHER ASSETS AND PREPAID EXPENSES.....	27
NOTE 8 PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS	27-28
NOTE 9 ASSETS HELD FOR SALE	29
NOTE 10 INVESTMENT SECURITIES AVAILABLE FOR SALE.....	29
NOTE 11 INVESTMENT SECURITIES HELD TO MATURITY	29
NOTE 12 TRADING SECURITIES	29
NOTE 13 BORROWINGS.....	30
NOTE 14 DERIVATIVE FINANCIAL INSTRUMENTS.....	30
NOTE 15 ACCOUNTS PAYABLE	31
NOTE 16 OTHER LIABILITIES	31
NOTE 17 EMPLOYMENT BENEFIT OBLIGATIONS	31-32
NOTE 18 TAXATION	32-35
NOTE 19 SHARE CAPITAL	35
NOTE 20 RETAINED EARNINGS AND LEGAL RESERVES.....	36
NOTE 21 OPERATING EXPENSES AND OTHER INCOME / (EXPENSE), NET	36-37
NOTE 22 FEE AND COMMISSION INCOME/ (EXPENSE).....	37
NOTE 23 TRANSACTIONS AND BALANCES WITH RELATED PARTIES	38-39
NOTE 24 COMMITMENTS AND CONTINGENT LIABILITIES	40
NOTE 25 SUBSEQUENT EVENTS.....	40

PAMUK FİNANSAL KİRALAMA A.Ş.

BALANCE SHEET AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

	Notes	2009	2008
ASSETS			
Cash and due from banks	5	5,441,646	25,649,914
Trading securities	12	16,261,289	-
Finance lease receivables	6	123,760,035	127,953,804
Investment securities:			
-Available-for-sale	10	7,528	9,742
-Held-to-maturity	11	22,172,307	-
Property and equipment, net	8	130,561	188,238
Intangible assets, net	8	11,210	12,678
Assets held for sale	9	73,032	-
Deferred tax asset	18	4,271,280	930,219
Other assets and prepaid expenses	7	890,505	8,913,762
Total assets		173,019,393	163,658,357
LIABILITIES AND EQUITY			
Borrowings	13	39,072,417	47,075,879
Derivative financial instruments	14	357,577	-
Accounts payable	15	340,426	161,540
Current tax liabilities	16	60,710	84,153
Employment benefit obligations	17	44,031	48,772
Other liabilities	16	834,237	1,217,080
Total liabilities		40,709,398	48,587,424
EQUITY			
Share capital	19	50,000,000	50,000,000
Adjustment to share capital	19	20,900,995	20,900,995
Total paid-in share capital	19	70,900,995	70,900,995
Legal reserves	20	3,664,755	3,664,755
Retained earnings	20	57,744,245	40,505,183
Total equity		132,309,995	115,070,933
Total liabilities and equity		173,019,393	163,658,357
Commitments and contingent liabilities	24		

These financial statements as at and for the year ended 31 December 2009 have been approved for issue by the Board of Directors on 30 April 2010.

The accompanying notes form an integral part of these financial statements.

PAMUK FİNANSAL KİRALAMA A.Ş.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

	Notes	2009	2008
Interest income from direct finance leases		13,633,974	13,985,370
Interest income on placements and transactions with banks		1,475,654	3,084,588
Interest income from investment securities		2,568,306	379
Interest income from overdue charges on finance lease receivables		812,644	312,136
Total interest income		18,490,578	17,382,473
Interest expense on borrowings		(1,927,425)	(3,695,874)
Interest expense on derivative financial instruments		(1,357,033)	-
Net interest income		15,206,120	13,686,599
Fee and commission income	22	687,274	391,678
Fee and commission expense	22	(448,373)	-
Net fee and commission income		238,901	391,678
Foreign exchange gains and losses, including net gain or losses from dealing in foreign currency		(458,921)	17,957,926
Impairment loss on finance lease receivables	6	(845,186)	(3,346,757)
Other income / (expense), net	21	1,761,117	(657,035)
Operating income		15,902,031	28,032,411
Operating expenses	21	(2,004,030)	(2,186,293)
Profit before income taxes		13,898,001	25,846,118
Taxation on income	18	3,341,061	891,715
Net profit for the year		17,239,062	26,737,833

The accompanying notes form an integral part of these financial statements.

PAMUK FİNANSAL KİRALAMA A.Ş.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED AT 31 DECEMBER 2009**

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

	2009	2008
Net profit for the year	17,239,062	26,737,833
Other comprehensive income:		
Other comprehensive income	-	-
Total comprehensive income	17,239,062	26,737,833

The accompanying notes form an integral part of these financial statements.

PAMUK FİNANSAL KİRALAMA A.Ş.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009**

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated.)

	Paid in share capital			Legal reserves	Retained earnings	Total Equity
	Share capital	Adjustment to share capital	Total paid-in share capital			
Balance at 1 January 2008	50,000,000	20,900,995	70,900,995	3,664,755	13,767,350	88,333,100
Total comprehensive income for the year	-	-	-	-	26,737,833	26,737,833
Balance at 31 December 2008	50,000,000	20,900,995	70,900,995	3,664,755	40,505,183	115,070,933
Balance at 1 January 2009	50,000,000	20,900,995	70,900,995	3,664,755	40,505,183	115,070,933
Total comprehensive income for the year	-	-	-	-	17,239,062	17,239,062
Balance at 31 December 2009	50,000,000	20,900,995	70,900,995	3,664,755	57,744,245	132,309,995

The accompanying notes form an integral part of these financial statements.

PAMUK FİNANSAL KİRALAMA A.Ş.

**STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2009**

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

	Notes	2009	2008
Cash flows from operating activities			
Net profit for the year		17,239,062	26,737,833
Adjustments for:			
Depreciation of property and equipment	8	60,160	55,317
Amortisation of intangible assets	8	1,468	5,842
Reserve for employment termination benefits	17	537	35,506
Provision cancellation for legal proceedings		(714,233)	974,122
Provision for impaired receivables	6	845,186	3,346,757
Deferred tax income	18	(3,341,061)	(891,715)
Interest income		(18,490,578)	(17,382,473)
Interest expense		3,284,458	3,695,874
Interest received		16,085,995	13,162,381
Interest paid		(2,875,856)	(3,705,763)
Unrealised foreign currency (gains)/losses		22,199	(124,004)
Cash flows from operating profit before changes in operating assets and liabilities		12,117,337	25,909,677
Changes in operating assets and liabilities			
Net decrease/(increase) in finance lease receivables		2,780,657	(44,593,498)
Net decrease in other assets and prepaid expenses		8,023,257	5,331,323
Net increase in assets held for sale	9	(73,032)	-
Net increase/(decrease) in accounts payables		178,886	(5,190,029)
Net increase/(decrease) in other liabilities		683,689	(286,605)
Net decrease/(increase) in blocked deposits		20,955,632	(25,472,732)
Income taxes paid		(23,443)	20,408
Net cash used in / (provided from) operating activities		32,525,646	(70,191,133)
Cash flows (used in)/provided from investing activities			
Net increase in investment securities		(35,918,500)	-
Purchase of property, plant and equipment		(3,907)	(90,825)
Proceeds on disposal of property, plant and equipment		1,424	13,654
Net cash used in investing activities		(35,920,983)	(77,171)
Cash flows from financing activities			
(Payments)/proceeds from borrowed funds		(7,952,437)	658,114
Net cash (used in)/provided from financing activities		(7,952,437)	658,114
Net increase/(decrease) in cash and cash equivalents		769,563	(43,700,513)
Effect of foreign exchange rate changes on cash and cash equivalents		(22,199)	124,004
Cash and cash equivalents at the beginning of the year	5	177,182	43,753,691
Cash and cash equivalents at the end of the year		924,546	177,182

The accompanying notes form an integral part of these financial statements.

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 1 - ORGANISATION AND PRINCIPAL ACTIVITIES

Pamuk Finansal Kiralama Anonim Şirketi (“the Company”) was incorporated in April 1990 to operate in Turkey under the provisions of the Turkish Financial Leasing Law number 3226. The Company started leasing operations in 1990 and its head office is located at Develi Sokak No: 14, 34406 Kağıthane, İstanbul / Turkey. The Company is engaged in leasing of industrial machinery, office equipment, and various equipment and transport vehicles. The previous name of the Company- Interlease- Inter Finansal Kiralama Anonim Şirketi has changed to Pamuk Finansal Kiralama Anonim Şirketi as at 2 January 2000.

The Company’s ultimate shareholder is Karadeniz Holding A.Ş. which took over the control of the Company through the purchase from the Savings Deposit and Insurance Fund (“SDIF”) on 6 April 2007.

Based on the decision of Banking Regulation and Supervision Agency (“BRSA”) dated 28 May 2008 the Company is entitled to operate in leasing business in accordance with Regulation on the Incorporation and Operating Principles of Leasing, Factoring and Finance Companies.

As of 31 December 2009 Company employs 10 employees (31 December 2008: 14).

These financial statements were approved for issue on 30 April 2010.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

Basis of presentation of financial statements

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the respective accounting policy disclosures. Although the estimations and assumptions are based on the best estimates of the management’s existing incidents and operations, they may differ from the actual results.

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restatement for the effects of hyperinflation

Prior to 1 January 2006, the adjustments and reclassifications made to the statutory records for the purpose of fair presentation in accordance with IFRS included the restatement of balances and transactions for the changes in the general purchasing power of TL (Note 2) in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies”. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Turkey indicate that hyperinflation has ceased, effective from 1 January 2006, the Company no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2005 are treated as the basis for the carrying amounts in these financial statements.

Changes in standards and interpretations

Amendments to published standards and interpretations effective 1 January 2009

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

Standard	Description	Effective Date
IAS 1	Presentation of financial statements	1 January 2009
IAS 23	Borrowing of costs	1 January 2009
IFRS 7	Financial Instruments: Disclosures	1 January 2009

- *IAS 1 (revised), ‘Presentation of financial statements’*

The revised standard prohibits the presentation of items of income and expenses (that is, “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity in a statement of comprehensive income. As at 31. December 2009 and 2008, the Company has no expenses presented in the statement of comprehensive income.

- *IAS 23 (revised), ‘Borrowing of costs’*

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the revised standard requires that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset should be capitalised.

- *Amendments to IFRS 7, ‘Financial instruments: Disclosures’*

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Company.

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interpretations issued but not yet effective

The Company has chosen not to adopt early the following standards and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2010:

Standard	Description	Effective Date
IFRS 9	Financial instruments: Classification and measurement	1 January 2013
IAS 32	Presentation on Classification of rights issues	1 January 2010
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 January 2010

‘Improvements to IFRS’ were issued in May 2008. They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. ‘Improvements to IFRS’ comprise amendments that result in accounting changes for presentation recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The application of these new interpretations will not have a material impact on the Company’s financial statements in the period of initial application.

Early adoption of standards

The Company did not early-adopt new or amended standards in 2009.

Cash and cash equivalents

For the purposes of statement of cash flows, cash and cash equivalents comprise cash and due from banks with less than 90 days original maturity.

Accounting for leases (where the Company is a lessor)

When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable. All costs that are directly attributable to the investment in direct finance lease are capitalised at initial recognition as part of the investment in direct finance lease and amortised via effective interest rate method. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. The profit recognised on sale of leased assets is recorded as gain on liquidation of investments.

Future gross lease rentals receivable, net of unearned future lease income, are classified as the net finance lease receivables.

To date, the Company has not entered into operating leases over company assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for impairment of lease receivables

A credit risk provision for impairment of the investment in direct finance leases and accounts receivables is established if there is objective evidence that the Company will not be able to collect all amounts due as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the receivables. The amount of the provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including the amount recoverable from guarantees and collateral, discounted based on the interest rate at inception.

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

Investment in direct finance leases and accounts receivables that cannot be recovered are written off and charged against the allowance for impairment of lease and accounts receivables. Such receivables are written off after all the necessary legal proceedings have been completed and the amount of the loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction from provision for impairment of lease and accounts receivables for the period (Note 6).

Property and equipment

All property and equipment is carried at cost, less accumulated depreciation. Depreciation is calculated over the restated amounts of property and equipment by using the straight-line method to write down the restated cost of each asset to their residual values over their estimated useful life as follows:

Buildings	50 years
Furniture and fixtures	5 - 6 years
Office equipment and motor vehicles	2 - 15 years
Leasehold improvements	Shorter of lease period or useful lives

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

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

Intangible assets

Expenditure to acquire software licenses is capitalised and amortised by using the straight-line method over their useful lives of 3 or 5 years.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are classified as i) the available-for-sale assets ii) held-to-maturity investments. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale. Investments, which have a certain and fixed return with a certain maturity date and which management has both the intent and the ability to hold to maturity are classified as held-to-maturity investments. Management determines the appropriate classification of its investments at the time of the purchase (Note 11).

Investments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of it. Available-for-sale investments are subsequently remeasured at fair value based on quoted bid prices, or amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be transferred to income statement. Unlisted equity securities for which fair values cannot be measured reliably are recognised at cost after deductions for any impairment (Note 10).

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

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

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

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in “net income from financial instruments designated at fair value”.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments

Derivative financial instruments, including forward foreign exchange contracts and interest rate swaps are initially recognised in the balance sheet at their fair value and are subsequently remeasured at their fair value. Transaction costs that are directly attributable to the acquisition are expensed immediately. All derivative financial instruments are classified as held for trading. Certain derivative transactions, even though providing effective economic hedges under the Company’s risk management position, do not qualify for hedge accounting under the specific rules in IAS 39 “Financial Instruments: Recognition and Measurement”, and are therefore treated as derivatives held for trading with fair value gains and losses reported in income statement. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. Fair value of over-the-counter (“OTC”) forward foreign exchange contracts is determined based on the comparison of the original forward rate with the forward rate calculated by reference to market interest rates of the related currency for the remaining period of the contract, discounted to 31 December 2009. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative (Note 14).

Discontinued operations and non-current assets (or disposal groups) held for sale

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and represents a separate major line of business or geographical area of operations. Discontinued operation is a part of a single co-ordinate plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with a view to resale. Net assets related with the discontinued operations are measured at fair value less cost to sell.

Financial liabilities

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

Provisions

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

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

Reserve for employment termination benefits

Employment termination benefits, as required by the Turkish Labour Law, are recognised in these financial statements as they are earned. The total provision represents the present value of the future probable obligation of the Company arising from the retirement of the employees (Note 17).

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Notice pay liability

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

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

Revenue recognition

Finance leases consist of full-payout leases for various types of equipment. The excess of aggregate contract lease rentals, plus the nominal residual value, over the original cost of the related equipment represents the total revenue to be recognised over the term of the lease. The revenue is recognised in order to provide a constant periodic rate of return on the net investment remaining in each lease.

Future gross lease rentals receivable, net of unearned future lease income, are classified as the net finance lease receivables.

Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. When lease receivables become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fee and commission income and expenses

Fee and commission income and expenses are recognised on an accrual basis. Commission income and fees for certain banking services such as import and export-related services, issuance of letters of guarantee, clearing, brokerage and custody services are recorded as income at the time of effecting the transactions to which they relate.

Foreign currency transactions

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

Related parties

For the purpose of these financial statements, the shareholders, of the Company, key management personnel and Board members, the Karadeniz Group and the companies controlled by or affiliated with them are considered and referred to as related parties (Note 23).

Offsetting

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

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparatives

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

Financial statements of the Company have been prepared comparatively with the prior period in order to give information about financial position and performance. If the presentation or classification of the financial statements is changed, in order to maintain consistency, financial statements of the prior periods are also reclassified in line with the related changes.

The following reclassifications are made in order to give comparative information on the financial position.

- i) Customer excess payments amounting to TL242,958 classified as “Financial lease receivables” at 31 December 2008 is reclassified as “Other liabilities” (Note 16).
- ii) Reserve for unused vacation amounting to TL7,289 classified as “Other liabilities” at 31 December 2008 is reclassified as “Employment benefit obligations” (Note 17).
- iii) Foreign exchange rate effect on cash and cash equivalents amounting to TL124,004 in cash flow statement is illustrated in line “Effect of foreign exchange rate changes on cash and cash equivalents”.
- iv) Interest income from overdue charges amounting to TL 312,136 classified as “Fee and commission income” at 31 December 2008 is illustrated as “Interest income from overdue charges” in the income statement.

Reporting of cash flows

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

Turkish Lira

In accordance with the Article 1 of the Law numbered 5083 concerning the “Currency of the Republic of Turkey” and according to the Decision of The Council of Ministers dated April 4, 2007 and No: 2007/11963, the prefix “New” used in the “New Turkish Lira” and the “New Kuruş” has been removed as of January 1, 2009. When the prior currency, New Turkish lira (“YTL”), values are converted into TL and Kr, one YTL (YTL1) and one YKr (YKr1) shall be equivalent to one TL (TL1) and one Kr (Kr1).

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT

Capital management

According to 23rd article of "Regulation on the Establishment and Operation of Factoring, Leasing and Consumer Finance Companies" which was published in the Official Gazette dated 10 October 2006, total volume of finance lease receivables granted by financial leasing companies cannot exceed 30 times of the statutory equity. As of 31 December 2009, total volume of finance lease receivables granted by the Company is 0.90 times (31 December 2008: 1.11 times) of statutory equity.

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Maximum exposure to credit risk

	2009	2008
Credit risk exposures relating to balance sheet items:		
Due from banks	5,441,646	25,649,914
Finance lease receivables, net	123,760,035	127,953,804
Other assets	890,505	8,913,762

The above table represent a worse case scenario of credit risk exposure.

Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

Currency risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within and asset-liability balancing transactions.

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date is disclosed below.

31 December 2009	Foreign Currency				TL	Total
	US\$	EUR	Other	Total		
Assets						
Cash and due from banks	4,863,119	484,993	-	5,348,112	93,534	5,441,646
Finance lease receivables	93,159,615	7,025,135	516,816	100,701,566	23,058,469	123,760,035
Investment securities held to maturity	-	-	-	-	22,172,307	22,172,307
Investment securities available- for-sale	-	-	-	-	7,528	7,528
Trading securities	-	-	-	-	16,261,289	16,261,289
Other assets and prepaid expenses	70,725	5,015	-	75,740	814,765	890,505
Property and equipment, net	-	-	-	-	130,561	130,561
Intangible assets, net	-	-	-	-	11,210	11,210
Assets held for sale	-	-	-	-	73,032	73,032
Deferred tax asset	-	-	-	-	4,271,280	4,271,280
Total assets	98,093,459	7,515,143	516,816	106,125,418	66,893,975	173,019,393
Liabilities						
Borrowings	35,041,746	-	-	35,041,746	4,030,671	39,072,417
Derivative financial instruments	357,577	-	-	357,577	-	357,577
Accounts payable	238,394	4,899	-	243,293	97,133	340,426
Current tax liabilities	-	-	-	-	60,710	60,710
Other liabilities	301,504	204,879	-	506,383	327,854	834,237
Employment Benefit Obligations	-	-	-	-	44,031	44,031
Total liabilities	35,939,221	209,778	-	36,148,999	4,560,399	40,709,398
Net balance sheet position	62,154,238	7,305,365	516,816	69,976,419	62,333,576	132,309,995

At 31 December 2009, assets and liabilities denominated in foreign currency were translated into TL by using a foreign exchange rate of and TL1.5057=US\$1 and TL2.1603=EUR1 (31 December 2008: TL1.5301=US\$1 and TL2.1469=EUR1).

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

31 December 2008	US\$	EUR	Foreign Currency		TL	Total
			Other	Total		
Assets						
Cash and due from banks	15,522,520	18,843	110	15,541,473	10,108,441	25,649,914
Finance lease receivables	105,208,152	13,464,241	-	118,672,393	9,281,411	127,953,804
Investment securities available-for-sale	-	-	-	-	9,742	9,742
Other assets and prepaid expenses	4,370,399	3,047,566	110	7,418,075	1,495,687	8,913,762
Property and equipment, net	-	-	-	-	188,238	188,238
Intangible assets, net	-	-	-	-	12,678	12,678
Deferred tax asset	-	-	-	-	930,219	930,219
Total assets	125,101,071	16,530,650	220	141,631,941	22,026,416	163,658,357
Liabilities						
Borrowings	44,008,379	-	-	44,008,379	3,067,500	47,075,879
Accounts payable	45,051	-	-	45,051	116,489	161,540
Current tax liabilities	-	-	-	-	84,153	84,153
Other liabilities	216,030	-	-	216,030	1,001,050	1,217,080
Employment Benefit Obligations	-	-	-	-	48,772	48,772
Total liabilities	44,269,460	-	-	44,269,460	4,317,964	48,587,424
Net balance sheet position	80,831,611	16,530,650	220	97,362,481	17,708,452	115,070,933

Foreign currency sensitivity

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US\$ and EUR.

The table below shows the Company's sensitivity against 10% change in US\$ and EUR rates against TL in the income statement. In this analysis it has been assumed that all other variables, especially interest rates, are being held constant.

	US\$ Impact		EUR Impact	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Profit and loss	±6,215,424	±8,083,161	±730,537	±1,653,065

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Company's remaining contractual maturity for its financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	31 December 2009					Total
	Demand and Up to 3 months	3 to 12 months	1 -5 years	5 Years or more	No definite Maturity	
Assets						
Cash and due from banks	5,468,687	-	-	-	-	5,468,687
Finance lease receivables	3,837,160	20,093,908	109,385,110	168,099	15,934,449	149,418,726
Other assets and prepaid expenses	65,360	816,329	-	-	8,816	890,505
Investment securities held to maturity	-	3,800,000	23,800,000	-	-	27,600,000
Trading securities	-	2,118,025	18,043,025	-	-	20,161,050
Investment securities available-for-sale	-	-	-	-	7,528	7,528
Property and equipment, net	-	-	-	-	130,561	130,561
Intangible assets, net	-	-	-	-	11,210	11,210
Assets held for sale	-	-	-	-	73,032	73,032
Deferred tax asset	-	-	4,271,280	-	-	4,271,280
Total assets	9,371,207	26,828,262	155,499,415	168,099	16,165,596	208,032,579
Liabilities						
Borrowings	-	14,228,464	27,741,017	-	-	41,969,481
Derivative financial instruments	-	357,577	-	-	-	357,577
Accounts payable	340,426	-	-	-	-	340,426
Current tax liabilities	60,710	-	-	-	-	60,710
Other liabilities	574,272	-	-	-	259,965	834,237
Employment Benefit Obligations	-	-	44,031	-	-	44,031
Total liabilities	975,408	14,586,041	27,785,048	-	259,965	43,606,462
Net liquidity gap	8,395,799	12,242,221	127,714,367	168,099	15,905,631	164,426,117
Derrivative financial instruments						
Cash inflows	-	231,051	1,217,146	-	-	1,448,197
Cash outflows	-	768,991	1,024,759	-	-	1,793,750

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2008					Total
	<u>Demand and Up to 3 months</u>	<u>3 to 12 months</u>	<u>1 -5 years</u>	<u>5 Years or more</u>	<u>No definite Maturity</u>	
Assets						
Cash and due from banks	195,854	26,548,054	-	-	-	26,743,908
Finance lease receivables	7,435,388	27,932,181	129,170,160	643,791	152,528	165,334,048
Investment securities available for sale	-	-	-	-	9,742	9,742
Other assets and prepaid expenses	7,664,553	392,024	677,153	-	180,032	8,913,762
Property and equipment, net	-	-	-	-	188,238	188,238
Intangible assets, net	-	-	-	-	12,678	12,678
Deferred tax asset	-	-	930,219	-	-	930,219
Total assets	15,295,795	54,872,259	130,777,532	643,791	543,218	202,132,595
Liabilities						
Borrowings	-	14,618,608	38,820,209	-	-	53,438,817
Accounts payable	161,540	-	-	-	-	161,540
Current tax liabilities	84,153	-	-	-	-	84,153
Other liabilities	242,958	-	-	-	974,122	1,217,080
Employment Benefit Obligations	-	-	48,772	-	-	48,772
Total liabilities	488,651	14,618,608	38,868,981	-	974,122	54,950,362
Net liquidity gap	14,807,144	40,253,651	91,908,551	643,791	(430,904)	147,182,233
Derrivative financial instruments						
Cash inflows	-	-	-	-	-	-
Cash outflows	-	-	-	-	-	-

Interest rate risk

The Company is exposed to interest rate risk due to borrowings and finance lease receivables at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings and finance lease receivables.

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Company's:

- Profit for the period ended 31 December 2009 would decrease/increase by TL508,894 (31 December 2008: TL129,853). This is mainly attributable to the Company's exposure to interest rates on its variable rate lease receivables.

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

The table below summarises the Company's exposure to interest rate risk on the basis of remaining period at the balance sheet to the repricing or contractual dates whichever is earlier:

	31 December 2009					Total
	<u>Demand and Up to 3 months</u>	<u>3 to 12 months</u>	<u>1 -5 years</u>	<u>5 Years or more</u>	<u>Non-Interest Bearing</u>	
Assets						
Cash and due from banks	4,942,345	-	-	-	499,301	5,441,646
Finance lease receivables	22,216,110	8,903,601	76,591,451	114,424	15,934,449	123,760,035
Investment securities held to maturity	-	3,538,580	18,633,727	-	-	22,172,307
Trading securities	-	1,899,762	14,361,527	-	-	16,261,289
Investment securities available for sale	-	-	-	-	7,528	7,528
Other assets and prepaid expenses	-	-	-	-	890,505	890,505
Property and equipment, net	-	-	-	-	130,561	130,561
Intangible assets, net	-	-	-	-	11,210	11,210
Assets held for sale	-	-	-	-	73,032	73,032
Deferred tax asset	-	-	-	-	4,271,280	4,271,280
Total assets	27,158,455	14,341,943	109,586,705	114,424	21,817,866	173,019,393
Liabilities						
Borrowings	-	39,072,417	-	-	-	39,072,417
Derivative financial instruments	-	357,577	-	-	-	357,577
Accounts payable	-	-	-	-	340,426	340,426
Current tax liabilities	-	-	-	-	60,710	60,710
Other liabilities	-	-	-	-	834,237	834,237
Employment Benefit Obligations	-	-	-	-	44,031	44,031
Total liabilities	-	39,429,994	-	-	1,279,404	40,709,398
Net re-pricing gap	27,158,455	(25,088,051)	109,586,705	114,424	20,538,462	132,309,995
Derivative financial instruments						
Cash inflows	-	1,448,197	-	-	-	1,448,197
Cash outflows	-	768,991	1,024,759	-	-	1,793,750

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2008					Total
	<u>Demand and Up to 3 months</u>	<u>3 to 12 months</u>	<u>1 -5 years</u>	<u>5 Years or more</u>	<u>Non-Interest Bearing</u>	
Assets						
Cash and due from banks	18,490	25,454,242	-	-	177,182	25,649,914
Finance lease receivables	22,849,895	59,195,038	45,756,343	-	152,528	127,953,804
Investment securities available for sale	-	-	-	-	9,742	9,742
Other assets and prepaid expenses	-	-	-	-	8,913,762	8,913,762
Property and equipment, net	-	-	-	-	188,238	188,238
Intangible assets, net	-	-	-	-	12,678	12,678
Deferred tax asset	-	-	-	-	930,219	930,219
Total assets	22,868,385	84,649,280	45,756,343	-	10,384,349	163,658,357
Liabilities						
Borrowings	-	47,075,879	-	-	-	47,075,879
Accounts payable	-	-	-	-	161,540	161,540
Current tax liabilities	-	-	-	-	84,153	84,153
Other liabilities	-	-	-	-	1,217,080	1,217,080
Employment Benefit Obligations	-	-	-	-	48,772	48,772
Total liabilities	-	47,075,879	-	-	1,511,545	48,587,424
Net re-pricing gap	22,868,385	37,573,401	45,756,343	-	8,872,804	115,070,933
Derivative financial instruments						
Cash inflows	-	-	-	-	-	-
Cash outflows	-	-	-	-	-	-

Assets	31 December 2009			31 December 2008		
	<u>US\$ (%)</u>	<u>EUR (%)</u>	<u>TL (%)</u>	<u>US\$ (%)</u>	<u>EUR (%)</u>	<u>TL (%)</u>
Cash and due from banks						
- time deposits	4.75	0.43	-	4.05	-	22.81
Finance lease receivables	10.11	13.65	29.90	10.78	12.28	27.49
Investment securities held to maturity	-	-	19.00	-	-	-
Trading securities	-	-	13.30	-	-	-
Liabilities						
Funds borrowed	3.13	-	10.50	4.51	-	30.00

Fair value of financial instruments

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

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realise in a current market exchange.

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

Fair value of financial assets is measured according to the assumptions based on quoted bid prices of similar assets, or amounts derived from cash flow models.

The fair values of certain financial assets excluding finance lease receivables and borrowings are considered to approximate their respective carrying values due to their short-term nature.

The table below indicates the fair value of the financial assets which are measured at amortised cost in the balance sheet.

	<u>Carrying amount</u>		<u>Fair value</u>	
	<u>31 December 2009</u>	<u>31 December 2008</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Finance lease receivables	123,760,035	127,953,804	127,059,397	139,817,665
Borrowings	39,072,417	47,075,879	36,573,805	46,800,222
Investment securities: held to maturity	22,172,307	-	21,642,684	-

Fair value hierarchy

IFRS 7 requires classification of line items at fair value presented at financial statements according to the defined levels. These levels depend on the observability of data used during fair value calculations. Classification for fair value is generated as followed below:

Level 1: Assets or liabilities with prices recorded (unadjusted) in active markets

Level 2: Assets or liabilities that are excluded in the Level 1 of recorded prices directly observable by prices or indirectly observable derived through prices observable from similar assets or liabilities

Level 3: Assets and liabilities where no observable market data can be used for valuation

There are no significant transfers between Level 1 and Level 2 of the fair value hierarchy.

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

2009

	Level 1	Level 2	Level 3
Fair value measurement of trading securities	-	16,261,289	-
Total assets	-	16,261,289	-
Fair value measurements of derivative financial instruments	-	357,577	-
Total liabilities	-	357,577	-

31 December 2008: (None)

NOTE 4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparation of financial statements requires the usage of estimations and assumptions which may affect the reported amounts of assets and liabilities as of the balance sheet date, disclosure of contingent assets and liabilities and reported amounts of income and expenses during financial period. The accounting assessments, forecasts and assumptions are reviewed continuously considering the past experiences, other factors and the reasonable expectations about the future events under current conditions. Although the estimations and assumptions are based on the best estimates of the management's existing incidents and operations, they may differ from the actual results.

Fair value of derivatives

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values of the derivative transactions are calculated based on a valuation technique which includes the use of discounted cash flow models which use observable market data. Accordingly, the fair values of the derivative transactions are classified under "fair value hierarchy two" according to the revised IFRS 7. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Allowance for impairment of finance lease receivables

A credit risk provision for impairment of finance lease receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The estimates used in evaluating the adequacy of the provision for impairment of finance lease receivables is based on the aging of these receivable balances and the trend of collection performance. Regarding the portfolio provision, the Company uses historical probability of default and loss given default rates based on the statistical data which characterizes the current market conditions and quality of the loan portfolio of the Company.

Deferred income tax asset recognition

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

Investment securities held to maturity

Financial assets classified as held to maturity financial assets are within the ability of management objectives and at the discretion of management. If The Company fails to retain assets in certain conditions, for example except sale of an insignificant amount at a date closer to maturity, all of the assets will have to reclassify as available for sale financial assets. In this case the investments are measured over the fair value instead of amortised cost of investment.

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 5 - CASH AND DUE FROM BANKS

	31 December 2009			31 December 2008		
	Foreign currency	TL	Total	Foreign currency	TL	Total
Cash on hand	-	166	166	-	386	386
Due from banks						
- demand deposits	405,767	93,368	499,135	106,401	70,395	176,796
- time deposits	4,942,345	-	4,942,345	15,435,072	10,037,660	25,472,732
	5,348,112	93,534	5,441,646	15,541,473	10,108,441	25,649,914

The Company has blocked deposits amounting TL4,517,100 as of 31 December 2009 (31 December 2008: TL25,472,732). For the purposes of statement of cash flows, cash and cash equivalents comprise TL924,546 and TL177,182 at 31 December 2009 and 31 December 2008 respectively.

NOTE 6 - FINANCE LEASE RECEIVABLES, NET

	31 December 2009	31 December 2008
Gross finance lease receivables	132,303,118	164,025,525
Invoiced lease receivables	1,075,545	1,155,995
Unearned finance income	(25,553,077)	(37,380,244)
	107,825,586	127,801,276
Impaired lease receivables	19,703,761	3,955,005
Less: allowance for impairment	(3,769,312)	(3,802,477)
Net finance lease receivables	123,760,035	127,953,804

At 31 December 2009 and 31 December 2008 the finance lease receivables according to their interest types are as follows:

	31 December 2009	31 December 2008
Gross finance lease receivables:		
Fixed rate	117,773,664	78,593,184
Floating rate	14,529,454	85,432,341
	132,303,118	164,025,525

At 31 December 2009 and 31 December 2008 the leasing receivables have the following collection schedules:

Year Ending	Finance Lease Receivables	
	Gross 31 December 2009	Net performing 31 December 2009
31 December 2010	23,825,454	19,480,765
31 December 2011	31,015,529	18,366,759
31 December 2012	42,453,607	36,838,569
31 December 2013	24,718,969	22,263,590
31 December 2014 and after	11,365,104	10,875,903
	133,378,663	107,825,586

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 6 - FINANCE LEASE RECEIVABLES (Continued)

Year Ending	Finance Lease Receivables	
	Gross 31 December 2008	Net performing 31 December 2008
31 December 2009	35,367,569	22,213,107
31 December 2010	32,648,118	23,450,762
31 December 2011	38,595,825	30,510,700
31 December 2013	30,722,279	26,273,102
31 December 2013 and after	27,847,729	25,353,605
	165,181,520	127,801,276

Finance lease receivables can be analysed as follows:

Year Ending	31 December 2009	31 December 2008
Neither past due nor impaired	106,750,041	126,645,281
Past due but not impaired	1,075,545	1,155,995
Impaired	19,703,761	3,955,005
Less: allowances for impairment	(3,769,312)	(3,802,477)
Net finance lease receivables	123,760,035	127,953,804

The total allowance for impairment for finance lease receivables at 31 December 2009 is TL3,769,312 (31 December 2008: TL3,802,477) of which TL2,117,535 (31 December 2008: TL2,107,892) represents the individually impaired loans and the remaining amount of TL1,651,777 (31 December 2008: TL1,694,585) represents the portfolio provision in the performing portfolio.

As at 31 December 2009 total collaterals taken from customers are amounting to TL13,230,915 (31 December 2008: TL2,948,156), TL16,487,223 (31 December 2008: TL17,719,453) of these collaterals are taken for impaired finance lease receivables .

The aging of past due but not impaired finance lease receivables at 31 December 2009 is as follows:

	31 December 2009	
	Invoiced Amount	Remaining Principal Amount
0-30 days	165,664	3,084,130
30-60 days	357,766	1,400,000
60-90 days	552,115	389,184
	1,075,545	4,873,314

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 6 - FINANCE LEASE RECEIVABLES (Continued)

The aging of past due but not impaired finance lease receivables at 31 December 2008 is as follows:

	<u>31 December 2008</u>	
	<u>Invoiced Amount</u>	<u>Remaining Principal Amount</u>
0-30 days	-	-
30-60 days	104,251	4,290,121
60-90 days	1,051,744	6,243,445
	1,155,995	10,533,566

As at 31 December 2009 the aging of impaired finance lease receivables are as follows:

	<u>31 December 2009</u>		
	<u>Invoiced Amount</u>	<u>Remaining Principal Amount</u>	<u>Total</u>
90-150 days	105,614	-	105,614
151-240 days	192,166	340,035	426,587
241-360 days	3,972,101	7,298,094	11,270,195
1 year and over	1,447,319	6,454,046	7,901,365
	5,611,586	14,092,175	19,703,761

	<u>31 December 2008</u>		
	<u>Invoiced Amount</u>	<u>Remaining Principal Amount</u>	<u>Total</u>
90-150 days	-	-	-
151-240 days	194,172	338,508	532,680
241-360 days	169,181	888,867	1,058,048
1 year and over	2,019,084	345,193	2,364,277
	2,382,437	1,572,568	3,955,005

Movements in provision for impaired finance lease receivables for the period ended 31 December 2009 and 31 December 2008 are as follows:

	<u>31 December 2009</u>	<u>31 December 2008</u>
Balance at 1 January	3,802,477	816,337
Impairment expense during the period	845,186	3,346,757
Recoveries of amounts previously provided for (Note 21)	(878,351)	(360,617)
	3,769,312	3,802,477

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 6 - FINANCE LEASE RECEIVABLES (Continued)

Economic sector risk concentrations for the gross finance lease receivables as of 31 December 2009 and 31 December 2008 are as follows:

	31 December 2009	%	31 December 2008	%
Financial Institutions	64,408,848	48	71,828,214	43
Forestry Products	19,318,291	12	22,374,906	14
Textile	12,951,793	10	17,539,676	10
Rubber Products	11,173,936	8	19,134,878	11
Food and beverage	7,003,658	5	10,546,852	6
Leather and leather products	4,065,091	3	6,657,876	4
Energy and natural sources	3,847,409	3	-	1
Construction	3,635,522	3	4,139,332	3
Other	3,288,743	3	1,445,257	1
Electricity, gas and water sources	2,512,171	2	4,375,822	3
Tourism	665,334	1	2,592,967	1
Motor vehicles and accessories	385,680	1	1,019,750	1
Machinery and metal industry	122,187	1	3,525,990	2
	133,378,663	100	165,181,520	100

Minimum financial lease receivables consist of rentals receivable over the terms of leases. As per the lease agreements made with lessees, the ownership of the items leased is transferred to the lessees at the end of the lease term.

Depending on the customers' inability to repay its obligations arising from financial leases or other similar economic factors, the Company cancelled some of the lease contracts signed with its customers. These related assets may be re-leased to the same customer or to the other customers or; may be sold to the third parties, depending upon circumstances.

The Company has no finance lease payables as at 31 December 2009 and 2008.

As of 31 December 2009 and 31 December 2008 the Company obtained the following collaterals from its customers except for the assets subject to finance lease, against their outstanding exposures:

	31 December 2009	31 December 2008
Mortgages	14,459,456	16,201,862
Pledged securities	3,050,000	1,517,591
	17,509,456	17,719,453

As of 31 December 2009 the Company has 39 (31 December 2008: 23) mortgages with first degree amounting to a total of TL69,373,671 (31 December 2008: TL64,895,075) related with the finance lease receivables amounting to TL24,083,580 (31 December 2008: TL33,134,703).

Finance lease receivables are further analysed as a part of the balance sheet in the notes: related party transactions (Note 23) and financial risk management (Note 3).

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 7 - OTHER ASSETS AND PREPAID EXPENSES

	31 December 2009	31 December 2008
Equipments to be leased	456,590	-
Prepaid expenses	359,739	392,024
Other receivables- insurance	58,412	68,240
Prepaid taxes and funds	6,948	1,785
Deferred VAT	-	677,153
Due from related parties	-	7,594,528
Other	8,816	180,032
	890,505	8,913,762

NOTE 8 - PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

a) Property and equipment:

	1 January 2008	Additions	Disposals	31 December 2009
<u>Cost</u>				
Buildings	18,829	-	-	18,829
Motor vehicles	238,963	-	-	238,963
Furniture and fixtures	345,063	3,907	(5,704)	343,266
Leasehold improvements	6,971	-	-	6,971
	609,826	3,907	(5,704)	608,029
<u>Accumulated depreciation</u>				
Buildings	2,793	377	-	3,170
Motor vehicles	84,947	47,096	-	132,043
Furniture and fixtures	327,462	12,427	(4,280)	335,609
Leasehold improvements	6,386	260	-	6,646
	421,588	60,160	(4,280)	477,468
Net book amount	188,238			130,561

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 8 - PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

	1 January 2009	Additions	Disposals	31 December 2008
Land	10,950	-	(10,950)	-
Buildings	21,845	-	(3,016)	18,829
Motor vehicles	155,638	83,325	-	238,963
Furniture and fixtures	345,063	-	-	345,063
Leasehold improvements	6,971	-	-	6,971
	540,467	83,325	(13,966)	609,826
<u>Accumulated depreciation</u>				
Buildings	2,708	397	(312)	2,793
Motor vehicles	44,098	40,849	-	84,947
Furniture and fixtures	313,651	13,811	-	327,462
Leasehold improvements	6,126	260	-	6,386
	366,583	55,317	(312)	421,588
Net book amount	173,884			188,238

b) Intangible assets

Year ended 31 December 2009	Software
Opening net book amount	12,678
Additions	-
Disposals	-
Amortisation charge	(1,468)
Closing net book amount	11,210
At 31 December 2009	
Cost	438,888
Accumulated amortisation	(427,678)
Net book amount	11,210
Year ended 31 December 2008	Software
Opening net book amount	11,020
Additions	7,500
Disposals	-
Amortisation charge	(5,842)
Closing net book amount	12,678
At 31 December 2008	
Cost	438,888
Accumulated amortisation	(426,210)
Net book amount	12,678

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 9 - ASSETS HELD FOR SALE

	31 December 2009	31 December 2008
Repossessed Collaterals- Land	73,032	-
	73,032	-

NOTE 10 - INVESTMENT SECURITIES AVAILABLE FOR SALE

	31 December 2009		31 December 2008	
	Share %	TL	Share %	TL
Çukurova Havacılık A.Ş.	0.03	7,528	0.03	7,528
Yapı Kredi Yatırım Menkul Değerler A.Ş.	-	-	0.01	2,214
		7,528		9,742

Shares of Yapı Kredi Yatırım Menkul Değerler A.Ş. sold for TL6,500 at 17 March 2009.

NOTE 11 - INVESTMENT SECURITIES HELD TO MATURITY

	31 December 2009	31 December 2008
Private sector bond	22,172,307	-
	22,172,307	-

Investment securities held to maturity as at 31 December 2009 consists of commercial bonds issued by Pamuk Factoring A.Ş., with nominal value of TL20,000,000 with a maturity of 30 May 2011, yearly coupon payments at gross interest rate of 19%.

NOTE 12 - TRADING SECURITIES

	31 December 2009	31 December 2008
Private sector bond	16,261,289	-
	16,261,289	-

Trading securities at 31 December 2009 consists of commercial bonds issued by Pamuk Factoring A.Ş., with nominal value of TL15,925,000, with a maturity of 24 months, yearly coupon payments at gross interest rate of 13.30%.

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 13 - BORROWINGS

	31 December 2009			31 December 2008		
	Interest rates per annum	Balance in original currency	TL	Interest rates per annum	Balance in original currency	TL
Domestic borrowings						
Fixed rate borrowings:						
TL	10.50%	4,030,671	4,030,671	30.00%	3,067,500	3,067,500
Floating rate borrowings:						
US\$	Libor + 0.43%	23,282,443	35,041,746	Libor + 1.81%	29,100,297	44,008,379
Total borrowings			39,072,417			47,075,879

The maturity analysis of the bank borrowings is as follows:

	31 December 2009	31 December 2008
0 - 1 year	12,791,106	11,880,531
1 - 2 years	8,760,437	8,798,837
2 - 3 years	8,760,437	8,798,837
3 - 4 years	8,760,437	8,798,837
4 - 5 years	-	8,798,837
	39,072,417	47,075,879

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS

	Contract/notional amount	Fair values	
		Assets	(Liabilities)
31 December 2009			
Interest rate swap			
USD	30,661,527	-	357,577
Total Over the Counter ("OTC")	30,661,527	-	357,577

31 December 2008: (None)

Interest rate swap transaction of the Company is for the purpose of eliminating the cash flow risk of floating rate borrowings, libor rate over six months, 2.31% fixed interest payment conditional and with a maturity of 30 December 2013.

This derivative financial transaction is economically provides effective protection for the company and accounting as "Financial instruments at fair value through profit or loss"

Derivative financial instruments are further analyzed as a part of the balance sheet in the notes financial risk management (Note 3).

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 15 - ACCOUNTS PAYABLE

	31 December 2009	31 December 2008
Payables to suppliers	340,426	161,540
	340,426	161,540

NOTE 16 - OTHER LIABILITIES

	31 December 2009	31 December 2008
Other liabilities and accrued expenses		
Provision for pending legal cases	259,965	974,122
Customer excess payments	574,272	242,958
	834,237	1,217,080
Current tax liabilities		
Withholding taxes	36,830	7,564
Personnel income tax	13,268	63,160
Social security premiums	10,612	13,429
	60,710	84,153

NOTE 17 - EMPLOYMENT BENEFIT OBLIGATIONS

	31 December 2009	31 December 2008
Employment Benefit Obligations:		
Reserve for employment termination benefits	30,600	41,483
Reserve for unused vacation	13,431	7,289
	44,031	48,772

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL2.365,16 (31 December 2008: TL2,173.18) for each year of service.

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

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

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 17 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability as at 31 December 2009 and 31 December 2008:

	31 December 2009	31 December 2008
Discount rate (%)	5.92	6.26
Turnover rate to estimate the probability of retirement (%)	-	-

The principal assumption is that the maximum liability for each year service will increase in line with inflation. As the maximum liability is revised semi-annually the maximum amount of TL2.427,04 (1 January 2009: TL2.260,05) which is effective from 1 January 2010 has been taken into consideration in calculating the provision for employment termination benefits of the Company.

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

	31 December 2009	31 December 2008
1 January	41,483	82,058
Paid during the period	(11,420)	(76,081)
Provision for the period	537	35,506
	30,600	41,483

NOTE 18 - TAXATION

	31 December 2009	31 December 2008
Deferred tax asset	4,301,039	932,658
Deferred tax liability	(29,759)	(2,439)
Deferred tax asset, net	4,271,280	930,219

The taxation on income for the period ended 31 December 2009 and 31 December 2008 are summarised as follows:

	31 December 2009	31 December 2008
Current tax charge	-	-
Deferred tax benefit	3,341,061	891,715
Taxation on income	3,341,061	891,715

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 18 - TAXATION (Continued)

Corporate Income Tax Law has been changed with the law numbered 5520 which was published at 13 June 2006. Most of the rules of the new Corporate Income Tax Law are applicable from 1 January 2006. According to this, corporate tax rate applicable for the year 2009 is 20% (31 December 2008: 20%). Corporate tax rate is applied to the taxable profit which is calculated by adding non-taxable expenses and deducting some exemptions taken place in tax laws (exemptions for participation revenues, exemptions for investment incentives) and discounts (R&D discount) from accounting profit of the Company.

No additional taxes are paid unless profit is distributed (except 19.8% withholding tax paid over used investment incentives).

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

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

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

Due to investment allowances and previous year’s losses of the Company that are considered as deductions from taxable income, the Company did not pay any corporate tax in 2009 and 2008.

Exemption for investment allowance

Investment allowance applied for several years and calculated as 40% of fixed asset acquisitions exceeding a certain amount, was abolished with law no. 5479 dated 8 April 2006. However, in accordance with temporary law no. 69 added to the Income Tax Law, as of 31 December 2005 corporate and income taxpayers can offset the investment allowance amounts which they could not offset against income in 2005.

- a) In the scope of the investment incentive certificates prepared related to the applications before 24 April 2003, investments to be made after 1 January 2006 in the scope of the certificate for the investments started in accordance with the additional 1st, 2nd, 3rd, 4th, 5th and 6th articles prior to the abrogation of Income Tax Law No. 193, with Law No.4842, dated 9 April 2003.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 18 - TAXATION (Continued)

- b) Investment allowance amounts to be calculated in accordance with legislation effective on 31 December 2005 in relation to investments which exhibit an integrity technically and economically and which were started prior to 1 January 2006 within the scope of repealed Article 19 of the Income Tax Law numbered 193, could solely be offset against income related to the years 2006, 2007 and 2008, in accordance with the legislation current as of 31 December 2005 (including provisions related to tax rate).

Within the scope of Temporary Article 69 of the Income Tax Law (for the years of 2006, 2007 and 2008) income tax payers, and corporate taxpayers who are benefiting from investment allowance practice, had calculated their income or corporate tax base related to the aforementioned years by applying to their income for the year in which the allowance was requested the tax rate applicable as of 31 December 2005, and the tax rate of 30% stated in the Article 25 of the annulled Corporate Tax Law No. 5422, respectively.

However, it was no longer possible to benefit from the carried-forward investment allowance amount left unused as of 31 December 2008.

In this respect, a lawsuit is filed against the Constitutional Court on the basis that it is against the equality and certainty in taxation which are guaranteed by the Constitution.

According to the decision of the Constitutional Court dated 15 October 2009, the phrase “comprising only the years 2006, 2007 and 2008” in the Provisional Article 69 of the Income Tax Law regarding the investment incentives is revoked. Therefore, the time limitation on the use of unused investment incentives was removed. The decision of the Constitutional Court has been published in the Official Gazette on 8 January 2010. Therefore, the cancellation went into effect with the publishing of the decision of the Constitutional Court at the Official Gazette.

Under IAS 12, which deals with income taxes, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilized and deferred tax assets should be reduced to the extent that it is no longer probable that the related tax benefit will be realized. The deferred tax asset and deferred tax liability have been netted of in these financial statements.

Based on the decision of the Constitutional Court decision mentioned above, the Company Management calculated deferred tax assets over the unused investment allowance amounting to TL17,035,387 as of 31 December 2009.

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 18 - TAXATION (Continued)

Deferred taxes:

The breakdown of deductible and taxable temporary differences is as follows:

	<u>Cumulative timing differences</u>		<u>Deferred assets/ (liabilities)</u>	
	<u>31 December 2009</u>	<u>31 December 2008</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Investment incentive	17,035,387	-	3,407,077	-
Portfolio provision for finance lease receivables	1,651,777	1,694,585	330,355	338,917
Specific provision for finance lease receivables	2,059,185	1,715,665	411,837	343,133
Provision for legal proceedings	259,965	974,122	51,993	194,824
Employment benefit obligations	44,031	48,772	8,806	9,754
Derivative financial instruments	357,577	-	71,515	-
Investment securities held to maturity	97,282	-	19,456	-
Other	-	230,143	-	46,030
Deferred tax asset			4,301,039	932,658
Tax base difference of property and equipment	(744)	(12,194)	(149)	(2,439)
Investment securities held for trading	(148,048)	-	(29,610)	-
Deferred tax liability			(29,759)	(2,439)
Deferred tax asset, net			4,271,280	930,219
			31 December 2009	31 December 2008
Profit before tax			13,898,001	25,846,118
Disallowable expenses and other additions			984,661	4,896,981
Tax-exempt income			(1,440,147)	(1,254,203)
Tax base			13,442,514	29,488,896
Tax credit			(37,229,790)	(66,718,686)
Current year tax charge			-	-

NOTE 19 - SHARE CAPITAL

At 31 December 2009 and 31 December 2008, the share capital is as follows:

	<u>31 December 2009</u>		<u>31 December 2008</u>	
	<u>Shares (%)</u>	<u>TL</u>	<u>Shares (%)</u>	<u>TL</u>
Pamuk Factoring A.Ş.	99.99	49,999,993	99.99	49,999,993
Other	0.01	7	0.01	7
	100	50,000,000	100	50,000,000
Adjustment to share capital		20,900,995		20,900,995
		70,900,995		70,900,995

Shares of Pamuk Factoring A.Ş. are pledged as collateral for loans utilised by Karadeniz Holding A.Ş.

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 20 - RETAINED EARNINGS AND LEGAL RESERVES

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

At 31 December 2009 and 31 December 2008 reserves held by the Company in the statutory financial statements which were adjusted for the effects of inflation in accordance with tax law is as follows:

	31 December 2009	31 December 2008
Legal reserves	2,930,776	2,930,776

Inflation adjustment to shareholders' equity can only be netted-off against prior years' losses and used as an internal source in capital increase where extraordinary reserves can be netted-off against prior years' losses, used in distribution of bonus shares and distributions of dividends to shareholders.

NOTE 21 - OPERATING EXPENSES AND OTHER INCOME/ (EXPENSE), NET

	31 December 2009	31 December 2008
<u>Operating expenses:</u>		
Personnel expenses	938,144	1,139,289
Taxes and funds	251,385	156,880
Legal follow up expenses	216,966	128,472
Rent expense	177,567	154,184
Advisory and legal service expenses	128,450	298,212
Office expenses	106,596	111,994
Motor vehicle expenses	92,168	68,325
Depreciation and amortisation (Note 8)	61,628	61,159
Communication expenses	21,995	26,454
Employment benefit obligations (Note 17)	537	35,506
Other	8,594	5,818
	2,004,030	2,186,293

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 21 - OPERATING EXPENSES AND OTHER INCOME/ (EXPENSE) NET (Continued)

	31 December 2009	31 December 2008
<u>Other income/(expense):</u>		
Collections from doubtful receivables (Note 6)	878,351	360,617
Cancellation of legal provision	916,030	-
Fixed asset sale income	101,467	242,849
Investment sale income	4,382	-
Other	182,804	-
	2,083,034	603,466
Commission expense	(89,479)	(72,660)
Disallowable expense	(29,171)	(111,729)
Legal provision expense	(201,797)	(974,122)
Other	(1,470)	(101,990)
	(321,917)	(1,260,501)
Other income/ (expense), net	1,761,117	(657,035)

NOTE 22 - FEE AND COMMISSION INCOME/ (EXPENSE)

	31 December 2009	31 December 2008
<u>Fee and commission income on:</u>		
Leasing commission	645,277	356,944
Asset transfer income	24,005	32,506
Insurance intermediary	2,287	2,228
Other	15,705	-
	687,274	391,678
<u>Fee and commission expense on:</u>		
Factoring commission	(427,022)	-
Other	(21,351)	-
	(448,373)	-
Net fee and commission income	238,901	391,678

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 23 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. A number of transactions were entered into with related parties in the normal course of business.

a) Balances with related parties

	31 December 2009	31 December 2008
Net finance lease receivables		
Pamuk Gayrimenkul Yatırımlar Ticaret A.Ş.	55,546,131	55,295,881
Karmine Karadeniz Madencilik Ve Dış Tic. A.Ş.	2,585,452	-
Karkey Karadeniz Elektrik A.Ş.	2,419,692	3,865,637
Kares Karadeniz Enerji Servis Ve Mak.Tic. A.Ş.	184,280	-
Reform Kurumsal Danışmanlık Hizmetleri A.Ş.	-	105,333
	60,735,555	59,266,851
Investment Securities Held to Maturity		
Pamuk Factoring A.Ş.	22,172,307	-
	22,172,307	-
Trading securities		
Pamuk Factoring A.Ş.	16,261,289	-
	16,261,289	-
Other Receivables		
Kares Karadeniz Enerji Servis Ve Mak. Tic. A.Ş.	369,800	-
Reform Kurumsal Danışmanlık Hizmetleri A.Ş.	80,000	80,000
Pamuk Factoring A.Ş.	-	7,594,528
	449,800	7,674,528
Other Payables		
Pamuk Factoring A.Ş.	238,394	-
Pamuk Gayrimenkul Yatırımlar Ticaret A.Ş.	75,556	38,285
Reform Kurumsal Danışmanlık Hiz A.Ş.	-	23,600
Karadeniz Holding A.Ş.	-	20,180
Denizcilik Holding A.Ş.	-	4,916
	313,950	86,981

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 23 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

b) Transactions with related parties

	31 December 2009	31 December 2008
Interest income from direct finance leases		
Pamuk Gayrimenkul Yatırımlar Ticaret A.Ş.	3,580,240	2,244,459
Karkey Karadeniz Elektrik A.Ş.	335,145	451,798
Karmine Karadeniz Madencilik Ve Dış Tic. A.Ş.	164,861	-
Pamuk Factoring A.Ş.	133,746	-
Kares Karadeniz Enerji Servis Ve Mak. Tic. A.Ş.	8,925	-
Reform Kurumsal Danışmanlık Hizmetleri A.Ş.	-	6,220
	4,222,917	2,702,477

Other income

Pamuk Gayrimenkul Yatırımlar Ticaret A.Ş.	182,185	14,526
Karmine Karadeniz Madencilik Ve Dış Tic. A.Ş.	75,000	-
Karmarine Karadeniz Denizcilik Ve Tic. A.Ş.	25,398	-
Karkey Karadeniz Elektrik A.Ş.	18,246	17,660
Eti Yatırım A.Ş.	10,081	-
Kares Karadeniz Enerji Servis Ve Mak. Tic. A.Ş.	6,635	-
Pamuk Factoring A.Ş.	-	51,768
Reform Kurumsal Danışmanlık Hiz A.Ş.	-	642
	317,545	84,596

Service expenses

Pamuk Factoring A.Ş.	427,022	-
Pamuk Gayrimenkul Yatırımlar Ticaret A.Ş.	198,062	113,475
Reform Kurumsal Danışmanlık Hizmetleri A.Ş.	75,000	240,000
Eti Yatırım A.Ş.	1,809	-
Karadeniz Holding A.Ş.	-	17,102
Denizcilik Holding A.Ş.	-	18,608
	701,893	389,185

Remuneration of top management

Remuneration of top management	104,871	141,438
--------------------------------	---------	---------

Total remuneration of top management consists of gross salary paid to general manager.

PAMUK FİNANSAL KİRALAMA A.Ş.

NOTES TO FINANCIAL STATEMENTS AT 31 DECEMBER 2009

(Amounts expressed in Turkish Lira (“TL”), unless otherwise indicated.)

NOTE 24 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of activities, the Company undertakes commitments and incurs certain contingent liabilities that are not presented in these financial statements. The following is a summary of significant commitments and contingent liabilities at 31 December 2009 and 2008.

Legal Proceedings

The Company has provided for a total provision of TL259,965 against certain open legal cases as of 31 December 2009 (31 December 2008: TL974,122) (Note 16).

Blocked deposits

The Company’s bank deposits amounting to TL4,517,100 (31 December 2008: TL25,472,732) were blocked against the loans used by Pamuk Factoring A.Ş (Note 5).

Guarantees given

Letters of guarantees were given to courts and banks amounting to TL38,607 (31 December 2008: TL18,815).

Mortgages

The Company has given mortgage amounting to TL219,954,930 (31 December 2008: TL62,911,680) for the loans utilised.

Other

The Company has given pledge amounting to TL28,057,000 (31 December 2008: TL30,184,500) for the loans utilised by Pamuk Factoring A.Ş.

NOTE 25 - SUBSEQUENT EVENTS

None.

.....