

GARANTİ FAKTORİNG A.Ş.

Financial Statements
As at and for the Year Ended
31 December 2018
With Independent Auditors' Report

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



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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 2018 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 2018, 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.

Impairment of factoring receivables

Refer to Note 2.5 for the details of accounting policies and significant judgments of for impairment of factoring receivables.

| <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 at 31 December 2018, factoring receivables comprise 96% 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 aforementioned Regulation, the assessment of impairment of receivables is basically based on the objective and subjective criteria which management judgement is applied.</p> <p>The determination of the impairment of factoring receivables depends on the accurate classification of the factoring receivables in accordance with aforementioned regulation. Classification criteria contain both subjective and objective management judgements. There is a potential risk that impaired factoring receivables and provisions for impaired receivables cannot be detected considering that they are subject to management judgements. Impairment of factoring receivables is determined as a key audit matter, due to the significance of the estimates and the level of judgments as explained above.</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 with the involvement of IT specialists.</p> <p>The determination of the factoring receivables that are subject to impairment and 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 were our main focus areas within the scope of the materiality level.</p> <p>Additionally, the adequacy of financial statement disclosures related to impairment provisions has been evaluated.</p> |



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 398 of Turkish Commercial Code ("TCC") no. 6102; Auditors' Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Group on 30 January 2019.

2) 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 2018 are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

3) 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

Alper Güvenç SMMM
Partner

30 January 2019
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 2018

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

| | ASSETS | Notes | Audited | | |
|--------------|--|----------|------------------|----------------|------------------|
| | | | 31 December 2018 | | |
| | | | TL | FC | TOTAL |
| I. | FINANCIAL ASSETS (Net) | 3 | 3,704 | 16,081 | 19,785 |
| 1.1 | Cash and Cash Equivalents | 3.1.1 | 3,704 | 16,074 | 19,778 |
| 1.2 | Financial Assets Designated at Fair Value Through Profit or Loss | 3.2.1 | - | 6 | 6 |
| 1.3 | Financial Assets Measured at Fair Value through Other Comprehensive Income | | - | - | - |
| 1.4 | Financial Assets Measured at Amortised Cost | | - | - | - |
| 1.5 | Derivative financial assets held for trading | 3.3 | - | 1 | 1 |
| 1.6 | Non-Performing Financial Assets | | - | - | - |
| 1.7 | Special Provisions / Estimated Loss Provisions(-) | | - | - | - |
| II. | LOANS (NET) | 4 | 1,866,604 | 468,432 | 2,335,036 |
| 2.1 | Factoring Receivables | 4.1 | 1,825,957 | 453,153 | 2,279,110 |
| 2.1.1 | Discounted Factoring Receivables (Net) | | 761,225 | 118,681 | 879,906 |
| 2.1.2 | Other Factoring Receivables | | 1,064,732 | 334,472 | 1,399,204 |
| 2.2 | Financial Loans | | - | - | - |
| 2.2.1 | Consumer Loans | | - | - | - |
| 2.2.2 | Credit Cards | | - | - | - |
| 2.2.3 | Installment Commercial Loan | | - | - | - |
| 2.3 | Leasing | | - | - | - |
| 2.3.1 | Leasing Receivable (Net) | | - | - | - |
| 2.3.2 | Financial lease receivables | | - | - | - |
| 2.3.3 | Operational lease receivables | | - | - | - |
| 2.3.4 | Unearned Revenue (-) | | - | - | - |
| 2.3.5 | Investment in Progress Subject to Leases | | - | - | - |
| 2.3.6 | Advances Given Due to Leasing Activities | | - | - | - |
| 2.3.7 | Other Leasing Receivables | | - | - | - |
| 2.4 | Non-Performing Receivables (Net) | 4.2 | 40,647 | 15,279 | 55,926 |
| 2.4.1 | Non-Performing Factoring Receivables | | 148,612 | 158,257 | 306,869 |
| 2.4.2 | Non-Performing Financial Loans | | - | - | - |
| 2.4.3 | Non-Performing Leasing Receivables | | - | - | - |
| 2.4.4 | Special Provisions (-) | | (107,965) | (142,978) | (250,943) |
| 2.4.5 | Estimated Loss Provisions (-) | | - | - | - |
| III. | OWNERSHIP INVESTMENTS | | | | |
| 3.1 | Associates (Net) | | - | - | - |
| 3.2 | Valued by Equity Method | | - | - | - |
| 3.3 | Non-Consolidated | | - | - | - |
| 3.4 | Related Parties (Net) | | - | - | - |
| 3.5 | Unconsolidated Financial Investments in Subsidiaries | | - | - | - |
| 3.6 | Unconsolidated Non-Financial Investments in Subsidiaries | | - | - | - |
| 3.7 | Unconsolidated Joint-Ventures | | - | - | - |
| 3.8 | Valuation Under Equity Accounting Associates | | - | - | - |
| 3.9 | Non-Consolidated | | - | - | - |
| IV. | TANGIBLE ASSETS (Net) | 5 | 1,735 | - | 1,735 |
| V. | INTANGIBLE ASSETS (Net) | 6 | 7,638 | - | 7,638 |
| VI. | INVESTMENT PROPERTIES | | - | - | - |
| VII. | CURRENT TAX ASSETS | | - | - | - |
| VIII. | DEFERRED TAX ASSETS | 7 | 61,683 | - | 61,683 |
| IX. | OTHER ASSETS | 8 | 7,811 | 361 | 8,172 |
| | SUB TOTAL | | 1,949,175 | 484,874 | 2,434,049 |
| X. | ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net) | | 11 | - | 11 |
| 10.1 | Held For Sale | | 11 | - | 11 |
| 10.2 | Discontinued Operations | | - | - | - |
| | TOTAL ASSETS | | 1,949,186 | 484,874 | 2,434,060 |

In accordance with the transition requirements of TFRS 9, the prior period financial statements and notes are not restated.

The financial statements have been prepared on different basis for the year ended 2018 and 2017. Financial statements for the year ended 2017 is presented separately.

GARANTİ FAKTORİNG A.Ş.**STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2018**

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

| | LIABILITIES | Notes | Audited | | |
|--------------|--|-------------|------------------|----------------|------------------|
| | | | 31 December 2018 | | |
| | | | TL | FC | TOTAL |
| I. | FUNDS BORROWED | 9 | 1,277,797 | 481,965 | 1,759,762 |
| II. | FACTORING PAYABLES | 4.1 | 2,238 | 13,104 | 15,342 |
| III. | LEASING PAYABLES | | - | - | - |
| 3.1 | Financial lease payables | | - | - | - |
| 3.2 | Operational lease payables | | - | - | - |
| 3.3 | Other | | - | - | - |
| 3.4 | Deferred Financial Leasing Expenses | | - | - | - |
| IV. | MARKETABLE SECURITIES ISSUED (Net) | 10 | 485,126 | - | 485,126 |
| 4.1 | Bonds | | 485,126 | - | 485,126 |
| 4.2 | Asset-backed Securities | | - | - | - |
| 4.3 | Bills | | - | - | - |
| V. | FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Net) | | - | - | - |
| VI. | DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES | 3.4 | - | 61 | 61 |
| VII. | PROVISIONS | 11 | 6,888 | 493 | 7,381 |
| 7.1 | Reserves for Restructuring | | - | - | - |
| 7.2 | Reserves For Employee Benefits | 11.1 | 5,392 | - | 5,392 |
| 7.3 | General Provisions | | - | - | - |
| 7.4 | Other Provisions | 11.2 | 1,496 | 493 | 1,989 |
| VIII. | TAX LIABILITY | 7 | 3,959 | - | 3,959 |
| IX. | DEFERRED TAX LIABILITY | | - | - | - |
| X. | SUBORDINATED LOANS | | - | - | - |
| XI. | OTHER LIABILITIES | 12 | 4,243 | 2,641 | 6,884 |
| XII. | SUB TOTAL | | 1,780,251 | 498,264 | 2,278,515 |
| XIII. | PAYABLES RELATED TO ASSETS FOR SALE AND DISCONTINUED OPERATIONS | | - | - | - |
| 15.1 | Held for Sale | | - | - | - |
| 15.2 | Discontinued Operations | | - | - | - |
| XIV. | SHAREHOLDERS' EQUITY | 13 | 155,545 | - | 155,545 |
| 16.1 | Paid-in Capital | | 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 | | (657) | - | (657) |
| 16.4 | Other comprehensive income or expense that will be reclassified subsequently to profit or loss | | - | - | - |
| 16.5 | Profit Reserves | | 134,078 | - | 134,078 |
| 16.5.1 | Legal Reserves | | 9,205 | - | 9,205 |
| 16.5.2 | Statutory Reserves | | - | - | - |
| 16.5.3 | Extraordinary Reserves | | 124,873 | - | 124,873 |
| 16.5.4 | Other Profit Reserves | | - | - | - |
| 16.6 | Profit or Loss | | (57,376) | - | (57,376) |
| 16.6.1 | Prior Years Profit or Loss | | - | - | - |
| 16.6.2 | Current Year Profit/Loss | | (57,376) | - | (57,376) |
| XV. | Non-Controlling Interest | | - | - | - |
| | TOTAL LIABILITIES AND EQUITY | | 1,935,796 | 498,264 | 2,434,060 |

In accordance with the transition requirements of TFRS 9, the prior period financial statements and notes are not restated.

The financial statements have been prepared on different basis for the year ended 2018 and 2017. Financial statements for the year ended 2017 is presented separately.

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

GARANTİ FAKTORİNG A.Ş.**STATEMENT OF OFF-BALANCE SHEET ITEMS AS AT 31 DECEMBER 2018**

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

| | OFF-BALANCE SHEET ITEMS | Notes | Audited | | |
|-------------|---|-------------|------------------|-------------------|-------------------|
| | | | 31 December 2018 | | |
| | | | TL | FC | TOTAL |
| I. | IRREVOCABLE FACTORING OPERATIONS | | 854,530 | 514,879 | 1,369,409 |
| II. | REVOCABLE FACTORING OPERATIONS | | 775,409 | 77,708 | 853,117 |
| III. | GUARANTEES TAKEN | <i>22.1</i> | 179,853 | 25,570,326 | 25,750,179 |
| IV. | GUARANTEES GIVEN | <i>22.2</i> | 1,262,391 | 765 | 1,263,156 |
| V. | COMMITMENTS | | - | - | - |
| 5.1 | Irrevocable Commitments | | - | - | - |
| 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 | <i>22.4</i> | - | 185,729 | 185,729 |
| 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 | | - | 185,729 | 185,729 |
| 6.2.1 | Forward Buy/Sell Transactions | | - | - | - |
| 6.2.2 | Swap Buy/Sell Transactions | | - | 185,729 | 185,729 |
| 6.2.3 | Options Buy/Sell Transactions | | - | - | - |
| 6.2.4 | Futures Buy/Sell Transactions | | - | - | - |
| 6.2.5 | Other | | - | - | - |
| VII. | ITEMS HELD IN CUSTODY | <i>22.5</i> | 608,226 | 107,754 | 715,980 |
| | TOTAL OFF BALANCE SHEET ITEMS | | 3,680,409 | 26,457,161 | 30,137,570 |

In accordance with the transition requirements of TFRS 9, the prior period financial statements and notes are not restated.

The financial statements have been prepared on different basis for the year ended 2018 and 2017. Financial statements for the year ended 2017 is presented separately.

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 2018

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

| INCOME STATEMENT | | Notes | Audited 1 January - 31 December 2018 |
|------------------|---|-----------|---|
| I. | OPERATING INCOME | 14 | 477,508 |
| | FACTORING INCOME | | 477,508 |
| 1.1 | Factoring Interest Income | | 466,627 |
| 1.1.1 | Discount | | 216,685 |
| 1.1.2 | Other | | 249,942 |
| 1.2 | Factoring Commission Income | | 10,881 |
| 1.2.1 | Discount | | 3,095 |
| 1.2.2 | Other | | 7,786 |
| | 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 (-) | 15 | (363,463) |
| 2.1 | Interest Expense on Funds Borrowed | | (247,253) |
| 2.2 | Interest Expense on Factoring Payables | | - |
| 2.3 | Finance Lease Expense | | - |
| 2.4 | Interest Expense on Securities Issued | | (99,052) |
| 2.5 | Other Interest Expenses | | (20) |
| 2.6 | Other Fees and Commissions | | (17,138) |
| III. | GROSS PROFIT/LOSS (I-II) | | 114,045 |
| IV. | OPERATING EXPENSES (-) | 16 | (52,056) |
| 4.1 | Personnel Expenses | | (31,454) |
| 4.2 | Retirement Pay Provision Expenses | | (781) |
| 4.3 | Research and Development Expenses | | - |
| 4.4 | General Administrative Expenses | | (18,661) |
| 4.5 | Other | | (1,160) |
| V. | OPERATING GROSS PROFIT/LOSS | | 61,989 |
| VI. | OTHER OPERATION INCOME | 17 | 352,365 |
| 6.1 | Interest Income from Deposits | | 160 |
| 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 | Derivative Financial Transactions | | 30,507 |
| 6.6 | Foreign Exchange Gains | | 320,352 |
| 6.7 | Other | | 1,346 |
| VII. | PROVISIONS | 18 | 176,568 |
| 7.1 | Special Provisions | | 176,568 |
| 7.2 | Estimated Loss Provisions | | - |
| 7.3 | General Provisions | | - |
| 7.4 | Other | | - |
| VIII. | OTHER OPERATIONS EXPENSES (-) | 19 | (306,854) |
| 8.1 | ASSETS HELD FOR SALE OF DISCONTINUED OPERATIONS (Net) | | - |
| 8.1.1 | Financial Assets at Fair Value Through Profit and Loss | | - |
| 8.1.2 | Financial Assets Available For Sale | | - |
| 8.2 | Impairment on Tangible Assets | | - |
| 8.2.1 | Expense from Impairment on Tangible Assets | | - |
| 8.2.2 | Impairment on Assets Held for Sale and Discontinued Operations | | - |
| 8.2.3 | Impairment on Intangible Assets | | - |
| 8.2.4 | Impairment on Subsidiaries, Associates and Joint Ventures | | - |
| 8.3 | Losses from Derivative Financial Transaction | | (6,066) |
| 8.4 | Foreign Exchange Losses | | (300,788) |
| 8.5 | Other | | - |
| IX. | NET OPERATING INCOME | | (69,068) |
| X. | AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER | | - |
| XI. | NET MONETARY GAIN/LOSS | | - |
| XII. | PROFIT/LOSS ON CONTINUING OPERATIONS BEFORE TAX | | (69,068) |
| XIII. | TAX PROVISION FOR CONTINUING OPERATIONS (±) | 7 | (11,692) |
| 13.1 | Current Tax Charge | | 34,390 |
| 13.2 | Deferred Tax Charge (-) | | - |
| 13.3 | Deferred Tax Benefit (+) | | 46,082 |
| XIV. | NET PERIOD PROFIT/LOSS FROM CONTINUING OPERATIONS | | (57,376) |
| 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 Venture | | - |
| 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 | | (57,376) |
| 20.1 | Current Profit (Loss) Distribution | | (57,376) |
| 20.1.1 | Non-Controlling Interests | | (10,419) |
| 20.1.2 | Subsidiaries | | (46,957) |
| XXI. | Diluted Earnings per Share | | (0,721710) |
| 21.1 | A) Profit per Share from Continuing Operations | 20 | (0,721710) |
| 21.2 | B) Profit per Share of Discontinued Operations | | - |

In accordance with the transition requirements of TFRS 9, the prior period financial statements and notes are not restated.

The financial statements have been prepared on different basis for the year ended 2018 and 2017. Financial statements for the year ended 2017 is presented separately.

GARANTİ FAKTORİNG A.Ş.
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

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

| | Notlar | Audited 1 January - 31 December 2018 |
|---|--------|---|
| I. PERIOD INCOME/LOSS | | (57,376) |
| II. OTHER COMPREHENSIVE INCOME | | (65) |
| 2.1 ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS | | (65) |
| 2.1.1 Gains/(losses) on revaluation of tangible assets | | - |
| 2.1.2 Gains/(losses) on revaluation of intangible assets | | - |
| 2.1.3 Gains/(losses) on remeasurement of defined benefit pension plans | | (81) |
| 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 | | 16 |
| 2.2 ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS | | - |
| 2.2.1 Translation differences for transactions in foreign currencies | | - |
| 2.2.2 Income/expenses on revaluation or reclassification of available for sale financial assets | | - |
| 2.2.3 Gains/(losses) from cash flow hedges | | - |
| 2.2.4 Gains/(losses) from net investment hedges | | - |
| 2.2.5 Other items that will be reclassified to profit or loss | | - |
| 2.2.6 Taxation on comprehensive income that will be reclassified to profit or loss | | - |
| III. TOTAL COMPREHENSIVE INCOME (I+II) | | (57,441) |

In accordance with the transition requirements of TFRS 9, the prior period financial statements and notes are not restated.

The financial statements have been prepared on different basis for the year ended 2018 and 2017. Financial statements for the year ended 2017 is presented separately.

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

GARANTİ FAKTORİNG A.Ş.
STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
 FOR THE YEAR ENDED 31 DECEMBER 2018

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

| | CHANGES IN EQUITY | Notes | Paid-in Capital | Capital Reserves | Share Premium | Share Cancellations on Profits | Other Capital Reserves | Revaluation Increase/Decrease of property and equipment | Accumulated revaluation profit/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. | Other comprehensive income or expenses that will not be reclassified to profit or loss | Foreign exchange conversion differences | Revaluation and/or reclassification on 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 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 | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 31.12.2018 | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Audited | | | | | | | | | | | | | | | | | | | | | | | | | |
| I. | Balances at the beginning of the period (Previously reported) | 13 | 79,500 | - | - | - | - | - | (592) | - | (592) | - | - | - | - | 106,475 | 7,496 | - | 98,979 | - | 27,603 | - | 27,603 | - | 212,986 | |
| 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 | - | - | - | - | - | (592) | - | (592) | - | - | - | - | 106,475 | 7,496 | - | 98,979 | - | 27,603 | - | 27,603 | - | 212,986 | |
| IV. | Total Comprehensive Income | | - | - | - | - | - | - | (65) | - | (65) | - | - | - | - | - | - | - | - | - | - | - | - | - | (65) | |
| 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 | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (57,376) | - | (57,376) | - | (57,376) | |
| XII. | Profit distribution | | - | - | - | - | - | - | - | - | - | - | - | - | - | 27,603 | 1,709 | - | 25,894 | - | (27,603) | - | (27,603) | - | - | |
| 12.1 | Dividends | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| 12.2 | Transfers to reserves | | - | - | - | - | - | - | - | - | - | - | - | - | - | 27,603 | 1,709 | - | 25,894 | - | (27,603) | (27,603) | (27,603) | - | 27,603 | |
| 12.3 | Other | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 27,603 | (27,603) | - | (27,603) | |
| | Balance at the end of the period (31 December 2017) | | 79,500 | - | - | - | - | - | (657) | - | (657) | - | - | - | - | 134,078 | 9,205 | - | 124,873 | - | (57,376) | - | (57,376) | - | 155,545 | |
| | (III+IV+.....+XI+XII) | | 79,500 | - | - | - | - | - | (657) | - | (657) | - | - | - | - | 134,078 | 9,205 | - | 124,873 | - | (57,376) | - | (57,376) | - | 155,545 | |

In accordance with the transition requirements of TFRS 9, the prior period financial statements and notes are not restated.

The financial statements have been prepared on different basis for the year ended 2018 and 2017. Financial statements for the year ended 2017 is presented separately.

GARANTİ FAKTORİNG A.Ş.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

| STATEMENT OF CASH FLOWS | | Notes | Audited 1 January - 31 December 2018 |
|-------------------------|--|------------|---|
| A. | CASH FLOWS FROM OPERATING ACTIVITIES | | |
| 1.1 | Operating profit before changes in operating assets and liabilities | | 362,673 |
| 1.1.1 | Interest/Leasing income received | | 498,801 |
| 1.1.2 | Interest/Leasing expenses | | (331,325) |
| | Leasing Expenses | | |
| 1.1.3 | Dividends received | | - |
| 1.1.4 | Fees and commissions received | | 9,359 |
| 1.1.5 | Other income | | - |
| 1.1.6 | Collections from previously written off receivables | 4.2 | 1,178 |
| 1.1.7 | Payments to personnel and service suppliers | | (49,232) |
| 1.1.8 | Taxes paid | 7 | (33,391) |
| 1.1.9 | Other | | 267,283 |
| 1.2 | Changes in operating assets and liabilities | | (27,842) |
| 1.2.1 | Net (increase) decrease in factoring receivables | | 659,362 |
| 1.2.1 | Net (increase) decrease in financial loans | | - |
| 1.2.1 | Net (increase) decrease in leasing receivables | | - |
| 1.2.2 | Net (increase) decrease in other assets | | (88,500) |
| 1.2.3 | Net increase (decrease) in factoring payables | | 4,639 |
| 1.2.3 | Net (increase) decrease in leasing payable | | - |
| 1.2.4 | Net (decrease) increase in financial loans | | (673,993) |
| 1.2.5 | Net (increase) decrease in deferred liabilities | | - |
| 1.2.6 | Net increase (decrease) in other liabilities | | 70,650 |
| I. | Net cash provided from operating activities | | 334,831 |
| B. | CASH FLOWS FROM INVESTING ACTIVITIES | | |
| 2.1 | Cash paid for purchase of joint ventures, associates and subsidiaries | | - |
| 2.2 | Cash obtained from sale of joint ventures, associates and subsidiaries | | - |
| 2.3 | Fixed assets purchases | 5 | (670) |
| 2.4 | Fixed assets sales | | 3 |
| 2.5 | Cash paid for purchase of financial assets available for sale | | - |
| 2.6 | Cash obtained from sale of financial assets available for sale | | - |
| 2.7 | Cash paid for purchase of financial assets held to maturity | | - |
| 2.8 | Cash obtained from sale of financial assets held to maturity | | - |
| 2.9 | Other | 6 | (6,177) |
| II. | Net cash provided from investing activities | | (6,844) |
| C. | CASH FLOWS FROM FINANCING ACTIVITIES | | |
| 3.1 | Cash obtained from funds borrowed and securities issued | | 992,170 |
| 3.2 | Cash used for repayment of funds borrowed and securities issued | | (1,321,802) |
| 3.3 | Capital increase | | - |
| 3.4 | Dividends paid | | - |
| 3.5 | Payments for finance leases | | - |
| 3.6 | Other | | - |
| III. | Net cash provided from financing activities | | (329,632) |
| IV. | Effect of change in foreign exchange rate on cash and cash equivalents | | 2,226 |
| V. | Net increase in cash and cash equivalents (decrease) | | 581 |
| VI. | Cash and cash equivalents at the beginning of the period | | 19,197 |
| VII. | Cash and cash equivalents at the end of the period | 2.5 | 19,778 |

In accordance with the transition requirements of TFRS 9, the prior period financial statements and notes are not restated.

The financial statements have been prepared on different basis for the year ended 2018 and 2017. Financial statements for the year ended 2017 is presented separately.

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 2018

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

| | Notes | Audited | |
|---|-------|------------------------------|------------------------------|
| | | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
| I. DISTRIBUTION OF CURRENT YEAR PROFIT (*) | | | |
| 1.1 CURRENT PERIOD PROFIT | | (69,068) | 34,856 |
| 1.2 TAXES AND LEGAL DUTIES PAYABLE (-) | 7 | (11,692) | 7,253 |
| 1.2.1 Corporate tax (income tax) | | 34,390 | 684 |
| 1.2.2 Withholding tax | | - | - |
| 1.2.3 Other taxes and duties | | (46,082) | 6,569 |
| A. NET PROFIT FOR THE PERIOD (1.1-1.2) | | (57,376) | 27,603 |
| 1.3 ACCUMULATED LOSSES (-) | | - | - |
| 1.4 FIRST LEGAL RESERVES (-) | | - | 1,709 |
| 1.5 OTHER STATUTORY RESERVES (-) | | - | - |
| B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)] | | (57,376) | 25,894 |
| 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 STATUS RESERVES (-) | | - | - |
| 1.11 EXTRAORDINARY RESERVES | | - | (25,894) |
| 1.12 OTHER RESERVES | | - | - |
| 1.13 SPECIAL FUNDS | | - | - |
| II. DISTRIBUTION OF RESERVES | | - | - |
| 2.1 APPROPRIATED RESERVES | | - | - |
| 2.2 SECOND LEGAL RESERVES (-) | | - | - |
| 2.2 DIVIDENDS TO SHAREHOLDERS (-) | | - | - |
| 2.2.1 To owners of ordinary shares | | - | - |
| 2.2.2 To owners of privileged shares | | - | - |
| 2.2.3 To owners of redeemed shares | | - | - |
| 2.2.4 To profit sharing bonds | | - | - |
| 2.2.5 To holders of profit and loss sharing certificates | | - | - |
| 2.3 DIVIDENDS TO PERSONNEL (-) | | - | - |
| 2.4 DIVIDENDS TO BOARD OF DIRECTORS (-) | | - | - |
| III. EARNINGS PER SHARE (per YTL'000 face value each) | | - | 0.34720755 |
| 3.1 TO OWNERS OF ORDINARY SHARES (per YTL'000 face value each) | | - | 0.34720755 |
| 3.2 TO OWNERS OF ORDINARY SHARES (%) | | - | 34.72 |
| 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 2018 profit distribution will be made at general assembly meeting.

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.)

| ASSETS | Notes | Audited | | |
|---|--------------|------------------|------------------|------------------|
| | | 31 December 2017 | | |
| | | 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 |
| 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 | 3.3 | 19,327 | - | 19,327 |
| III. BANKS | 3.1.2 | 6,177 | 13,019 | 19,196 |
| IV. RECEIVABLES FROM REVERSE REPURCHASE AGREEMENTS | | - | - | - |
| V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net) | 3.2.2 | - | 2 | 2 |
| VI. FACTORING RECEIVABLES | 4.1 | 2,242,027 | 1,117,957 | 3,359,984 |
| 6.1 Discount Factoring Receivables | | 933,809 | 122,809 | 1,056,618 |
| 6.1.1 Domestic | | 964,630 | 21,850 | 986,480 |
| 6.1.2 Foreign | | - | 101,647 | 101,647 |
| 6.1.3 Unearned Income (-) | | (30,821) | (688) | (31,509) |
| 6.2 Other Factoring Receivables | | 1,308,218 | 995,148 | 2,303,366 |
| 6.2.1 Domestic | | 1,308,218 | 297,836 | 1,606,054 |
| 6.2.2 Foreign | | - | 697,312 | 697,312 |
| 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 | 4.2 | 19,782 | - | 19,782 |
| 10.1 Non-Performing Factoring Receivables | | 95,335 | - | 95,335 |
| 10.2 Non-Performing Financial Loans | | - | - | - |
| 10.3 Non-Performing Leasing Receivables | | - | - | - |
| 10.4 Specific Provisions (-) | | (75,553) | - | (75,553) |
| XI. DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES | | - | - | - |
| 11.1 Fair Value Hedging | | - | - | - |
| 11.2 Cash Flow Hedging | | - | - | - |
| 11.3 Net Foreign Investment Hedging | | - | - | - |
| XII. INVESTMENT PROPERTIES | | - | - | - |
| XIII. SUBSIDIARIES (Net) | | - | - | - |
| XIV. ASSOCIATES (Net) | | - | - | - |
| XV. JOINT VENTURES (Net) | | - | - | - |
| XVI. TANGIBLE ASSETS (Net) | 5 | 1,939 | - | 1,939 |
| XVII. INTANGIBLE ASSETS (Net) | 6 | 5,491 | - | 5,491 |
| 17.1 Goodwill | | - | - | - |
| 17.2 Other | | 5,491 | - | 5,491 |
| XVIII. PREPAID EXPENSES | 8.1 | 3,568 | 137 | 3,705 |
| XIX. CURRENT TAX ASSETS | | 1,289 | - | 1,289 |
| XX. DEFERRED TAX ASSETS | 7 | 15,585 | - | 15,585 |
| XXI. OTHER ASSETS | 8 | 5,351 | 229 | 5,580 |
| SUB TOTAL | | 2,320,537 | 1,131,344 | 3,451,881 |
| 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 |

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 | | |
| | | TL | FC | Total |
| I. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING | 3.4 | 2,018 | - | 2,018 |
| II. FUNDS BORROWED | 9 | 1,698,504 | 720,251 | 2,418,755 |
| III. FACTORING PAYABLES | 4.1 | 1,435 | 9,268 | 10,703 |
| 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) | 10 | 795,583 | - | 795,583 |
| 5.1 Bills | | 795,583 | - | 795,583 |
| 5.2 Asset-backed Securities | | - | - | - |
| 5.3 Bonds | | - | - | - |
| VI. MISCELLANEOUS PAYABLES | 12.2 | 2,291 | 485 | 2,776 |
| VII. OTHER LIABILITIES | | - | 25 | 25 |
| 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 | | 3,202 | - | 3,202 |
| X. PROVISIONS | | 5,351 | 482 | 5,833 |
| 10.1 Reserves for Restructuring | | - | - | - |
| 10.2 Reserves For Employee Benefits | 11.1 | 4,885 | - | 4,885 |
| 10.3 Other Provisions | 11.2 | 466 | 482 | 948 |
| XI. DEFERRED RECEIVABLES | | - | - | - |
| XII. TAX LIABILITY | | - | - | - |
| XIII. DEFERRED TAX LIABILITY | | - | - | - |
| XIV. SUBORDINATED LOANS | | - | - | - |
| SUB TOTAL | | 2,508,384 | 730,511 | 3,238,895 |
| XV. PAYABLES RELATED TO ASSETS FOR SALE AND DISCONTINUED OPERATIONS | | - | - | - |
| 15.1 Held for Sale | | - | - | - |
| 15.2 Discontinued Operations | | - | - | - |
| XVI. SHAREHOLDERS' EQUITY | 13 | 212,986 | - | 212,986 |
| 16.1 Paid-in Capital | | 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) |
| 16.4 Other comprehensive income or expense that will be reclassified subsequently to profit or loss | | - | - | - |
| 16.5 Profit Reserves | | 106,475 | - | 106,475 |
| 16.5.1 Legal Reserves | | 7,496 | - | 7,496 |
| 16.5.2 Statutory Reserves | | - | - | - |
| 16.5.3 Extraordinary Reserves | | 98,979 | - | 98,979 |
| 16.5.4 Other Profit Reserves | | - | - | - |
| 16.6 Profit or Loss | | 27,603 | - | 27,603 |
| 16.6.1 Prior Years Profit or Loss | | - | - | - |
| 16.6.2 Current Year Profit/Loss | | 27,603 | - | 27,603 |
| TOTAL LIABILITIES AND EQUITY | | 2,721,370 | 730,511 | 3,451,881 |

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

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 | | |
| | | TL | FC | Total |
| I. IRREVOCABLE FACTORING OPERATIONS | | 471,263 | 394,410 | 865,673 |
| II. REVOCABLE FACTORING OPERATIONS | | 623,414 | 226,534 | 849,948 |
| III. GUARANTEES TAKEN | 22.1 | 393,692 | 21,608,968 | 22,002,660 |
| IV. GUARANTEES GIVEN | 22.2 | 1,321,944 | 39,898 | 1,361,842 |
| V. COMMITMENTS | 22.3 | 1,050 | 1,045 | 2,095 |
| 5.1 Irrevocable Commitments | | 1,050 | 1,045 | 2,095 |
| 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 | 22.4 | 697,992 | 666,488 | 1,364,480 |
| 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 |
| 6.2.1 Forward Buy/Sell Transactions | | - | - | - |
| 6.2.2 Swap Buy/Sell Transactions | | 697,992 | 666,488 | 1,364,480 |
| 6.2.3 Options Buy/Sell Transactions | | - | - | - |
| 6.2.4 Futures Buy/Sell Transactions | | - | - | - |
| 6.2.5 Other | | - | - | - |
| VII. ITEMS HELD IN CUSTODY | 22.5 | 811,463 | 172,547 | 984,010 |
| TOTAL OFF BALANCE SHEET ITEMS | | 4,320,818 | 23,109,890 | 27,430,708 |

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 |
|------------------|---|-----------|---|
| I. | OPERATING INCOME | 14 | 286,315 |
| | FACTORING INCOME | | 286,315 |
| 1.1 | Factoring Interest Income | | 263,228 |
| 1.1.1 | Discount | | 112,141 |
| 1.1.2 | Other | | 151,087 |
| 1.2 | Factoring Commission Income | | 23,087 |
| 1.2.1 | Discount | | 16,085 |
| 1.2.2 | Other | | 7,002 |
| | 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 (-) | 15 | (252,215) |
| 2.1 | Interest Expense on Funds Borrowed | | (178,093) |
| 2.2 | Interest Expense on Factoring Payables | | - |
| 2.3 | Finance Lease Expense | | - |
| 2.4 | Interest Expense on Securities Issued | | (59,685) |
| 2.5 | Other Interest Expenses | | (1) |
| 2.6 | Other Fees and Commissions | | (14,436) |
| III. | GROSS PROFIT/LOSS (I-II) | | 34,100 |
| IV. | OPERATING EXPENSES (-) | 16 | (43,196) |
| 4.1 | Personnel Expenses | | (25,148) |
| 4.2 | Retirement Pay Provision Expenses | | (521) |
| 4.3 | Research and Development Expenses | | - |
| 4.4 | General Administrative Expenses | | (17,488) |
| 4.5 | Other | | (39) |
| V. | OPERATING GROSS PROFIT/LOSS | | (9,096) |
| VI. | OTHER OPERATION INCOME | 17 | 432,269 |
| 6.1 | Interest Income from Deposits | | 1,953 |
| 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 |
| 6.5.1 | Derivative Financial Transactions | | 107,203 |
| 6.5.2 | Other | | - |
| 6.6 | Foreign Exchange Gains | | 321,421 |
| 6.7 | Other | | 1,692 |
| VII. | SPECIFIC PROVISION FOR NON-PERFORMING RECEIVABLES (-) | 18 | (20,801) |
| VIII. | OTHER OPERATION EXPENSES | 19 | (367,516) |
| 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) |
| 8.4 | Foreign Exchange Losses | | (364,347) |
| 8.5 | Other | | (90) |
| IX. | NET OPERATING INCOME (I+...+VI) | | 34,856 |
| 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 |
| XIII. | TAX PROVISION FOR CONTINUING OPERATIONS (±) | 7 | (7,253) |
| 13.1 | Current Tax Charge | | (684) |
| 13.2 | Deferred Tax Charge (-) | | (6,569) |
| 13.3 | Deferred Tax Benefit (+) | | - |
| XIV. | NET PERIOD PROFIT/LOSS FROM CONTINUING OPERATIONS | | 27,603 |
| 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 |
| | Earnings/Loss Per Share (Kurus (0.01 TL) per thousand shares) | 20 | 0.34720755 |

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.)

| | | <i>Notes</i> | Audited 1 January - 31 December 2017 |
|-------------|---|--------------|---|
| I. | PERIOD INCOME/LOSS | | 27,603 |
| II. | OTHER COMPREHENSIVE INCOME | | (70) |
| 2.1 | ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS | | (70) |
| 2.1.1 | Gains/(losses) on revaluation of tangible assets | | - |
| 2.1.2 | Gains/(losses) on revaluation of intangible assets | | - |
| 2.1.3 | Gains/(losses) on remeasurement of defined benefit pension plans | | (89) |
| 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 |
| 2.1.5.1 | Tax income/charge | | - |
| 2.1.5.2 | Deferred tax income/charge | | 19 |
| 2.2 | ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS | | - |
| 2.2.1 | Translation differences for transactions in foreign currencies | | - |
| 2.2.2 | Income/expenses on revaluation or reclassification of available for sale financial assets | | - |
| 2.2.3 | Gains/(losses) from cash flow hedges | | - |
| 2.2.4 | Gains/(losses) from net investment hedges | | - |
| 2.2.5 | Other items that will be reclassified to profit or loss | | - |
| 2.2.6 | Taxation on comprehensive income that will be reclassified to profit or loss | | - |
| 2.2.6.1 | Tax income/charge | | - |
| 2.2.6.2 | Deferred tax income/charge | | - |
| III. | TOTAL COMPREHENSIVE INCOME (I+II) | | 27,533 |

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

SRANTİ 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 profit/loss from defined benefit plans | 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 |
|--|-------|-----------------|------------------|---------------|----------------------------|------------------------|---|--|---|--|---|--|--|--|-----------------|----------------|--------------------|------------------------|-----------------------|---------------|----------------------------|--------------------------------|--------------------------|----------------------------|
| I. Balances at the beginning of the prior period (31 December 2016) | 13 | 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) | - | (19,716) | - |
| 12.1 Dividends | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 12.2 Transfers to reserves | | - | - | - | - | - | - | - | - | - | - | - | - | - | 19,716 | 600 | - | 19,116 | - | (19,716) | (19,716) | - | - | 19,716 |
| 12.3 Other | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 19,716 | - | - | (19,716) |
| Balances 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 | | Audited |
|-------------------------|--|---------------------------------|
| | | 1 January - 31 December 2017 |
| | | <i>Notes</i> |
| A. | CASH FLOWS FROM OPERATING ACTIVITIES | |
| 1.1 | Operating profit before changes in operating assets and liabilities | 4,663 |
| 1.1.1 | Interest/Leasing income received | 257,102 |
| 1.1.2 | Interest/Leasing expenses | (223,524) |
| 1.1.3 | Dividends received | - |
| 1.1.4 | Fees and commissions received | 20,456 |
| 1.1.5 | Other income | - |
| 1.1.6 | Collections from previously written off receivables | 1,201 |
| 1.1.7 | Payments to personnel and service suppliers | (42,268) |
| 1.1.8 | Taxes paid | (8,920) |
| 1.1.9 | Other | 616 |
| 1.2 | Changes in operating assets and liabilities | (306,796) |
| 1.2.1 | Net (increase) decrease in factoring receivables | (563,317) |
| 1.2.2 | Net (increase) decrease in other assets | (3,315) |
| 1.2.3 | Net increase (decrease) in factoring payables | 1,938 |
| 1.2.4 | Net increase (decrease) in funds borrowed | 256,644 |
| 1.2.5 | Net increase (decrease) in due payables | - |
| 1.2.6 | Net increase (decrease) in other liabilities | 1,254 |
| I. | Net cash provided from operating activities | (302,133) |
| B. | CASH FLOWS FROM INVESTING ACTIVITIES | |
| 2.1 | Cash paid for purchase of joint ventures, associates and subsidiaries | - |
| 2.2 | Cash obtained from sale of joint ventures, associates and subsidiaries | - |
| 2.3 | Fixed assets purchases | (430) |
| 2.4 | Fixed assets sales | - |
| 2.5 | Cash paid for purchase of financial assets available for sale | - |
| 2.6 | Cash obtained from sale of financial assets available for sale | - |
| 2.7 | Cash paid for purchase of financial assets held to maturity | - |
| 2.8 | Cash obtained from sale of financial assets held to maturity | - |
| 2.9 | Other | (3,620) |
| II. | Net cash provided from investing activities | (4,050) |
| C. | CASH FLOWS FROM FINANCING ACTIVITIES | |
| 3.1 | Cash obtained from funds borrowed and securities issued | 1,230,170 |
| 3.2 | Cash used for repayment of funds borrowed and securities issued | (916,049) |
| 3.3 | Capital increase | - |
| 3.4 | Dividends paid | - |
| 3.5 | Payments for finance leases | - |
| 3.6 | Other | - |
| III. | Net cash provided from financing activities | 314,121 |
| IV. | Effect of change in foreign exchange rate on cash and cash equivalents | 1,656 |
| V. | Net increase/decrease in cash and cash equivalents | 9,594 |
| VI. | Cash and cash equivalents at the beginning of the period | 9,603 |
| VII. | Cash and cash equivalents at the end of the period | 19,197 |

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) | | |
|---|-------|--|
| | Notes | Audited 1 January - 31 December 2017 |
| I. DISTRIBUTION OF CURRENT YEAR PROFIT (*) | | |
| 1.1 CURRENT PERIOD PROFIT | | 34,856 |
| 1.2 TAXES AND LEGAL DUTIES PAYABLE (-) | 7 | 7,253 |
| 1.2.1 Corporate tax (income tax) | | 684 |
| 1.2.2 Withholding tax | | - |
| 1.2.3 Other taxes and duties | | 6,569 |
| A. NET PROFIT FOR THE PERIOD (1.1-1.2) | | 27,603 |
| 1.3 ACCUMULATED LOSSES (-) | | - |
| 1.4 FIRST LEGAL RESERVES (-) | | - |
| 1.5 OTHER STATUTORY RESERVES (-) | | - |
| B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A-(1.3+1.4+1.5))] | | 27,603 |
| 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 | | - |
| 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) | | |
| 3.1 TO OWNERS OF ORDINARY SHARES (per YTL'000 face value each) | | - |
| 3.2 TO OWNERS OF ORDINARY SHARES (%) | | - |
| 3.3 TO OWNERS OF PRIVILEGED SHARES | | - |
| 3.4 TO OWNERS OF PRIVILEGED SHARES (%) | | - |
| IV. DIVIDEND PER SHARE | | |
| 4.1 TO OWNERS OF ORDINARY SHARES (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 2018

(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 2018 | (%) | 31 December 2017 | (%) |
| 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 at 31 December 2018 is 55,40% and T. Garanti Bankası A.Ş. has obtained the remaining 26,44% shares from public shares via Borsa İstanbul (31 December 2017: 55,40% and 26,44%).

The Company has 139 employees as at 31 December 2018 (31 December 2017: 156).

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 11 (eleven) 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 2019. 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 2018

(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.

Changes regarding classification and measurement of financial assets

TFRS 9, effective as of 1 January 2018, regulates the accounting and measurement of financial assets and financial liabilities. This standard has replaced TAS 39 Financial Instruments: Recognition and Measurement. Amendments to TFRS 9 affect the measurement of financial assets and the measurement of financial liabilities that are measured at fair value through profit or loss and require the presentation of the classification of the fair value of the financial liabilities related to the credit risk in the other comprehensive income table. TFRS 9 substantially preserves the existing provisions of TAS 39 for the classification and measurement of financial liabilities.

Within the scope of "Regulation on Making Amendments to the Regulation on Accounting Practices and Financial Statements of Leasing, Factoring and Financing Companies" published in the Official Gazette dated 2 May 2018 and numbered 30409, companies are entitled to reserve for the expected credit loss allowance under TFRS 9 and the effective date of the regulation is 30 September 2018. The Company is planning to calculate its expected credit loss in accordance with TFRS 9 starting from 1 January 2019 with the Board of Directors decision dated 28 December 2018.

In accordance with the transition requirements of TFRS 9, the prior period financial statements and notes are not restated. 2017 financial statements are presented separately.

As at 31 December 2018, financial assets available for sale is reclassified to financial assets designated at fair value through profit or loss in accordance with TFRS 9.

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.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

(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 (Continued)

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.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced TAS 18 Revenue, TAS 11 Construction Contracts and related interpretation.

The new standard changes the guidances existed in TAS and establishes the principles that an entity applies when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer. The basic principle of the standard is that the entity reflects the amount of the goods or services committed to the customers at an amount that reflects the expected amount of the entitlement to acquire to the financial statements.

The standard is in effect starting from 1 January 2018 and does not have significant impact on the consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9, effective as of 1 January 2018, regulates the accounting and measurement of financial assets and financial liabilities. This standard has replaced TAS 39 Financial Instruments: Recognition and Measurement. Amendments to IFRS 9 affect the measurement of financial assets and the measurement of financial liabilities that are measured at fair value through profit or loss and require the presentation of the classification of the fair value of the financial liabilities related to the credit risk in the other comprehensive income table. IFRS 9 substantially preserves the existing provisions of TAS 39 for the classification and measurement of financial liabilities.

Within the scope of "Regulation on Making Amendments to the Regulation on Accounting Practices and Financial Statements of Leasing, Factoring and Financing Companies" published in the Official Gazette dated 2 May 2018 and numbered 30409, companies are entitled to reserve for the expected credit loss allowance under IFRS 9 and the effective date of the regulation is 30 September 2018. The Company is planning to calculate its expected credit loss in accordance with IFRS 9 starting from 1 January 2019 with the Board of Directors decision dated 28 December 2018.

The effective date of the implementation of IFRS 9 adopted financial statements 30 September 2018 published in the Official Gazette dated 2 May 2018. Reclassification and measurement effect of the IFRS 9 is applied for the financial assets and liabilities as explained in the below paragraph. In accordance with the transition requirements of IFRS 9, the prior period financial statements and notes are not restated. 2017 financial statements are presented separately.

2.3 Changes in Accounting Estimates and Errors

The Company set aside specific provisions for factoring receivables in accordance with the "Regulation on Accounting Practices and Financial Statements of Leasing, Factoring and Financing Companies" published in the Official Gazette No. 28861 dated 24 December 2013 and other regulations regarding the amendment of the related regulation. The Company continues to recognize provisions for impairment as it has been in previous periods in accordance with the related legislation.

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2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

2.3 Changes in Accounting Estimates and Errors (Continued)

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.

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 4 – Loans, Net

Note 5 – Tangible Assets

Note 6 – Intangible Assets

Note 7 – Tax Assets and Liabilities

Note 11 – Provisions

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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)

2.4 New and Revised Turkish Accounting Standards

2.4.1 Standards and interpretations are not effective as at 31 December 2018

Standards, interpretations are not effective as at 31 December 2018 explained in Note 2.2.

2.4.2 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 Company will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, after the new standards and interpretations become in effect.

IFRS 16 Leases

On 16 April 2018, POA issued the new leasing standard which will replace TAS 17 *Leases*, IFRS Interpretation 4 *Determining Whether an Arrangement Contains a Lease*, TAS Interpretation 15 *Operating Leases – Incentives*, and TAS Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and consequently changes to TAS 40 *Investment Properties*. IFRS 16 *Leases* 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.

IFRS Interpretation 23 –Uncertainty Over Income Tax Treatments

On 24 May 2018, POA issued IFRS Interpretation 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. TAS 12 *Income Taxes* specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRS Interpretation 23 provides requirements that add to the requirements in TAS 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 IFRS Interpretation 23.

Amendments to IFRS 9 - Prepayment features with negative compensation

On December 2017, POA has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include ‘reasonable additional compensation’ for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of the amendments to IFRS 9.

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NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

(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)

The revised Conceptual Framework

The revised Conceptual Framework issued on 27 October 2018 by the POA. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the POA in developing TFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no TFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the POA with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no TFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

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

The following standards, interpretations of and amendments to existing IFRS standards are issued by the IASB but these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TAS by the POA, thus they do not constitute part of TAS. 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.

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Company does not expect that application of these improvements to IFRSs will have significant impact on its financial statements.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

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2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

2.5. New and Revised Turkish Accounting Standards (continued)

Annual Improvements to IFRSs 2015-2017 Cycle (continued)

Improvements to IFRSs (continued)

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement -

On 7 February 2018, IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Company does not expect that application of these amendments to IAS 19 will have significant impact on its financial statements.

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018 the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of the amendments to IAS 1 and IAS 8.

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

(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.

Financial Assets Measured at Amortised Cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost.

Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is accounted in statement of profit or loss.

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2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

(b) *Financial Instruments (continued)*

Financial Assets (continued)

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

As per TFRS 9, the financial investments are measured at fair value through other comprehensive income if financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to statement of profit or loss. “Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the statement of profit or loss of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the “Other comprehensive income income/expense items to be recycled in profit or loss” under shareholders’ equity.

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.

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2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

2.5 Summary of Significant Accounting Policies (continued)

(b) *Financial Instruments (continued)*

Financial Assets (continued)

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 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 at 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.

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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 2018 and 31 December 2017 are as follows:

| | <u>31 December 2018</u> | <u>31 December 2017</u> |
|------|--------------------------------|--------------------------------|
| USD | 5,2609 | 3,7719 |
| EURO | 6,0280 | 4,5155 |
| GBP | 6,6528 | 5,0803 |

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.

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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.

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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.

2.5.1 Accounting policies applied before 1 January 2018

(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:

31 December 2018

| | |
|---------------------------|--------|
| Cash and Cash Equivalents | 19.778 |
|---------------------------|--------|

19.778

31 December 2017

| | |
|-------|--------|
| Cash | 1 |
| Banks | 19.196 |

19.197

GARANTİ FAKTORİNG A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

(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)

(p) *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.

Available for Sale Financial Assets

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

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT AND
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3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)**3.1.1 Cash and cash equivalents**

Details of cash and cash equivalents as at 31 December 2018 are as follows:

| | 31 December 2018 |
|---------------------------------|-------------------------|
| Cash and cash equivalent assets | 19.778 |
| Total | 19.778 |

The bank balances with original maturities shorter than 3 months which form the basis of the statement of cash flows are TL 19.778 as at 31 December 2018.

3.1.2 Banks

Details of Banks as at 31 December 2018 are as follows:

| | 31 December 2017 |
|--------------|-------------------------|
| Cash | 1 |
| Banks | 19.196 |
| Total | 19.197 |

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.

3.2.1 Financial Assets Designated at Fair Value Through Profit or Loss

Details of Financial Assets Designated at Fair Value Through Profit or Loss as at 31 December 2018 are as follows:

| 31 December 2018 | Value | | % Share |
|-----------------------------------|--------------|-----------|----------------|
| | TL | FC | |
| Factors Chain International (FCI) | - | 6 | 1,72 |
| | - | 6 | |

3.2.2 Financial Assets Available For Sale (Net)

Financial assets available for sale are composed of unquoted equity share investments as at 31 December 2017.

| 31 December 2017 | Value | | % Share |
|-----------------------------------|--------------|-----------|----------------|
| | TL | FC | |
| Factors Chain International (FCI) | - | 2 | 1,72 |
| | - | 2 | |

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3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)**3.3 Derivative Financial Assets Held for Trading**

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.

Details of derivative financial assets held for trading that arise currency swap buy-sell agreements as at 31 December 2018 are as follows:

| | 31 December 2018 | |
|--|-------------------------|-----------|
| | TL | FC |
| Derivative financial assets held for trading | - | 1 |
| | - | 1 |

Details of derivative financial assets held for trading that arise forward swap buy-sell agreements as at 31 December 2017 are as follows:

| | 31 December 2017 | |
|--|-------------------------|-----------|
| | TL | FC |
| Derivative financial assets held for trading | 19.327 | - |
| | 19.327 | - |

3.4 Derivative Financial Liabilities Held for Trading

Details of derivative financial liabilities held for trading that arise from currency swap buy-sell agreements as at 31 December 2018 are as follows:

| | 31 December 2018 | |
|---|-------------------------|-----------|
| | TL | FC |
| Derivative financial liabilities held for trading | - | 61 |
| | - | 61 |

Details of derivative financial liabilities held for trading that arise from currency swap buy-sell agreements and forward contracts as at 31 December 2017 are as follows:

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

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4 LOANS, NET**4.1 Factoring Receivables And Payables***Factoring Receivables*

Details of factoring receivables as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | |
|--|-------------------------|----------------|
| | TL | FC |
| Discounted factoring receivables (net) | 761.225 | 118.681 |
| Other factoring receivables | 1.064.732 | 334.472 |
| Factoring receivables, net | 1.825.957 | 453.153 |

Details of factoring receivables as at 31 December 2017 are as follows:

| | 31 December 2017 | |
|---|-------------------------|------------------|
| | TL | FC |
| Domestic and import factoring receivables | 2.272.848 | 319.686 |
| Export factoring receivables | - | 798.959 |
| Unearned interest income | (30.821) | (688) |
| Factoring receivables, net | 2.242.027 | 1.117.957 |

Factoring receivables that are past due but not impaired amount to TL 10.686 (31 December 2017: TL 63.196) and the delays are as follows:

| | 31 December 2018 | | 31 December 2017 | |
|-------------------------|-------------------------|--------------|-------------------------|---------------|
| | TL | FC | TL | FC |
| Overdue 1 month | 3.309 | 4.215 | 5.545 | 27.675 |
| Overdue 1-3 months (*) | 1.949 | 1.084 | 1.556 | 4.068 |
| Overdue 3-6 months (*) | 129 | - | 103 | - |
| Overdue 6-12 months (*) | - | - | - | - |
| Over 12 months (*) | - | - | 24.249 | - |
| | 5.387 | 5.299 | 31.453 | 31.743 |

(*) 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.

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4.1 Factoring Receivables And Payables (Continued)*Factoring Payables*

Details of short term factoring payables as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | | 31 December 2017 | |
|--------------------|------------------|---------------|------------------|--------------|
| | TL | FC | TL | FC |
| Factoring payables | 2.238 | 13.104 | 1.435 | 9.268 |
| | 2.238 | 13.104 | 1.435 | 9.268 |

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

4.2 Non-Performing Receivables

Details of the Company’s non-performing factoring receivables and the provisions allocated for them as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | | 31 December 2017 | |
|--|------------------|---------------|------------------|----------|
| | TL | FC | TL | FC |
| Factoring receivables | 148.612 | 158.257 | 95.335 | - |
| Specific provisions | (107.965) | (142.978) | (75.553) | - |
| Non-performing receivables, net | 40.647 | 15.279 | 19.782 | - |

Aging of non-performing factoring receivables and specific provision allocated for them as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | | 31 December 2017 | |
|-----------------------------|--|----------------|--|---------------|
| | Total non - performing factoring receivables | Provision | Total non - performing factoring receivables | Provision |
| Overdue up to 90 days | 16.743 | 3.349 | 1.887 | 377 |
| Overdue for 91-180 days | 5.501 | 1.100 | 1.869 | 374 |
| Overdue for 181-365 days | 109.264 | 79.560 | 22.586 | 15.376 |
| Overdue for 1 year and over | 175.361 | 166.934 | 68.993 | 59.426 |
| Total | 306.869 | 250.943 | 95.335 | 75.553 |

There is no collaterals received for non-performing factoring receivables capped with the exposure for 2018 (31 December 2017: TL 2.395).

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4.2 Non-Performing Receivables (Continued)

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

| | 1 January- 31 December 2018 | 1 January- 31 December 2017 |
|---|--|--|
| Balance as at 1 January | 75.553 | 55.953 |
| Provision provided for the period (*) | 176.568 | 20.801 |
| Collections during the period (**) | (1.178) | (1.201) |
| Balance at the end of the period | 250.943 | 75.553 |

(*) 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.

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

5 TANGIBLE ASSETS

The movement of tangible assets for the period ended 31 December 2018 is as follows:

| | 1 January 2018 | Additions | Disposals | 31 December 2018 |
|---------------------------------|---------------------------|--|------------------|-----------------------------|
| Acquisition Cost | | | | |
| Furniture and fixtures | 4.942 | 632 | (154) | 5.420 |
| Vehicles | 19 | - | - | 19 |
| Leasehold improvements | 1.719 | 38 | - | 1.757 |
| | 6.680 | 670 | (154) | 7.196 |
| Accumulated Depreciation | | Depreciation for the period | Disposals | 31 December 2018 |
| Furniture and fixtures | 3.508 | 751 | (127) | 4.132 |
| Vehicles | 19 | - | - | 19 |
| Leasehold improvements | 1.214 | 96 | - | 1.310 |
| | 4.741 | 847 | (127) | 5461 |
| Net book value | 1.939 | | | 1.735 |

As at 31 December 2018, the insurance on tangible assets amounts to TL 1.490 (31 December 2017: TL 1.490) and the insurance premium amounts to TL 3 (31 December 2017: TL 3).

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5 TANGIBLE ASSETS (Continued)

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 |
| Accumulated Depreciation | | | | |
| | 1 January 2017 | 1 January 2017 | Depreciation for the period | Disposals |
| 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 |

6 INTANGIBLE ASSETS

The movement of intangible assets for the period ended 31 December 2018 is as follows:

| | 1 January 2018 | Additions | Disposals | 31 December 2018 |
|---------------------------------|---------------------------|----------------------------------|------------------|-----------------------------|
| Acquisition Cost | | | | |
| Rights | 3.076 | - | - | 3.076 |
| Other (Software) | 17.573 | 6.177 | - | 23.750 |
| | 20.649 | 6.177 | - | 26.826 |
| Accumulated Amortization | | | | |
| | 1 January 2018 | Charge for the period | Disposals | 31 December 2018 |
| Rights | 3.076 | - | - | 3.076 |
| Other (Software) | 12.082 | 4.030 | - | 16.112 |
| | 15.158 | 4.030 | - | 19.188 |
| Net book value | 5.491 | | | 7.638 |

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6 INTANGIBLE ASSETS (Continued)

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 |

As at 31 December 2018 and 31 December 2017, the Company has not any intangible asset that is generated within the company.

7 TAX ASSETS AND LIABILITIESCorporate 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).

According to the provisional Article 10 of the Law No. 7061 of 5 December 2017, numbered 30261, “Amendments to Certain Tax Laws and Some Other Laws” and the Law No. 5520 on Corporate Income Tax Law, it is foreseen that the corporation tax that should be paid over the profits of the tax years 2018, 2019 and 2020 will be calculated as 22% and the tax will be continued with 20%. During this period, the Council of Ministers was given the authority to reduce the rate of 22% to 20%. Therefore, deferred tax assets and liabilities are measured at the tax rate of 22% that are expected to apply to these periods when the assets is realised or the liability is settled, based on the Law that have been enacted.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax is calculated as 22% of the income in the year 2018 (2017: 20%).

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

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

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7 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 2018 | 1 January – 31 December 2017 |
|---------------------------------------|---|---|
| Reported profit before taxation | (69.068) | 34.856 |
| Calculated tax on reported profit (*) | 15.195 | (6.971) |
| Permanent differences: | | |
| Effect of change in tax rate | (3.498) | - |
| Non-deductible expenses | (44) | (571) |
| Non-taxable income | - | 34 |
| Other | 39 | 255 |
| Tax Charge | 11.692 | (7.253) |

The corporate tax payable as at 31 December 2018 and 31 December 2017 is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|-------------------------|-------------------------|
| Corporate tax provision | 37.350 | 944 |
| Prepaid taxes | (33.366) | (1.884) |
| Withholding income taxes | (25) | (349) |
| Corporate Tax Payable / (Tax Assets) | 3.959 | (1.289) |

The tax charge in the statement of profit or loss for the periods ended 31 December 2018 and 31 December 2017 is as summarized below:

| | 1 January- 31 December 2018 | 1 January- 31 December 2017 |
|--|--|--|
| Current tax charge | (37.350) | (684) |
| Prior year corporate tax return (*) | 2.884 | - |
| Reversal of prior year corporate tax provision | 76 | - |
| Deferred tax benefit/(charge) | 46.082 | (6.569) |
| | 11.692 | (7.253) |

(*)The lawsuit filed on 23 May 2017 related to the doubtful receivables was concluded on 29 November 2017 in on behalf of the company. The amount of TL 2.884 which is accrued in the tax declarations of corporation in 2016. A refund was received on 9 April 2018. The related amount has been accounted under other operating income. The amount that constituted the deferred tax asset in prior periods canceled in the current period.

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7 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 2018, 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 2017: 20%).

| | <u>31 December 2018</u> | <u>31 December 2017</u> |
|---|--------------------------------|--------------------------------|
| <u>Temporary Differences</u> | | |
| Factoring receivable provisions | 218.774 | 59.393 |
| Unearned factoring interest income | 78.238 | 31.509 |
| Valuation differences of derivative financial assets | 61 | 2.018 |
| Deferred income accruals | 33 | 1.579 |
| Premium pay provision | 2.184 | 1.673 |
| Reserve for employee benefits (*) | 2.343 | 2.195 |
| Valuation differences on interest accruals | 1.292 | 1.433 |
| Unused vacation accrual | 865 | 1.017 |
| Valuation differences of funds borrowed and bonds | 1.887 | 994 |
| Prepaid guarantee letter and brokerage commissions | 406 | 63 |
| Other provisions | 1.030 | 406 |
| <i>Temporary differences related to deferred tax assets</i> | 307.113 | 102.280 |
| Valuation differences of derivative financial assets | 1 | 19.327 |
| Prepaid letter of guarantee and underwriting commissions | 2.500 | 3.083 |
| Temporary differences on tangible and intangible assets | 2.718 | 2.055 |
| Commission income accruals | 1.155 | 1.141 |
| Valuation differences of bonds and funds borrowed | 381 | 398 |
| <i>Temporary differences related to deferred tax liabilities</i> | 6.755 | 26.004 |
| <u>Deferred tax assets / (liabilities)</u> | | |
| Unearned factoring interest income | 17.213 | 6.933 |
| Factoring receivable provisions | 43.790 | 11.923 |
| Valuation differences of derivative financial assets | 13 | 444 |
| Deferred income accruals | 7 | 347 |
| Premium pay provision | 480 | 368 |
| Reserve for employee benefits (*) | 469 | 439 |
| Valuation differences on interest accruals | 284 | 315 |
| Unused vacation accrual | 190 | 224 |
| Valuation differences of funds borrowed and bonds | 415 | 219 |
| Prepaid guarantee letter and brokerage commissions | 81 | 13 |
| Other provisions | 227 | 81 |
| <i>Deferred tax assets</i> | 63.169 | 21.306 |
| Valuation differences of derivative financial assets | - | (4.252) |
| Prepaid letter of guarantee and underwriting commissions | (550) | (678) |
| Temporary differences on tangible and intangible assets | (598) | (452) |
| Commission income accruals | (254) | (251) |
| Valuation differences of bonds and funds borrowed | (84) | (88) |
| <i>Deferred tax liabilities</i> | (1.486) | (5.721) |
| <i>Deferred tax assets (net)</i> | 61.683 | 15.585 |

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7 TAX ASSETS AND LIABILITIES (Continued)

Movements of deferred tax assets are as follows:

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---|---|
| 1 January | 15.585 | 22.135 |
| Deferred tax income / (expense) | 46.082 | (6.569) |
| Deferred tax income / (expense) classified under other comprehensive income | 16 | 19 |
| Balance at the end of the period | 61.683 | 15.585 |

8 PREPAID EXPENSES AND OTHER ASSETS**8.1** Details of other assets as at 31 December 2018 are as follows:

| | 31 December 2018 | |
|---|-------------------------|------------|
| | TL | FC |
| Receivables from BITT accruals | 4.565 | - |
| Receivables related with court expenses | 3.108 | - |
| Other | 138 | 361 |
| | 7.811 | 361 |

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

| | 31 December 2017 | |
|-------------------------------------|-------------------------|------------|
| | TL | FC |
| <i>Prepaid expenses</i> | | |
| Letter of guarantee commissions | 1.700 | - |
| Bond issuance brokerage commissions | 1.383 | - |
| Maintenance expenses | 393 | - |
| Insurance premiums | 53 | - |
| Other | 39 | 137 |
| | 3.568 | 137 |

| | 31 December 2017 | |
|---|-------------------------|------------|
| | TL | FC |
| <i>Other assets</i> | | |
| Receivables from BITT accruals | 4.286 | - |
| Receivables related with court expenses | 1.013 | - |
| Other | 52 | 229 |
| | 5.351 | 229 |

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9 FUNDS BORROWED

Details of funds borrowed as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | | 31 December 2017 | |
|----------------|-------------------------|----------------|-------------------------|----------------|
| | TL | FC | TL | FC |
| Funds borrowed | 1.277.797 | 481.965 | 1.698.504 | 720.251 |
| | 1.277.797 | 481.965 | 1.698.504 | 720.251 |

Interest rates are the higher and lower rate interval for the variable and fixed rate loans as at 31 December 2018 and 31 December 2017.

| | 31 December 2018 | | | | 31 December 2017 | | | |
|--------------|-------------------------|-------------------|------------------|-----------------|-------------------------|-------------------|------------------|-----------------|
| | Original Amount | Interest Rate (%) | TL Equivalent | | Original Amount | Interest Rate (%) | TL Equivalent | |
| | | | Up to 1 Year | 1 Year and over | | | Up to 1 Year | 1 Year and over |
| TL | 1.277.797 | 16,80-33,60 | 1.051.497 | 226.300 | 1.698.504 | 13,40-17,50 | 1.698.504 | - |
| USD | 21.831 | 2,64-11,55 | 114.854 | - | 46.919 | 0,25-2,30 | 176.974 | - |
| EURO | 57.793 | 0,40-4,78 | 161.455 | 186.927 | 87.676 | 0,16-3,20 | 392.197 | 140.014 |
| GBP | 2.815 | 1,0-2,81 | 18.729 | - | 2.178 | 0,79-1,00 | 11.066 | - |
| Total | | | 1.346.535 | 413.227 | | | 2.278.741 | 140.014 |

TL 1.049.389 of the funds borrowed as at 31 December 2018 is borrowed from Takasbank Money Market (31 December 2017: TL 1.209.354). TL 1.254.500 worth of guarantee has been given for the funds borrowed from Takasbank Money Market (31 December 2017: TL 1.314.500).

As at 31 December 2018 and 31 December 2017, the remaining funds borrowed are uncollateralized.

10 MARKETABLE SECURITIES ISSUED

Details of marketable securities issued as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | | 31 December 2017 | |
|-----------------------|-------------------------|-----------|-------------------------|-----------|
| | TL | FC | TL | FC |
| Bills | | | | |
| Nominal | 505.280 | - | 834.913 | - |
| Cost | 465.322 | - | 780.780 | - |
| Carrying Value | 485.126 | - | 795.583 | - |

The Company issued discounted bills only for qualified investors.

| 1 January – 31 December 2018 | | | 1 January – 31 December 2017 | | |
|-------------------------------------|----------------------|-----------------|-------------------------------------|----------------------|-----------------|
| Date of issue | Nominal value | Maturity | Date of issue | Nominal value | Maturity |
| 12.11.2018 | 100.000 | 21.01.2019 | 22.08.2017 | 86.401 | 14.02.2018 |
| 19.11.2018 | 60.000 | 23.01.2019 | 29.09.2017 | 50.000 | 27.03.2018 |
| 08.08.2018 | 152.140 | 01.02.2019 | 31.10.2017 | 158.340 | 24.04.2018 |
| 14.12.2018 | 75.000 | 30.04.2019 | 15.11.2017 | 81.860 | 11.05.2018 |
| 12.11.2018 | 60.000 | 02.05.2019 | 20.11.2017 | 225.521 | 18.05.2018 |
| 30.11.2018 | 36.200 | 27.05.2019 | 13.12.2017 | 91.060 | 05.06.2018 |
| 10.12.2018 | 21.940 | 31.05.2019 | 27.12.2017 | 141.731 | 19.06.2018 |
| Total | 505.280 | | Total | 834.913 | |

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11 PROVISIONS

Details of provisions as at 31 December 2018 are as follows:

| | 31 December 2018 | |
|-------------------------------------|-------------------------|------------|
| | TL | FC |
| Provision for employee benefits | 5.392 | - |
| Provision for lawsuits | 406 | - |
| Provision for brokerage commissions | - | 493 |
| Other provisions | 1.090 | - |
| | 6.888 | 493 |

Details of reserve for employee benefits and provisions as at 31 December 2017 are as follows:

| | 31 December 2017 | |
|-------------------------------------|-------------------------|------------|
| | TL | FC |
| Provision for employee benefits | 4.885 | - |
| Provision for lawsuits | 406 | - |
| Provision for brokerage commissions | - | 482 |
| Other provisions | 60 | - |
| | 5.351 | 482 |

11.1 Provision for Employee Benefits

Provision for employee benefits as at 31 December 2018 includes retirement pay provision amounting to TL 2.343 (31 December 2017: TL 2.195), unused vacation accrual amounting to TL 865 (31 December 2017: TL 1.017) and personnel bonus accrual amounting to TL 2.184 (31 December 2017: TL 1.673).

Retirement Pay Provision

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

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 2018, this amount is limited to a maximum of TL 5.434,42 (full) (31 December 2017: TL 4.732,48 (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 2018, 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 12,50% and a discount rate of 16,30% (31 December 2017: inflation rate of 8,40%, discount rate of 11,70%, real discount rate of approximately 3,40%).

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

| | 1 January- 31 December 2018 | 1 January- 31 December 2017 |
|--|--|--|
| Net liability at the beginning of the period | 2.195 | 1.792 |
| Severance indemnity paid in the period | (714) | (207) |
| Retirement provision recognized under income statement | 781 | 521 |
| Recognized under other comprehensive income / | 81 | 89 |
| Net liability at the end of period | 2.343 | 2.195 |

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11 PROVISIONS (continued)***Personnel Bonus Accrual***

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

| | 1 January- 31 December 2018 | 1 January- 31 December 2017 |
|---|--|--|
| Balance at 1 January | 1.673 | 1.520 |
| Paid in the period | (2.568) | (2.225) |
| Reversal | (77) | (246) |
| Accrual for the period | 3.156 | 2.624 |
| Balance at the end of the period | 2.184 | 1.673 |

Unused Vacation Accrual

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

| | 1 January- 31 December 2018 | 1 January- 31 December 2017 |
|---|--|--|
| Balance at 1 January | 1.017 | 876 |
| Paid in the period | (524) | (73) |
| Reversal | (234) | (105) |
| Accrual for the period | 606 | 319 |
| Balance at the end of the period | 865 | 1.017 |

11.2 Other Provisions

As at 31 December 2018, the Company has set aside TL 1.090 other personnel expenses, TL 493 correspondent expenses, TL 406 continuing legal proceedings. (As at 31 December 2017, the Company has set aside TL 482 correspondent expenses, TL 406 continuing legal proceedings and TL 60 other provision). The movement of other provisions within the period is as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---|-------------------------|------------|-------------------------|------------|
| | TL | FC | TL | FC |
| Balance at 1 January | 466 | 482 | 576 | 412 |
| Reversal | (60) | (482) | (200) | (412) |
| Provision provided for the period | 1.090 | 493 | 90 | 482 |
| Balance at the end of the period | 1.496 | 493 | 466 | 482 |

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12 OTHER LIABILITIES

12.1 Details of other liabilities as at 31 December 2018 are as follows:

| | 31 December 2018 | |
|-------------------------------|-------------------------|--------------|
| | TL | FC |
| Taxes payable | 3.687 | - |
| Transitory liability accounts | 42 | 1.966 |
| Transfer payable | - | 596 |
| Other payables | 481 | 79 |
| Deferred commissions | 33 | - |
| Other liabilities | 4.243 | 2.641 |

12.2 TAX PAYABLES AND LIABILITIES

Details of other liabilities as at 31 December 2017 are as follows:

| | 31 December 2017 | |
|----------------------------------|-------------------------|-----------|
| | TL | FC |
| BITT payable | 1.760 | - |
| Social security premiums payable | 787 | - |
| Income tax payable | 572 | - |
| VAT payable | 66 | - |
| Stamp tax payable | 17 | - |
| | 3.202 | - |

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

| | 31 December 2017 | |
|-------------------------------|-------------------------|------------|
| | TL | FC |
| Deferred commissions | 1.579 | - |
| Sundry creditors | 396 | 36 |
| Transitory liability accounts | 316 | 449 |
| Miscellaneous Payables | 2.291 | 485 |

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13 SHAREHOLDERS’ EQUITY**13.1 Paid-in Capital**

As at 31 December 2018, the Company’s share capital amounts to TL 79.500 (31 December 2017: TL 79.500). As at 31 December 2018, the Company has 7.950.000.000 (31 December 2017: 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 2017: Kr 1).

13.2 Capital Reserves

None (31 December 2017: None).

13.3 Other Comprehensive Income or Expense

As at 31 December 2018, TL (657) 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 2017: TL (592) includes actuarial gain/ losses of employee termination benefits and its deferred tax effect that will not be reclassified subsequently to profit or loss.)

13.4 Profit Reserves

As at 31 December 2018, the Company’s profit reserves comprise of the legal reserves amounting to TL 9.205 (31 December 2017: TL 7.496) and extraordinary reserves amounting to TL 124.873 (31 December 2017: TL 98.979).

13.5 Profit Distribution**2017 PROFIT DISTRIBUTION TABLE**

| | |
|---|---------------|
| Net Profit for the year | 27.603 |
| Legal Reserves (-) | 1.709 |
| DISTRIBUTABLE NET PROFIT OF THE PERIOD | 25.894 |
| Donations (+) | 68 |
| Distributable net profit of the period (with Donations) | 25.962 |
| EXTRAORDINARY RESERVES | 25.894 |

14 OPERATING INCOME

The details of operating income for the periods ended 31 December 2018 and 31 December 2017 are as follows:

| | 1 January- 31 December 2018 | 1 January - 31 December 2017 |
|---|--|---|
| Factoring interest income | 466.627 | 263.228 |
| Factoring fee and commission income (net) | 10.881 | 23.087 |
| | 477.508 | 286.315 |

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT AND
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15 FINANCE EXPENSES

The details of finance expenses for the periods ended 31 December 2018 and 31 December 2017 are as follows:

| | 1 January- 31 December 2018 | 1 January- 31 December 2017 |
|---|--|--|
| Interest expenses on funds borrowed | 247.253 | 178.093 |
| Interest expenses on marketable securities issued | 99.052 | 59.685 |
| Fees and commissions paid | 17.138 | 14.436 |
| Other interest expenses | 20 | 1 |
| | 363.463 | 252.215 |

16 OPERATING EXPENSES

The details of operating expenses for the periods ended 31 December 2018 and 31 December 2017 are as follows:

| | 1 January- 31 December 2018 | 1 January - 31 December 2017 |
|---|--|---|
| Personnel expenses | 31.454 | 25.148 |
| Depreciation and amortization charges | 4.877 | 4.146 |
| Vehicle expenses | 2.744 | 2.208 |
| Rent expenses | 2.283 | 2.092 |
| IT maintenance and contract expenses | 1.406 | 1.869 |
| Maintenance and repair expenses | 1.816 | 1.293 |
| Consultancy expenses | 766 | 1.291 |
| Communication expenses | 923 | 953 |
| Subscription expenses | 908 | 642 |
| Representation expenses | 560 | 583 |
| Provision for employee termination benefits expense | 781 | 521 |
| Lawsuit expenses | 1.094 | 519 |
| Taxes and duties | 330 | 485 |
| Travel expenses | 222 | 308 |
| Other | 1.892 | 1.138 |
| | 52.056 | 43.196 |

The details of personnel expenses classified under operating expenses for the periods ended 31 December 2018 and 31 December 2017 are as follows:

| | 1 January- 31 December 2018 | 1 January - 31 December 2017 |
|--|--|---|
| Salaries and wages | 21.537 | 17.269 |
| Bonuses | 3.156 | 2.624 |
| Social security premium employer's share | 2.809 | 2.322 |
| Personnel transportation expenses | 658 | 601 |
| Personnel food expenses | 576 | 581 |
| Insurance expenses | 561 | 492 |
| Per diem payments | 293 | 287 |
| Unemployment insurance employer's share | 323 | 273 |
| Training expenses | 178 | 170 |
| Other | 1.363 | 529 |
| | 31.454 | 25.148 |

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT AND
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17 OTHER OPERATING INCOME

The details of other operating income for the periods ended as at 31 December 2018 and 31 December 2017 are as follows:

| | 1 January- 31 December 2018 | 1 January - 31 December 2017 |
|---|--|---|
| Foreign exchange gains (*) | 320.352 | 321.421 |
| Income on derivative financial transactions | 30.507 | 107.203 |
| Interest income on bank deposits | 160 | 1.953 |
| Other (**) | 1.346 | 1.692 |
| | 352.365 | 432.269 |

(*) Foreign exchange gains for the period ended 31 December 2018 includes TL 60.421 foreign exchange differences on foreign currency indexed factoring receivables (31 December 2017: TL 36.980).

(**) TL 1.178 of the other amount comprises of reversal of provision for the non-performing factoring receivables (31 December 2018: TL 1.201).

18 SPECIFIC PROVISIONS FOR NON-PERFORMING RECEIVABLES

The details of provision for non-performing receivables for the periods ended 31 December 2018 and 31 December 2017 are as follows:

| | 1 January- 31 December 2018 | 1 January - 31 December 2017 |
|-----------------------------|--|---|
| Specific provision expenses | 176.568 | 20.801 |
| | 176.568 | 20.801 |

19 OTHER OPERATING EXPENSES

The details of other operating expenses for the periods ended 31 December 2018 and 31 December 2017 are as follows:

| | 1 January- 31 December 2018 | 1 January - 31 December 2017 |
|---|--|---|
| Foreign exchange losses | 300.788 | 364.347 |
| Losses on derivative financial transactions | 6.066 | 3.079 |
| Other | - | 90 |
| | 306.854 | 367.516 |

Foreign exchange losses for the period ended 31 December 2018 doesn't include foreign exchange differences on foreign currency indexed factoring receivables (31 December 2017: TL 8.313).

GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018**

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20 EARNINGS PER SHARE

Calculation of earnings per share for the periods ended 31 December 2018 are as follows:

| | 1 January – 31 December 2018 |
|--|---|
| Net profit for the period | (57.376) |
| <i>Non-controlling interest</i> | (10.419) |
| <i>Equity holders of the parent</i> | (46.957) |
| Weighted average number of shares with 1 KR of nominal value (thousand) | 7.950.000 |
| Earnings per thousand shares (KR) | (721,71) |

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

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

21 RELATED PARTY TRANSACTIONS

The details of receivables and payables due from and due to related parties as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | | 31 December 2017 | |
|------------------------------|-------------------------|---------------|-------------------------|---------------|
| | TL | FC | TL | FC |
| Bank balances | | | | |
| Türkiye Garanti Bankası A.Ş. | 3.509 | 12.970 | 6.094 | 7.556 |
| Demand deposits | 3.509 | 12.970 | 6.094 | 7.556 |
| Garantibank International NV | 1 | 3.078 | 2 | 5.435 |
| Demand deposits | 1 | 3.078 | 2 | 5.435 |
| | 3.510 | 16.048 | 6.096 | 12.991 |

The amount of cheques and notes at custody of Türkiye Garanti Bankası A.Ş. related with factoring receivables as at 31 December 2018 is 536.974 TL (31 December 2017: TL 835.300).

| | 31 December 2018 | | 31 December 2017 | |
|------------------------------|-------------------------|----------------|-------------------------|----------------|
| | TL | FC | TL | FC |
| Funds borrowed | | | | |
| Türkiye Garanti Bankası AŞ | 228.408 | 244.815 | 155.860 | 140.014 |
| Garantibank International NV | - | - | 40.384 | - |
| | 228.408 | 244.815 | 196.244 | 140.014 |

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21 RELATED PARTY TRANSACTIONS (Continued)

| | 31 December 2018 | | 31 December 2017 | |
|---|------------------|----------|------------------|----------|
| | TL | FC | TL | FC |
| Miscellaneous Payables | | | | |
| Garanti Finansal Kiralama A.Ş. | 39 | - | - | - |
| Türkiye Garanti Bankası A.Ş. | 8 | - | - | - |
| Garanti Filo Yönetim Hizmetleri A.Ş. | 158 | - | - | - |
| Garanti Bilişim Teknolojisi ve Ticaret A.Ş. | 4 | - | - | - |
| | 209 | - | - | - |

The Company has made purchases amounting to TL 4.687 from Garanti Bilişim Teknolojisi ve Ticaret A.Ş for the period ended 31 December 2018 (31 December 2017: TL 3.606 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 at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | | 31 December 2017 | |
|-------------------------------------|------------------|--------------|------------------|----------------|
| | TL | FC | TL | FC |
| Derivative Agreements | | | | |
| Türkiye Garanti Bankası AŞ | - | 4.701 | 321.286 | 308.157 |
| Currency swap purchase transactions | - | 2.351 | 321.286 | - |
| Currency swap sale transactions | - | 2.350 | - | 308.157 |
| | - | 4.701 | 321.286 | 308.157 |

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21 RELATED PARTY TRANSACTIONS (Continued)

Income and expenses from related parties for the periods ended 31 December 2018 and 31 December 2017 are as follows:

| | 1 January – 31 December 2018 | 1 April - 31 December 2017 |
|---|---|---------------------------------------|
| Interest income from factoring receivables | | |
| Doğuş Yayın Grubu A.Ş. (*) | - | 117 |
| Garanti Bank International NV | 175 | - |
| Ayson Geoteknik ve Deniz İnşaat A.Ş. | - | 76 |
| | 175 | 193 |
| (*) The Company is not related party for the year ended 2018. | | |
| Interest income on bank deposits | | |
| Türkiye Garanti Bankası A.Ş. | 105 | 51 |
| Garanti Bank International NV | 1 | - |
| | 106 | 51 |
| Fees and commissions from factoring receivables | | |
| Doğuş Yayın Grubu A.Ş. (*) | - | 294 |
| Ayson Geoteknik Ve Deniz İnşaat A.Ş. (*) | - | 238 |
| | - | 532 |
| (*) The Company is not related party for the year ended 2018. | | |
| Interest expenses on funds borrowed | | |
| Türkiye Garanti Bankası A.Ş. | 44.501 | 5.326 |
| Garanti Bank International NV | 650 | 2.891 |
| | 45.151 | 8.217 |
| Fees and commissions given | | |
| Garanti Yatırım Menkul Kıymetler A.Ş. | 2.476 | 2.131 |
| Türkiye Garanti Bankası A.Ş. | 517 | 475 |
| Garanti Bank International NV | 209 | 167 |
| | 3.202 | 2.773 |

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21 RELATED PARTY TRANSACTIONS (Continued)

| <i>General Administrative Expenses</i> (*) | 1 January- 31 December 2018 | 1 January- 31 December 2017 |
|---|--|--|
| Türkiye Garanti Bankası AŞ | 1.659 | 2.035 |
| Garanti Filo Yönetim Hizmetler AŞ | 1.745 | 1.337 |
| İstanbul Takas ve Saklama Bankası AŞ | 939 | 1.092 |
| Garanti Finansal Kiralama AŞ | 297 | 588 |
| Antur Turizm AŞ (**) | - | 92 |
| Garanti Emeklilik ve Hayat AŞ | 93 | 64 |
| Doğuş Bilgi İşlem ve Teknoloji Hizmetleri A.Ş. (**) | - | 6 |
| | 4.860 | 5.214 |

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

(**)The Company is not related party for the year ended 2018.

| | 1 January- 31 December 2018 | 1 January- 31 December 2017 |
|--|--|--|
| Income from Financial Derivatives and FX Gains | | |
| Türkiye Garanti Bankası A.Ş. | 306 | 35.390 |
| Garanti Bank International NV | - | 8.236 |
| | 306 | 43.626 |
| Losses from Financial Derivatives and FX Losses | | |
| Türkiye Garanti Bankası A.Ş. | 1.311 | 3.168 |
| Garanti Bank International NV | - | 844 |
| | 1.311 | 4.012 |

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 2018 is TL 17.845 (31 December 2017: TL 12.798).

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22 CONTINGENT ASSETS AND LIABILITIES**22.1 Guarantees Received**

Guarantees received for the Company’s factoring receivables as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---|-------------------------|-------------------|-------------------------|-------------------|
| | TL | FC | TL | FC |
| Sureties received (*) | - | 23.048.2018 | - | 18.108.908 |
| Finance notes | 35.545 | 2.177.284 | 34.233 | 2.477.359 |
| Correspondent guarantees | - | 237.077 | - | 966.822 |
| Insurance coverage | 103.514 | 74.603 | 241.473 | 31.044 |
| Letters of guarantee | - | - | 65.000 | - |
| Mortgage | 39.513 | - | 39.625 | - |
| Chattel mortgage | 281 | 33.154 | 281 | 24.835 |
| Transfer of claim arising from letter of guarantees | 1.000 | - | 13.080 | - |
| | 179.853 | 25.570.326 | 393.692 | 21.608.968 |

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

22.2 Guarantees Given

Guarantees given as at 31 December 2018 and 31 December 2017 consist of letters of guarantee given to the institutions below:

| | 31 December 2018 | | 31 December 2017 | |
|------------------------------------|-------------------------|------------|-------------------------|---------------|
| | TL | FC | TL | FC |
| Takasbank (Note 9) | 1.254.500 | - | 1.314.500 | - |
| Guarantees given to correspondents | - | - | - | 39.508 |
| Courts | 7.880 | 765 | 7.433 | 390 |
| Other | 11 | - | 11 | - |
| | 1.262.391 | 765 | 1.321.944 | 39.898 |

22.3 Commitments

TL equivalent of nominal values of commitments given as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---------------------------------------|-------------------------|-----------|-------------------------|--------------|
| | TL | FC | TL | FC |
| Foreign exchange buy-sell commitments | - | - | 1.050 | 1.045 |
| | - | - | 1.050 | 1.045 |

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22 CONTINGENT ASSETS AND LIABILITIES (Continued)**22.4 Derivative Agreements**

The details of derivative agreements as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---------------------------------|-------------------------|----------------|-------------------------|----------------|
| | TL | FC | TL | FC |
| Currency swap buy transactions | - | 92.771 | 697.992 | - |
| Currency swap sell transactions | - | 92.958 | - | 666.488 |
| | - | 185.729 | 697.992 | 666.488 |

22.5 Safety Securities

The details of cheques and notes in collection as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | | 31 December 2017 | |
|-----------------------|-------------------------|----------------|-------------------------|----------------|
| | TL | FC | TL | FC |
| Cheques in collection | 604.185 | 84.873 | 806.283 | 153.674 |
| Notes in collection | 4.041 | 22.881 | 5.180 | 18.873 |
| | 608.226 | 107.754 | 811.463 | 172.547 |

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23 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS

23.1 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.

23.1.1 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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23 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (Continued)

23.1 Financial Risk Management Purposes and Policies (Continued)

23.1.2 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.

23.1.3 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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23 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (Continued)

23.1 Financial Risk Management Purposes and Policies (Continued)

23.1.4 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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23 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (Continued)

23.1 Financial Risk Management Purposes and Policies (Continued)

23.1.5 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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23 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)**23.2 Explanations on Risk Management****23.2.1 Credit Risk**

| 31 December 2018 | 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 at balance sheet date (A+B+C+D+E) | - | 2.335.036 | - | 55.926 | - | - | 19.778 | - | 1 |
| A. Carrying value of financial assets that are not past due nor impaired | - | 2.324.350 | - | - | - | - | 19.778 | - | 1 |
| 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 | - | 10.686 | - | - | - | - | - | - | - |
| -carrying value | - | 10.686 | - | - | - | - | - | - | - |
| - the part under guarantee with collateral etc | - | - | - | - | - | - | - | - | - |
| D.Net book value of impaired assets | - | - | - | 55.926 | - | - | - | - | - |
| - Past due (gross carrying value) | - | - | - | 306.869 | - | - | - | - | - |
| - Impairment (-) | - | - | - | (250.943) | - | - | - | - | - |
| -The part of net value under guarantee with collateral etc. | - | - | - | - | - | - | - | - | - |
| - 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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23 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)**23.2 Explanations on Risk Management (Continued)****23.2.1 Credit Risk (Continued)**

| 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 at balance sheet date (A+B+C+D+E) | - | 3.359.984 | - | 19.782 | - | 5.580 | 19.196 | - | 19.327 |
| A. Carrying value of financial assets that are not past due nor impaired | - | 3.296.788 | - | - | - | 5.580 | 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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23 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

23.2 Explanations on Risk Management (Continued)

23.2.2 Liquidity Risk

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

31 December 2018

| Contractual Maturities | Carrying Amount | Total Expected Cash Outflows | Less than 3 months | 3-12 months | 1-5 years |
|---|------------------------|-------------------------------------|---------------------------|--------------------|------------------|
| Non-derivative financial liabilities | 2.260.230 | 2.338.234 | 1.800.250 | 414.557 | 123.427 |
| Funds borrowed | 1.759.762 | 1.817.611 | 1.472.767 | 221.417 | 123.427 |
| Bonds issued | 485.126 | 505.281 | 312.141 | 193.140 | - |
| Factoring payables | 15.342 | 15.342 | 15.342 | - | - |
| Sundry creditors | - | - | - | - | - |

| Contractual Maturities | Carrying Amount | Total Expected Cash Outflows | Less than 3 months | 3-12 months | 1-5 years |
|---|------------------------|-------------------------------------|---------------------------|--------------------|------------------|
| Derivative financial liabilities and foreign exchange buy-sell commitments | (185.729) | (187) | (187) | - | - |
| Derivative cash inflows | (92.771) | 92.771 | 92.771 | - | - |
| Derivative cash outflows | (92.958) | (92.958) | (92.958) | - | - |

31 December 2017

| Contractual Maturities | Carrying Amount | Total Expected Cash Outflows | Less than 3 months | 3-12 months | 1-5 years |
|---|------------------------|-------------------------------------|---------------------------|--------------------|------------------|
| 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 | - |
| Bond issued | 795.583 | 834.913 | 136.401 | 698.512 | - |
| Factoring payables | 10.703 | 10.703 | 10.703 | - | - |
| Sundry creditors | 2.776 | 2.776 | 2.776 | - | - |

| Contractual Maturities | Carrying Amount | Total Expected Cash Outflows | Less than 3 months | 3-12 months | 1-5 years |
|---|------------------------|-------------------------------------|---------------------------|--------------------|------------------|
| 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 | (677.533) | (677.533) | (441.219) | (226.314) | - |

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23 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)**23.2 Explanations on Risk Management (Continued)****23.2.3 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 2018 and 31 December 2017.

Foreign currency assets and liabilities as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|--|-------------------------|-------------------------|
| | (TL equivalent) | (TL equivalent) |
| A. Foreign currency monetary assets | 518.521 | 1.413.923 |
| B. Foreign currency monetary liabilities | (498.203) | (730.511) |
| C. Derivative financial instruments | (187) | (667.533) |
| Net foreign currency position (A+B+C) | 20.131 | 15.879 |

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23 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)**23.2 Explanations on Risk Management (Continued)****23.2.3 Market Risk (Continued)***Foreign Currency Risk (Continued)*

The table below summarizes the Company’s foreign currency position in detail as at 31 December 2018 and 31 December 2017. Carrying amounts of the Company’s foreign currency monetary assets and liabilities are presented with their original currencies:

| 31 December 2018 | USD | EURO | GBP | Total |
|--|----------------|-----------------|---------------|----------------|
| Assets | | | | |
| Banks | 2.749 | 13.085 | 240 | 16.074 |
| Financial assets available for sale | - | 6 | - | 6 |
| Factoring receivables (*) | 216.708 | 260.635 | 24.808 | 502.151 |
| Other Assets | 49 | 241 | - | 290 |
| Total Assets(**) | 219.506 | 273.967 | 25.048 | 518.521 |
| Liabilities | | | | |
| Funds borrowed | 114.855 | 348.381 | 18.729 | 481.965 |
| Factoring payables | 2.682 | 10.144 | 278 | 13.104 |
| Sundry creditors and other liabilities | 1.204 | 1.888 | 42 | 3.134 |
| Total liabilities(**) | 118.741 | 360.413 | 19.049 | 498.203 |
| Net foreign currency position | 100.765 | (86.446) | 5.999 | 20.318 |
| Derivative financial instruments | (92.958) | 92.771 | - | (187) |
| Net position | 7.807 | 6.325 | 5.999 | 20.131 |

(*) Includes the foreign currency indexed factoring receivables amounting to TL 33.719 that are presented in TL column on the balance sheet.

(**) Prepaid expense amounting to TL 71 and derivative financial liabilities amounting to TL 61 are excluded from the table.

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23 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)**23.2 Explanations on Risk Management (Continued)****23.2.3 Market Risk (Continued)***Foreign Currency Risk (Continued)*

| 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.

(***)Prepaid expenses and derivative financial liabilities are excluded from the table.

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23 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)**23.2 Explanations on Risk Management (continued)****23.2.3 Market Risk (Continued)***Foreign currency sensitivity risk*

10% decrease in the TL against the relevant foreign currencies as at 31 December 2018 results in an increase in profit before tax for the period amounting to TL 2.013 (31 December 2017: TL 1.588 increase). This analysis is made with the assumption that the other variables were held constant as at 31 December 2018 and 31 December 2017.

TL**31 December 2018**

| | Profit/(Loss) |
|--------------|----------------------|
| USD | 781 |
| EURO | 632 |
| GBP | 600 |
| Total | 2.013 |

TL**31 December 2017**

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

Interest Rate Risk

Weighted average effective interest rates applied to financial instruments as at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | | | | 31 December 2017 | | | |
|------------------------------|-------------------------|-----------------|----------------|---------------|-------------------------|-----------------|----------------|---------------|
| | USD (%) | EURO (%) | GBP (%) | TL (%) | USD (%) | EURO (%) | GBP (%) | TL (%) |
| Assets | | | | | | | | |
| Factoring receivables | 10,03 | 5,20 | 3,31 | 31,04 | 5,01 | 2,50 | 2,39 | 18,21 |
| Liabilities | | | | | | | | |
| Marketable securities issued | - | - | - | 23,81 | - | - | - | 14,35 |
| Funds borrowed | 7,68 | 2,32 | 1,29 | 23,80 | 1,60 | 1,26 | 0,79 | 14,61 |

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23 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)**23.2 Explanations on Risk Management (continued)****23.2.3 Market Risk (Continued)***Interest Rate Sensitivity Analysis*

The Company’s financial instruments that have interest rate sensitivity as at 31 December 2018 and 31 December 2017 are as follows:

| | <u>Carrying Value</u> | |
|------------------------------|-------------------------|-------------------------|
| | <u>31 December 2018</u> | <u>31 December 2017</u> |
| Fixed Rate | | |
| Factoring receivables | 1.655.762 | 2.701.096 |
| Funds borrowed | 1.586.693 | 2.257.572 |
| Marketable securities issued | 485.126 | 795.583 |
| Floating Rate | | |
| Factoring receivables | 679.274 | 658.888 |
| Funds borrowed | 173.069 | 161.183 |

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 at 31 December 2018, net income for the period would decrease/increase by TL 4.459 (31 December 2017: TL 4. 977) 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 13.

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.

24 FINANCIAL INSTRUMENTS*Fair Value of Financial Instruments*

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

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24 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 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|----------------|----------------|----------------|--------------|
| Derivative financial assets held for trading | - | 1 | - | 1 |
| | - | 1 | - | 1 |
| Derivative financial liabilities held for trading | - | 61 | - | 61 |
| | - | 61 | - | 61 |

| 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 |

25 EVENTS AFTER THE REPORTING PERIOD

None.