

GARANTİ FAKTORİNG A.Ş.

**FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2016**

(Translated into English from the Original Turkish Report)

**(CONVENIENCE TRANSLATION OF
INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Garanti Faktoring A.Ş.

Report on the Financial Statements

We have audited the accompanying financial statements of Garanti Faktoring A.Ş. ("the Company"), which comprise the balance sheet as at 31 December 2016, and the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Company's Management is responsible for the preparation and fair presentation of the financial statements in accordance with "the Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Regulations" including the communique on "The Application of Uniform Chart of Accounts and its Guide Book for Financial Leasing, Factoring and Financing Companies" and the regulation on "The Accounting Practices of Financial Leasing, Factoring and Financing Companies and their Financial Statements" published in the Official Gazette No. 28861 dated 24 December 2013, and circulars and pronouncements published by the BRSA and Turkish Accounting Standards for the matters not legislated by the aforementioned regulations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Independent Auditing Standards which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Garanti Faktoring A.Ş. as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the BRSA Accounting and Reporting Regulations.

Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 398 of the Turkish Commercial Code No. 6102 (“TCC”), the auditor’s report on the system and the committee of early detection of risk has been submitted to the Board of Directors of the Company on 27 January 2017.

In accordance with paragraph four of the Article 402 of TCC, nothing has come to our attention that may cause us to believe that the Company’s set of accounts for the period 1 January-31 December 2016 does not comply with TCC and the provisions of the Company’s articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

Additional paragraph for English translation

The effect of the differences between the accounting principles summarized in Section 2 and the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards (“IFRS”) have not been quantified and reflected in the accompanying financial statements. The accounting principles used in the preparation of the accompanying financial statements differ materially from IFRS. Accordingly, the accompanying financial statements are not intended to present the Company’s financial position and results of its operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Müjde Şehsuvaroğlu
Partner

İstanbul, 27 January 2017

GARANTİ FAKTORİNG A.Ş.

BALANCE SHEET AS OF 31 DECEMBER 2016

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

ASSETS	Notes	Audited 31 December 2016			Audited 31 December 2015		
		TL	FC	TOTAL	TL	FC	TOTAL
I. CASH, CASH EQUIVALENTS AND CENTRAL BANK		-	-	-	-	-	-
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)	3	336	58	394	11.783	86	11.869
2.1 Financial Assets Held for Trading		-	-	-	-	-	-
2.2 Financial Assets at Fair Value Through Profit and Loss		-	-	-	-	-	-
2.3 Derivative Financial Assets Held for Trading	3.1	336	58	394	11.783	86	11.869
III. BANKS	4	595	9.008	9.603	31.695	8.724	40.419
RECEIVABLES FROM REVERSE REPURCHASE AGREEMENTS		-	-	-	-	-	-
IV. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	5	-	2	2	-	2	2
VI. FACTORING RECEIVABLES	6	1.895.694	939.095	2.834.789	1.927.127	923.076	2.850.203
6.1 Discount Factoring Receivables		790.868	93.907	884.775	689.163	48.680	737.843
6.1.1 Domestic		820.405	18.455	838.860	704.478	15.183	719.661
6.1.2 Foreign		-	76.108	76.108	-	34.058	34.058
6.1.3 Unearned Income (-)		(29.537)	(656)	(30.193)	(15.315)	(561)	(15.876)
6.2 Other Factoring Receivables		1.104.826	845.188	1.950.014	1.237.964	874.396	2.112.360
6.2.1 Domestic		1.104.826	377.164	1.481.990	1.237.964	463.530	1.701.514
6.2.2 Foreign		-	468.024	468.024	-	410.846	410.846
VII. FINANCIAL LOANS		-	-	-	-	-	-
7.1 Consumer Loans		-	-	-	-	-	-
7.2 Credit Cards		-	-	-	-	-	-
7.3 Installment Commercial Loans		-	-	-	-	-	-
VIII. LEASE RECEIVABLES		-	-	-	-	-	-
8.1 Lease Receivables		-	-	-	-	-	-
8.1.1 Financial lease receivables		-	-	-	-	-	-
8.1.2 Operational lease receivables		-	-	-	-	-	-
8.1.3 Unearned income (-)		-	-	-	-	-	-
8.2 Leased Construction in Progress		-	-	-	-	-	-
8.3 Advances Given for Leasing Operations		-	-	-	-	-	-
IX. OTHER RECEIVABLES		-	-	-	-	-	-
X. NON-PERFORMING RECEIVABLES	7	16.435	-	16.435	21.659	11.746	33.405
10.1 Non-Performing Factoring Receivables		72.388	-	72.388	84.548	12.883	97.431
10.2 Non-Performing Financial Loans		-	-	-	-	-	-
10.3 Non-Performing Leasing Receivables		-	-	-	-	-	-
10.4 Specific Provisions (-)		(55.953)	-	(55.953)	(62.889)	(1.137)	(64.026)
XI. DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES		-	-	-	-	-	-
11.1 Fair Value Hedging		-	-	-	-	-	-
11.2 Cash Flow Hedging		-	-	-	-	-	-
11.3 Net Foreign Investment Hedging		-	-	-	-	-	-
XII. INVESTMENTS HELD TO MATURITY (Net)		-	-	-	-	-	-
XIII. SUBSIDIARIES (Net)		-	-	-	-	-	-
XIV. ASSOCIATES (Net)		-	-	-	-	-	-
XV. JOINT VENTURES (Net)		-	-	-	-	-	-
XVI. TANGIBLE ASSETS (Net)	8	2.309	-	2.309	1.354	-	1.354
XVII. INTANGIBLE ASSETS (Net)	9	5.219	-	5.219	3.751	-	3.751
17.1 Goodwill		-	-	-	-	-	-
17.2 Other		5.219	-	5.219	3.751	-	3.751
XVIII. PREPAID EXPENSES	11	3.242	68	3.310	3.210	-	3.210
IXX. TAX ASSETS	10	-	-	-	9.118	-	9.118
XX. DEFERRED TAX ASSETS	10	22.135	-	22.135	14.365	-	14.365
XXI. OTHER ASSETS	11	4.384	872	5.256	2.807	1	2.808
SUB TOTAL		1.950.349	949.103	2.899.452	2.026.866	943.635	2.970.504
XXII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)		-	-	-	17	-	17
22.1 Held For Sale		-	-	-	17	-	17
22.2 Discontinued Operations		-	-	-	-	-	-
TOTAL ASSETS		1.950.349	949.103	2.899.452	2.026.886	943.635	2.970.521

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

GARANTİ FAKTORİNG A.Ş.
BALANCE SHEET AS OF 31 DECEMBER 2016

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

LIABILITIES	Notes	Audited 31 December 2016			Audited 31 December 2015		
		TL	FC	Total	TL	FC	Total
I. DERIVATIVE FINANCIAL LIABILITIES	3,2	31.051	-	31.051	1.292	12	1.304
HELD FOR TRADING							
II. FUNDS BORROWED	12	1.639.361	510.086	2.149.447	1.395.798	691.304	2.087.102
III. FACTORING PAYABLES	6	860	7.905	8.765	767	2.532	3.299
IV. LEASING PAYABLES							
4.1 Financial lease payables							
4.2 Operational lease payables							
4.3 Other							
4.4 Deferred Financial Leasing Expenses							
V. MARKETABLE SECURITIES ISSUED (Net)	13	503.619	-	503.619	702.552	-	702.552
5.1 Bills		503.619	-	503.619	702.552	-	702.552
5.2 Asset-backed Securities							
5.3 Bonds							
VI. OTHER LIABILITIES	14	4.852	1.436	6.288	3.411	765	4.176
VII. OTHER FOREIGN LIABILITIES	14	-	130	130	-	34	34
VIII. DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES							
8.1 Fair Value Hedging							
8.2 Cash Flow Hedging							
8.3 Net Foreign Investment Hedging							
IX. TAXES PAYABLE	15	2.576	-	2.576	2.384	-	2.384
X. PROVISIONS	16	4.764	412	5.176	3.573	335	3.908
10.1 Reserves for Restructuring							
10.2 Reserves For Employee Benefits		4.188	-	4.188	3.154	-	3.154
10.3 Other Provisions		576	412	988	419	335	754
XI. DEFERRED RECEIVABLES							
XII. TAX LIABILITY		6.947	-	6.947	-	-	-
XIII. DEFERRED TAX LIABILITY							
XIV. SUBORDINATED LOANS							
SUB TOTAL		2.194.030	519.969	2.713.999	2.109.777	694.982	2.804.759
XV. PAYABLES RELATED TO ASSETS FOR SALE AND DISCONTINUED OPERATIONS							
15.1 Held for Sale							
15.2 Discontinued Operations							
XVI. SHAREHOLDERS' EQUITY	17	185.453	-	185.453	165.762	-	165.762
16.1 Paid-in Capital		79.500	-	79.500	79.500	-	79.500
16.2 Capital Reserves							
16.2.1 Share Premium							
16.2.2 Share Cancellation Profits							
16.2.3 Other Capital Reserves							
16.3 Other comprehensive income or expense that will not be reclassified subsequently to profit or loss		(522)	-	(522)	(497)	-	(497)
16.4 Other comprehensive income or expense that will be reclassified subsequently to profit or loss							
16.5 Profit Reserves		86.759	-	86.759	61.329	-	61.329
16.5.1 Legal Reserves		6.896	-	6.896	5.639	-	5.639
16.5.2 Statutory Reserves							
16.5.3 Extraordinary Reserves		79.863	-	79.863	55.690	-	55.690
16.5.4 Other Profit Reserves							
16.6 TO OWNERS OF ORDINARY SHARES		19.716	-	19.716	25.430	-	25.430
16.6.1 Retained Earnings / (Accumulated Losses)							
16.6.2 Current Year Profit/Loss		19.716	-	19.716	25.430	-	25.430
TOTAL LIABILITIES AND EQUITY		2.379.483	519.969	2.899.452	2.275.539	694.982	2.970.521

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

GARANTİ FAKTORİNG A.Ş.

STATEMENT OF OFF - BALANCE SHEET ITEMS AS OF 31 DECEMBER 2016

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

OFF-BALANCE SHEET ITEMS	Notes	Audited 31 December 2016			Audited 31 December 2015		
		TL	FC	Total	TL	FC	Total
I. IRREVOCABLE FACTORING OPERATIONS		266.280	372.459	638.739	211.153	433.619	644.772
II. REVOCABLE FACTORING OPERATIONS		505.760	56.493	562.253	436.056	431.728	867.784
III. GUARANTEES TAKEN	26.1	129.335	20.376.262	20.505.597	49.289	18.148.957	18.198.246
IV. GUARANTEES GIVEN	26.2	1.097.330	401	1.097.731	447.468	235	447.703
V. COMMITMENTS	26.3	294	294	588	3.688	3.676	7.364
5.1 Irrevocable Commitments		294	294	588	3.688	3.676	7.364
5.2 Revocable Commitments		-	-	-	-	-	-
5.2.1 Lease Commitments		-	-	-	-	-	-
5.2.1.1 Finance Lease Commitments		-	-	-	-	-	-
5.2.1.2 Operational Lease Commitments		-	-	-	-	-	-
5.2.2 Other Revocable Commitments		-	-	-	-	-	-
VI. DERIVATIVE FINANCIAL INSTRUMENTS	26.4	728.519	747.089	1.475.608	765.034	866.407	1.631.441
6.1 Derivative Financial Instruments for Hedging Purposes		-	-	-	-	-	-
6.1.1 Fair Value Hedges		-	-	-	-	-	-
6.1.2 Cash Flow Hedges		-	-	-	-	-	-
6.1.3 Net Investment Hedges		-	-	-	-	-	-
6.2 Derivative Financial Instruments Held For Trading		728.519	747.089	1.475.608	765.034	866.407	1.631.441
6.2.1 Forward Buy/Sell Transactions		69	69	138	-	-	-
6.2.2 Swap Buy/Sell Transactions		728.450	747.020	1.475.470	765.034	866.407	1.631.441
6.2.3 Options Buy/Sell Transactions		-	-	-	-	-	-
6.2.4 Futures Buy/Sell Transactions		-	-	-	-	-	-
6.2.5 Other		-	-	-	-	-	-
VII. ITEMS HELD IN CUSTODY	26.5	657.167	127.908	785.075	556.017	126.852	682.869
TOTAL OFF BALANCE SHEET ITEMS		3.384.685	21.680.906	25.065.591	2.468.705	20.011.474	22.480.179

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

GARANTİ FAKTORİNG A.Ş.

INCOME STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2016

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

INCOME STATEMENT		Notes	Audited 1 January - 31 December 2016	Audited 1 January - 31 December 2015
I.	OPERATING INCOME	18	244.268	237.682
	FACTORING INCOME		244.268	237.682
1.1	Factoring Interest Income		222.624	217.548
1.1.1	Discount		77.864	71.583
1.1.2	Other		144.760	145.965
1.2	Factoring Commission Income		21.644	20.134
1.2.1	Discount		16.845	12.880
1.2.2	Other		4.799	7.254
	RECEIVABLES FROM FINANCIAL LOANS		-	-
1.3	Financial Loans Interest Income		-	-
1.4	Financial Loans Fees and Commissions Receivables		-	-
	OPERATING RECEIVABLES		-	-
1.5	Financial Leasing Receivables		-	-
1.6	Operational Leasing Receivables		-	-
1.7	Leasing Operations Fees and Commissions Receivables		-	-
II.	FINANCIAL EXPENSES (-)	19	(211.021)	(221.361)
2.1	Interest Expense on Funds Borrowed		(143.286)	(153.471)
2.2	Interest Expense on Factoring Payables		-	-
2.3	Finance Lease Expense		-	-
2.4	Interest Expense on Securities Issued		(56.478)	(63.805)
2.5	Other Interest Expenses		(17)	(12)
2.6	Other Fees and Commissions		(11.240)	(4.073)
III.	GROSS PROFIT LOSS (I+II)		33.247	16.321
IV.	OPERATING EXPENSES (-)	20	(78.945)	(40.835)
4.1	Personnel Expenses		(23.752)	(22.459)
4.2	Retirement Pay Provision Expenses		(540)	(408)
4.3	Research and Development Expenses		-	-
4.4	General Administrative Expenses		(17.923)	(17.129)
4.5	Other		(36.730)	(39)
V.	OPERATING GROSS PROFIT LOSS		(45.698)	(23.714)
VI.	OTHER OPERATION INCOME	21	387.949	589.667
6.1	Interest income from Deposits		2.331	2.057
6.2	Interest income from Reverse Repurchase Agreements		-	-
6.3	Interest income from Marketable Securities		-	-
6.3.1	Interest Income from Financial Assets Held for Trading		-	-
6.3.2	Interest Income from Financial Assets at Fair Value Through Profit and Loss		-	-
6.3.3	Interest Income from Financial Assets Available For Sale		-	-
6.3.4	Interest Income from Financial Assets Held to Maturity		-	-
6.4	Dividend Income		-	-
6.5	Interest Received from Money Market Placements		52.564	82.963
6.5.1	Derivative Financial Transactions		52.564	82.963
6.5.2	Other		-	-
6.6	Foreign Exchange Gains		294.795	501.892
6.7	Other		38.259	2.755
VII.	SPECIFIC PROVISION FOR NON-PERFORMING RECEIVABLES (-)	22	(30.106)	(20.289)
VIII.	OTHER OPERATION EXPENSES	23	(288.337)	(513.841)
8.1	TO OWNERS OF ORDINARY SHARES		-	-
8.1.1	Financial Assets at Fair Value Through Profit and Loss		-	-
8.1.2	Financial Assets Available For Sale		-	-
8.1.3	Financial Assets Held to Maturity		-	-
8.2	Expense from Impairment on Tangible and Intangible Assets		-	-
8.2.1	Impairment on Tangible Assets		-	-
8.2.2	Impairment on Assets Held for Sale and Discontinued Operations		-	-
8.2.3	Impairment on Goodwill		-	-
8.2.4	Impairment on Intangible Assets		-	-
8.2.5	Impairment on Subsidiaries, Associates and Joint Ventures		-	-
8.3	Losses from Derivative Financial Transactions		(32.509)	(1.579)
8.4	Foreign Exchange Losses		(255.565)	(512.162)
8.5	Other		(263)	(100)
IX.	NET OPERATING INCOME (I+...+VI)		23.808	31.824
X.	AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER		-	-
XI.	NET MONETARY GAIN/LOSS		-	-
XII.	PROFIT/LOSS ON CONTINUING OPERATIONS BEFORE TAX (VII+VIII+IX)		23.808	31.824
XIII.	TAX PROVISION FOR CONTINUING OPERATIONS (+)	10	(4.092)	(6.394)
13.1	Current Tax Charge		(11.856)	(7.110)
13.2	Deferred Tax Charge (-)		-	-
13.3	Deferred Tax Benefit (+)		7.764	716
XIV.	NET PERIOD PROFIT/LOSS FROM CONTINUING OPERATIONS		19.716	25.430
XV.	INCOME ON DISCONTINUED OPERATIONS		-	-
15.1	Income on Assets Held for Sale		-	-
15.2	Gain on Sale of Associates, Subsidiaries and Joint Ventures		-	-
15.3	Other Income on Discontinued Operations		-	-
XVI.	EXPENSE ON DISCONTINUED OPERATIONS (-)		-	-
16.1	Expenses on Assets Held for Sale		-	-
16.2	Losses on Sale of Associates, Subsidiaries and Joint Ventures		-	-
16.3	Other Expenses on Discontinued Operations		-	-
XVII.	PROFIT/LOSS ON DISCONTINUED OPERATIONS BEFORE TAX		-	-
XVIII.	TAX PROVISION FOR DISCONTINUED OPERATIONS (+)		-	-
18.1	Current Tax Charge		-	-
18.2	Deferred Tax Charge (+)		-	-
18.3	Deferred Tax Benefit (-)		-	-
XIX.	NET PERIOD PROFIT/LOSS FROM DISCONTINUED OPERATIONS		-	-
XX.	NET PERIOD PROFIT/LOSS		19.716	25.430
	Earnings Loss Per Share (Kuruş (0.01 TL) per thousand shares)	24	248,00	319,87

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

GARANTİ FAKTORİNG A.Ş.**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2016**

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

	Notes	Audited	
		1 January - 31 December 2016	1 January - 31 December 2015
I. PERIOD INCOME/LOSS		19.716	25.430
II. OTHER COMPREHENSIVE INCOME		(25)	(51)
2.1 ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		(25)	(51)
2.1.1 Gains/(losses) on revaluation of tangible assets		-	-
2.1.2 Gains/(losses) on revaluation of intangible assets		-	-
2.1.3 Gains/(losses) on remeasurement of defined benefit pension plans		(31)	(63)
2.1.4 Other items that will not be reclassified to profit or loss		-	-
2.1.5 Taxation on comprehensive income that will not be reclassified to profit or loss		6	12
2.1.5.1 Tax income/charge		-	-
2.1.5.2 Deferred tax income/charge		6	12
2.2 ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS		-	-
2.2.1 Translation differences for transactions in foreign currencies		-	-
2.2.2 Income/expenses on revaluation or reclassification of available for sale financial assets		-	-
2.2.3 Gains/(losses) from cash flow hedges		-	-
2.2.4 Gains/(losses) from net investment hedges		-	-
2.2.5 Other items that will be reclassified to profit or loss		-	-
2.2.6 Taxation on comprehensive income that will be reclassified to profit or loss		-	-
2.2.6.1 Tax income/charge		-	-
2.2.6.2 Deferred tax income/charge		-	-
III. TOTAL COMPREHENSIVE INCOME (I+II)		19.691	25.379

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

GARANTIFAKTORING A.S.
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2016

(Continued as requested in thousands of Turkish Lira ("Thousands of TL") unless otherwise indicated.)

Notes	Paid in Capital	Capital Reserve	Share Premium	Share Options Profit	Other Capital Reserve	To Owners If Ordinary Shares	Accumulated Profits from Disposal of Subsidiaries	Other Comprehensive Income and Expenses not to be recognized in Profit or Loss	Other Comprehensive Income and Expenses to be recognized in Profit or Loss	Reserves Available for Cash Dividends	Reserves Available for Cash Dividends	Profit Reserve	Legal Reserve	Statutory Reserve	Extraordinary Reserve	Other Profit Reserve	Current Year Profit (Loss)	Retained Earnings (Loss) Accumulated (Loss)	Current Year Profit (Loss)	New Issued Share Capital	Total Shareholders' Equity	
PERIOD BEGINNING																						
I. January - 31 December 2015																						
1. Balance at the beginning of the period (Previously reported)	79,596																					
2. Decrease made as per TSKR																						
2.1. Effect of change in accounting policies																						
2.2. Effect of change in accounting policies																						
III. Adjusted balance	79,596																					
IV. Capital Reserve																						
V. Other Comprehensive Income																						
VI. Capital Reserve through retained earnings																						
VII. Other Comprehensive Income																						
VIII. Other Comprehensive Income																						
IX. Subsequent losses																						
X. Other Comprehensive Income																						
XI. Current period profit (loss)																						
XII. Profit distributions																						
XIII. Transfers to reserve																						
XIV. Other																						
Balance at the end of the period (31 December 2015) (100% SAKS)	79,596																					
CURRENT PERIOD																						
I. January - 31 December 2016																						
1. Balance at the beginning of the period (31 December 2015)	79,596																					
2. Decrease made as per TSKR																						
2.1. Effect of change in accounting policies																						
2.2. Effect of change in accounting policies																						
III. Adjusted balance	79,596																					
IV. Capital Reserve																						
V. Other Comprehensive Income																						
VI. Capital Reserve through retained earnings																						
VII. Other Comprehensive Income																						
VIII. Other Comprehensive Income																						
IX. Subsequent losses																						
X. Other Comprehensive Income																						
XI. Current period profit (loss)																						
XII. Profit distributions																						
XIII. Transfers to reserve																						
XIV. Other																						
Balance at the end of the period (31 December 2016) (100% SAKS)	79,596																					

GARANTİ FAKTORİNG A.Ş.
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2016

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

STATEMENT OF CASH FLOWS	Notes	Audited	Audited
		1 January - 31 December 2016	1 January - 31 December 2015
A. CASH FLOWS FROM OPERATING ACTIVITIES			
1.1 Operating profit before changes in operating assets and liabilities		27.862	44.718
1.1.1 Interest/Leasing income received		236.762	211.986
1.1.2 Interest/Leasing expenses		(203.281)	(205.576)
1.1.3 Dividends received		-	-
1.1.4 Fees and commissions received		22.207	20.990
1.1.5 Other income		-	-
1.1.6 Collections from previously written off receivables	7	1.453	1.897
1.1.7 Payments to personnel and service suppliers		(39.973)	(39.619)
1.1.8 Taxes paid		(5.349)	(15.975)
1.1.9 Other		16.043	71.015
1.2 Changes in operating assets and liabilities		151.242	(89.135)
1.2.1 Net (increase) decrease in factoring receivables		61.878	60.864
1.2.2 Net (increase) decrease in other assets		15.699	(20.921)
1.2.3 Net increase (decrease) in factoring payables		5.466	1.149
1.2.4 Net increase (decrease) in funds borrowed		67.398	(139.548)
1.2.5 Net increase (decrease) in due payables		-	-
1.2.6 Net increase (decrease) in other liabilities		801	9.321
I. Net cash provided from operating activities		179.104	(44.417)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
2.1 Cash paid for purchase of joint ventures, associates and subsidiaries		-	-
2.2 Cash obtained from sale of joint ventures, associates and subsidiaries		-	-
2.3 Fixed assets purchases	8	(1.530)	(1.075)
2.4 Fixed assets sales	8	9	32
2.5 Cash paid for purchase of financial assets available for sale		-	-
2.6 Cash obtained from sale of financial assets available for sale		-	-
2.7 Cash paid for purchase of financial assets held to maturity		-	-
2.8 Cash obtained from sale of financial assets held to maturity		-	-
2.9 Other		(4.272)	(2.617)
II. Net cash provided from investing activities		(5.793)	(3.660)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
3.1 Cash obtained from funds borrowed and securities issued		959.829	382.788
3.2 Cash used for repayment of funds borrowed and securities issued		(1.165.277)	(300.400)
3.3 Equity instruments issued		-	-
3.4 Dividends paid		-	-
3.5 Payments for finance leases		-	-
3.6 Other		-	-
III. Net cash provided from financing activities		(205.448)	82.388
IV. Effect of change in foreign exchange rate on cash and cash equivalents		1.322	1.128
V. Net increase/decrease in cash and cash equivalents		(30.815)	35.439
VI. Cash and cash equivalents at the beginning of the period		40.418	4.815
VII. Cash and cash equivalents at the end of the period	2.5	9.603	40.254

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

GARANTI FAKTORİNG A.Ş.
STATEMENT OF PROFIT DISTRIBUTION

THOUSANDS OF TURKISH LIRA

	Audited	Audited
	1 January - 31 December 2016	1 January - 31 December 2015
I. DISTRIBUTION OF CURRENT YEAR PROFIT (*)		
1.1 CURRENT PERIOD PROFIT	23.808	31.824
1.2 TAXES AND LEGAL DUTIES PAYABLE (-)	4.092	6.394
1.2.1 Corporate tax (income tax)	11.856	7.110
1.2.2 Withholding tax	-	-
1.2.3 Other taxes and duties	(7.764)	(716)
A. NET PROFIT FOR THE PERIOD (1.1-1.2)	19.716	25.430
1.3 ACCUMULATED LOSSES (-)	-	-
1.4 FIRST LEGAL RESERVES (-)	-	(1.257)
1.5 OTHER STATUTORY RESERVES (-)	-	-
B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A- (1.3+1.4+1.5))]	19.716	24.173
1.6 FIRST DIVIDEND TO SHAREHOLDERS (-)	-	-
1.6.1 To owners of ordinary shares	-	-
1.6.2 To owners of privileged shares	-	-
1.6.3 To owners of redeemed shares	-	-
1.6.4 To profit sharing bonds	-	-
1.6.5 To holders of profit and loss sharing certificates	-	-
1.7 DIVIDENDS TO PERSONNEL (-)	-	-
1.8 DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
1.9 SECOND DIVIDEND TO SHAREHOLDERS (-)	-	-
1.9.1 To owners of ordinary shares	-	-
1.9.2 To owners of privileged shares	-	-
1.9.3 To owners of participating shares	-	-
1.9.4 To profit sharing bonds	-	-
1.9.5 To holders of profit and loss sharing certificates	-	-
1.10 SECOND LEGAL RESERVES (-)	-	-
1.11 STATUS RESERVES (-)	-	-
1.12 EXTRAORDINARY RESERVES	-	(24.173)
1.13 OTHER RESERVES	-	-
1.14 SPECIAL FUNDS	-	-
II. DISTRIBUTION OF RESERVES		
2.1 APPROPRIATED RESERVES	-	-
2.2 SECOND LEGAL RESERVES (-)	-	-
2.3 DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1 To owners of ordinary shares	-	-
2.3.2 To owners of privileged shares	-	-
2.3.3 To owners of participating shares	-	-
2.3.4 To profit sharing bonds	-	-
2.3.5 To holders of profit and loss sharing certificates	-	-
2.4 DIVIDENDS TO PERSONNEL (-)	-	-
2.5 DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
III. EARNINGS PER SHARE		
3.1 TO OWNERS OF ORDINARY SHARES	-	-
3.2 TO OWNERS OF ORDINARY SHARES (%)	-	-
3.3 TO OWNERS OF PRIVILEGED SHARES	-	-
3.4 TO OWNERS OF PRIVILEGED SHARES (%)	-	-
IV. DIVIDEND PER SHARE		
4.1 TO OWNERS OF ORDINARY SHARES	-	-
4.2 TO OWNERS OF ORDINARY SHARES (%)	-	-
4.3 TO OWNERS OF PRIVILEGED SHARES	-	-
4.4 TO OWNERS OF PRIVILEGED SHARES (%)	-	-

(*) Decision regarding to the 2016 profit distribution will be resolved at the General Assembly meeting. The General Assembly meeting has not been held as of the date of this report.

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

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

1 ORGANIZATION AND OPERATIONS OF THE COMPANY

Aktif Finans Faktoring Hizmetleri A.Ş. was incorporated on 4 September 1990 in Turkey to provide factoring services to industrial and commercial firms. After joining "Garanti" group companies in 2002 the commercial title of Aktif Finans Faktoring Hizmetleri A.Ş. was changed to Garanti Faktoring Hizmetleri A.Ş. with the approval of the General Assembly Meeting relating to year 2001 held on 27 March 2002. At the General Assembly Meeting relating to year 2013 held on 17 April 2014 its commercial title was changed to Garanti Faktoring A.Ş. ("the Company").

The Company offered its shares to public in 1993 with the authorization of the Capital Markets Board ("CMB") and is quoted in Borsa İstanbul A.Ş. (BİAŞ).

The Company operates in accordance with the Capital Markets Law, "The Code of Leasing, Factoring and Finance Companies" published in the Trade Registry Gazette No: 28496 dated 13 December 2012 and the Communiqué on the "The Establishment and Main Activities of Finance Leasing, Factoring and Financing Companies" issued by the Banking Regulation and Supervision Agency ("BRSA") dated 24 April 2013 No: 28627 published in the Trade Registry Gazette.

Information about the Company's shareholders and respective shares are as follows:

<i>(Thousand TL)</i>	31 December 2016	Shareholding (%)	31 December 2015	Shareholding (%)
Türkiye Garanti Bankası AŞ	65.066	81,84	65.066	81,84
Türkiye İhracat Kredi Bankası AŞ	7.773	9,78	7.773	9,78
Publicly Trading	6.661	8,38	6.661	8,38
Capital	79.500	100,00	79.500	100,00

The registered shareholding percentage of Türkiye Garanti Bankası A.Ş. as of 31 December 2016 is 55,40% and Türkiye Garanti Bankası A.Ş. has obtained the remaining 26,44% shares from public shares via BİAŞ. (31 December 2015: 55,40% and 26,44%)

The Company has 164 employees as of 31 December 2016 (31 December 2015: 175).

The Company is registered in Turkey and operates at the following address:

Maslak Mahallesi Eski Büyükdere Caddesi No: 23 Sarıyer / İstanbul

The Company provides factoring operations with 20 (twenty) branches in Turkey.

Approval of Financial Statements:

The financial statements were approved and authorized for issue by the Board of Directors based on the Board of Directors decision dated 27 January 2017. The General Assembly has the authority to change the financial statements.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Presentation

2.1.1 Accounting Standards Applied

The Company maintains its books of account in accordance with "the Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Regulations" including the communique on "The Application of Uniform Chart of Accounts and its Guide Book for Financial Leasing, Factoring and Financing Companies" and the regulation on "The Accounting Practices of Financial Leasing, Factoring and Financing Companies and their Financial Statements" published in the Official Gazette No. 28861 dated 24 December 2013, and circulars and pronouncements published by the BRSA and Turkish Accounting Standards for the matters not legislated by the aforementioned regulations.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.1.2 Functional Currency

Financial statements of the Company are presented in TL, which is the Company's functional currency.

2.1.3 Preparation of Financial Statements in Hyperinflationary Periods

Restatement adjustments have been made to compensate for the effect of changes in the general purchasing power of the Turkish Lira, in accordance with Turkish Accounting Standards on "Preparation of Financial Statements in Hyperinflationary Periods" ("TAS 29") for the financial statements prepared until 31 December 2004. BRSA issued a circular on 28 April 2005 stating that the indicators requiring the application of inflation accounting ceased to exist; consequently, inflation accounting was not applied in the financial statements after 1 January 2005.

2.1.4 Offsetting

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

2.2 Changes in Accounting Policies

Changes in accounting policies are applied retrospectively and the prior period financial statements are restated accordingly. The Company has applied the accounting policies in line with the prior financial year.

2.3 Changes in Accounting Estimates and Errors

If the changes in accounting estimates relate to only one period, changes are applied in the current period but if changes in estimates relate to future periods, changes are applied both in the current and following periods prospectively. Material prior period errors are corrected retrospectively and prior period financial statements are restated.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont'd)

2.3 Changes in Accounting Estimates and Errors (Cont'd)

The management is required to apply accounting policies and make decisions, estimations and assumptions that affect the reported assets, liabilities, income and expenses, in order to prepare the financial statements in accordance with the Reporting Standards. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed constantly. The effect of a change in accounting estimates is recognized prospectively in the current and future periods. The main notes for the items including estimates are as follows:

Note 3 – Financial Assets at fair value through profit and loss

Note 6 – Factoring receivables

Note 8 – Tangible Assets

Note 9 – Intangible Assets

Note 10 – Tax Assets and Liabilities

Note 16 – Provisions

2.4 Adoption of New and Revised Turkish Financial Reporting Standards

a) New and Revised TFRSs affecting the reported financial performance and financial position

None.

b) New and Revised TAS effective from year 2016, applied with no material effect on the financial statements

Amendments to TAS 16 and TAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to TAS 16 and TAS 41 and amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40	<i>Agriculture: Bearer Plants</i> ¹
Amendments to TFRS 11 and TFRS 1 Annual Improvements to 2011-2013 Cycle	<i>Accounting for Acquisition of Interests in Joint operations</i> ¹ <i>TFRS 1</i> ²
Amendments to TAS 1 Annual Improvements to 2012-2014 Cycle	<i>Disclosure Initiative</i> ²
Amendments to TAS 27	<i>TFRS 5, TFRS 7, TAS 34, TAS 19</i> ²
Amendments to TFRS 10 and TAS 28	<i>Equity Method in Separate Financial Statements</i> ² <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to TFRS 10, TFRS 12 and TAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ²
TFRS 14	<i>Regulatory Deferral Accounts</i> ²

¹ Effective for annual periods beginning on or after 31 December 2015

² Effective for annual periods beginning on or after 1 January 2016

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont'd)

2.4 Adoption of New and Revised Turkish Financial Reporting Standards (Cont'd)

- b) New and Revised TAS effective from year 2016, applied with no material effect on the financial statements (Cont'd)

Amendments to TAS 16 and TAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

This amendment clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Amendments to TAS 16 and TAS 41 and Amendments to TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40 Agriculture: Bearer Plants

This amendment includes 'bearer plants' within the scope of TAS 16 rather than TAS 41, allowing such assets to be accounted for as property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with TAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of TAS 41.

Amendments to TAS 16 and TAS 41 also led to amendments in related provisions of TAS 1, TAS 17, TAS 23, TAS 36 and TAS 40, respectively.

Amendments to TFRS 11 and TRFS 1 Accounting for Acquisition of Interests in Joint operations

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in TFRS 3 and other TASs, except for those principles that conflict with the guidance in TFRS 11
- disclose the information required by TFRS 3 and other TASs for business combinations.

Amendments to TFRS 11 also led to amendments in related provisions of TFRS 1.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont'd)

2.4 New and revised Turkish Accounting Standards (Cont'd)

- b) New and Revised TAS effective from year 2016, applied with no material effect on the financial statements (Cont'd)

Annual Improvement to 2011-2013 Cycle

TFRS 1: Clarify which versions of TAS can be used on initial adoption (amends basis for conclusions only).

Amendments to TAS 1 *Disclosure Initiative*

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

Annual Improvements to 2012-2014 Cycle

TFRS 5: Adds specific guidance in TFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

TFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

TAS 34: Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

Annual Improvements to 2012-2014 Cycle also led to amendments in related provisions of TAS 19.

Amendments to TAS 27 *Equity Method in Separate Financial Statements*

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Amendments to TFRS 10 and TAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont'd)

2.4 New and revised Turkish Accounting Standards (Cont'd)

b) New and Revised TAS effective from year 2016, applied with no material effect on the financial statements (Cont'd)

Amendments to TFRS 10, TFRS 12 and TAS 28 Investment Entities: Applying the Consolidation Exception

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by TFRS 12.

TFRS 14 Regulatory Deferral Accounts

TFRS 14 *Regulatory Deferral Accounts* permits an entity which is a first-time adopter of Turkish Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous TFRS, both on initial adoption of IFRS and in subsequent financial statements.

TFRS 14 also led to amendments in related provisions of TFRS 1.

c) New and revised TAS in issue but not yet effective

The Company has not applied the following new and revised TAS that have been issued but are not yet effective:

TFRS 9

*Financial Instruments*¹

TFRS 15

*Revenue from Contracts with Customers*¹

¹ Effective for annual periods beginning on or after 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont'd)

2.4 New and revised Turkish Accounting Standards (Cont'd)

c) New and revised TAS in issue but not yet effective (Cont'd)

TFRS 9 Financial Instruments

TFRS 9, issued by Public Oversight Authority ("POA") in 2010, introduces new requirements for the classification and measurement of financial assets. TFRS 9 is amended in 2011 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Revised version of TFRS 9 is issued by POA in January 2017 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income ("FVTOCI") measurement category for certain simple debt instruments.

TFRS 9 is effective for the annual periods beginning on or after 1 January 2018. Early adoption is permitted unless before 1 February 2015.

Amendments to TFRS 9 and TFRS 7 Mandatory Effective Date of TFRS 9 and Transition Disclosures

The mandatory effective date of TFRS 9 will be no earlier than annual periods beginning on or after 1 January 2018.

TFRS 15 Revenue from Contracts with Customers

TFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognise revenue when the entity satisfies a performance obligation.

The Company evaluates the effects of these standards, amendments and improvements on the financial statements.

2.5 Summary of Significant Accounting Policies

(a) Revenue

Factoring service income is composed of collected interest income and commission income earned from advance payments made to customers.

A proportion of factoring invoice total obtained constitutes commission income. Interest and commission income and other income and expenses are accounted on an accrual basis.

Dividend revenue from investments is recognized when the shareholders' rights to receive payment have been established.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

(a) Revenue (Cont'd)

Other interest income is accrued based on the effective interest rate which equals the estimated cash flows to net book value of the related asset.

(b) Financial Instruments

Financial Assets

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for financial assets other than those financial assets designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated under this category upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or achieved more relevant accounting measurement. Derivatives are also categorized as held for trading unless they are designated as hedges. Related financial assets are reported at fair value. Gain and losses that as a result of valuation are booked to statement of profit and loss.

Held to maturity investments

Investments in debt securities with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments.

Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

Available-for-sale financial assets

Quoted equity investments and quoted certain debt securities held by the Company that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. Investments in unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial assets and stated at cost since their value cannot be reliably measured. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

(b) *Financial Instruments (Cont'd)*

Financial Assets (Cont'd)

Factoring receivables and other receivables

Factoring receivables and other receivables are stated at fair value at initial recognition. Subsequent to initial recognition, all receivables except for factoring receivables are carried at amortized cost using the effective interest method. Factoring transactions are accounted for at carrying amounts in subsequent reporting periods. The Company management believes that carrying amounts of factoring receivables approximate to their fair values since amortization is taken into account at initial recognition. Interest income is calculated and accounted by using the effective interest rate method.

Specific and general provisions are allocated on factoring receivables in accordance with the regulation on "The Application of Uniform Chart of Accounts and its Guide Book in Connection to the Establishment and Main Activities of Financial Leasing, Factoring and Financing Companies" published in the Official Gazette dated 24 December 2013 with no 28861.

Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss are subject to impairment testing at each balance sheet date to determine whether there is any indication of impairment of financial asset or financial asset group. An entity shall assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. That loss event or events must also have an impact on the estimated future cash flows of the financial asset or group of financial assets.

For loans and receivables, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by impairment loss directly for all financial assets except factoring receivables. When a trade receivable is uncollectible, it is written off against the allowance account. Changes in allowance accounts are recognized in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

(b) *Financial Instruments (Cont'd)*

Financial Assets (Cont'd)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Derivative financial instruments and hedge accounting

The Company's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Company uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Derivatives are designated as held for trading and resulting gain or loss is recognized in profit or loss immediately as the derivatives do not meet the criteria for hedge accounting despite they provide economic hedge.

Financial Liabilities

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value at initial recognition, and remeasured at fair value as of the balance sheet date at each reporting period.

The changes in fair value are recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

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NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

(c) *Tangible Assets and Amortization*

Tangible assets are carried at historical cost, less accumulated depreciation and accumulated impairment losses.

Tangible assets are depreciated principally on a straight-line basis considering the expected useful lives. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Expenses for the maintenance of tangible assets are normally recorded in profit and loss statement. Gain or loss arising on the disposal or retirement of an item of tangible asset is determined as the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

(d) *Intangible Assets*

Intangible Fixed Assets Acquired

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

Computer Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their useful lives.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible fixed assets. Costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognized as assets are amortized over their estimated useful lives.

(e) *Impairment of Assets*

Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(f) *Capital Increase*

Capital increases by the existing shareholders are decided in the General Assembly Meetings and accounted for over the registered nominal values.

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NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

(g) Retirement Pay Provision

Under the Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Company. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

Retirement pay provision of the employees is calculated by discounting the future retirement liability of the employees and presented in the financial statements. All actuarial gains and losses are accounted under the other comprehensive income.

(h) Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(i) Borrowing Costs

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

(j) Effects of Changes in Exchange Rates:

The financial statements of the Company are presented in the currency of the primary economic environment in which the entity operates. The results and financial position of the Company is expressed in thousands of TL, which is the functional currency of the Company, and the presentation currency for the financial statements.

The foreign currency exchange rates used by the Company as of 31 December 2016 and 31 December 2015 are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
USD	3,5192	2,9076
EURO	3,7099	3,1776
GBP	4,3189	4,3007

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

(j) *Effects of Changes in Exchange Rates: (Cont'd)*

In preparing the financial statements of the Company, transactions in currencies other than TL (foreign currencies) are recorded at the prevailing exchange rates at the transaction date. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(k) *Earnings per Share:*

In Turkey, companies can raise their share capital by distributing "Bonus Shares" to shareholders from retained earnings. In computing earnings per share, such "Bonus Share" distributions are treated as issued shares. Accordingly, the retrospective effect for those share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this computation.

(l) *Subsequent Events:*

Events after balance sheet date comprise any event between the balance sheet date and the date of authorization of the financial statements for publication, even if any event after balance sheet date occurred subsequent to an announcement on the Company's profit or following any financial information disclosed to public.

The Company adjusts the amounts recognized in its financial statements to reflect adjusting events after the balance sheet date if such subsequent events arise.

(m) *Segmental Information:*

No segmental information is disclosed as the Company operates in Turkey and provides only factoring services.

(n) *Taxation on Income:*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Cont'd)

2.5 Summary of Significant Accounting Policies (Cont'd)

(n) *Taxation on Income (Cont'd)*

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(o) *Statement of Cash Flows*

In statement of cash flows, cash flows are classified according to operating, investment and finance activities.

Cash flows from operating activities reflect cash flows mainly generated from factoring operations of the Company.

Cash flows from investment activities express cash used in investment activities (capital expenditures and financial investments) and cash flows generated from investment activities of the Company.

Cash flows relating to finance activities express sources of financial activities and payment schedules of the Company.

Cash and Cash Equivalent:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Banks	9.603	40.254
	<u>9.603</u>	<u>40.254</u>

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)

3.1 Derivative Financial Assets Held for Trading

Derivative financial instruments are stated at fair value. Positive fair values are classified as derivative financial assets held for trading while negative fair values are classified as derivative financial liabilities held for trading.

Details of derivative financial assets held for trading that arise from forward and currency swap buy-sell agreements as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Derivative Financial Assets Held for Trading	336	58	11.783	86
	336	58	11.783	86

3.2 Derivative Financial Liabilities Held for Trading

Details of derivative financial liabilities held for trading that arise from currency swap buy-sell agreements and forward contracts as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Derivative Financial Liabilities Held for Trading	31.051	-	1.292	12
	31.051	-	1.292	12

4 BANKS

Details of banks as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Demand Deposits	595	9.008	1.672	5.293
Time Deposits	-	-	30.023	3.431
	595	9.008	31.695	8.724

The bank balances, excluding income accruals, with original maturities shorter than 3 months which form the basis of cash flows statement is TL 9.603 thousand as of 31 December 2016 (31 December 2015: TL 40.254 thousand).

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

5 FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets available for sale are composed of unquoted equity share investments as of 31 December 2016 and 31 December 2015.

	31 December 2016		31 December 2015	
	Carrying Value	Share Percentage % (*)	Carrying Value	Share Percentage % (*)
<i>Investments in shares</i>	TL	FC	TL	FC
Factors Chain International (FCI)	-	2	-	2
	-	2	-	2

(*) Percentage of the shares change, according to the number of FCI shareholders.

6 FACTORING RECEIVABLES AND PAYABLES*Factoring Receivables*

Details of factoring receivables as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Domestic and import factoring receivables	1.925.231	395.619	1.942.442	478.733
Export factoring receivables	-	544.132	-	444.904
Unearned interest income	(29.537)	(656)	(15.315)	(561)
Factoring receivables, net	1.895.694	939.095	1.927.127	923.076

The amount of factoring receivables which are restructured is amounting TL 6.366 Thousand as of 31 December 2016 (31 December 2015: None)

The amount of past due not impaired receivables of the Company is TL 43.540 Thousand (31 December 2015: TL 37.009 Thousand) and their aging information are as follows:

	31 December 2016	31 December 2015
Overdue for 1 month	12.137	28.380
Overdue for 1-3 months(*)	15.998	8.629
Overdue for 3-6 months(*)	14.487	-
Overdue for 6-12 months	918	-
	43.540	37.009

(*) Includes the factoring receivables within the scope of the 2nd Provisional Article that is incorporated on 14 December 2016 into the regulation on "The Accounting Practices of Financial Leasing, Factoring and Financing Companies and their Financial Statements" published in the Official Gazette No.28861 dated 24 December 2013.

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

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6 FACTORING RECEIVABLES AND PAYABLES (Cont'd)*Factoring Payables*

Details of short term factoring payables as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Factoring payables	860	7.905	767	2.532
	860	7.905	767	2.532

Factoring payables represent the amounts of collections on behalf of factoring customers but are not transferred to the factoring customer accounts yet.

7 NON-PERFORMING RECEIVABLES

Details of the Company's non-performing factoring receivables and the provisions allocated for them as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Factoring receivables	72.388	-	84.548	12.883
Specific provisions	(55.953)	-	(62.889)	(1.137)
Non-performing receivables, net	16.435	-	21.659	11.746

Aging of non-performing factoring receivables and specific provision allocated for them as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	Total non - performing factoring receivables	Provision	Total non - performing factoring receivables	Provision
Overdue up to 90 days	1.232	246	2.571	514
Overdue for 91-180 days	2.282	456	31.319	4.156
Overdue for 181-365 days	17.643	6.028	8.638	4.513
Overdue for 1 year and over	51.231	49.223	54.903	54.843
Total	72.388	55.953	97.431	64.026

Amount of collaterals received for non-performing factoring receivables capped with the exposure is TL 2.678 thousand (31 December 2015: TL 10.752 thousand).

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7 NON-PERFORMING RECEIVABLES (Cont'd)

The movement of provision for non-performing factoring receivables is as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Balance as at 1 January	64.026	45.635
Provision provided for the period (*)	30.106	20.288
Transfer of non-performing receivables in the period (**)	(36.726)	-
Collections during the period (***)	(1.453)	(1.897)
Balance at the end of the period	55.953	64.026

(*) The provisions provided during the period and the cancellation of the same provision due to collections during the period are presented as a net value.

(**) A part of non-performing factoring receivables of the Company; amounting to TL 36.726.331,42; was transferred to Finansal Varlık Yönetim A.Ş. together with the related expenses, for a consideration of TL 50.000,00 in accordance with the Receivable Sales Contract dated 30 December 2016.

(***) Refers to the cancelled amount of the special provision, provided in prior periods, due to collections made in the current period.

8 TANGIBLE ASSETS

The movement of tangible assets for the period ended as at 31 December 2016 is as follows:

	1 January 2016	Additions	Disposals	31 December 2016
Acquisition Cost				
Furniture and fixtures	3.416	1.410	(28)	4.798
Vehicles	19	-	-	19
Leasehold improvements	1.317	120	-	1.437
	4.752	1.530	(28)	6.254
Accumulated Depreciation	1 January 2016	Charge for the period	Disposals	31 December 2016
Furniture and fixture	2.303	520	(27)	2.796
Vehicles	19	-	-	19
Leasehold improvements	1.076	54	-	1.130
	3.398	574	(27)	3.945
Net book value	1.354			2.309

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(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

8 TANGIBLE ASSETS (Cont'd)

The movement of tangible assets for the period ended as at 31 December 2015 is as follows:

	1 January 2015	Additions	Disposals	31 December 2015
Acquisition Cost				
Furniture and fixtures	3.046	929	(559)	3.416
Vehicles	19	-	-	19
Leasehold improvements	1.171	146	-	1.317
	4.236	1.075	(559)	4.752
Accumulated Depreciation				
	1 January 2015	Charge for the period	Disposals	31 December 2015
Furniture and fixture	2.492	370	(559)	2.303
Vehicles	19	-	-	19
Leasehold improvements	1.045	31	-	1.076
	3.556	401	(559)	3.398
Net book value	680			1.354

As of 31 December 2016 the insurance coverage on tangible assets amounts to TL 1.439 thousand (31 December 2015: TL 1.439 thousand) and the insurance premium amounts to TL 3 thousand (31 December 2015: TL 3 thousand).

	Useful Lives
Vehicles	5 years
Furnitures and fixtures	3-15 years
Leasehold improvements	3-10 years

9 INTANGIBLE ASSETS

The movement of intangible assets for the period ended as of 31 December 2016 is as follows:

	1 January 2016	Additions	31 December 2016
Acquisition Cost			
Rights	3.076	-	3.076
Other (Software)	9.681	4.272	13.953
	12.757	4.272	17.029

	1 January 2016	Charge for the period	31 December 2016
Accumulated Amortization			
Rights	3.076	-	3.076
Other (Software)	5.930	2.804	8.734
	9.006	2.804	11.810
Net book value	3.751		5.219

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(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

9 INTANGIBLE ASSETS (Cont'd)

The movement of intangible assets for the period ended as of 31 December 2015 is as follows:

	1 January 2015	Additions	31 December 2015
Acquisition Cost			
Rights	3.076	-	3.076
Other (Software)	7.064	2.617	9.681
	10.140	2.617	12.757
Accumulated Amortization		Charge for the period	31 December 2015
Rights	3.076	-	3.076
Other (Software)	3.713	2.217	5.930
	6.789	2.217	9.006
Net book value	3.351		3.751

As of 31 December 2016 and 31 December 2015, the Company does not have any internally generated intangible assets.

	Useful Lives
Rights	3-Years
Others	3-Years

10 TAX ASSETS AND LIABILITIES

Corporate Tax

The Company is subject to the Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Company's results for the year.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding non-deductible expenses, and by deducting exempt income and other non-taxable income (carried forward losses if available and investment incentives if preferred).

The effective tax rate in 2016 is 20% (2015: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax is calculated as 20% of the income in the year 2016 (2015: 20%)

Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1 April and 25 April of the following year (between 1st and 25th of the following 4 months of the tax year for the tax responsible who have special tax years). Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

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(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

10 TAX ASSETS AND LIABILITIES (Cont'd)***Income Withholding Tax***

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. Income tax withholding 24 April 2003 - 22 July 2006 is 10% among all companies. This rate since 22 July 2006, by the Council of Ministers No. 2006/10731 of 15% is applied. Undistributed dividends incorporated in share capital are not subject to income tax withholding.

Reconciliation of tax charge

	1 January – 31 December 2016	1 January – 31 December 2015
Reported profit before taxation	23.808	31.824
Calculated taxation on reported profit	(4.762)	(6.365)
Permanent differences:		
Non-deductible expenses	(749)	(87)
Non-taxable income	534	6
Reversal of prior year provision for corporate income tax	937	52
Other	(52)	-
Tax Charge	(4.092)	(6.394)

The corporate tax payable as at 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016	31 December 2015
Corporate tax provision	16.541	7.162
Prepaid taxes	(9.241)	(15.976)
Withholding income taxes	(353)	(304)
Corporate Tax Payable	6.947	(9.118)

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NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

10 TAX ASSETS AND LIABILITIES (Cont'd)

The tax charge in the income statement for the period ended as at 31 December 2016 and 31 December 2015 are as summarized below:

	<u>1 January- 31 December 2016</u>	<u>1 January- 31 December 2015</u>
Current tax charge	(16.541)	(7.162)
Reversal of prior year tax provision	2.074	52
Prior year corporate tax return (*)	2.611	-
Deferred tax benefit/(charge)	7.764	716
	<u>(4.092)</u>	<u>(6.394)</u>

(*) The case, that is brought to Büyük Mükellefler Vergi Dairesi on 28 May 2015 about the special provision related to the bad debt that is in the process of prosecution and execution should not be considered as a reduction on the basis of tax resulted in Company's favor on 16 May 2016. The amount that was over accrued by TL 2.611 thousand in the corporate tax return was returned to the Company as of 13 June 2016.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

The effective corporate tax rate is 20% as at 31 December 2016 (31 December 2015: 20%). The Company calculates deferred tax assets and liabilities according to the balance sheet liability method on the temporary differences that will be utilized using the rate 20%.

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NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

10 TAX ASSETS AND LIABILITIES (Cont'd)

Income Withholding Tax(Cont'd)

Breakdown of temporary differences and deferred tax assets and liabilities that are calculated by using current tax rates as at 31 December 2016, 31 December 2015 are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
<u>Temporary Differences</u>		
Unearned factoring interest income	30.193	15.876
Factoring receivable provisions	42.857	61.526
Deferred commissions	3.508	2.659
Retirement pay provision	1.792	1.442
Unused vacation accrual	876	818
Valuation differences of derivative financial assets	31.051	1.304
Premium pay provision	1.520	894
Valuation differences of factoring receivables	1.226	735
Other provisions	576	316
<i>Temporary differences related to deferred tax assets</i>	113.599	85.570
Temporary differences of derivative financial assets	394	11.869
Temporary differences on tangible and intangible assets	1.886	1.332
Valuation differences of funds borrowed	7	47
Valuation differences of bonds	90	170
Commission accruals	549	327
<i>Temporary differences related to deferred tax liabilities</i>	2.926	13.745
<u>Deferred tax assets / (liabilities)</u>		
Unearned factoring interest income	6.039	3.174
Factoring receivable provisions	8.571	12.305
Deferred commissions	702	532
Retirement pay provision	358	288
Unused vacation accrual	175	164
Valuation differences of derivative financial assets	6.211	261
Premium pay provision	304	179
Valuation differences of factoring receivables	245	147
Other provisions	115	63
<i>Deferred tax assets</i>	22.720	17.113
Temporary differences of derivative financial assets	(79)	(2.374)
Temporary differences on tangible and intangible assets	(377)	(266)
Valuation differences of funds borrowed	(1)	(9)
Valuation differences of bonds	(18)	(34)
Commission accruals	(110)	(65)
<i>Deferred tax liabilities</i>	(585)	(2.748)
<u>Deferred tax assets (net)</u>	22.135	14.365

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

10 TAX ASSETS AND LIABILITIES (Cont'd)

Movement of deferred tax assets is as follows:

	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
1 January	14.365	13.637
Deferred tax income / (expense)	7.764	716
Deferred tax income/(expense) classified under other comprehensive income	6	12
Balance at the end of the period	22.135	14.365

11 PREPAID EXPENSES AND OTHER ASSETS

Details of prepaid expenses as at 31 December 2016 and 31 December 2015 are as follows:

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	TL	FC	TL	FC
Insurance premiums	554	-	362	-
Expense contribution share	-	-	449	-
Guarantee letter commissions	1.566	-	884	-
Bond issuance brokerage commissions	1.035	-	1.245	-
Other	87	68	270	-
	3.242	68	3.210	-

Details of other assets as at 31 December 2016 and 31 December 2015 are as follows:

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	TL	FC	TL	FC
Receivables related with court expenses(net)	1.174	-	2.440	-
Receivables from BSMV accruals	3.142	92	325	-
Other	68	780	42	1
	4.384	872	2.807	1

12 FUNDS BORROWED

Details of funds borrowed as at 31 December 2016 and 31 December 2015 are as follows:

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	TL	FC	TL	FC
Funds Borrowed	1.639.361	510.085	1.395.798	691.304
	1.639.361	510.085	1.395.798	691.304

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NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

12 FUNDS BORROWED (Cont'd)

	31 December 2016				31 December 2015			
	Original Amount	Interest Rate (%)	TL Equivalent Up to 1 Year	1 Year and over	Original Amount	Interest Rate (%)	TL Equivalent Up to 1 Year	1 Year and over
TL	1.639.361	9,40-14,18	1.639.361	-	1.395.798	11,85-15,00	1.395.798	-
USD	751	1,15-2,04	2.643	-	49.646	0,90-2,50	144.350	-
EURO	132.942	0,25-2,42	395.885	97.317	142.006	0,25-2,65	451.237	95.347
GBP	3.297	0,77-2,15	14.241	-	86	1,88-1,88	370	-
Total			2.052.130	97.317			1.991.755	95.347

These rates represent the interest rate range of outstanding funds borrowed with fixed and floating rates as at 31 December 2016 and 31 December 2015.

TL 885.072 thousand of the funds borrowed as of 31 December 2016 is borrowed from the Takasbank Money Market (31 December 2015: TL 267.417 thousand). TL 1.089.000 thousand worth of letter of guarantee has been given for the funds borrowed from the Takasbank Money Market (31 December 2015: TL 440.000 thousand).

As of 31 December 2016 and 31 December 2015, no guarantee has been given for the remaining funds borrowed.

13 MARKETABLE SECURITIES ISSUED

Details of marketable securities issued as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Bills				
Nominal	520.791	-	726.240	-
Cost	496.200	-	688.263	-
Carrying Value	503.619	-	702.552	-

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(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

13 MARKETABLE SECURITIES ISSUED(Cont'd)

The Company issued discounted bills only for qualified investors as follows:

1 January - 31 December 2016			1 January - 31 December 2015		
Issue Date	Nominal Value	Maturity Date	Issue Date	Nominal Value	Maturity Date
28.07.2016	75.000	23.01.2017	31.07.2015	94.570	22.01.2016
16.11.2016	217.351	12.05.2017	04.09.2015	75.280	26.02.2016
30.11.2016	110.740	26.05.2017	05.10.2015	43.290	28.03.2016
14.12.2016	87.500	05.06.2017	16.10.2015	142.700	06.04.2016
21.12.2016	30.200	23.03.2017	20.11.2015	70.000	13.05.2016
			04.12.2015	174.780	25.05.2016
			14.12.2015	125.620	06.06.2016
Total	520.791			726.240	

14 SUNDRY CREDITORS AND OTHER LIABILITIES

Details of sundry creditors as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Deferred commissions	3.508	-	2.659	-
Sundry creditors	619	126	609	21
Transitory liability accounts	725	1.310	143	744
Sundry creditors	4.852	1.436	3.411	765
Guarantee payments to customers	-	130	-	34
Other liabilities	-	130	-	34

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

15 TAX PAYABLES AND LIABILITIES

Details of taxes payables and liabilities as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Income tax payable	503	-	650	-
Social security premiums payable	717	-	334	-
Stamp tax payable	14	-	18	-
V.A.T payable	29	-	18	-
BSMV payable	1.313	-	1.364	-
	2.576	-	2.384	-

16 PROVISIONS

Details of provisions as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Provision for employee benefits	4.188	-	3.154	-
Provision for lawsuits	316	-	316	-
Provision for brokerage commissions	-	412	-	335
Other provisions	260	-	103	-
	4.764	412	3.573	335

16.1 Provision for Employee Benefits

Provision for employee benefits as of 31 December 2016, include retirement pay provision amounting to TL 1.792 thousand (31 December 2015: TL 1.442 thousand), unused vacation accrual amounting to TL 876 thousand (31 December 2015: TL 818 thousand) and personnel bonus accrual amounting to TL 1.520 thousand (31 December 2015: TL 894 thousand).

Retirement Pay Provision

Under the Turkish Labor Law, the Company is required to pay employment termination benefits to each employee whose contract is terminated after one service year or who is entitled to a retirement at the age of 60 (58 for women) after 25 service years (20 for women) or who is called for military service or who is dead. Some transitional provisions related to the pre-retirement service term were excluded from the scope of the Law since the related law was amended as of 23 May 2002. The amount of compensation to be paid is equal to one month's salary and as of 31 December 2016, this amount is limited to a maximum of TL 4.297,21 (full TL basis) (31 December 2015: TL 3.828,37 (full TL basis)). The amount of compensation to be paid is equal to one month's salary for every and each year of employment.

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

16 PROVISIONS (Cont'd)**16.1 Provision for Employee Benefits(Cont'd)**

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2016, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 7,80% and a discount rate of 11,20%, resulting in a real discount rate of approximately 3,15%. (31 December 2015: inflation rate 7,10%, discount rate 10,30%, real discount rate of approximately 2,99%).

Movement of retirement pay provision in the period is as follows:

	<u>1 January- 31 December 2016</u>	<u>1 January- 31 December 2015</u>
Net liability / (asset) at the beginning of the period	1.442	1.153
Severance indemnity paid in the period	(221)	(182)
Retirement provision recognized under income statement	540	408
Accounted in other comprehensive income/(expense)	31	63
Net liability / (asset) at the end of period	1.792	1.442

Personnel Bonus Accrual

Movement of the personnel bonus provision in the period is as follows:

	<u>1 January- 31 December 2016</u>	<u>1 January- 31 December 2015</u>
Balance at 1 January	894	1.050
Paid in the period	(1.835)	(2.272)
Reversal	(38)	(277)
Accrual for the period	2.499	2.393
Balance at the end of the period	1.520	894

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

16 PROVISIONS (Cont'd)**16.1 Provision for Employee Benefits (Cont'd)***Unused Vacation Accrual*

Movement of the unused vacation accrual during the period is as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Balance at 1 January	818	761
Paid in the period	(38)	(68)
Reversal	(67)	(91)
Accrual for the period	163	216
Balance at the end of the period	876	818

16.2 Other Provisions

As of 31 December 2016, other provisions amounting to TL 412 thousand has been provided for correspondent expenses, amounting to TL 316 thousand has been provided for ongoing negative declaratory lawsuits, amounting to TL 60 thousand has been provided for lawsuits and court expenses of doubtful receivables and amounting to 200 thousand TL has been provided for other expenses (31 December 2015: TL 335 thousand has been provided for correspondent expenses, TL 316 thousand has been provided for ongoing negative declaratory lawsuits and TL 103 thousand has been provided for operating expenses). The movement of other provisions during the period is as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Balance at 1 January	419	335	381	-
Paid in the period	(103)	(335)	(165)	-
Provision provided for the period	260	412	203	335
Balance at the end of the period	576	412	419	335

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

17 SHAREHOLDERS' EQUITY

17.1 Paid-in Capital

As of 31 December 2016, the Company's share capital amounts to TL 79.500 thousand (31 December 2015: TL 79.500 thousand). As at 31 December 2016 the Company has 7.950.000.000 (31 December 2015: 7.950.000.000) total registered shares consisting of 4.004.242.970 preferred shares and 3.945.757.030 ordinary shares with a par value of Kuruş ("Kr") 1 each (31 December 2015: Kr 1).

17.2 Capital Reserves

None. (31 December 2015: None)

17.3 Other Comprehensive Income or Expense

As of 31 December 2016, TL (522) thousand includes actuarial gain/ losses of employee termination benefits and its deferred tax effect that will not be reclassified subsequently to profit or loss. (31 December 2015: TL (497) thousand includes actuarial gain/ losses of employee termination benefits and its deferred tax effect that will not be reclassified subsequently to profit or loss.)

17.4 Profit Reserves

As of 31 December 2016, the Company's profit reserves comprise of the legal reserves amounting to TL 6.896 thousand (31 December 2015: TL 5.639 thousand) and extraordinary reserves amounting to TL 79.863 thousand (31 December 2015: TL 55.690 thousand).

17.5 Profit Distribution

2015 PROFIT DISTRIBUTION TABLE

Net Profit for the year	25.430
Legal Reserves (-)	1.257
DISTRIBUTABLE NET PROFIT OF THE PERIOD	24.173
Donations (+)	50
Distributable net profit of the period (with Donations)	24.223
EXTRAORDINARY RESERVES	24.173

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

18 OPERATING INCOME

The details of operating income for the periods ended as of 31 December 2016 and 31 December 2015 are as follows:

	<u>1 January- 31 December 2016</u>	<u>1 January- 31 December 2015</u>
Factoring interest income	222.624	217.548
Factoring commission income (net)	21.644	20.134
	<u>244.268</u>	<u>237.682</u>

19 FINANCE EXPENSES

The details of finance expenses for the periods ended as of 31 December 2016 and 31 December 2015 are as follows:

	<u>1 January- 31 December 2016</u>	<u>1 January- 31 December 2015</u>
Interest expenses on funds borrowed	143.286	153.471
Interest expenses on marketable securities issued	56.478	63.805
Fees and commissions paid	11.240	4.073
Other interest expenses	17	12
	<u>211.021</u>	<u>221.361</u>

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

20 OPERATING EXPENSES

The details of operating expenses for the periods ended as of 31 December 2016 and 31 December 2015 are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Loss on sale of non-performing factoring receivables	36.676	-
Personnel expenses	23.752	22.459
Brokerage services fee	-	2.828
Depreciation and amortization charges	3.378	2.618
Vehicle expenses	2.062	2.023
Rent expenses	1.807	1.661
Taxes and duties	1.136	1.437
IT maintenance and contract expenses	1.724	1.229
Maintenance and repair expenses	1.078	911
Communication expenses	784	820
Representation expenses	619	820
Consultancy expenses	702	779
Subscription expenses	1.140	472
Provision for retirement pays	540	408
Legal expenses	754	214
Travel expenses	330	210
Other	2.463	1.146
	78.945	40.035

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

20 OPERATING EXPENSES (Cont'd)

The details of personnel expenses classified under operating expenses for the periods ended as at 31 December 2016 and 2015 are as follows:

	<u>1 January- 31 December 2016</u>	<u>1 January- 31 December 2015</u>
Salaries and wages	16.197	15.193
Bonuses	2.499	2.393
Social security premium employer's share	2.219	1.947
Personnel transportation expenses	564	687
Personnel food expenses	628	642
Insurance expenses	492	443
Per diem payments	281	284
Unemployment insurance employer's share	262	234
Training expenses	172	212
Other	438	424
	<u>23.752</u>	<u>22.459</u>

21 OTHER OPERATING INCOME

The details of other operating income for the periods ended as at 31 December 2016 and 31 December 2015 are as follows:

	<u>1 January- 31 December 2016</u>	<u>1 January- 31 December 2015</u>
Foreign exchange gains	294.795	501.892
Interest income on bank deposits	2.331	2.057
Income on derivative financial transactions	52.564	82.963
Reversal of provision for the non-performing factoring receivable(note 7)	36.726	-
Other	1.533	2.755
	<u>387.949</u>	<u>589.667</u>

Foreign exchange gains for the period ended 31 December 2016 includes TL 59.732 thousand foreign exchange differences on foreign currency indexed factoring receivables. (31 December 2015: TL 33.042 Thousand)

22 SPECIFIC PROVISIONS FOR NON-PERFORMING RECEIVABLES

The details of provision for non-performing receivables for the periods ended as of 31 December 2016 and 31 December 2015 are as follows:

	<u>1 January- 31 December 2016</u>	<u>1 January- 31 December 2015</u>
Specific provision expenses(note 7)	30.106	20.288
	<u>30.106</u>	<u>20.288</u>

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

23 OTHER OPERATING EXPENSES

The details of other operating expenses for the periods ended as of 31 December 2016 and 31 December 2015 are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Foreign exchange losses	255.565	512.162
Losses on derivative financial transactions	32.509	1.579
Other	263	100
	<u>288.337</u>	<u>513.841</u>

Foreign exchange losses for the period ended 31 December 2016 includes TL 2.875 thousand foreign exchange differences on foreign currency indexed factoring receivables (31 December 2015: TL 2.383 thousand).

24 EARNINGS PER SHARE

Calculation of earnings per share for the periods ended as of 31 December 2016 and 31 December 2015 are as follows:

	1 January – 31 December 2016	1 January – 31 December 2015
Net profit	19.716	25.430
Weighted average number of shares with 1 KR of nominal value (thousand)	7.950.000	7.950.000
<u>Earnings per thousand shares (KR)</u>	<u>248,00</u>	<u>319,87</u>

25 EXPLANATIONS REGARDING RELATED PARTY TRANSACTIONS

The details of receivables and payables due from and due to related parties as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Bank balances				
Türkiye Garanti Bankası A.Ş.	560	8.465	1.613	6.870
Demand deposits	560	8.465	1.613	3.439
Time deposits	-	-	-	3.431
Garantibank International NV	-	522	5	1.847
Demand deposits	-	522	5	1.847
Time deposits	-	-	-	-
	<u>560</u>	<u>8.987</u>	<u>1.618</u>	<u>8.717</u>

The amount of cheques and notes at custody of Türkiye Garanti Bankası A.Ş. related with factoring receivables as of 31 December 2016 is TL 649.571 thousand (31 December 2015: TL 570.649 thousand).

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(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

25 EXPLANATIONS REGARDING RELATED PARTY TRANSACTIONS (Cont'd)

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Factoring receivables				
Doğuş Yayın Grubu A.Ş.	-	-	13.162	-
Ayson Geoteknik ve Deniz İnşaat A.Ş.	4.486	-	-	-
Startv Medya Hizmetleri A.Ş.	-	-	8.314	-
	4.486	-	21.476	-

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Loans borrowed				
Türkiye Garanti Bankası A.Ş.	-	114.052	406.751	159.347
	-	114.052	406.751	159.347

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Sundry creditors				
Türkiye Garanti Bankası A.Ş.	42	2	27	-
Garanti Finansal Kiralama A.Ş.	21	-	-	-
Garanti Emeklilik ve Hayat A.Ş.	-	-	-	21
	63	2	27	21

The Company has made purchases for Software and IT products amounting to TL 3.229 thousand from Garanti Bilişim Teknolojisi ve Ticaret A.Ş in the period ended 31 December 2016 (31 December 2015: TL 2.429 thousand from Garanti Bilişim Teknolojisi ve Ticaret A.Ş).

The details of off-balance sheet transactions with the related parties as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Derivative Agreements				
Türkiye Garanti Bankası A.Ş.	232.663	231.600	330.780	346.703
Currency swap purchase transactions	232.663	-	330.780	12.710
Currency swap sale transactions	-	231.600	-	333.993
Garantibank International NV	47.371	57.925	-	-
Currency swap purchase transactions	47.371	2.597	-	-
Currency swap sale transactions	-	55.328	-	-
	280.034	289.525	330.780	346.703

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25 EXPLANATIONS REGARDING RELATED PARTY TRANSACTIONS (Cont'd)

Income and expenses from related parties for the periods ended as of 31 December 2016 and 31 December 2015 are as follows:

	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
Interest income from factoring receivables		
Startv Medya Hizmetleri AŞ	2.244	13
Doğuş Yayın Grubu AŞ	913	1.786
Garanti Bank International NV	36	124
Ayson Geoteknik ve Deniz İnşaat AŞ	16	-
Doğuş Perakende Satış Giyim ve Aksesuar Ticaret AŞ	-	34
Bmk Turizm ve Otelcilik Hiz. AŞ	-	42
	3.209	1.999

Interest income on bank deposits		
Türkiye Garanti Bankası A.Ş.	32	28
Garanti Bank International NV	-	3
	32	31

	<u>1 January - 31 December 2016</u>	<u>1 January - 31 December 2015</u>
Interest expenses on funds borrowed		
Türkiye Garanti Bankası A.Ş.	4.410	41.022
Garanti Bank International NV	1.149	3.128
	5.559	44.150
Fees and commissions given		
Garanti Yatırım Menkul Kıymetler A.Ş.	2.185	2.993
Türkiye Garanti Bankası A.Ş.	90	487
Garanti Bank International NV	84	84
	2.359	3.564

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016**

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

25 EXPLANATIONS REGARDING RELATED PARTY TRANSACTIONS (Cont'd)

<i>General Administrative Expenses</i>	1 January- 31 December 2016	1 January- 31 December 2015
Türkiye Garanti Bankası A.Ş. (<i>Rent expense, IT maintenance and contract expenses, brokerage service expense</i>)	1.726	4.523
Garanti Filo Yönetim Hizmetler A.Ş. (<i>Car rental expenses</i>)	1.299	1.312
Antur Turizm AŞ (<i>Travelling expenses</i>)	146	126
Doğuş Bilgi İşlem ve Teknoloji Hizmetleri A.Ş. (<i>Information technologies maintenance and contract costs</i>)	5	5
Garanti Finansal Kiralama A.Ş. (<i>Office rent expenses, contribution to building costs</i>)	719	660
Garanti Emeklilik ve Hayat A.Ş. (<i>Insurance expenses</i>)	65	55
İstanbul Takas ve Saklama Bankası A.Ş. (<i>Transaction commissions</i>)	1.027	-
	4.987	6.681

	1 January- 31 December 2016	1 January- 31 December 2015
Profits from Financial Derivatives		
Türkiye Garanti Bankası A.Ş.	28.444	30.453
Garanti Bank International NV	10.816	-
Banco Bilbao Vizcaya Argentaria	-	6.503
	39.260	36.956
Losses from Financial Derivatives		
Türkiye Garanti Bankası A.Ş.	4.107	113
Garanti Bank International NV	5.659	-
	9.766	113

Salary and other benefits provided to board members and executives:

The amount of salary and other benefits provided to board members and executives by the Company for the period ended as of 31 December 2016 is TL 10.952 thousand (31 December 2015: TL 10.503 thousand)

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

(Amounts are expressed in Turkish Lira (thousands of "TL") unless otherwise indicated.)

26 CONTINGENT ASSETS AND LIABILITIES

26.1 Guarantees Received

Guarantees received for the Company's factoring receivables as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Sureties received (*)	-	18.474.453	-	16.234.986
Finance notes	4.710	1.859.913	1.460	1.825.425
Mortgage	33.500	-	33.500	-
Chattel mortgage	281	20.404	440	17.477
Pledge	-	10.517	5.112	11.630
Customer cheques	14	4.329	42	7.153
Letters of guarantee	78.400	2.394	-	48.673
Transfer of claim arising from letter of guarantees	12.430	4.252	8.735	3.603
	129.335	20.376.262	49.289	18.148.957

(*) Sureties received consists of the sum of amounts signed by each guarantor for every contract within the context of the factoring contracts.

26.2 Guarantees Given

Guarantees given as at 31 December 2016 and 31 December 2015 consist of letter of guarantee given to the institutions below:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Takasbank	1.089.000	-	440.000	-
Courts	8.324	401	7.462	235
Other	6	-	6	-
	1.097.330	401	447.468	235

26.3 Commitments

TL equivalent of nominal values of commitments as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Foreign exchange buy-sell commitments	294	294	3.688	3.676
	294	294	3.688	3.676

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26 CONTINGENT ASSETS AND LIABILITIES (Cont'd)**26.4 Derivative Agreements**

The details of derivative agreements as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Currency swap purchase transactions	728.450	2.597	765.034	66.145
Currency swap sell transactions	-	744.423	-	800.262
Futures purchase transactions	69	-	-	-
Futures sell transactions	-	69	-	-
	728.519	747.089	765.034	866.407

26.5 Items Held in Custody

The details of cheques and notes in collection as at 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Cheque in collection	651.696	102.628	551.011	119.434
Notes in collection	5.471	25.280	5.006	7.418
	657.167	127.908	556.017	126.852

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

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27 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS

27.1 Financial Risk Management Purposes and Policies

The Company's risk management strategy aims to measure the risks in the framework of the Company's activities by considering the risk-return balance for the optimum allocation of the capital and growth.

In this context, for the purposes of establishing a companywide risk culture, the basic principles of risk management implementation are defined by analyzing risks according to the volume, nature and complexity of the Company's activities; ensuring compliance with international and local regulations; controlling risks for protection of financial strength for limiting any potential adverse effects of market conditions on capital and income; creating risk transparency and risk awareness.

27.1.1 Credit Risk

The Company is exposed to credit risk through its factoring transactions. The allocation and monitoring of credit risk management activities can be summarized as follows.

Credit allocation stage;

Credit committee of Garanti Factoring A.Ş. assesses loan applications from customers on a weekly basis. Apart from this, authorized sub - committees can also grant loans by using their defined limits. Within the scope of the assessment, quality of receivables, borrower's credibility and the content of the trade are given particular importance. With the credit limit allocation, "limit validity time" application is applied, maximum limit is granted only for one year, but with the decision of the management the time limit can be reduced to shorter periods for control purposes.

During the assessment of credit allocations, determination of the credit risk and its management is carried out basically in two ways:

1. Criteria based limit allocation; a limit allocation is made to the appropriate buyer / seller side borrower company that complies with the criteria which are determined by the Credit Committee. These criteria would be revised if necessary, depending on the market conditions, sectoral developments and the results obtained from the current allocation process. If these criteria are no longer valid for a customer after the loan allocation, any other loan disbursements are stopped, and the risk liquidation process starts.
2. Standard analysis process; Credit allocations are made through the analysis made by the Credit Department within the scope of their limits.

Credit monitoring stage;

In order to monitor the allocated credits an early warning system has been developed. Periodically, customer credibility assessments are performed. In this context, overdraft checks, overdue factoring receivables and invoices are monitored on a daily basis and, if deemed necessary, additional intelligence investigations about customers are made.

For the due dated checks, investigation department performs monthly risk controls and also assess concentration level by selecting certain customers from the total risk exposure. Then loan department reviews the work performed and re-assesses the loan limits for those selected customers.

In order to follow the customers with significant exposures, the top 20 borrowers with the highest risks, or the exposure to the related parties are reported to the Asset-Liability Committee on a weekly basis.

27 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (Cont'd)

27.1.2 Market Risk

The Company, takes necessary precautions to safeguard itself according to the changing market conditions. The market risk is managed by taking the hedging positions and undertaking derivative transactions within the limits approved by the Board of Directors. The major cost element of the Company is the interest expenses from borrowings and it may be affected by the fluctuations in the market. In this context, under the monitoring of the senior management, debt maturities are managed with respect to the interest expectations in the market. In addition, to manage the cash flow and liquidity risk, the maturity of factoring receivables, bank loans and deposit accounts is monitored. Daily status reports are prepared and end of day open treasury operations are reported to senior management.

Foreign exchange risk is monitored by the end of day open position limits under the Treasury Transaction Limits and end of day open positions are reported to the Company's management.

27.1.3 Liquidity Risk

Liquidity Risk, is managed by the Treasury and Asset Liability Committee within the framework of the risk management policies, in order to take the necessary measures timely and accurately to avoid the liquidity shortage due to the market conditions and the balance sheet structure.

Daily liquidity management is carried out by the Treasury Department. Treasury, while performing this task, considers early warning signals for possible liquidity shortages. Medium and long-term liquidity management is carried out by the Treasury in accordance with the Asset Liability Committee decisions.

The Company policy for the liquidity management is designed to have the sufficient liquidity in order to, maintain funding, utilizing any investment opportunities, fulfilment of any credit demand and any possible liquidity shortage. The Company's funding is based on bank loans and bond issues. While constituting the asset structure to ensure efficient management of liquidity, following points are taken into consideration:

- Ease of liquidity,
- Ease of liquidity of collaterals received

The necessary diversification of assets and liabilities is provided in order to fulfil the payment obligations considering the related currencies. The Company, monitors cash flows from assets and liabilities and predicts future liquidity needs in TL and FX liquidity management.

Early warning systems are established and monitored by taking into consideration of both Company's own financial indicators as well as the Turkish capital market, macroeconomic data and global market indicators. The weight of the funding sources like borrowings and bonds in the liabilities, the counterparty transaction volume concentration and the maturity structure is monitored.

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27 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (Cont'd)

27.1 Financial Risk Management Purposes and Policies (Cont'd)

27.1.4 Operational Risk

All operational risks are managed under the supervision of the Board of Directors and the Audit Committee in accordance with the framework that covers; risk identification, risk assessment, risk monitoring and risk control/mitigation. Each unit of the Company is responsible from their own operational risk monitoring, controlling and mitigating their operational risk by taking the necessary actions. The ultimate responsibility is on the relevant senior management.

In order to create an effective "internal control system", the Company makes necessary organizational arrangements, establishes the appropriate communication and information systems and constitutes monitoring function. The Company carry outs Disaster and Business Continuity processes in order to maintain the image of the Company, to fulfill its legal obligations and to meet the needs of the customers in adverse circumstances.

Internal Audit Department is responsible from the audit of departments at headquarters and branches and investigation of any fraudulent activities performed by the staff or third parties. It is also responsible from creating a sound internal control environment and its coordination, and also carrying out of the Company's operations within the legislation and regulations and in accordance with the Company management strategy and policy. In order to ensure compliance with national and international regulations, studies are carried out by the compliance officer in the scope of the strategy for the combat against the crime revenue and financing of terrorism.

The performance of the internal control system of the Company and the effectiveness of controlling operational risks is monitored regularly by the Internal Audit Department. In this context, system controls that constitute the internal control system, business cycle controls performed by the staff, organizational structure, segregation of duties, and basically general control environment are assessed.

This assessment can be performed centrally at the headquarters by utilizing computer-aided infrastructure or can be carried out traditionally by the "on site review". In addition, those responsible from the emergency and contingency plans and their backups are designated.

For the purposes of legal risk management, available controls that are designed for monitoring of the compliance of the Company's transactions with laws, internal policies and rules are monitored.

To strengthen the control environment in the operational areas, systemic or procedural limitations are applied. These limits that are set to limit the operational risks, are designed in accordance with the significance of the transactions for the Company, risk involved and probable amount of the loss and the qualifications of the staff. Limits are assessed and updated periodically depending on the needs. Operational risk limits are managed by determination of inconsistencies and approvals surrounding authorized signatures, authority over payments and transfers, accounting, purchase and sale and expense processes and loan disbursement process.

Operational risks are reported to the Audit Committee by the Internal Audit Department. In addition, the related business lines and units report their own operational risks to their respective senior management.

27 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (Cont'd)

27.1 Financial Risk Management Purposes and Policies (Cont'd)

27.1.5 Reputation Risk

The Board of Directors and the whole staff of the Company is responsible from the protection of the reputation of the Company. Human Resources and Internal Audit Department determines the principles of the ethical rules and code of conduct of the Company and monitor the compliance of the employees to those rules.

The Company tries to avoid any kind of operation that would create a reputational risk in the eyes of regulators, its customers and other market participants and perform its maximum effort to be beneficial to the society, nature and humanity. The Company performs it's all transactions and operations within the framework of compliance with the legislation, corporate governance principles, social, ethical and environmental principles.

In order to regulate the behavioural affairs of its employees and their business relationships, "Ethical Principles Procedure" and "Fraud and Unethical Behaviour Prevention Policy" documents are available as prepared by the Human Resources Department and Internal Audit Department. The Company is committed to the principles of corporate governance and shows maximum effort in the implementation of these principles. Annual report and website is regularly updated, within the framework of corporate governance principles.

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27 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont'd)

27.2 Explanations on Risk Management

27.2.1 Credit Risk

31 December 2016	Factoring Receivables		Non-performing receivables		Other Assets		Financial Assets Available for Sale	Derivative Financial Assets Held for Trading	Financial Assets Held for Trading	Banks	Others	Related Party	Others	Related Party	Others	Banks	Others	Financial Assets Held for Trading	Derivative Financial Assets Held for Trading	Financial Assets Available for Sale
	Related Party	Others	Related Party	Others	Related Party	Others														
Maximum net credit risk as of balance sheet date (A+B+C+D+E)	4.486	2.830.303	-	16.435	-	5.302	-	5.302	9.577	-	-	-	-	-	-	394	-	-	-	2
A. Carrying value of financial assets that are not past due nor impaired	4.486	2.780.398	-	-	-	5.302	-	5.302	9.577	-	-	-	-	-	-	394	-	-	-	2
B. Net book value of financial assets whose terms are reassessed, if not accepted as past due nor impaired	-	6.366	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Financial assets that are past due but not impaired	-	43.539	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- carrying value	-	43.539	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- the part under guarantee with collateral etc	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
D. Net book value of impaired assets	-	-	-	16.435	-	-	-	16.435	-	-	-	-	-	-	-	-	-	-	-	-
- Past due (gross carrying value)	-	-	-	72.388	-	-	-	72.388	-	-	-	-	-	-	-	-	-	-	-	-
- Impairment (-)	-	-	-	(55.953)	-	-	-	(55.953)	-	-	-	-	-	-	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	2.678	-	-	-	2.678	-	-	-	-	-	-	-	-	-	-	-	-
- Not past due (gross carrying value)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
E. Off balance sheet items that include credit risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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27 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont'd)

27.2 Explanations on Risk Management (Cont'd)

27.2.1 Credit Risk (Cont'd)

31 December 2015	Factoring Receivables		Non-performing receivables		Other Assets			Financial Assets Held for Trading	Derivative Financial Assets Held for Trading	Financial Assets Available for Sale
	Related Party	Others	Related Party	Others	Related Party	Others	Banks			
Maximum net credit risk as of balance sheet date (A+B+C+D+E)	21.476	2.828.727	-	33.405	-	2.808	40.419	-	11.869	2
A. Carrying value of financial assets that are not past due nor impaired	21.476	2.791.718	-	-	-	2.808	40.419	-	11.869	2
B. Net book value of financial assets whose terms are reassessed, if not accepted as past due nor impaired	-	-	-	-	-	-	-	-	-	-
C. Financial assets that are past due but not impaired	-	37.009	-	-	-	-	-	-	-	-
-carrying value	-	37.009	-	-	-	-	-	-	-	-
- the part under guarantee with collateral etc	-	-	-	-	-	-	-	-	-	-
D. Net book value of impaired assets	-	-	-	33.405	-	-	-	-	-	-
- Past due (gross carrying value)	-	-	-	97.431	-	-	-	-	-	-
- Impairment (-)	-	-	-	(64.026)	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	10.752	-	-	-	-	-	-
- Not past due (gross carrying value)	-	-	-	-	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-	-
E. Off balance sheet items that include credit risk	-	-	-	-	-	-	-	-	-	-

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27 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont’d)

27.2 Explanations on Risk Management (cont’d)

27.2.2 Liquidity Risk

The following table provides an analysis for the Company’s financial liabilities by grouping the contractual maturities as of the balance sheet date. Amounts in the following table are the undiscounted contractual cash flows:

31 December 2016

Contractual Maturities	Carrying Amount	Total Expected Cash Outflows	Less than 3 Months	3-12 month	1-5 year	Over 5 year
Non-derivative financial liabilities	2.668.119	2.689.236	2.149.867	539.369	-	-
Funds borrowed	2.149.447	2.153.392	2.134.814	18.578	-	-
Bonds issued	503.619	520.791	-	520.791	-	-
Factoring payables	8.765	8.765	8.765	-	-	-
Other payables	6.288	6.288	6.288	-	-	-

Contractual Maturities	Carrying Amount	Total Expected Cash Outflows	Less than 3 Months	3-12 months	1-5 years	Over 5 year
Derivative financial liabilities and foreign exchange buy-sell commitments	(13.376)	(13.376)	(15.129)	1.753	-	-
Derivative cash inflows	731.410	731.410	315.411	415.999	-	-
Derivative cash outflows	(744.786)	(744.786)	(330.540)	(414.246)	-	-

31 December 2015

Contractual Maturities	Carrying Amount	Total Expected Cash Outflows	Less than 3 Months	3-12 months	1-5 years	Over 5 year
Non-derivative financial liabilities	2.797.129	2.831.816	1.839.054	895.042	97.720	-
Funds borrowed	2.087.102	2.098.101	1.618.439	381.942	97.720	-
Bond issued	702.552	726.240	213.140	513.100	-	-
Factoring payables	3.299	3.299	3.299	-	-	-
Other payables	4.176	4.176	4.176	-	-	-

Contractual Maturities	Carrying Amount	Total Expected Cash Outflows	Less than 3 Months	3-12 months	1-5 years	Over 5 year
Derivative financial liabilities and foreign exchange buy-sell commitments	30.909	30.909	10.485	20.424	-	-
Derivative cash inflows	834.857	834.857	378.293	456.564	-	-
Derivative cash outflows	(803.948)	(803.948)	(367.808)	(436.140)	-	-

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27 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont'd)

27.2 Explanations on Risk Management (cont'd)

27.2.3 Market Risk

Foreign currency risk

Foreign currency risk is the risk arising from the value changes on financial instruments related with the change in exchange rates. The Company is exposed to currency risk due to its foreign currency borrowings. The currencies that the foreign currency risk of the Company mainly arises from are USD, Euro and GBP. As the financial statements of the Company are presented in TL, the financial statements are affected by fluctuations in these exchange rates against TL. The Company's net short/ (long) position arises from the assets, liabilities and derivative financial instruments in foreign currencies as at 31 December 2016 and 31 December 2015.

Foreign currency assets and liabilities as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016 (TL equivalent in thousands)	31 December 2015 (TL equivalent in thousands)
A. Foreign currency monetary assets	1.273.395	1.426.988
B. Foreign currency monetary liabilities	(519.969)	(694.970)
C. Derivative financial instruments (*)	(742.189)	(731.839)
Net foreign currency position (A+B+C)	11.237	179

(*) Derivative financial instruments include forward asset purchases and sales which are recorded under irrevocable commitments.

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27 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont'd)

27.2 Explanations on Risk Management (cont'd)

27.2.3 Market Risk (Cont'd)

Foreign Currency Risk (Cont'd)

The table below summarizes the Company's foreign currency position in detail as of 31 December 2016 and 31 December 2015. Carrying amounts of the Company's foreign currency monetary assets and liabilities are presented with their original currencies:

31 December 2016	USD	EURO	GBP	Total
Assets				
Banks	3.530	2.888	2.590	9.008
Financial assets available for sale	-	2	-	2
Factoring receivables (*)	686.093	559.218	18.202	1.263.513
Other Assets	734	138	-	872
Total Assets	690.357	562.246	20.792	1.273.395
Liabilities				
Funds borrowed	2.643	493.202	14.241	510.086
Factoring payables	858	6.929	118	7.905
Sundry creditors and other liabilities	476	1.475	27	1.978
Total liabilities	3.977	501.606	14.386	519.969
Net foreign currency position	686.380	60.640	6.406	753.426
Derivative financial instruments (**)	(679.805)	(59.844)	(2.540)	(742.189)
Net position	6.575	796	3.866	11.237

(*) Includes the foreign currency indexed factoring receivables amounting to TL 324.418 thousand that are presented in TL column on the balance sheet.

(**) Derivative financial instruments include forward asset purchases and sales which are recorded under irrevocable commitments.

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27 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont'd)

27.2 Explanations on Risk Management (cont'd)

27.2.3 Market Risk (Cont'd)

Foreign Currency Risk (Cont'd)

31 December 2015	USD	EURO	GBP	Total
Assets				
Banks	6.217	1.755	752	8.724
Financial assets available for sale	-	2	-	2
Factoring receivables (*)	921.321	485.325	11.615	1.418.261
Other Assets	-	1	-	1
Total Assets	927.538	487.083	12.367	1.426.988
Liabilities				
Funds borrowed	144.350	546.584	370	691.304
Factoring payables	208	2.269	55	2.532
Sundry creditors and other liabilities	98	979	57	1.134
Total liabilities	144.656	549.832	482	694.970
Net foreign currency position	782.882	(62.749)	11.885	732.018
Derivative financial instruments (**)	(787.631)	65.568	(9.776)	(731.839)
Net position	(4.749)	2.819	2.109	179

(*) Includes the foreign currency indexed factoring receivables amounting to TL 483,439 thousand that are presented in TL column on the balance sheet.

(**) Derivative financial instruments include forward asset purchase and sale which are recorded under irrevocable commitments.

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27 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont'd)

27.2 Explanations on Risk Management (cont'd)

27.2.3 Market Risk (Cont'd)

Foreign currency sensitivity risk

10% decrease in the TL against the relevant foreign currencies as of 31 December 2016 results in an increase in profit before tax for the period amounting to TL 1.124 thousand (31 December 2015: TL 18 thousand increase). This analysis is made with the assumption that the other variables were held constant as of 31 December 2016 and 31 December 2015.

TL	
<u>31 December 2016</u>	<u>Profit/(Loss)</u>
USD	657
EURO	80
GBP	387
Total	1.124

TL	
<u>31 December 2015</u>	<u>Profit/(Loss)</u>
USD	(475)
EURO	282
GBP	211
Total	18

Interest Rate Risk

Weighted average effective interest rates applied to financial instruments as at 31 December 2016 and 31 December 2015 are as follows:

	<u>31 December 2016</u>				<u>31 December 2015</u>			
	<u>USD (%)</u>	<u>EURO (%)</u>	<u>GBP (%)</u>	<u>TL (%)</u>	<u>USD (%)</u>	<u>EURO (%)</u>	<u>GBP (%)</u>	<u>TL (%)</u>
Assets								
Banks								
Time Deposits	-	-	-	-	0,25	-	-	13,70
Factoring receivables	4,62	1,86	2,82	14,21	4,21	2,72	5,55	15,69
Liabilities								
Marketable securities issued	-	-	-	10,55	-	-	-	11,57
Funds borrowed	1,68	0,88	0,77	11,42	1,92	1,59	1,88	13,70

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27 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Cont'd)

27.2 Explanations on Risk Management (cont'd)

27.2.3 Market Risk (Cont'd)

Interest Rate Sensitivity Analysis

The Company's financial instruments that have interest rate sensitivity as at 31 December 2016 and 31 December 2015 are as follows:

	Carrying Value	
	<u>31 December 2016</u>	<u>31 December 2015</u>
Fixed Rate		
Factoring receivables	2.280.204	2.300.546
Time deposits	-	33.454
Funds borrowed	2.016.933	2.028.921
Marketable securities issued	503.619	702.552
Floating Rate		
Factoring receivables	554.585	549.657
Funds borrowed	132.514	58.181

If interest rates of the floating rate instruments denominated in USD and EURO were 100 basis points higher/lower at the date of reissue and all other variables were constant as of 31 December 2016, net income for the period would decrease/increase by TL 4.221 thousand (31 December 2015: TL 4.915 thousand) as a result of higher/lower interest expense from floating interest rate financial instruments.

Capital Risk Management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the profit through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt, cash and cash equivalents and equity comprising issued capital, reserves and retained earnings disclosed in Note 17.

The Company management reviews the cost of capital and the risks associated with each class of capital. As part of this review, the management considers the cost of capital and the risks associated with each class of capital and presents to the Board of Directors for approval.

The overall strategy of the Company did not differ materially from the prior period.

28 FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Company has calculated fair values of financial instruments using available market information and appropriate valuation methodologies. However, as the judgment is necessary to interpret market data to determine the estimated fair value, the calculated fair values may not be fully reflective of the value that could be realized in the current circumstances. Management assumes that the fair value of funds borrowed and marketable securities approximate their carrying value as they were reprised just before the balance sheet date due to their floating interest rates like Euribor and etc. Management also assumes that the fair values of other financial assets and liabilities at amortized cost including cash and banks, other financial assets and short term bank loans denominated in TL approximate their carrying values due to their short term nature.

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28 FINANCIAL INSTRUMENTS (Cont'd)

Fair Value Categories of Financial Instruments

The table below presents the fair value determination method of the financial instruments at fair value. The method for each level is as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

31 December 2016	Level 1	Level 2	Level 3	Total
Derivative financial assets held for trading	-	394	-	394
	-	394	-	394
Derivative financial liabilities held for trading	-	31.051	-	31.051
	-	31.051	-	31.051

31 December 2015	Level 1	Level 2	Level 3	Total
Derivative financial assets held for trading	-	11.869	-	11.869
	-	11.869	-	11.869
Derivative financial liabilities held for trading	-	1.304	-	1.304
	-	1.304	-	1.304

29 SUBSEQUENT EVENTS

After collecting the requests on 19-20 January 2017, the Company issued bonds to qualified investors without offering to the public, with a nominal value of TL 104.300 thousand, value date of 23 January 2017 and maturity date of 14 July 2017.