

GARANTİ FAKTORİNG A.Ş.

Financial Statements
As at and for the Year Ended
31 December 2017
With Independent Auditors' Report

*(Convenience Translation of Financial Statements
and Related Disclosures and Footnotes
Originally Issued in Turkish)*

30 January 2018

*This report contains "Independent Auditors'
Report" comprising 4 pages and; "Financial
Statements and Related Disclosures and
Footnotes" comprising 54 pages.*



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Convenience Translation of the Independent Auditors' Report Originally Prepared and
Issued in Turkish to English (See Note I in Section Three)

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

A) Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Garanti Faktoring A.Ş. ("the Company") which comprise the statement of financial position as at 31 December 2017 and the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in shareholders' equity, statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Garanti Faktoring A.Ş. as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies and Communiqué on Uniform Chart of Accounts and Prospectus to be implemented by Financial Leasing, Factoring and Financing Companies published in the Official Gazette dated 24 December 2013 and numbered 28861, other regulations, communiqués and circulars published by the Banking Regulation and Supervision Board ("BRSA") and the pronouncements made by the Banking Regulation and Supervision Agency and requirements of Turkish Accounting Standards for the matters not regulated by the aforementioned legislations (together "the BRSA Accounting and Financial Reporting Legislation").

Basis for Opinion

We conducted our audit in accordance with Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA") ("Standards on Auditing issued by POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We declare that we are independent of the Company in accordance with the Code of Ethics for Auditors issued by POA ("POA's Code of Ethics") and the ethical requirements in the regulations issued by POA that are relevant to audit of financial statements, and we have fulfilled our other ethical responsibilities in accordance with the POA's Code of Ethics and regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<i>Key audit matter</i>	<i>How the matter is addressed in our audit</i>
<p><i>Impairment of factoring receivables</i></p> <p>As of 31 December 2017, factoring receivables comprise 97% of the Company's total assets.</p> <p>The Company recognizes its factoring receivables in accordance with the BRSA Accounting and Financial Reporting Legislation. In accordance with the mentioned Regulation, the assessment of impairment of receivables is basically based on the objective and subjective criteria which management judgement is applied. There is a potential risk that impaired factoring receivables and provisions for impaired receivables cannot be detected due to judgement.</p> <p>Disclosures and accounting policies related to impairment of factoring receivables are presented in Note 2.5.</p>	<p>Our procedures for testing the impairment of factoring receivables include below:</p> <p>Design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures have been tested.</p> <p>We have focused on the determination of the factoring receivables that are subject to impairment and tested the appropriateness of the provisions according to the BRSA Accounting and Financial Reporting Legislation, the valuation of the collaterals and the collection capability of the Company within the scope of the materiality level.</p> <p>Additionally, the adequacy of financial statement disclosures related to impairment provisions has been evaluated.</p>



Other Matter

The financial statements of the Company as at and for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on 27 January 2017.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the "BRSA Accounting and Financial Reporting Legislation", 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards on Auditing issued by POA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Standards on Auditing issued by POA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

B) Report on Other Legal and Regulatory Requirements

1) Pursuant to the fourth paragraph of Article 402 of the Turkish Commercial Code ("TCC") No. 6102; no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January - 31 December 2017 are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

2) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Orhan Akova,
Partner

30 January 2018
İstanbul, Turkey



Additional paragraph for convenience translation to English:

The accounting principles summarized in Note I Section Three, differ from the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

GARANTİ FAKTORİNG A.Ş.
STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2017

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

ASSETS	Notes	Audited 31 December 2017			Audited 31 December 2016		
		TL	FC	TOTAL	TL	FC	TOTAL
I. CASH, CASH EQUIVALENTS AND CENTRAL BANK		1	-	1	-	-	-
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)	3	19,327	-	19,327	336	58	394
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	19,327	-	19,327	336	58	394
III. BANKS	4	6,177	13,019	19,196	595	9,008	9,603
IV. RECEIVABLES FROM REVERSE REPURCHASE AGREEMENTS		-	-	-	-	-	-
V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	5	-	2	2	-	2	2
VI. FACTORING RECEIVABLES	6	2,242,027	1,117,957	3,359,984	1,895,694	939,095	2,834,789
6.1 Discount Factoring Receivables		933,809	122,809	1,056,618	790,868	93,907	884,775
6.1.1 Domestic		964,630	21,850	986,480	820,405	18,455	838,860
6.1.2 Foreign		-	101,647	101,647	-	76,108	76,108
6.1.3 Unearned Income (-)		(30,821)	(688)	(31,509)	(29,537)	(656)	(30,193)
6.2 Other Factoring Receivables		1,308,218	995,148	2,303,366	1,104,826	845,188	1,950,014
6.2.1 Domestic		1,308,218	297,836	1,606,054	1,104,826	377,164	1,481,990
6.2.2 Foreign		-	697,312	697,312	-	468,024	468,024
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	19,782	-	19,782	16,435	-	16,435
10.1 Non-Performing Factoring Receivables		95,335	-	95,335	72,388	-	72,388
10.2 Non-Performing Financial Loans		-	-	-	-	-	-
10.3 Non-Performing Leasing Receivables		-	-	-	-	-	-
10.4 Specific Provisions (-)		(75,553)	-	(75,553)	(55,953)	-	(55,953)
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	1,939	-	1,939	2,309	-	2,309
XVII. INTANGIBLE ASSETS (Net)	9	5,491	-	5,491	5,219	-	5,219
17.1 Goodwill		-	-	-	-	-	-
17.2 Other		5,491	-	5,491	5,219	-	5,219
XVIII. PREPAID EXPENSES	11	3,568	137	3,705	3,242	68	3,310
XIX. CURRENT TAX ASSETS	10	1,289	-	1,289	-	-	-
XX. DEFERRED TAX ASSETS	10	15,585	-	15,585	22,135	-	22,135
XXI. OTHER ASSETS	11	5,351	229	5,580	4,384	872	5,256
SUB TOTAL		2,320,537	1,131,344	3,451,881	1,950,349	949,103	2,899,452
XXII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)		-	-	-	-	-	-
22.1 Held For Sale		-	-	-	-	-	-
22.2 Discontinued Operations		-	-	-	-	-	-
TOTAL ASSETS		2,320,537	1,131,344	3,451,881	1,950,349	949,103	2,899,452

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

GARANTİ FAKTORİNG A.Ş.

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2017

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

LIABILITIES	Notes	Audited 31 December 2017			Audited 31 December 2016		
		TL	FC	Total	TL	FC	Total
I. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	3.2	2,018	-	2,018	31,051	-	31,051
II. FUNDS BORROWED	12	1,698,504	720,251	2,418,755	1,639,361	510,086	2,149,447
III. FACTORING PAYABLES	6	1,435	9,268	10,703	860	7,905	8,765
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	795,583	-	795,583	503,619	-	503,619
5.1 Bills		795,583	-	795,583	503,619	-	503,619
5.2 Asset-backed Securities		-	-	-	-	-	-
5.3 Bonds		-	-	-	-	-	-
VI. MISCELLANEOUS PAYABLES	14	2,291	485	2,776	4,852	1,436	6,288
VII. OTHER LIABILITIES	14	-	25	25	-	130	130
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	3,202	-	3,202	2,576	-	2,576
X. PROVISIONS	16	5,351	482	5,833	4,764	412	5,176
10.1 Reserves for Restructuring		-	-	-	-	-	-
10.2 Reserves For Employee Benefits		4,885	-	4,885	4,188	-	4,188
10.3 Other Provisions		466	482	948	576	412	988
XI. DEFERRED RECEIVABLES		-	-	-	-	-	-
XII. TAX LIABILITY	10	-	-	-	6,947	-	6,947
XIII. DEFERRED TAX LIABILITY		-	-	-	-	-	-
XIV. SUBORDINATED LOANS		-	-	-	-	-	-
SUB TOTAL		2,508,384	730,511	3,238,895	2,194,030	519,969	2,713,999
XV. PAYABLES RELATED TO ASSETS FOR SALE AND DISCONTINUED OPERATIONS		-	-	-	-	-	-
15.1 Held for Sale		-	-	-	-	-	-
15.2 Discontinued Operations		-	-	-	-	-	-
XVI. SHAREHOLDERS' EQUITY	17	212,986	-	212,986	185,453	-	185,453
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		(592)	-	(592)	(522)	-	(522)
16.4 Other comprehensive income or expense that will be reclassified subsequently to profit or loss		-	-	-	-	-	-
16.5 Profit Reserves		106,475	-	106,475	86,759	-	86,759
16.5.1 Legal Reserves		7,496	-	7,496	6,896	-	6,896
16.5.2 Statutory Reserves		-	-	-	-	-	-
16.5.3 Extraordinary Reserves		98,979	-	98,979	79,863	-	79,863
16.5.4 Other Profit Reserves		-	-	-	-	-	-
16.6 Profit or Loss		27,603	-	27,603	19,716	-	19,716
16.6.1 Prior Years Profit or Loss		-	-	-	-	-	-
16.6.2 Current Year Profit/Loss		27,603	-	27,603	19,716	-	19,716
TOTAL LIABILITIES AND EQUITY		2,721,370	730,511	3,451,881	2,379,483	519,969	2,899,452

GARANTİ FAKTORİNG A.Ş.

STATEMENT OF OFF-BALANCE SHEET ITEMS AS AT 31 DECEMBER 2017

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

OFF-BALANCE SHEET ITEMS	Notes	Audited 31 December 2017			Audited 31 December 2016		
		TL	FC	Total	TL	FC	Total
I. IRREVOCABLE FACTORING OPERATIONS		471,263	394,410	865,673	266,280	372,459	638,739
II. REVOCABLE FACTORING OPERATIONS		623,414	226,534	849,948	505,760	56,493	562,253
III. GUARANTEES TAKEN	26.1	393,692	21,608,968	22,002,660	129,335	20,376,262	20,505,597
IV. GUARANTEES GIVEN	26.2	1,321,944	39,898	1,361,842	1,097,330	401	1,097,731
V. COMMITMENTS	26.3	1,050	1,045	2,095	294	294	588
5.1 Irrevocable Commitments		1,050	1,045	2,095	294	294	588
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	697,992	666,488	1,364,480	728,519	747,089	1,475,608
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		697,992	666,488	1,364,480	728,519	747,089	1,475,608
6.2.1 Forward Buy/Sell Transactions		-	-	-	69	69	138
6.2.2 Swap Buy/Sell Transactions		697,992	666,488	1,364,480	728,450	747,020	1,475,470
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	811,463	172,547	984,010	657,167	127,908	785,075
TOTAL OFF BALANCE SHEET ITEMS		4,320,818	23,109,890	27,430,708	3,384,685	21,680,906	25,065,591

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

GARANTİ FAKTORİNG A.Ş.
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

INCOME STATEMENT		Notes	Audited 1 January - 31 December 2017	Audited 1 January - 31 December 2016
I.	OPERATING INCOME	18	286,315	244,268
	FACTORIZING INCOME		286,315	244,268
1.1	Factoring Interest Income		263,228	222,624
1.1.1	Discount		112,141	77,864
1.1.2	Other		151,087	144,760
1.2	Factoring Commission Income		23,087	21,644
1.2.1	Discount		16,085	16,845
1.2.2	Other		7,002	4,799
	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	(252,215)	(211,021)
2.1	Interest Expense on Funds Borrowed		(178,093)	(143,286)
2.2	Interest Expense on Factoring Payables		-	-
2.3	Finance Lease Expense		-	-
2.4	Interest Expense on Securities Issued		(59,685)	(56,478)
2.5	Other Interest Expenses		(1)	(17)
2.6	Other Fees and Commissions		(14,436)	(11,240)
III.	GROSS PROFIT/LOSS (I-II)		34,100	33,247
IV.	OPERATING EXPENSES (-)	20	(43,196)	(78,945)
4.1	Personnel Expenses		(25,148)	(23,752)
4.2	Retirement Pay Provision Expenses		(521)	(540)
4.3	Research and Development Expenses		-	-
4.4	General Administrative Expenses		(17,488)	(17,923)
4.5	Other		(39)	(36,730)
V.	OPERATING GROSS PROFIT/LOSS		(9,096)	(45,698)
VI.	OTHER OPERATION INCOME	21	432,269	387,949
6.1	Interest Income from Deposits		1,953	2,331
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		107,203	52,564
6.5.1	Derivative Financial Transactions		107,203	52,564
6.5.2	Other		-	-
6.6	Foreign Exchange Gains		321,421	294,795
6.7	Other		1,692	38,259
VII.	SPECIFIC PROVISION FOR NON-PERFORMING RECEIVABLES (-)	22	(20,801)	(30,106)
VIII.	OTHER OPERATION EXPENSES	23	(367,516)	(288,337)
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		(3,079)	(32,509)
8.4	Foreign Exchange Losses		(364,347)	(255,565)
8.5	Other		(90)	(263)
IX.	NET OPERATING INCOME (I+...+VI)		34,856	23,808
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)		34,856	23,808
XIII.	TAX PROVISION FOR CONTINUING OPERATIONS (±)	10	(7,253)	(4,092)
13.1	Current Tax Charge		(684)	(11,856)
13.2	Deferred Tax Charge (-)		(6,569)	-
13.3	Deferred Tax Benefit (+)		-	7,764
XIV.	NET PERIOD PROFIT/LOSS FROM CONTINUING OPERATIONS		27,603	19,716
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		27,603	19,716
	Earnings/Loss Per Share (Kurus (0.01 TL) per thousand shares)	24	0.34720755	0.24800000

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 YEAR ENDED 31 DECEMBER 2017

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

	Notes	Audited	
		1 January - 31 December 2017	1 January - 31 December 2016
I. PERIOD INCOME/LOSS		27,603	19,716
II. OTHER COMPREHENSIVE INCOME		(70)	(25)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		(70)	(25)
2.1.1 Gains/(losses) on revaluation of tangible asset		-	-
2.1.2 Gains/(losses) on revaluation of intangible asset		-	-
2.1.3 Gains/(losses) on remeasurement of defined benefit pension plan		(89)	(31)
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		19	6
2.1.5.1 Tax income/charge		-	-
2.1.5.2 Deferred tax income/charge		19	6
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 hedge		-	-
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)		27,533	19,691

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

SARANTİ FAKTORİNG A.Ş.
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish lira ("Thousands of TL") unless otherwise indicated.)

	Notes	Paid-in Capital	Capital Reserves	Share Premium	Share Cancellation Profits	Other Capital Reserves	Revaluation Increase/Decrease of property and equipment	Accumulated revaluation profits/loss from defined benefit plans	Other (Other comprehensive income and expenses from equity method investments not to be reclassified on profit/loss), and other accumulated comprehensive income and expenses not to be reclassified on profit/loss)	Other comprehensive income or expenses that will not be reclassified to profit or loss	Foreign exchange conversion differences	Revaluation and/or reclassification differences of available-for-sale financial assets	Other (Profit/loss from cash flow hedges, other comprehensive income and expenses from equity method investments to be reclassified on profit/loss, and other accumulated comprehensive income and expenses to be reclassified on profit/loss)	Other comprehensive income or expenses that will be reclassified to profit or loss	Profit Reserves	Legal Reserves	Statutory Reserves	Extraordinary Reserves	Other Profit Reserves	Profit/(Loss)	Prior Years' Profit/(Loss)	Current Year Net Profit/(Loss)	Non Controlling Interest	Total Shareholders' Equity	
PRIOR PERIOD																									
1 January - 31 December 2016																									
Audited																									
I. Balances at the beginning of the period (Previously reported)	17	79,500	-	-	-	-	-	(497)	-	(497)	-	-	-	-	61,329	5,639	-	55,690	-	25,430	-	-	25,430	-	165,762
II. Corrections made as per TAS 8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Effect of corrections		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effect of changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Adjusted balances		79,500	-	-	-	-	-	(497)	-	(497)	-	-	-	-	61,329	5,639	-	55,690	-	25,430	-	-	25,430	-	165,762
IV. Total Comprehensive Income		-	-	-	-	-	-	(25)	-	(25)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(25)
V. Capital increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Capital increase through internal resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Inflation adjustments to paid-in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Convertible bonds		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Subordinated loans		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Increase/decrease due to other changes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Current period net profit/loss		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19,716	-	19,716	-	19,716
XII. Profit distribution		-	-	-	-	-	-	-	-	-	-	-	-	-	25,430	1,257	-	24,173	-	(25,430)	-	-	(25,430)	-	-
12.1 Dividends		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 Transfers to reserves		-	-	-	-	-	-	-	-	-	-	-	-	-	25,430	1,257	-	24,173	-	(25,430)	(25,430)	-	-	(25,430)	25,430
12.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,430	-	(25,430)	-	(25,430)
Balance at the end of the period (31 December 2016) (III+IV+.....+XI+XII)		79,500	-	-	-	-	-	(522)	-	(522)	-	-	-	-	86,759	6,896	-	79,863	-	19,716	-	-	19,716	-	185,453
CURRENT PERIOD																									
1 January - 31 December 2017																									
Audited																									
I. Balances at the beginning of the prior period (31 December 2016)	17	79,500	-	-	-	-	-	(522)	-	(522)	-	-	-	-	86,759	6,896	-	79,863	-	19,716	-	-	19,716	-	185,453
II. Corrections made as per TAS 8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Effect of corrections		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effect of changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Adjusted balances		79,500	-	-	-	-	-	(522)	-	(522)	-	-	-	-	86,759	6,896	-	79,863	-	19,716	-	-	19,716	-	185,453
IV. Total Comprehensive Income		-	-	-	-	-	-	(70)	-	(70)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(70)
V. Capital increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Capital increase through internal resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Inflation adjustments to paid-in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Convertible bonds		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Subordinated loans		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Increase/decrease due to other changes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Current period net profit/loss		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27,603	-	27,603	-	27,603
XII. Profit distribution		-	-	-	-	-	-	-	-	-	-	-	-	-	19,716	600	-	19,116	-	(19,716)	-	-	(19,716)	-	-
12.1 Dividends		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 Transfers to reserves		-	-	-	-	-	-	-	-	-	-	-	-	-	19,716	600	-	19,116	-	(19,716)	(19,716)	-	-	(19,716)	19,716
12.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	19,716	-	(19,716)	-	(19,716)
Balance at the end of the period (31 December 2017) (III+IV+.....+XI+XII)		79,500	-	-	-	-	-	(592)	-	(592)	-	-	-	-	106,475	7,496	-	98,979	-	27,603	-	-	27,603	-	212,986

GARANTİ FAKTORİNG A.Ş.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

STATEMENT OF CASH FLOWS	<i>Notes</i>	Audited 1 January - 31 December 2017	Audited 1 January - 31 December 2016
A. CASH FLOWS FROM OPERATING ACTIVITIES			
1.1		4,663	27,862
1.1.1		257,102	236,762
1.1.2		(223,524)	(203,281)
1.1.3		-	-
1.1.4		20,456	22,207
1.1.5		-	-
1.1.6	7	1,201	1,453
1.1.7		(42,268)	(39,973)
1.1.8	10	(8,920)	(5,349)
1.1.9		616	16,043
1.2		(306,796)	151,242
1.2.1		(563,317)	61,878
1.2.2		(3,315)	15,699
1.2.3		1,938	5,466
1.2.4		256,644	67,398
1.2.5		-	-
1.2.6		1,254	801
I.		(302,133)	179,104
B. CASH FLOWS FROM INVESTING ACTIVITIES			
2.1		-	-
2.2		-	-
2.3	8	(430)	(1,530)
2.4	8	-	9
2.5		-	-
2.6		-	-
2.7		-	-
2.8		-	-
2.9	9	(3,620)	(4,272)
II.		(4,050)	(5,793)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
3.1		1,230,170	959,829
3.2		(916,049)	(1,165,277)
3.3		-	-
3.4		-	-
3.5		-	-
3.6		-	-
III.		314,121	(205,448)
IV.		1,656	1,322
V.		9,594	(30,815)
VI.		9,603	40,418
VII.	2.5	19,197	9,603

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

GARANTİ FAKTORİNG A.Ş.
STATEMENT OF PROFIT DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2017

		THOUSANDS OF TURKISH LIRA (TL)	
		Audited	Audited
		1 January -	1 January -
		31 December 2017	31 December 2016
		Notlar	
I.	DISTRIBUTION OF CURRENT YEAR PROFIT (*)		
1.1	CURRENT PERIOD PROFIT	34,856	23,808
1.2	TAXES AND LEGAL DUTIES PAYABLE (-)	7,253	4,092
1.2.1	Corporate tax (income tax)	684	11,856
1.2.2	Withholding tax	-	-
1.2.3	Other taxes and duties	6,569	(7,764)
A.	NET PROFIT FOR THE PERIOD (1.1-1.2)	27,603	19,716
1.3	ACCUMULATED LOSSES (-)	-	-
1.4	FIRST LEGAL RESERVES (-)	-	(600)
1.5	OTHER STATUTORY RESERVES (-)	-	-
B.	NET PROFIT AVAILABLE FOR DISTRIBUTION [(A-(1.3+1.4+1.5)]	27,603	19,116
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 redeemed 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	-	(19,116)
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 redeemed 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 (per YTL'000 face value each)	0.34720755	0.24800000
3.1	TO OWNERS OF ORDINARY SHARES (per YTL'000 face value each)	0.34720755	0.24800000
3.2	TO OWNERS OF ORDINARY SHARES (%)	34.72	24.80
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 (per YTL'000 face value each)	-	-
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 2017 profit distribution will be made at general assembly meeting.

The accompanying notes are an integral part of these unconsolidated financial statements.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

(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. 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 held on 27 March 2002. At the 2013 General Assembly Meeting of the company held on 17 April 2014 the commercial title of the Company 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 and “Financial Leasing, Factoring and Financing Companies Law” published in the Official Gazette dated 13 December 2012 and numbered 28496 and the “Regulation on Principles For Establishment And Operations Of Financial Leasing, Factoring and Financing Companies” issued by the Banking Regulation and Supervision Agency (“BRSA”) dated 24 April 2013 and numbered 28627 published in the Official Gazette.

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

	Shareholding		Shareholding	
	31 December 2017	(%)	31 December 2016	(%)
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 Traded	6.661	8,38	6.661	8,38
Capital	79.500	100,00	79.500	100,00

The shareholding of T. Garanti Bankası A.Ş. as of 31 December 2017 is 55,40% and T. Garanti Bankası A.Ş. has obtained the remaining 26,44% shares from public shares via Borsa İstanbul (31 December 2016: 55,40% and 26,44%).

The Company has 156 employees as at 31 December 2017 (31 December 2016: 164).

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 17 (seventeen) 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 30 January 2018. The General Assembly has the authority to change the financial statements.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

(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 Statement of Compliance

The Company prepares its financial statements in accordance with “the Banking Regulation and Supervision Agency (“BRSA”) Accounting and Reporting Regulations” including the communique on “Communiqué on Uniform Chart of Accounts and Prospectus to be implemented by Financial Leasing, Factoring and Financing Companies and on Financial Statements to be announced to Public” published in the Official Gazette dated 24 December 2013 and numbered 28861 and the “Regulation on Principles For Establishment And Operations Of Financial Leasing, Factoring and Financing Companies” and other regulations, communiqués and circulars published by the BRSA and Turkish Accounting Standards (“TAS”) published by the Public Oversight Accounting and Auditing Standards Authority (“POA”) for the matters not legislated by the aforementioned regulations (together “the BRSA Accounting and Financial Reporting Legislation”).

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 Turkish Lira (“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 AND FOR THE YEAR ENDED 31 DECEMBER 2017

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

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

2.3 Changes in Accounting Estimates and Errors (Continued)

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 BRSA Accounting and Reporting Legislation. 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 7 – Non-performing Receivables

Note 8 – Tangible Assets

Note 9 – Intangible Assets

Note 10 – Tax Assets and Liabilities

Note 16 – Provisions

2.4 New and Revised Turkish Accounting Standards

Standards and interpretations issued but not yet effective

Standards issued but not yet effective and not early adopted

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

TFRS 9 Financial Instruments (2017 version)

TFRS 9 *Financial Instruments*, has been published by Public Oversight Accounting and Auditing Standards Authority (“POA”) in January 2017, replaces the existing guidance in TAS 39 *Financial Instruments: Recognition and Measurement*. This version includes referrals in earlier versions of TFRS 9 and revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from TAS 39. TFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company accounts for its factoring receivables in accordance with the BRSA Accounting and Reporting Legislation. Therefore the application of TFRS 9 depends on the regulations which will be made by BRSA.

TFRS 15 Revenue from Contracts with Customers

As issued in September 2016 by POA, the new standard replaces existing TFRS guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognizing revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under TFRS. The Company is assessing the potential impact on its financial statements resulting from the application of TFRS 15.

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Company will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under TAS.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

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

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

2.4. New and Revised Turkish Accounting Standards (continued)

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Company is assessing the potential impact on its financial statements resulting from the application of these amendments to IFRS 2.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

On 8 December 2016, IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. This IFRIC is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRIC 22.

IFRS 16 Leases

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

IFRIC 23 –Uncertainty Over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company’s tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. The Interpretation is effective from 1 January 2019 with earlier application is permitted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

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

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

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 accrual basis.

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

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”, “held-to-maturity investments”, “available-for-sale 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.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

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

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

(b) *Financial Instruments (continued)*

Financial Assets (continued)

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.

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. Interest income is calculated and accounted by using the effective interest rate method.

Specific provisions are allocated on factoring receivables in accordance with the regulation on “Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies” published in the Official Gazette dated 24 December 2013 and numbered 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.

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

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

(b) *Financial Instruments (continued)*

Financial Assets (continued)

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.

GARANTİ FAKTORİNG A.Ş.

**NOTES TO THE FINANCIAL STATEMENTS AS AT AND
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(Amounts are expressed in Turkish Lira (thousands of “TL”) unless otherwise indicated.)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

(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.

Tangible asset	Estimated useful lives (Year)
Vehicles	5
Furniture and fixtures	3-15
Leasehold improvements	3-10

(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.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

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

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

(f) Capital Increase

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

(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 in accordance with the TAS 19 “Employee Benefits” (“TAS 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 at 31 December 2017 and 31 December 2016 are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
USD	3,7719	3,5192
EURO	4,5155	3,7099
GBP	5,0803	4,3189

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.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

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

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

(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) Events After the Reporting Period

Events after the 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 the 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) Segment Reporting

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

(n) Income Tax

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.

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.

GARANTİ FAKTORİNG A.Ş.

**NOTES TO THE FINANCIAL STATEMENTS AS AT AND
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(Amounts are expressed in Turkish Lira (thousands of “TL”) unless otherwise indicated.)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

(n) Income Tax (continued)

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 the 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 Equivalents:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Cash in TL / Foreign Currency	1	-
Banks	19.196	9.603
	<u>19.197</u>	<u>9.603</u>

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT AND
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

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

Derivative financial instruments are stated at fair value. Increase in fair value is classified as derivative financial assets held for trading while decrease in fair value is classified as derivative financial liabilities held for trading.

3.1 Derivative Financial Assets 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 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Derivative financial assets held for trading	19.327	-	336	58
	19.327	-	336	58

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 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Derivative financial liabilities held for trading	2.018	-	31.051	-
	2.018	-	31.051	-

4 BANKS

Details of banks as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Demand Deposits	6.177	13.019	595	9.008
	6.177	13.019	595	9.008

The bank balances with original maturities shorter than 3 months which form the basis of the statement of cash flows are TL 19.196 as at 31 December 2017 (31 December 2016: TL 9.603).

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT AND
FOR THE YEAR ENDED 31 DECEMBER 2017**

(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 at 31 December 2017 and 31 December 2016.

	31 December 2017			31 December 2016		
	Carrying Value		Share Percentage % (*)	Carrying Value		Share Percentage % (*)
	TL	FC		TL	FC	
<i>Investments in shares</i>						
Factors Chain International (FCI)	-	2	1,72	-	2	1,72
	-	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 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Domestic and import factoring receivables	2.272.848	319.686	1.925.231	395.619
Export factoring receivables	-	798.959	-	544.132
Unearned interest income	(30.821)	(688)	(29.537)	(656)
Factoring receivables, net	2.242.027	1.117.957	1.895.694	939.095

As at 31 December 2017, there are no restructured factoring receivables included in factoring receivables (31 December 2016: TL 6.366).

Factoring receivables that are past due but not impaired amount to TL 63.196 (31 December 2016: TL 43.540) and the delays are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Overdue 1 month	5.545	27.675	3.081	9.056
Overdue 1-3 months (*)	1.556	4.068	11.972	4.026
Overdue 3-6 months (*)	103	-	14.487	-
Overdue 6-12 months (*)	-	-	918	-
Over 12 months (*)	24.249	-	-	-
	31.453	31.743	30.458	13.082

(*) Within the decision of BRSA numbered 7484, dated 8 September 2017, it has been decided to extend the period in the Temporary Article 2 of the Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies until 20 October 2017.

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

6 FACTORING RECEIVABLES AND PAYABLES (Continued)*Factoring Payables*

Details of short term factoring payables as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Factoring payables	1.435	9.268	860	7.905
	1.435	9.268	860	7.905

Factoring payables represent the amounts of collections on behalf of factoring customers 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 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Factoring receivables	95.335	-	72.388	-
Specific provisions	(75.553)	-	(55.953)	-
Non-performing receivables, net	19.782	-	16.435	-

Aging of non-performing factoring receivables and specific provision allocated for them as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	Total non - performing factoring receivables	Provision	Total non - performing factoring receivables	Provision
Overdue up to 90 days	1.887	377	1.232	246
Overdue for 91-180 days	1.869	374	2.282	456
Overdue for 181-365 days	22.586	15.376	17.643	6.028
Overdue for 1 year and over	68.993	59.426	51.231	49.223
Total	95.335	75.553	72.388	55.953

Amount of collaterals received for non-performing factoring receivables capped with the exposure is TL 2.395 (31 December 2016: TL 2.678).

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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

7 NON-PERFORMING RECEIVABLES (Continued)

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

	1 January- 31 December 2017	1 January- 31 December 2016
Balance as at 1 January	55.953	64.026
Provision provided for the period (Note 22) (*)	20.801	30.106
Transfer of non-performing receivables in the period (**)	-	(36.726)
Collections during the period (***)	(1.201)	(1.453)
Balance at the end of the period	75.553	55.953

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

(**) A part of non-performing factoring receivables and related expenses of the Company amounting to TL 36.726 was sold to Final Varlık Yönetim A.Ş. in accordance with the Receivable Sales Contract dated 30 December 2016 at an amount of TL 50.

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

8 TANGIBLE ASSETS

The movement of tangible assets for the period ended 31 December 2017 is as follows:

	1 January 2017	Additions	Disposals	31 December 2017
Acquisition Cost				
Furniture and fixtures	4.798	148	(4)	4.942
Vehicles	19	-	-	19
Leasehold improvements	1.437	282	-	1.719
	6.254	430	(4)	6.680

	1 January 2017	Depreciation for the period	Disposals	31 December 2017
Accumulated Depreciation				
Furniture and fixtures	2.796	714	(2)	3.508
Vehicles	19	-	-	19
Leasehold improvements	1.130	84	-	1.214
	3.945	798	(2)	4.741
Net book value	2.309			1.939

As at 31 December 2017, the insurance on tangible assets amounts to TL 1.490 (31 December 2016: TL 1.439) and the insurance premium amounts to TL 3 (31 December 2016: TL 3).

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

8 TANGIBLE ASSETS (Continued)

The movement of tangible assets for the period ended 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		Charge for the period	Disposals	31 December 2016
Furniture and fixtures	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

9 INTANGIBLE ASSETS

The movement of intangible assets for the period ended 31 December 2017 is as follows:

	1 January 2017	Additions	Disposals	31 December 2017
Acquisition Cost				
Rights	3.076	-	-	3.076
Other (Software)	13.953	3.620	-	17.573
	17.029	3.620	-	20.649
Accumulated Amortization		Charge for the period	Disposals	31 December 2017
Rights	3.076	-	-	3.076
Other (Software)	8.734	3.348	-	12.082
	11.810	3.348	-	15.158
Net book value	5.219			5.491

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT AND
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9 INTANGIBLE ASSETS (Continued)

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

	1 January 2016	Additions	Disposals	31 December 2016
Acquisition Cost				
Rights	3.076	-	-	3.076
Other (Software)	9.681	4.272	-	13.953
	12.757	4.272	-	17.029
Accumulated Amortization		Charge for the period	Disposals	31 December 2016
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

As of 31 December 2017 and 31 December 2016, the Company has not any intangible asset that is generated within the company.

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 2017 is 20% (2016: 20%). While the corporate tax rate was at the rate of 20% since 1 January 2006, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019 and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 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 2017 (2016: 20%). With the amendment made in the law, this ratio was set at 22% for the years 2018, 2019 and 2020.

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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10 TAX ESSETS AND LIABILITIES (Continued)***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.

	1 January – 31 December 2017	1 January – 31 December 2016
Reported profit before taxation	34.856	23.808
Calculated tax on reported profit	(6.971)	(4.762)
Permanent differences:		
Non-deductible expenses	(571)	(749)
Non-taxable income	34	534
Reversal of prior year corporate tax provision	-	937
Other	255	(52)
Tax Charge	(7.253)	(4.092)

The corporate tax payable as at 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Corporate tax provision	944	16.541
Prepaid taxes	(1.884)	(9.241)
Withholding income taxes	(349)	(353)
Corporate Tax Payable / (Tax Assets)	(1.289)	6.947

The tax charge in the statement of profit or loss for the periods ended 31 December 2017 and 31 December 2016 is as summarized below:

	1 January- 31 December 2017	1 January- 31 December 2016
Current tax charge (*)	(684)	(16.541)
Reversal of prior year corporate tax provision	-	2.074
Prior year corporate tax return (**)	-	2.611
Deferred tax benefit/(charge)	(6.569)	7.764
	(7.253)	(4.092)

(*) Includes net cancellation of tax provision amounting to TL 259 for corporate tax payment of the year 2016.

(**) The case, that is brought to Buyuk Mukellefler Vergi Dairesi on the date of 28 May 2015 about the specific provision related to the non-performing receivables that are in the process of prosecution and execution should not be considered as a reduction in the tax base resulted in favor of the Company on 16 May 2016. The amount that was accrued overly by TL 2.611 has been returned on 13 June 2016. The related amount is accounted under "the operating revenues" account and the amount that created deferred tax assets has been cancelled in the current period.

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10 TAX ASSETS AND LIABILITIES (Continued)

The Company recognizes deferred tax assets and liabilities based on the temporary differences arising between its taxable statutory financial statements and its financial statements prepared in accordance with BRSA Accounting and Financial Reporting Legislation. As at 31 December 2017, the effective tax rate used in the calculation of deferred tax is 22% for the taxable income to be realized between 2018 and 2020 and 20% for the following years (31 December 2016: 20%).

	<u>31 December 2017</u>	<u>31 December 2016</u>
<u>Temporary Differences</u>		
Factoring receivable provisions	59.393	42.857
Unearned factoring interest income	31.509	30.193
Valuation differences of derivative financial assets	2.018	31.051
Premium pay provision	1.673	1.520
Reserve for employee benefits	2.195	1.792
Cash collected commissions	1.579	3.508
Valuation differences of factoring receivables	1.433	1.226
Unused vacation accrual	1.017	876
Other provisions	1.463	576
<i>Temporary differences related to deferred tax assets</i>	102.280	113.599
Valuation differences of derivative financial assets	19.327	394
Prepaid letter of guarantee and underwriting commissions	3.083	-
Temporary differences on tangible and intangible assets	2.055	1.886
Commission income accruals	1.141	549
Valuation differences of bonds and funds borrowed	398	97
<i>Temporary differences related to deferred tax liabilities</i>	26.004	2.926
<u>Deferred tax assets / (liabilities)</u>		
Factoring receivable provisions	11.923	8.571
Unearned factoring interest income	6.933	6.039
Valuation differences of derivative financial assets	444	6.211
Reserve for employee benefits	439	358
Premium pay provision	368	304
Cash collected commissions	347	702
Valuation differences of factoring receivables	315	245
Unused vacation accrual	224	175
Other provisions	313	115
<i>Deferred tax assets</i>	21.306	22.720
Valuation differences of derivative financial assets	(4.252)	(79)
Prepaid letter of guarantee and underwriting commissions	(678)	-
Temporary differences on tangible and intangible assets	(452)	(377)
Commission income accruals	(251)	(110)
Valuation differences of bonds and funds borrowed	(88)	(19)
<i>Deferred tax liabilities</i>	(5.721)	(585)
Deferred tax assets (net)	15.585	22.135

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10 TAX ASSETS AND LIABILITIES (Continued)

Movements of deferred tax assets are as follows:

	1 January - 31 December 2017	1 January - 31 December 2016
1 January	22.135	14.365
Deferred tax income / (expense)	(6.569)	7.764
Deferred tax income / (expense) classified under other comprehensive income	19	6
Balance at the end of the period	15.585	22.135

11 PREPAID EXPENSES AND OTHER ASSETS

Details of prepaid expenses as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Letter of guarantee commissions	1.700	-	1.566	-
Bond issuance brokerage commissions	1.383	-	1.035	-
Maintenance expenses	393	-	-	-
Insurance premiums	53	-	554	-
Other	39	137	87	68
	3.568	137	3.242	68

Details of other assets as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Receivables from BITT accruals	4.286	-	3.142	92
Receivables related with court expenses	1.013	-	1.174	-
Other	52	229	68	780
	5.351	229	4.384	872

12 FUNDS BORROWED

Details of funds borrowed as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Funds borrowed	1.698.504	720.251	1.639.361	510.086
	1.698.504	720.251	1.639.361	510.086

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12 FUNDS BORROWED (Continued)

	31 December 2017				31 December 2016			
	Original Amount	Interest Rate (%)	Up to 1 Year	TL Equivalent 1 Year and over	Original Amount	Interest Rate (%)	Up to 1 Year	TL Equivalent 1 Year and over
TL	1.698.504	13,40-17,50	1.698.504	-	1.639.361	9,40-14,18	1.639.361	-
USD	46.919	0,25-2,30	176.974	-	751	1,15-2,04	2.643	-
EURO	87.676	0,16-3,20	392.197	140.014	132.942	0,25-2,42	395.885	97.317
GBP	2.178	0,79-1,00	11.066	-	3.297	0,77-2,15	14.241	-
Total			2.278.741	140.014			2.052.130	97.317

These rates represent the interest rate range of outstanding funds borrowed with fixed and floating rates as at 31 December 2017 and 31 December 2016.

TL 1.209.354 of the funds borrowed as at 31 December 2017 is borrowed from Takasbank Money Market (31 December 2016: TL 885.072). TL 1.314.500 worth of guarantee has been given for the funds borrowed from Takasbank Money Market (31 December 2016: TL 1.089.000).

As of 31 December 2017 and 31 December 2016, the remaining funds borrowed are uncollateralized.

13 MARKETABLE SECURITIES ISSUED

Details of marketable securities issued as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Bills				
Nominal	834.913	-	520.791	-
Cost	780.780	-	496.200	-
Carrying Value	795.583	-	503.619	-

The Company issued discounted bills only for qualified investors.

1 January – 31 December 2017			1 January – 31 December 2016		
Date of issue	Nominal value	Maturity	Date of issue	Nominal value	Maturity
22.08.2017	86.401	14.02.2018	28.07.2016	75.000	23.01.2017
29.09.2017	50.000	27.03.2018	16.11.2016	217.351	12.05.2017
31.10.2017	158.340	24.04.2018	30.11.2016	110.740	26.05.2017
15.11.2017	81.860	11.05.2018	14.12.2016	87.500	05.06.2017
20.11.2017	225.521	18.05.2018	21.12.2016	30.200	23.03.2017
13.12.2017	91.060	05.06.2018			
27.12.2017	141.731	19.06.2018			
Total	834.913			520.791	

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14 MISCELLANEOUS PAYABLES AND OTHER LIABILITIES

Details of miscellaneous payables as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Deferred commissions	1.579	-	3.508	-
Sundry creditors	396	36	619	126
Transitory liability accounts	316	449	725	1.310
Miscellaneous Payables	2.291	485	4.852	1.436
Guarantee payments to customers	-	25	-	130
Other Liabilities	-	25	-	130

15 TAX PAYABLES AND LIABILITIES

Details of taxes payables and liabilities as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
BITT payable	1.790	-	1.313	-
Social security premiums payable	787	-	717	-
Income tax payable	572	-	503	-
VAT payable	66	-	29	-
Stamp tax payable	17	-	14	-
	3.202	-	2.576	-

16 PROVISIONS

Details of provisions as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Provision for employee benefits	4.885	-	4.188	-
Provision for lawsuits	406	-	316	-
Provision for brokerage commissions	-	482	-	412
Other provisions	60	-	260	-
	5.351	482	4.764	412

16.1 Provision for Employee Benefits

Provision for employee benefits as at 31 December 2017 includes retirement pay provision amounting to TL 2.195 (31 December 2016: TL 1.792), unused vacation accrual amounting to TL 1.017 (31 December 2016: TL 876) and personnel bonus accrual amounting to TL 1.673 (31 December 2016: TL 1.520). (Note 20)

Retirement Pay Provision

Under the Turkish Labor Law, the Company is required to pay employment termination benefits to each employee who has qualified.

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16 PROVISIONS (Continued)**16.1 Provision for Employee Benefits (Continued)*****Retirement Pay Provision (Continued)***

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 at 31 December 2017, this amount is limited to a maximum of TL 4.732,48 (full) (31 December 2016: TL 4.297,21 (full)). The amount of compensation to be paid is equal to one month’s salary for every and each year of employment.

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 2017, 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 8,40% and a discount rate of 11,70%, resulting in a real discount rate of approximately 3,04% (31 December 2016: inflation rate of 7,80%, discount rate of 11,20%, real discount rate of approximately 3,15%).

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

	1 January- 31 December 2017	1 January- 31 December 2016
Net liability at the beginning of the period	1.792	1.442
Severance indemnity paid in the period	(207)	(221)
Retirement provision recognized under income statement	521	540
Recognized under other comprehensive income / (expense)	89	31
Net liability at the end of period	2.195	1.792

Personnel Bonus Accrual

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

	1 January- 31 December 2017	1 January- 31 December 2016
Balance at 1 January	1.520	894
Paid in the period	(2.225)	(1.835)
Reversal	(246)	(38)
Accrual for the period	2.624	2.499
Balance at the end of the period	1.673	1.520

Unused Vacation Accrual

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

	1 January- 31 December 2017	1 January- 31 December 2016
Balance at 1 January	876	818
Paid in the period	(73)	(38)
Reversal	(105)	(67)
Accrual for the period	319	163
Balance at the end of the period	1.017	876

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16 PROVISIONS (Continued)**16.2 Other Provisions**

As at 31 December 2017, the Company has set aside TL 482 correspondent expenses, TL 406 continuing legal proceedings and TL 60 other provision. (As of 31 December 2016, correspondent expenses amounting to TL 412, provision for legal proceedings amounting to TL 316, other provision amounting to TL 260). The movement of other provisions within the period is as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Balance at 1 January	576	412	419	335
Reversal	(200)	(412)	(103)	(335)
Provision provided for the period	90	482	260	412
Balance at the end of the period	466	482	576	412

17 SHAREHOLDERS' EQUITY**17.1 Paid-in Capital**

As at 31 December 2017, the Company's share capital amounts to TL 79.500 (31 December 2016: TL 79.500). As at 31 December 2017, the Company has 7.950.000.000 (31 December 2016: 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 2016: Kr 1).

17.2 Capital Reserves

None. (31 December 2016: None)

17.3 Other Comprehensive Income or Expense

As at 31 December 2017, TL (593) 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 2016: TL (522) 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 at 31 December 2017, the Company's profit reserves comprise of the legal reserves amounting to TL 7.496 (31 December 2016: TL 6.896) and extraordinary reserves amounting to TL 98.979 (31 December 2016: TL 79.863).

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17 SHAREHOLDERS’ EQUITY (Continued)**17.5 Profit Distribution****2016 PROFIT DISTRIBUTION TABLE**

Net Profit for the year	19.716
Legal Reserves (-)	600
DISTRIBUTABLE NET PROFIT OF THE PERIOD	19.116
Donations (+)	61
Distributable net profit of the period (with Donations)	19.177
EXTRAORDINARY RESERVES	19.116

18 OPERATING INCOME

The details of operating income for the periods ended 31 December 2017 and 31 December 2016 are as follows:

	1 January- 31 December 2017	1 January - 31 December 2016
Factoring interest income	263.228	222.624
Factoring fee and commission income (net)	23.087	21.644
	286.315	244.268

19 FINANCE EXPENSES

The details of finance expenses for the periods ended 31 December 2017 and 31 December 2016 are as follows:

	1 January- 31 December 2017	1 January- 31 December 2016
Interest expenses on funds borrowed	178.093	143.286
Interest expenses on marketable securities issued	59.685	56.478
Fees and commissions paid	14.436	11.240
Other interest expenses	1	17
	252.215	211.021

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20 OPERATING EXPENSES

The details of operating expenses for the periods ended 31 December 2017 and 31 December 2016 are as follows:

	1 January- 31 December 2017	1 January - 31 December 2016
Personnel expenses	25.148	23.752
Depreciation and amortization charges	4.146	3.378
Vehicle expenses	2.208	2.062
Rent expenses	2.092	1.807
IT maintenance and contract expenses	1.869	1.724
Consultancy expenses	1.291	702
Maintenance and repair expenses	1.293	1.078
Communication expenses	953	784
Subscription expenses	642	1.140
Representation expenses	583	619
Provision for employee termination benefits expense (Note 16)	521	540
Lawsuit expenses	519	754
Taxes and duties	485	1.136
Travel expenses	308	330
Loss on sale of non-performing factoring receivables	-	36.676
Other	1.138	2.463
	43.196	78.945

The details of personnel expenses classified under operating expenses for the periods ended 31 December 2017 and 31 December 2016 are as follows:

	1 January- 31 December 2017	1 January - 31 December 2016
Salaries and wages	17.269	16.197
Bonuses	2.624	2.499
Social security premium employer’s share	2.322	2.219
Personnel food expenses	581	628
Personnel transportation expenses	601	564
Insurance expenses	492	492
Per diem payments	287	281
Unemployment insurance employer’s share	273	262
Training expenses	170	172
Other	529	438
	25.148	23.752

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21 OTHER OPERATING INCOME

The details of other operating income for the periods ended as at 31 December 2017 and 31 December 2016 are as follows:

	1 January- 31 December 2017	1 January - 31 December 2016
Foreign exchange gains	321.421	294.795
Income on derivative financial transactions	107.203	52.564
Interest income on bank deposits	1.953	2.331
Reversal of provision for the non-performing factoring receivables (Note 7)	-	36.726
Other	1.692	1.533
	432.269	387.949

Foreign exchange gains for the period ended 31 December 2017 includes TL 36.980 foreign exchange differences on foreign currency indexed factoring receivables (31 December 2016: TL 59.732).

22 SPECIFIC PROVISIONS FOR NON-PERFORMING RECEIVABLES

The details of provision for non-performing receivables for the periods ended 31 December 2017 and 31 December 2016 are as follows:

	1 January- 31 December 2017	1 January - 31 December 2016
Specific provision expenses	20.801	30.106
	20.801	30.106

23 OTHER OPERATING EXPENSES

The details of other operating expenses for the periods ended 31 December 2017 and 31 December 2016 are as follows:

	1 January- 31 December 2017	1 January - 31 December 2016
Foreign exchange losses	364.347	255.565
Losses on derivative financial transactions	3.079	32.509
Other	90	263
	367.516	288.337

Foreign exchange losses for the period ended 31 December 2017 includes TL 8.313 foreign exchange differences on foreign currency indexed factoring receivables (31 December 2016: TL 2.875).

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24 EARNINGS PER SHARE

Calculation of earnings per share for the periods ended 31 December 2017 and 31 December 2016 are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Net profit for the period	27.603	19.716
Weighted average number of shares with 1 KR of nominal value (thousand)	7.950.000	7.950.000
Earnings per thousand shares (KR)	347,21	248,00

25 RELATED PARTY TRANSACTIONS

The details of receivables and payables due from and due to related parties as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Bank balances				
Türkiye Garanti Bankası A.Ş.	6.094	7.556	560	8.465
Demand deposits	6.094	7.556	560	8.465
Garantibank International NV	2	5.435	-	522
Demand deposits	2	5.435	-	522
	6.096	12.991	560	8.987

The amount of cheques and notes at custody of Türkiye Garanti Bankası A.Ş. related with factoring receivables as of 31 December 2017 is TL 835.300 (31 December 2016: TL 649.571).

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Factoring receivables				
Ayson Geoteknik ve Deniz İnşaat A.Ş.	-	-	4.486	-
	-	-	4.486	-

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Funds borrowed				
Türkiye Garanti Bankası AŞ	155.860	140.014	-	114.052
Garantibank International NV	40.384	-	-	-
	196.244	140.014	-	114.052

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25 RELATED PARTY TRANSACTIONS (Continued)

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Other Payables				
Garanti Finansal Kiralama A.Ş.	-	-	21	-
Türkiye Garanti Bankası A.Ş.	-	-	42	2
	-	-	63	2

The Company has made purchases amounting to TL 3.606 from Garanti Bilişim Teknolojisi ve Ticaret A.Ş for the period ended 31 December 2017 (31 December 2016: TL 3.229 from Garanti Bilişim Teknolojisi ve Ticaret A.Ş).

The details of receivables and payables due from and due to related parties' off-balance sheet transactions as of 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Derivative Agreements				
Türkiye Garanti Bankası AŞ	321.286	308.157	232.663	231.600
Currency swap purchase transactions	321.286	-	232.663	-
Currency swap sale transactions	-	308.157	-	231.600
Garantibank International NV	-	-	47.371	57.925
Currency swap purchase transactions	-	-	47.371	2.597
Currency swap sale transactions	-	-	-	55.328
	321.286	308.157	280.034	289.525

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25 RELATED PARTY TRANSACTIONS (Continued)

Income and expenses from related parties for the periods ended 31 December 2017 and 31 December 2016 are as follows:

	1 January – 31 December 2017	1 April - 31 December 2016
Interest income on bank deposits		
Türkiye Garanti Bankası A.Ş.	51	32
	51	32
Interest income from factoring receivables		
Doğuş Yayın Grubu A.Ş.	117	2.244
Garanti Bank International NV	76	36
Startv Medya Hizmetleri A.Ş.	-	913
Ayson Geoteknik ve Deniz İnşaat A.Ş.	-	16
	193	3.209
Fees and commissions from factoring receivables		
Doğuş Yayın Grubu A.Ş.	294	--
Ayson Geoteknik Ve Deniz İnşaat A.Ş.	238	--
	532	-
Interest expenses on funds borrowed		
Türkiye Garanti Bankası A.Ş.	5.326	4.410
Garanti Bank International NV	2.891	1.149
	8.217	5.559
Fees and commissions given		
Garanti Yatırım Menkul Kıymetler A.Ş.	2.131	2.185
Türkiye Garanti Bankası A.Ş.	475	90
Garanti Bank International NV	167	84
	2.773	2.359

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25 RELATED PARTY TRANSACTIONS (Continued)

<i>General Administrative Expenses</i> (*)	1 January- 31 December 2017	1 January- 31 December 2016
Türkiye Garanti Bankası AŞ	2.035	1.726
Garanti Filo Yönetim Hizmetler AŞ	1.337	1.299
İstanbul Takas ve Saklama Bankası AŞ	1.092	1.027
Garanti Finansal Kiralama AŞ	588	719
Antur Turizm AŞ	92	146
Garanti Emeklilik ve Hayat AŞ	64	65
Doğuş Bilgi İşlem ve Teknoloji Hizmetleri A.Ş.	6	5
	5.214	4.987

(*) Includes rent expense, IT maintenance and contract expenses, transaction commissions, car rental expenses, travelling expenses and insurance expenses.

	1 January- 31 December 2017	1 January- 31 December 2016
Income from Financial Derivatives		
Türkiye Garanti Bankası A.Ş.	35.390	28.444
Garanti Bank International NV	8.236	10.816
	43.626	39.260

Losses from Financial Derivatives		
Türkiye Garanti Bankası A.Ş.	3.168	4.107
Garanti Bank International NV	844	5.659
	4.012	9.766

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 31 December 2017 is TL 12.798 (31 December 2016: TL 10.952).

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26 CONTINGENT ASSETS AND LIABILITIES**26.1 Guarantees Received**

Guarantees received for the Company’s factoring receivables as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Sureties received (*)	-	18.108.908	-	18.474.453
Finance notes	34.233	2.477.359	4.710	1.859.913
Correspondent guarantees	-	966.822	-	-
Insurance coverage	241.473	31.044	-	-
Letters of guarantee	65.000	-	78.400	2.394
Mortgage	39.625	-	33.500	-
Chattel mortgage	281	24.835	281	20.404
Transfer of claim arising from letter of guarantees	13.080	-	12.430	4.252
Customer cheques	-	-	14	4.329
Pledge	-	-	-	10.517
	393.692	21.608.968	129.335	20.376.262

(*) Sureties received consist 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 2017 and 31 December 2016 consist of letters of guarantee given to the institutions below:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Takasbank (Note 12)	1.314.500	-	1.089.000	-
Guarantees given to correspondents	-	39.508	-	-
Courts	7.433	390	8.324	401
Other	11	-	6	-
	1.321.944	39.898	1.097.330	401

26.3 Commitments

TL equivalent of nominal values of commitments given as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Foreign exchange buy-sell commitments	1.050	1.045	294	294
	1.050	1.045	294	294

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26 CONTINGENT ASSETS AND LIABILITIES (Continued)**26.4 Derivative Agreements**

The details of derivative agreements as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Currency swap buy transactions	697.992	-	728.450	2.597
Currency swap sell transactions	-	666.488	-	744.423
Forward foreign currency purchases	-	-	69	-
Forward foreign currency sales	-	-	-	69
	697.992	666.488	728.519	747.089

26.5 Safety Securities

The details of cheques and notes in collection as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Cheques in collection	806.283	153.674	651.696	102.628
Notes in collection	5.180	18.873	5.471	25.280
	811.463	172.547	657.167	127.908

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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.

Under the credit allocation;

Credit committee of Garanti Faktoring 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 phase;

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.

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27 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (Continued)

27.1 Financial Risk Management Purposes and Policies (Continued)

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 the 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 (Continued)

27.1 Financial Risk Management Purposes and Policies (Continued)

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.

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.

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27 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (Continued)

27.1 Financial Risk Management Purposes and Policies (Continued)

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 its 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 (Continued)

27.2 Explanations on Risk Management

27.2.1 Credit Risk

31 December 2017	Factoring Receivables		Non-performing receivables		Other Assets		Banks	Financial Assets Held for Trading	Derivative Financial Assets Held for Trading
	Related Party	Others	Related Party	Others	Related Party	Others			
Maximum net credit risk as of balance sheet date (A+B+C+D+E)	-	3.359.984	-	19.782	-	5.579	19.196	-	19.327
A. Carrying value of financial assets that are not past due nor impaired	-	3.296.788	-	-	-	5.579	19.196	-	19.327
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	-	63.196	-	-	-	-	-	-	-
-carrying value	-	63.196	-	-	-	-	-	-	-
- the part under guarantee with collateral etc	-	-	-	-	-	-	-	-	-
D.Net book value of impaired assets	-	-	-	19.782	-	-	-	-	-
- Past due (gross carrying value)	-	-	-	92.940	-	-	-	-	-
- Impairment (-)	-	-	-	(75.553)	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	2.395	-	-	-	-	-
- 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 (Continued)**27.2 Explanations on Risk Management (Continued)****27.2.1 Credit Risk (Continued)**

31 December 2016	Factoring Receivables		Non-performing receivables		Other Assets		Banks	Financial Assets Held for Trading	Derivative Financial Assets Held for Trading
	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	-	5.256	9.603	-	394
A. Carrying value of financial assets that are not past due nor impaired	4.486	2.780.398	-	-	-	5.256	9.603	-	394
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	-	43.540	-	-	-	-	-	-	-
-carrying value	-	43.540	-	-	-	-	-	-	-
- the part under guarantee with collateral etc	-	-	-	-	-	-	-	-	-
D.Net book value of impaired assets	-	-	-	16.435	-	-	-	-	-
- Past due (gross carrying value)	-	-	-	69.710	-	-	-	-	-
- Impairment (-)	-	-	-	(55.953)	-	-	-	-	-
-The part of net value under guarantee with collateral etc.	-	-	-	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 (Continued)**27.2 Explanations on Risk Management (Continued)****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 2017				
Contractual Maturities	Carrying Amount	Total Expected Cash Outflows	Less than 3 months	3-12 months
Non-derivative financial liabilities	3.227.817	3.284.632	2.345.775	938.857
Funds borrowed	2.418.755	2.436.240	2.195.895	240.345
Bonds issued	795.583	834.913	136.401	698.512
Factoring payables	10.703	10.703	10.703	-
Sundry creditors	2.766	2.776	2.776	-
Contractual Maturities	Carrying Amount	Total Expected Cash Outflows	Less than 3 months	3-12 months
Derivative financial liabilities and foreign exchange buy-sell commitments	31.509	37.155	12.912	24.243
Derivative cash inflows	699.042	704.688	454.131	250.557
Derivative cash outflows	(667.533)	(667.533)	(441.219)	(226.314)
31 December 2016				
Contractual Maturities	Carrying Amount	Total Expected Cash Outflows	Less than 3 months	3-12 months
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
Bond issued	503.619	520.791	-	520.791
Factoring payables	8.765	8.765	8.765	-
Sundry creditors	6.288	6.288	6.288	-
Contractual Maturities	Carrying Amount	Total Expected Cash Outflows	Less than 3 months	3-12 months
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)

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27 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)**27.2 Explanations on Risk Management (Continued)****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 2017 and 31 December 2016.

Foreign currency assets and liabilities as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
	(TL equivalent)	(TL equivalent)
A. Foreign currency monetary assets	1.413.923	1.273.395
B. Foreign currency monetary liabilities	(730.511)	(519.969)
C. Derivative financial instruments (*)	(667.533)	(742.189)
Net foreign currency position (A+B+C)	15.879	11.237

(*) 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 (Continued)**27.2 Explanations on Risk Management (Continued)****27.2.3 Market Risk (Continued)***Foreign Currency Risk (Continued)*

The table below summarizes the Company’s foreign currency position in detail as of 31 December 2017 and 31 December 2016. Carrying amounts of the Company’s foreign currency monetary assets and liabilities are presented with their original currencies:

31 December 2017	USD	EURO	GBP	Total
Assets				
Banks	2.520	8.146	2.353	13.019
Financial assets available for sale	-	2	-	2
Factoring receivables (*)	814.440	568.696	17.537	1.400.673
Other Assets	69	160	-	229
Total Assets	817.029	577.004	19.890	1.413.923
Liabilities				
Funds borrowed	176.974	532.211	11.067	720.251
Factoring payables	2.845	5.035	1.388	9.268
Sundry creditors and other liabilities	230	706	55	992
Total liabilities	180.049	537.952	12.510	730.511
Net foreign currency position	636.980	39.052	7.380	683.412
Derivative financial instruments (**)	(632.461)	(35.072)	-	(667.533)
Net position	4.519	3.980	7.380	15.879

(*) Includes the foreign currency indexed factoring receivables amounting to TL 282.716 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 (Continued)**27.2 Explanations on Risk Management (Continued)****27.2.3 Market Risk (Continued)***Foreign Currency Risk (Continued)*

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 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 (Continued)**27.2 Explanations on Risk Management (continued)****27.2.3 Market Risk (Continued)***Foreign currency sensitivity risk*

10% decrease in the TL against the relevant foreign currencies as at 31 December 2017 results in an increase in profit before tax for the period amounting to TL 1.588 (31 December 2016: TL 1.124 increase). This analysis is made with the assumption that the other variables were held constant as of 31 December 2017 and 31 December 2016.

TL**31 December 2017**

	Profit/(Loss)
USD	452
EURO	398
GBP	738
Total	1.588

TL**31 December 2016**

	Profit/(Loss)
USD	657
EURO	80
GBP	387
Total	1.124

Interest Rate Risk

Weighted average effective interest rates applied to financial instruments as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017				31 December 2016			
	USD (%)	EURO (%)	GBP (%)	TL (%)	USD (%)	EURO (%)	GBP (%)	TL (%)
Assets								
Factoring receivables	5,01	2,50	2,39	18,21	4,62	1,86	2,82	14,21
Liabilities								
Marketable securities issued	-	-	-	14,35	-	-	-	10,55
Funds borrowed	1,60	1,26	0,79	14,61	1,68	0,88	0,77	11,42

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27 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)**27.2 Explanations on Risk Management (continued)****27.2.3 Market Risk (Continued)***Interest Rate Sensitivity Analysis*

The Company’s financial instruments that have interest rate sensitivity as at 31 December 2017 and 31 December 2016 are as follows:

	Carrying Value	
	31 December 2017	31 December 2016
Fixed Rate		
Factoring receivables	2.701.096	2.280.204
Funds borrowed	2.257.572	2.016.933
Marketable securities issued	795.583	503.619
Floating Rate		
Factoring receivables	658.888	554.585
Funds borrowed	161.183	132.514

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 2017, net income for the period would decrease/increase by TL 4.977 (31 December 2016: TL 4.221) 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.

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT AND
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

28 FINANCIAL INSTRUMENTS (Continued)*Fair Value of Financial Instruments Classification*

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 2017	Level 1	Level 2	Level 3	Total
Derivative financial assets held for trading	-	19.327	-	19.327
	-	19.327	-	19.327
Derivative financial liabilities held for trading	-	2.018	-	2.018
	-	2.018	-	2.018
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

29 EVENTS AFTER THE REPORTING PERIOD

None.