# GARANTİ FAKTORİNG A.Ş.

Financial Statements
As at and for the Year Ended
31 December 2020
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 Review Report Originally Prepared and Issued in Turkish

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 2020 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 2020, 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 Matter

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.

| *Key audit matter* | *How the matter is addressed in our audit* |
|---|---|
| As of 31 December 2020, the Company's factoring receivables constitute 96% of its total assets.<br>The Company recognizes its factoring receivables an accordance with BRSA Accounting and Financial Reporting Legislation. In accordance with the aforementioned Regulation and TFRS 9 Financial Instruments standard ("Standard").<br>The significant assumptions and estimates of the Company's management are as follows.<br>• significant increase in credit risk,<br>• incorporating the forward looking macroeconomic information in calculation of credit risk; and<br>• design and implementation of expected credit loss model.<br>The determination of the impairment of loans measured at amortised cost depends on the (i) credit default status, (ii) the model based on the change in credit risk at the first recognition date and (iii) the classification of the loans measured at amortised cost according to the model. Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets.<br>The company calculates expected credit losses on both an individual and a collective basis. Individual provisions consider the estimated future performance of the business and the fair value of the collateral provided for credit transactions.<br>The collective basis expected credit loss calculation is based on complex processes which are modelled by using current and past data sets and expectations. The completeness and accuracy of data sets in the model are also considered and the forward looking expectations are reflected by macroeconomic models. | Our procedures for testing the impairment of factoring receivables include below:<br>• We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures are tested with the involvement of information risk management specialists.<br>• We evaluated the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows and we tested the appropriateness of the loan agreements with the model by selecting samples.<br>• We evaluated the adequacy of the subjective and objective criteria that is defined in the Company's impairment accounting policy compared with the Regulation and Standard.<br>• We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information and testing their classification. In this context, the current status of the loan customer has been evaluated by including prospective information and macroeconomic variables.<br>• We evaluated the accuracy of the expected credit loss calculations by selecting sample for the loans which are assessed on individual basis and discussed the assumptions and estimates with the Company management.<br>• We tested the accuracy and completeness of the data in the calculation models for the loans which are assessed on collective basis. The expected credit loss calculation was tested through recalculation. The models used for the calculation of the risk parameters were examined and the risk parameters for the selected sample portfolios were recalculated.<br>• We assessed the macroeconomic models which are used to reflect forward looking expectations and tested the effect of the risk parameters by recalculation method.<br>• We evaluated the qualitative and quantitative assessments which are used in determining the significant increase in credit risk. |

| | |
|---|---|
| Impairment on loans measured at amortised cost was considered to be a key audit matter, due to the significance of the estimates, assumptions, the level of judgements and its complex structure as explained above. | Additionally, we also evaluated the adequacy of the financial statements' disclosures related to impairment provisions. |

*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 2020 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

Alper Güvenç, SMMM
Partner

27 January 2021
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 2020**
(Amounts expressed in thousands of Turkish lira ("Thousands of TL") unless otherwise indicated.)

| | ASSETS | Notes | Audited 31 December 2020 | | | Audited 31 December 2019 | | |
|---|---|---|---|---|---|---|---|---|
| | | | TL | FC | TOTAL | TL | FC | TOTAL |
| I. | CASH, CASH EQUIVALENTS AND CENTRAL BANK | 3 | 2,258 | 10,147 | 12,405 | 1,511 | 10,331 | 11,842 |
| II. | FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (net) | 4 | 39,661 | 9 | 39,670 | - | 7 | 7 |
| III. | DERIVATIVE FINANCIAL ASSETS | 5.1 | 1,921 | - | 1,921 | - | - | - |
| IV. | FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (net) | | - | - | - | - | - | - |
| V. | FINANCIAL ASSETS AT AMORTISED COST (Net) | 6 | 2,081,449 | 707,398 | 2,788,847 | 1,669,668 | 435,088 | 2,104,756 |
| 5.1 | Factoring Receivables | 6.1 | 2,086,089 | 708,240 | 2,794,329 | 1,658,307 | 432,099 | 2,090,406 |
| 5.1.1 | Discounted Factoring Receivables (Net) | | 1,010,724 | 163,041 | 1,173,765 | 917,390 | 143,866 | 1,061,256 |
| 5.1.2 | Other Factoring Receivables | | 1,075,365 | 545,199 | 1,620,564 | 740,917 | 288,233 | 1,029,150 |
| 5.2 | Financing Loans | | - | - | - | - | - | - |
| 5.2.1 | Consumer Loans | | - | - | - | - | - | - |
| 5.2.2 | Credit Cards | | - | - | - | - | - | - |
| 5.2.3 | Installment Commercial Loans | | - | - | - | - | - | - |
| 5.3 | Leasing (Net) | | - | - | - | - | - | - |
| 5.3.1 | Receivables From Finance Lease | | - | - | - | - | - | - |
| 5.3.2 | Receivables From Operating Lease | | - | - | - | - | - | - |
| 5.3.3 | Unearned Income (-) | | - | - | - | - | - | - |
| 5.4 | Other Financial Assets At Amortised Cost | | - | - | - | - | - | - |
| 5.5 | Non Performing Receivables | 6.2 | 118,959 | 13,281 | 132,240 | 150,872 | 188,885 | 339,757 |
| 5.6 | Allowances for Expected Credit Loss/Specific Provisions (-) | 6.3 | (123,599) | (14,123) | (137,722) | (139,511) | (185,896) | (325,407) |
| VI. | SHAREHOLDING (Partnership) INVESTMENTS | | - | - | - | - | - | - |
| 6.1 | Investments In Associates (Net) | | - | - | - | - | - | - |
| 6.2 | Investments In Subsidiaries (Net) | | - | - | - | - | - | - |
| 6.3 | Investments In Joint Ventures (Net) | | - | - | - | - | - | - |
| VII. | TANGIBLE ASSETS (NET) | 7 | 5,054 | - | 5,054 | 5,254 | - | 5,254 |
| VIII. | INTANGIBLE ASSETS (NET) | 8 | 11,244 | - | 11,244 | 9,424 | - | 9,424 |
| IX. | REAL ESTATES FOR INVESTMENT (NET) | | - | - | - | - | - | - |
| X. | CURRENT PERIOD TAX ASSETS | 9 | 3,420 | - | 3,420 | 8,014 | - | 8,014 |
| XI. | DEFERRED TAX ASSETS | 9 | 43,661 | - | 43,661 | 58,424 | - | 58,424 |
| XII. | OTHER ASSETS | 10 | 5,788 | 542 | 6,330 | 3,582 | 313 | 3,895 |
| | SUBTOTAL | | 2,194,456 | 718,096 | 2,912,552 | 1,755,877 | 445,739 | 2,201,616 |
| XIII. | ASSETS HELD FOR SALE AND DISCONTINIUED OPERATIONS (Net) | | 11 | - | 11 | 11 | - | 11 |
| 13.1 | Assets Held For Sale | | 11 | - | 11 | 11 | - | 11 |
| 13.2 | Assets Held For Discontiniued Operations | | - | - | - | - | - | - |
| | TOTAL ASSETS | | 2,194,467 | 718,096 | 2,912,563 | 1,755,888 | 445,739 | 2,201,627 |

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

**GARANTİ FAKTORİNG A.Ş.**
**STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2020**
(Amounts expressed in thousands of Turkish lira ("Thousands of TL") unless otherwise indicated.)

| | LIABILITIES | Notes | Audited 31 December 2020 | | | Audited 31 December 2019 | | |
|---|---|---|---|---|---|---|---|---|
| | | | TL | FC | TOTAL | TL | FC | TOTAL |
| I. | FUNDS BORROWED | 11 | 1,449,664 | 638,026 | 2,087,690 | 1,590,602 | 414,529 | 2,005,131 |
| II. | FACTORING PAYABLES | 6.1 | 639 | 2,647 | 3,286 | 507 | 10,093 | 10,600 |
| III. | LEASE OBLIGATIONS | 12 | 3,716 | 1,156 | 4,872 | 2,174 | 2,379 | 4,553 |
| IV. | SECURITIES ISSUED (NET) | 13 | 582,026 | - | 582,026 | - | - | - |
| V. | FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS | | - | - | - | - | - | - |
| VI. | DERIVATIVE FINANCIAL LIABILITIES | 5.2 | 252 | - | 252 | - | - | - |
| VII. | PROVISIONS | 14 | 12,425 | 737 | 13,162 | 9,712 | 535 | 10,247 |
| 7.1 | Restructuring Reserves | | - | - | - | - | - | - |
| 7.2 | Provisions For Employee Benefits | 14.1 | 10,758 | - | 10,758 | 8,134 | - | 8,134 |
| 7.3 | General Provisions | | - | - | - | - | - | - |
| 7.4 | Other Provisions | 14.2 | 1,667 | 737 | 2,404 | 1,578 | 535 | 2,113 |
| VIII. | CURRENT PERIOD TAX LIABILITIES | | - | - | - | - | - | - |
| IX. | DEFERRED TAX LIABILITIES | | - | - | - | - | - | - |
| X. | SUBORDINATED LOANS-DEBT | | - | - | - | - | - | - |
| XI. | OTHER LIABILITIES | 15 | 5,565 | 2,120 | 7,685 | 3,234 | 3,878 | 7,112 |
| | SUBTOTAL | | 2,054,287 | 644,686 | 2,698,973 | 1,606,229 | 431,414 | 2,037,643 |
| XII. | PAYABLES RELATED TO ASSETS HELD FOR SALE AND DISCONTINIUED OPERATIONS (Net) | | - | - | - | - | - | - |
| 12.1 | Held For Sale | | - | - | - | - | - | - |
| 12.2 | Discontiniued Operations | | - | - | - | - | - | - |
| XIII. | SHAREHOLDERS' EQUITY | 16 | 213,590 | - | 213,590 | 163,984 | - | 163,984 |
| 13.1 | Paid-in Capital | | 79,500 | - | 79,500 | 79,500 | - | 79,500 |
| 13.2 | Capital Reserves | | - | - | - | - | - | - |
| 13.2.1 | Share Premiums | | - | - | - | - | - | - |
| 13.2.2 | Share Cancellation Profits | | - | - | - | - | - | - |
| 13.2.3 | Other Capital Reserves | | - | - | - | - | - | - |
| 13.3 | Accumulated Other Comprehensive Income that will not be Reclassified to Profit or Loss | | (1,170) | - | (1,170) | (626) | - | (626) |
| 13.4 | Accumulated Other Comprehensive Income that may be Reclassified Subsequently to Profit or Loss | | - | - | - | - | - | - |
| 13.5 | Profit Reserves | | 85,110 | - | 85,110 | 76,702 | - | 76,702 |
| 13.5.1 | Legal Reserves | | 10,757 | - | 10,757 | 9,205 | - | 9,205 |
| 13.5.2 | Statutory Reserves | | - | - | - | - | - | - |
| 13.5.3 | Extraordinary Reserves | | 74,353 | - | 74,353 | 67,497 | - | 67,497 |
| 13.5.4 | Other Profit Reserves | | - | - | - | - | - | - |
| 13.6 | Profit or Loss | | 50,150 | - | 50,150 | 8,408 | - | 8,408 |
| 13.6.1 | Prior Periods Profit / Loss | | - | - | - | (16,030) | - | (16,030) |
| 13.6.2 | Current Period Profit / Loss | | 50,150 | - | 50,150 | 24,438 | - | 24,438 |
| | TOTAL LIABILITIES AND EQUITY | | 2,267,877 | 644,686 | 2,912,563 | 1,770,213 | 431,414 | 2,201,627 |

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

**GARANTİ FAKTORİNG A.Ş.**

**STATEMENT OF OFF-BALANCE SHEET ITEMS AS AT 31 DECEMBER 2020**

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

| | OFF-BALANCE SHEET ITEMS | Notes | Audited 31 December 2020 | | | Audited 31 December 2019 | | |
|---|---|---|---|---|---|---|---|---|
| | | | TL | FC | TOTAL | TL | FC | TOTAL |
| I. | **IRREVOCABLE FACTORING OPERATIONS** | | **976,463** | **586,068** | **1,562,531** | **510,529** | **475,216** | **985,745** |
| II. | **REVOCABLE FACTORING OPERATIONS** | | **1,369,693** | **82,358** | **1,452,051** | **796,979** | **187,087** | **984,066** |
| III. | **GUARANTEES TAKEN** | **25.1** | **78,474** | **33,121,183** | **33,199,657** | **291,821** | **23,150,443** | **23,442,264** |
| IV. | **GUARANTEES GIVEN** | **25.2** | **674,485** | **16,429** | **690,914** | **654,196** | **128** | **654,324** |
| V. | **COMMITMENTS** | **25.3** | **39,787** | - | **39,787** | - | - | - |
| 5.1 | Irrevocable Commitments | | 39,787 | - | 39,787 | - | - | - |
| 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** | **25.4** | **48,801** | **46,245** | **95,046** | - | - | - |
| 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 | | **48,801** | **46,245** | **95,046** | - | - | - |
| 6.2.1 | Forward Buy/Sell Transactions | | - | - | - | - | - | - |
| 6.2.2 | Swap Buy/Sell Transactions | | 48,801 | 46,245 | 95,046 | - | - | - |
| 6.2.3 | Options Buy/Sell Transactions | | - | - | - | - | - | - |
| 6.2.4 | Futures Buy/Sell Transactions | | - | - | - | - | - | - |
| 6.2.5 | Other | | - | - | - | - | - | - |
| VII. | **ITEMS HELD IN CUSTODY** | **25.5** | **1,336,686** | **228,349** | **1,565,035** | **784,598** | **173,167** | **957,765** |
| | **TOTAL OFF BALANCE SHEET ITEMS** | | **4,524,389** | **34,080,632** | **38,605,021** | **3,038,123** | **23,986,041** | **27,024,164** |

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

## GARANTİ FAKTORİNG A.Ş.
## STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020
(Amounts expressed in thousands of Turkish lira (“Thousands of TL”) unless otherwise indicated.)

| | INCOME STATEMENT | Notes | Audited 1 January - 31 December 2020 | Audited 1 January - 31 December 2019 |
|---|---|---|---|---|
| **I.** | **OPERATING INCOME** | **17** | **309,468** | **375,828** |
| | **FACTORING INCOME** | | **309,468** | **375,828** |
| 1.1 | Interest Income on Factoring Receivables | | 297,653 | 368,204 |
| 1.1.1 | Discounted | | 170,684 | 216,882 |
| 1.1.2 | Other | | 126,969 | 151,322 |
| 1.2 | Fees and Commissions Income from Factoring Operations | | 11,815 | 7,624 |
| 1.2.1 | Discounted | | 4,516 | 165 |
| 1.2.2 | Other | | 7,299 | 7,459 |
| | **FINANCING LOANS INCOME** | | - | - |
| 1.3 | Interest income From Financing Credits | | - | - |
| 1.4 | Fees and Commissions From Financing Credits | | - | - |
| | **FINANCE LEASE INCOME** | | - | - |
| 1.5 | Finance Lease Income | | - | - |
| 1.6 | Operating Lease Income | | - | - |
| 1.7 | Fees and Commissions Received from the Leasing Transactions | | - | - |
| **II.** | **FINANCIAL EXPENSES (-)** | **18** | **(189,506)** | **(263,863)** |
| 2.1 | Interest Expense From Funds Borrowed | | (161,436) | (176,025) |
| 2.2 | Interest Expense From Factoring Payables | | - | - |
| 2.3 | Interest Expense of Finance Lease Expenses | | (417) | (556) |
| 2.4 | Interest Expense From Securities Issued | | (26,190) | (80,449) |
| 2.5 | Other Interest Expenses | | (706) | (8) |
| 2.6 | Fees and Commissions Paid | | (757) | (6,825) |
| **III.** | **GROSS PROFIT / LOSS (I+II)** | | **119,962** | **111,965** |
| **IV.** | **OPERATING EXPENSES (-)** | **19** | **(49,316)** | **(50,828)** |
| 4.1 | Personnel Expenses | | (30,025) | (29,185) |
| 4.2 | Employee Severance Indemnity Expense | | (813) | (854) |
| 4.3 | Research and Development Expenses | | - | - |
| 4.4 | General Administrative Expenses | | (18,378) | (20,671) |
| 4.5 | Other | | (100) | (118) |
| **V.** | **GROSS OPERATING PROFIT / LOSS (III+IV)** | | **70,646** | **61,137** |
| **VI.** | **OTHER OPERATING INCOME** | **20** | **151,683** | **59,528** |
| 6.1 | Interest Income From Bank Deposits | | 691 | 1,945 |
| 6.2 | Interest Income From Securities Portfolio | | 1,689 | - |
| 6.3 | Dividend Income | | - | - |
| 6.4 | Trading Account Income | | 345 | - |
| 6.5 | Income From Derivative Financial Instruments | | 5,539 | 3,185 |
| 6.6 | Foreign Exchange Gains | | 131,576 | 44,876 |
| 6.7 | Other | | 11,843 | 9,522 |
| **VII.** | **PROVISION EXPENSES** | | **(97,990)** | **(65,701)** |
| 7.1 | Spesific Provisions | | - | - |
| 7.2 | Allowances for Expected Credit Loss | **21** | (97,450) | (64,951) |
| 7.3 | General Provisions | | - | - |
| 7.4 | Other | | (540) | (750) |
| **VIII.** | **OTHER OPERATING EXPENSES (-)** | **22** | **(59,668)** | **(23,933)** |
| 8.1 | Impairment Losses From Securities Portfolio | | - | - |
| 8.2 | Impairment Losses From Non-Current Assets | | - | - |
| 8.3 | Trading Account Loss | | - | |
| 8.4 | Loss From Derivative Financial Instruments | | (252) | (480) |
| 8.5 | Foreign Exchange Loss | | (59,247) | (23,453) |
| 8.6 | Other | | (169) | - |
| IX. | **NET OPERATING PROFIT / LOSS** | | **64,671** | **31,031** |
| **X.** | **INCOME RESULTED FROM MERGER** | | **-** | **-** |
| **XI.** | **PROFIT / LOSS FROM PARTNERSHIPS VALUED BY EQUITY METHOD** | | **-** | **-** |
| **XII.** | **GAIN/LOSS ON NET MONETARY POSITION** | | **-** | **-** |
| **XIII.** | **PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (IX+X+XI+XII)** | | **64,671** | **31,031** |
| **XIV.** | **INCOME TAX EXPENSE FROM CONTINUING OPERATIONS (±)** | **9** | **(14,521)** | **(6,593)** |
| 14.1 | Current Tax Charge | | 378 | 849 |
| 14.2 | Deferred Tax Charge | | (14,899) | (7,442) |
| 14.3 | Deferred Tax Benefit | | - | - |
| **XV.** | **NET PROFIT FROM CONTINUING OPERATIONS (XIII±XIV)** | | **50,150** | **24,438** |
| **XVI.** | **INCOME FROM DISCONTINUED OPERATIONS** | | - | - |
| 16.1 | Income from Assets Held for Sale | | - | - |
| 16.2 | Gain on Sale of Subsidiaries, Associates and Jointly Controlled Entities | | - | - |
| 16.3 | Other Income from Discontinued Operations | | - | - |
| **XVII.** | **EXPENSES FROM DISCONTINUED OPERATIONS (-)** | | - | - |
| 17.1 | Expense on Assets Held for Sale | | - | - |
| 17.2 | Loss on Sale of Subsidiaries, Associates and Jointly Controlled Entities | | - | - |
| 17.3 | Other Expenses from Discontinued Operations | | - | - |
| **XVIII.** | **PROFIT FROM DISCONTINUED OPERATIONS BEFORE TAX (XVI-XVII)** | | - | - |
| **XIX.** | **INCOME TAX EXPENSE FROM DISCONTINUED OPERATIONS (±)** | | - | - |
| 19.1 | Current Tax Charge | | - | - |
| 19.2 | Deferred Tax Charge (+) | | - | - |
| 19.3 | Deferred Tax Benefit (-) | | - | - |
| **XX.** | **NET PROFIT FROM DISCONTINUED OPERATIONS (XVIII±XIX)** | | - | - |
| **XXI.** | **NET PROFIT FOR THE PERIOD (XII+XVII)** | | **50,150** | **24,438** |
| **21.1** | **Current Profit (Loss) Distribution** | | **50,150** | **24,438** |
| **21.1.1** | Non-Controlling Interests | | - | 4,438 |
| **21.1.2** | Subsidiaries | | 50,150 | 20,000 |
| **XXII.** | **DILUTED EARNINGS PER SHARE** | | **0.630818** | **0.307396** |
| **22.1** | A) Profit per Share from Continuing Operations | **23** | 0.630818 | 0.307396 |
| **22.2** | B) Profit per Share of Discontinued Operations | | - | - |

The accompanying notes are 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 2020**

(Tutarlar aksi belirtilmedikçe Bin Türk Lirası ("Bin TL") olarak ifade edilmiştir.)

| | | Notes | Audited<br>1 January - 31 December 2020 | Audited<br>1 January - 31 December 2019 |
|---|---|---|---|---|
| **I.** | **PERIOD INCOME/LOSS** | | **50,150** | **24,438** |
| **II.** | **OTHER COMPREHENSIVE INCOME** | | **(544)** | **31** |
| 2.1 | **ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS** | | **(544)** | **31** |
| 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 revaluation of intangible assets | | (680) | 39 |
| 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 | | 136 | (8) |
| 2.2 | **ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS** | | **-** | **-** |
| 2.2.1 | Translation differences for transactions in foreign currencies | | - | - |
| 2.2.2 | Translition and classification profit / loss of financial assets at fair value through other comprehesive income | | - | - |
| 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)** | | **49,606** | **24,469** |

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

**GARANTİ FAKTORİNG A.Ş.**
**STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020**
(Amounts expressed in thousands of Turkish lira (“Thousands of TL”) unless otherwise indicated.)

| | CHANGES IN SHAREHOLDERS EQUITY | 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 (Other comprehnsive income and expenses from equity method investments not to be reclassified on profit/loss, and other accumulated comprehensive income and | 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 | Other comprehensive income or expenses that will be reclassified to profit or loss | Profit Reserves | Prior Years' Profit/(Loss) | Current Year Net Profit/(Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **CURRENT PERIOD** | | | | | | | | | | | | | | | | | | |
| | **1 January - 31 December 2020** | | | | | | | | | | | | | | | | | | |
| | **Audited** | | | | | | | | | | | | | | | | | | |
| **I.** | **Balances at Beginning of Period** | **16** | **79,500** | - | - | - | - | **(626)** | - | **(626)** | - | - | - | - | **76,702** | - | **8,408** | - | **163,984** |
| **II.** | **Corrections made as per TAS 8** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.1 | Effect of corrections | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.2 | Effect of changes in accounting policies | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **III.** | **Adjusted Balances at Beginning of Period (I+II)** | | **79,500** | - | - | - | - | **(626)** | - | **(626)** | - | - | - | - | **76,702** | - | **8,408** | - | **163,984** |
| **IV.** | **Total Comprehensive Income** | | - | - | - | - | - | **(544)** | - | **(544)** | - | - | - | - | - | - | **50,150** | - | **49,606** |
| **V.** | **Capital Increase in Cash** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **VI.** | **Capital Increase from Internal Sources** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **VII.** | **Capital Reserves from Inflation Adjustments to Paid-in Capital** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **VIII.** | **Convertible Bonds** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **IX.** | **Subordinated Liabilities** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **X.** | **Others Changes** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **XI.** | **Profit Distribution** | | - | - | - | - | - | - | - | - | - | - | - | - | **8,408** | - | **(8,408)** | - | - |
| 11.1 | Dividends | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 11.2 | Transfers to Reserves | | - | - | - | - | - | - | - | - | - | - | - | - | 8,408 | - | (8,408) | - | - |
| 11.3 | Others | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| | **Balances at end of the period (31 December 2020 ) (III+IV+…...+XI+XII)** | | **79,500** | - | - | - | - | **(1,170)** | - | **(1,170)** | - | - | - | - | **85,110** | - | **50,150** | - | **213,590** |
| | **PREVIOUS PERIOD** | | | | | | | | | | | | | | | | | | |
| | **1 January - 31 December 2019** | | | | | | | | | | | | | | | | | | |
| | **Audited** | | | | | | | | | | | | | | | | | | |
| **I.** | **Balances at Beginning of Period** | **17** | **79,500** | - | - | - | - | **(657)** | - | **(657)** | - | - | - | - | **134,078** | - | **(57,376)** | - | **155,545** |
| **II.** | **Corrections made as per TAS 8** | | - | - | - | - | - | - | - | - | - | - | - | - | - | **(16,030)** | **(16,030)** | - | **(16,030)** |
| 2.1 | Effect of corrections | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.2 | Effect of changes in accounting policies | **2.5** | - | - | - | - | - | - | - | - | - | - | - | - | - | (16,030) | **(16,030)** | - | (16,030) |
| **III.** | **Adjusted Balances at Beginning of Period (I+II)** | | **79,500** | - | - | - | - | **(657)** | - | **(657)** | - | - | - | - | **134,078** | **(16,030)** | **(73,406)** | - | **139,515** |
| **IV.** | **Total Comprehensive Income** | | - | - | - | - | - | **31** | - | **31** | - | - | - | - | - | - | **24,438** | - | **24,469** |
| **V.** | **Capital Increase in Cash** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **VI.** | **Capital Increase from Internal Sources** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **VII.** | **Capital Reserves from Inflation Adjustments to Paid-in Capital** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **VIII.** | **Convertible Bonds** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **IX.** | **Subordinated Liabilities** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **X.** | **Others Changes** | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **XI.** | **Profit Distribution** | | - | - | - | - | - | - | - | - | - | - | - | - | **(57,376)** | - | **57,376** | - | - |
| 11.1 | Dividends | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 11.2 | Transfers to Reserves | | - | - | - | - | - | - | - | - | - | - | - | - | (57,376) | 57,376 | - | - | 57,376 |
| 11.3 | Others | | - | - | - | - | - | - | - | - | - | - | - | - | - | (57,376) | 57,376 | - | **(57,376)** |
| | **Balances at end of the period (31 December 2019) (III+IV+…...+XI+XII)** | | **79,500** | - | - | - | - | **(626)** | - | **(626)** | - | - | - | - | **76,702** | **(16,030)** | **8,408** | - | **163,984** |

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

**GARANTİ FAKTORİNG A.Ş.**

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

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

| | STATEMENT OF CASH FLOWS | Notes | Audited<br>1 January - 31 December 2020 | Audited<br>1 January - 31 December 2019 |
|---|---|---|---|---|
| **A.** | **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| 1.1 | Operating profit before changes in operating assets and liabilities | | 105,696 | 107,473 |
| 1.1.1 | Interest/Leasing income received | | 288,999 | 376,397 |
| 1.1.2 | Interest/Leasing expenses | | (181,134) | (273,755) |
| 1.1.3 | Dividends received | | - | - |
| 1.1.4 | Fees and commissions received | | 12,686 | 10,063 |
| 1.1.5 | Other earnings | | - | - |
| 1.1.6 | Receiving from non-performing receivables recognized as a loss | **6.3** | 4,634 | 3,959 |
| 1.1.7 | Cash payments to staff and service suppliers | | (46,965) | (47,662) |
| 1.1.8 | Taxes paid | | (3,420) | (8,014) |
| 1.1.9 | Other | | 30,896 | 46,485 |
| 1.2 | Changes in operating assets and liabilities | | (635,462) | 392,543 |
| 1.2.1 | Net (increase) decrease in factoring receivables | | (695,407) | 135,979 |
| 1.2.2 | Net (increase) decrease in financial loans | | - | - |
| 1.2.3 | Net (increase) decrease in receivables from leasing transactions | | - | - |
| 1.2.4 | Net (increase) decrease in other assets | | 5,959 | (15,937) |
| 1.2.5 | Net increase (decrease) in factoring payables | | (7,314) | (4,742) |
| 1.2.6 | Net (increase) decrease in payables from leasing transactions | | 3,869 | 1,630 |
| 1.2.7 | Net increase (decrease) in funds borrowed | | 74,944 | 262,086 |
| 1.2.8 | Net increase (decrease) in due payable: | | - | - |
| 1.2.9 | Net increase (decrease) in other liabilitie | | (17,513) | 13,527 |
| I. | Net cash provided from operating activities | | (529,766) | 500,016 |
| **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 | | (221) | (22) |
| 2.4 | Fixed assets sales | **7** | 48 | - |
| 2.5 | Cash obtained from funds borrowed and securities issued | **4** | (39,663) | - |
| 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 | **10** | (8,008) | (6,938) |
| II. | Net cash provided from investing activities | | (47,844) | (6,960) |
| **C.** | **CASH FLOWS FROM FINANCING ACTIVITIES** | | | - |
| 3.1 | Cash obtained from funds borrowed and securities issued | | 811,316 | 966,316 |
| 3.2 | Cash used for repayment of funds borrowed and securities issued | | (234,020) | (1,471,596) |
| 3.3 | Capital increase | | - | - |
| 3.4 | Dividends paid | | - | - |
| 3.5 | Payments for finance lease: | | (3,550) | 2,923 |
| 3.6 | Other | | - | - |
| III. | Net cash provided from financing activitie | | 573,746 | (508,203) |
| IV. | Effect of change in foreign exchange rate on cash and cash equivalent | | 3,868 | 1,453 |
| **V.** | **Net increase/decrease in cash and cash equivalents** | | **4** | **(7,848)** |
| **VI.** | **Cash and cash equivalents at the beginning of the period** | | **11,842** | **19,778** |
| **VII.** | **Cash and cash equivalents at the end of the period** | **2.5** | **11,846** | **11,930** |

**GARANTİ FAKTORİNG A.Ş.**
**PROFIT DISTRIBUTION TABLE FOR THE YEAR ENDED 31 DECEMBER 2020**
(Amounts expressed in thousands of Turkish lira ("Thousands of TL") unless otherwise indicated.)

| | | Notes | Audited<br>1 January - 31 December 2020 | Audited<br>1 January - 31 December 2019 |
|---|---|---|---|---|
| **I.** | **DISTRIBUTION OF CURRENT YEAR PROFIT (*)** | | | |
| 1.1 | CURRENT PERIOD PROFIT | | 64,671 | 31,031 |
| 1.2 | TAXES AND LEGAL DUTIES PAYABLE (-) | **9** | 14,521 | 6,593 |
| 1.2.1 | Corporate tax (income tax) | | (378) | (849) |
| 1.2.2 | Withholding tax | | - | - |
| 1.2.3 | Other taxes and duties | | 14,899 | 7,442 |
| **A.** | **NET PROFIT FOR THE PERIOD (1.1-1.2)** | | **50,150** | **24,438** |
| 1.3 | ACCUMULATED LOSSES (-) | | - | - |
| 1.4 | FIRST LEGAL RESERVES (-) | | - | 1,552 |
| 1.5 | OTHER STATUTORY RESERVES (-) | | - | - |
| **B.** | **NET PROFIT AVAILABLE FOR DISTRIBUTION [(A-(1.3+1.4+1.5)]** | | **50,150** | **22,886** |
| 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 redeeemed 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 | | - | (22,886) |
| 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** | | - | - |
| 3.1 | TO OWNERS OF ORDINARY SHARES (per YTL'000 face value each) | | - | 0.307396 |
| 3.2 | TO OWNERS OF ORDINARY SHARES (%) | | - | 30.74 |
| 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 2020 profit distribution will be made at general assembly meeting.

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

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

## 1 ORGANIZATION AND OPERATIONS OF THE COMPANY

Garanti 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:

| | 31 December 2020 | Shareholding (%) | 31 December 2019 | Shareholding (%) |
|---|---|---|---|---|
| Türkiye Garanti Bankası A.Ş. | 65.066 | 81,84 | 65.066 | 81,84 |
| Türkiye İhracat Kredi Bankası A.Ş. | 7.773 | 9,78 | 7.773 | 9,78 |
| Publicly Traded | 6.661 | 8,38 | 6.661 | 8,38 |
| **Capital** | **79.500** | **100,00** | **79.5000** | **100,00** |

The shareholding of T. Garanti Bankası A.Ş. as at 31 December 2020 is 55,40% and T. Garanti Bankası A.Ş. has obtained the remaining 26,44% shares from public shares via Borsa İstanbul (31 December 2019: 55,40% and 26,44%).

The Company has 121 employees as at 31 December 2020 (31 December 2019: 129).

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

Çamçeşme, Tersane Caddesi No: 15 Pendik / 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 27 January 2021. The General Assembly has the authority to change the financial statements.

# 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

**Changes regarding classification and measurement of financials assets**

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 31 December 2018. The Company has started 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.

### 2.1.2 Functional Currency

Financial statements of the Company are presented in Turkish Lira ("TL"), which is the Company's functional currency.

### 2.1.3 Preparation of Financial Statements in Hyperinflationary Periods

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

### 2.1.4 Offsetting

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

## 2.2 Changes in Accounting Policies

Changes in accounting policies are applied retrospectively and the prior period financial statements are restated accordingly.

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

### 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.

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 – Cash and Cash Equivalents and Central Bank
Note 6 – Financial Assets Measured at Amortized Cost (Net)
Note 7 – Tangible Assets
Note 8 – Intangible Assets
Note 9 – Tax Assets and Liabilities
Note 14– Provisions

### 2.4 New and Revised Turkish Accounting Standards

**The new standards, amendments and interpretations which are effective as at 31 December 2020 but not yet adopted are as follows**

***Standards issued but not yet effective and not early adopted***

A number of new standards, interpretations of and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Company has not early adopted are as follows.

**Classification of Liabilities as Short or Long Term (Amendments in TAS 1)**

The classification of Liabilities as Short or Long Term (Amendments in TAS 1) published by the IASB on 23 January 2020 in order to maket he presentation in the financial position table for the classification of liabilities as short or long term according to IAS 1 more explanatory, was published in 2020.

This amendment clarifies the additional explanations about the long-term classification of liabilities that the company can defer at least twelve months later and other matters related to the classification of liabilities.

The amendments made in TAS 1 address the following issues:

a. In the classification of obligations, it should be clearly stated that the right of the enterprise to defer liability should exist at the end of the reporting period.

b. Stipulating that the expectations and objectives of the business management regarding the use of the right to defer the liability will not affect the long-term classification of the liability.

c. Explaining how the borrowing conditions of the company will affect the said classification.

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

### 2.4 New and Revised Turkish Accounting Standards (continued)

d. Explanation of the provisions regarding the classification of liabilities that the entity can pay with its own equity instruments.

The company has to apply these changes retrospectively as of the reporting periods that started on and after January 1, 2022. However, its early application is allowed. However, with the amendment published on 15 July 2020, the IASB decided to postpone the effective date of the IAS 1 amendment until January 1, 2023.

The implementation of this amendment in TAS 1 is not expected to have a significant impact on the financial statements of the Company.

**Changes that have come into effect and have not been implemented**

The changes that have entered into force as of the fiscal periods that started on and after January 1, 2020 are as follows:

1-) Updated Conceptual Framework (2018 version)

2-) Changes in TFRS 3 Business Combinations - Business Definition

The application of the amendment in TFRS 3 did not have a significant effect on the financial statements of the Company.

3-) Changes in TMS 1 and TMS 8 - Material Description

The application of the amendment in TMS 1 and TMS 8 did not have a significant effect on the financial statements of the Company.

4-) Indicative Interest Rate Reform (Amendments in TFRS 9, TAS 39 and TFRS 7)

The implementation of this change has not had a significant impact on the financial statements of the Company.

***New and updated standards and comments published by IASB but not yet published by POA***

**Amendment to the References to the Conceptual Framework in IFRS 3**

In May 2020, the IASB issued an amendment regarding the references to the Conceptual Framework in IFRS 3.

With the amendment, the references made by the IASB in IFRS 3 to an earlier version of the Conceptual Framework for Financial Reporting have been replaced with references to the latest version published in March 2018.

Although the company has to apply these changes from the reporting periods starting on January 1, 2022 and after, early application is allowed.

**Tangible Fixed Assets - Making it suitable for the purpose of use (Amendment to IAS 16)**

In May 2020, the IASB issued the "Tangible Fixed Assets - Conforming to the Intended Use" amendment to the IAS 16 Tangible Fixed Assets standard. With the amendment, it is no longer allowed to deduct the revenues from the sale of the products from the cost of the tangible fixed asset item in the process of making an asset fit for its intended use. Instead, the company will recognize such sales revenues and sales costs of the products sold, as well as profit or loss.

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

### 2.4 New and Revised Turkish Accounting Standards (continued)

**Economically disadvantaged contracts-Contract fulfillment costs (Amendment to IAS 37)**

The amendment clarifies the accounting provisions in this regard, increasing transparency and consistency - in particular, it does not allow the deduction of the proceeds from the sale of the manufactured products from the cost of the item of tangible fixed asset, while the amendment makes the asset available for its intended use. Instead, a company will now reflect such sales revenue and associated costs in profit or loss.

Although the Company has to apply these changes from the reporting periods starting on January 1, 2022 and after, early implementation is allowed.

The IASB published the "Economically disadvantaged contracts - contract fulfillment costs" amendment amending IAS 37 Provisions, Contingent Liabilities and Contingent Assets in May 2020.

The IASB has published this amendment to IAS 37 to clarify that, in order to assess whether a contract is economically disadvantaged, the cost of fulfilling the contract includes both mandatory additional costs that must be incurred and costs associated with the allocation of other direct costs.

The amendments specify what costs an entity can include in determining the cost of fulfilling a contract in order to assess whether a contract is fulfilled.

Although the company has to apply these changes from the reporting periods starting on January 1, 2022 and after, early application is allowed.

**Annual Improvements -2018-2020 Period**

**Improvements in IFRS**

The "Annual Improvements in IFRS / 2018-2020 Period" published for the standards in force is presented below. These changes are effective as of January 1, 2022, and early application is allowed. The application of these changes in IFRS is not expected to have a significant impact on the financial statements of the Company.

*IFRS 1- First Implementation of International Financial Reporting Standards*

This amendment facilitates the implementation of IFRS 1 in case a subsidiary starts to apply IFRSs after the parent company; for example; If a subsidiary starts to apply IFRSs later than the parent company, by taking advantage of the exemption in paragraph 1.D16 (a) of IFRS, the accumulated foreign currency translation differences for all foreign currency transactions are calculated over the amounts included in the financial statements of the parent company according to the transition date of the parent company to IFRS Standards can choose to measure with this amendment, by applying this optional exemption for subsidiaries, i) reduce unnecessary costs; and ii) facilitate the transition to IFRS Standards by eliminating the need to keep similar simultaneous accounting records.

*IFRS 9 Financial Instruments*

This amendment - in order to perform the '10% test' for derecognition of financial liabilities - in determining the fees received on the net amount by deducting the fees paid for these transactions, the fees to be taken into account are only the ones that will be considered as the debtor and the lender and they are mutually paid between or on behalf of them. or the fees charged.

*IFRS 16 Leases, Illustrative Example 13*

With this change, the part of Explanatory Example 13 regarding the lessor's payment to the lessee for special costs is removed. As currently published, this example is not clear as to why such payments are not a rental incentive. Thus, it will help to eliminate the possibility of confusion in determining the lease incentives in real estate leasing transactions, which are common in general.

## 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.

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*

**Classification and measurement**

Classification and measurement of financial assets in accordance with TFRS 9 Financial Instruments standard is determined by whether the financial asset is based on the business model in which the financial asset is managed and whether it is based on contractual cash flows including interest payments on principal and principal balance.

TFRS 9 contains three principal classification categories for financial assets: amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Company accounts for its financial assets in three classes. The classification is based on the characteristics of the contractual cash flows of the entity and the business model used by the entity for the management of the financial assets. The Company classifies its financial assets at the time of purchase.

"Financial assets measured at amortized cost" are financial assets held as part of a business model aimed at collecting contractual cash flows and that have cash flows that include interest payments solely on principal and principal balance at specific dates in contractual terms, are not traded in an active market. Financial assets at amortized cost of the Company also include "cash and cash equivalents", "factoring receivables".

Related assets are initially recognized at fair value in the financial statements; in subsequent accounting, measured at amortized cost using the effective interest rate method. Gains and losses resulting from the valuation of non-derivative financial assets measured at amortized cost are recognized in the consolidated income statement.

*"Financial assets at fair value through other comprehensive income"* are financial assets held as part of a business model for the collection and settlement of contract cash flows and for which there are cash flows from interest payments arising principally only at principal and principal amounts under contractual terms. Interest income, foreign currency gains and losses and impairment losses calculated using the effective interest method are recognized in profit or loss. Other gains and losses are recognized in other comprehensive income.

When financial assets are excluded from the statement of financial position, the total gains or losses that previously recognized in other comprehensive income are reclassified to profit or loss.

For investments in equity-based financial assets, the Company may inadvertently choose the method of reflecting subsequent changes in fair value to other comprehensive income during the first financial statement purchase. In the case of such a preference, the dividends from the related investments are recognized in the consolidated income statement.

## 2 *BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)*

### 2.5 *Summary of Significant Accounting Policies (continued)*

### *(b) Financial Instruments (continued)*

**Classification and measurement (continued)**

Under TFRS 9, all investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost value may be an appropriate estimate of fair value.

The Company uses the cost method as a method to determine the fair value in case there is not sufficient information about the fair value measurement or if the fair value can be measured with more than one method and the cost reflects the fair value estimation among these methods.

*"Financial assets at fair value through profit or loss"* are financial assets measured other than those at amortized cost and fair value through other comprehensive income. The resulting gains and losses from the valuation of such assets are recognized in the consolidated income statement.

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.

**Impairment of financial assets**

As at 1 January 2019, loss allowance for expected credit losses is set aside for factoring receivables measured at amortized cost based on TFRS 9 and the regulation published in the Official Gazette no. 30409 dated 2 May 2018 and effective from 31 December 2018 in connection with "Regulation on Making Amendments to the Regulation on Accounting Practices and Financial Statements of Leasing, Factoring and Financing Companies" TFRS 9 impairment requirements are not applicable for equity instruments.

At each reporting date, it shall be assessed whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, it shall be used the change in the risk of a default occurring for the financial instrument.

As of the reporting date, if the credit risk on a financial instrument has not increased significantly since initial recognition, it shall be measured the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. However, if there is a significant increase in credit risk of a financial instrument since initial recognition, it is measured loss allowance regarding such instrument at an amount equal to lifetime expected credit losses.

The expected credit loss is calculated on a collective basis by means of grouping the financial assets having common credit risk features or on an individual basis.

**Calculation of expected credit losses**

Expected credit losses is calculated based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

## 2 *BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)*

### 2.5 *Summary of Significant Accounting Policies (continued)*

### *(b) Financial Instruments (continued)*

**Calculation of expected credit losses (continued)**

Probability of Default (PD): PD refers to the likelihood that a loan will default, which is usually set at 12 months, given certain characteristics:

- 12-month PD: as the estimated probability of default occurring within the next 12 months.

- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

Internal rating systems are used for commercial portfolios. The internal rating models used for the commercial portfolio include customer financial information and demographic information. Probability of default calculation has been carried out based on past information, current conditions and forward looking macroeconomic parameters.

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

LGD calculations are performed using historical data which best reflects current conditions. LGD summarizes all cash flows from customers subsequent to default. It covers all costs and collections that occur during the collection cycle, including collections from collaterals. It also includes the "time value of money" calculated by means of deducting costs and additional losses from the present value of collections.

Exposure at Default (EAD): For cash loans, it corresponds to the amount of loan granted as of the reporting date.

With the exception of revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless there is the legal right to call it earlier.

Stage 1: 12-month expected credit loss represents the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date and calculated as the portion of lifetime expected credit losses. 12-month expected credit loss is calculated based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate.

Stage 2: When there is a significant increase in credit risk since origination, lifetime expected credit losses is calculated. Including multiple scenario usage, probability of default and loss given default rates are estimated through the life of the instrument. Estimated cash shortfalls are discounted by using the original effective interest rate.

Stage 3: Lifetime expected credit losses are recognised for the impaired lease receivables. The methodology is similar to stage 2 and the probability of default is taken into account as 100%.

It is considered a debt as default on these two below conditions;

1. Objective Default Definition: It means debt having past due more than 90 days. Current definition of default for the financial institutions is based on a more than 90 days past due definition. If a loan is exactly 90 days past due, it will not be considered as default. Default status starts on the 91st day.

2. Subjective Default Definition: It means it is considered that a debt is unlikely to be paid. Whenever it is considered that an obligor is unlikely to pay its credit obligations, it should be considered as defaulted regardless of the existence of any past-due amount or of the number of days past due.

## 2 *BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)*

### 2.5 *Summary of Significant Accounting Policies (continued)*

### *(b) Financial Instruments (continued)*

**Calculation of expected credit losses (continued)**

In addition, a certain portion of commercial and corporate loans is assessed individually in accordance with the internal policies in the calculation of the expected credit losses based on TFRS 9. Such calculations are made by discounting the expected cash flows from the individual financial instrument to its present value using the effective interest rate. When measuring expected credit losses, it shall be considered the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low. Such assessment is made by reflecting the estimate of expected credit loss which is unbiased and probability-weighted determined by evaluating a range of possible outcomes.

**Forward-looking macroeconomic information**

Forward-looking macroeconomic information is incorporated into credit risk parameters during assessment of significant increase in credit risk and expected credit loss calculation.

**Significant increase in credit risk**

Qualitative and quantitative assessments are performed regarding assessment of significant increase in credit risk.

Qualitative assessment:

It is classified the financial asset as Stage 2 (Significant Increase in Credit Risk) where any of the following conditions are satisfied as a result of a qualitative assessment.

- Loans overdue more than 30 days as of the reporting date,
- Loans classified as watchlist,
- When there is a change in the payment plan due to refinancing, restructuring or concession, the loan is not considered as default or written off and the change is not due to any commercial reason.

Quantitative assessment:

The quantitative reason explaining the significant increase in the credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date.

It is classified the related financial asset as stage 2 (Significant Increase in Credit Risk) where both of the following criteria are satisfied as a result of quantitative assessment.

**Low credit risk**

TFRS 9, the credit risk on a financial instrument is considered as low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

It is not considered financial instruments to have low credit risk when they are regarded as having a low risk of loss simply because of the value of collateral and the financial instrument without that collateral would not be considered low credit risk. Financial instruments are also not considered to have low credit risk simply because they have a lower risk of default than the other financial instruments or relative to the credit risk of the jurisdiction within which it is operated.

If it is determined that a financial instrument has a low credit risk as of the reporting date, it is assumed that the credit risk on the financial instrument has not increased significantly following its first recognition in the financial statements.

(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)*

**Disclosures on write down policy**

The Regulation on Accounting Practices and Financial Tables of Financial Leasing, Factoring and Financing Companies was published in the Official Gazette No. 30961 on November 27, 2019. With this regulation, it is possible to deduct the part of Factoring Receivables, which are classified as "Loss like Receivables" by financial institutions, for which there is no reasonable expectation of recovery by companies, and thus to be taken off the balance sheet.

The company makes an objective and subjective assessment while determining whether there are no reasonable expectations.

As explained in the accounting policies entitled Calculation of Expected Credit Loss, provisions for expected credit losses are made under TFRS 9 for the parts of Factoring receivables that are not expected to be collected.

Therefore, the portion of factoring receivables, which are deemed to have no reasonable expectation for the recovery of the loan by the unit responsible for the collection of the relevant receivables, and which are currently monitored in the "Receivables classified as loss" category, up to the allocated provisions, may be subject to derecognition.

In addition, all factoring receivables that meet at least the following conditions are considered to be completely lost by the Company and can be deducted from the record based on the positive opinion of the relevant units:

In this context, the provision rates of the related receivables can be determined as 100% if the relevant units also have positive opinion.

i. Being monitored as a receivable as a loss for at least 2 years,

ii. The fact that no collection has been made in the last 6 months or the Company has gone bankrupt in the last 6 months, and there is no new collection capacity due to the assets at the bankruptcy estate,

iii. Lack of a guarantee in kind,

In line with the relevant accounting policy, the Company deducted its factoring receivables for the amount of TL 273.508 as of 31 December 2020.

Current Year

| Write down of | TL | FC |
|---|---|---|
| The Factoring Receivables | 32.981 | 240.527 |

The rate of follow-up declined from 12.14% before deregistration to 4.52% after write-down.

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.

## 2 *BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)*

### 2.5 *Summary of Significant Accounting Policies (continued)*

### *(b) Financial Instruments (continued)*

**Disclosures on write down policy (continued)**

Derivative Financial Instruments

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 and are subsequently remeasured to their fair value at the end of each reporting period.

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.

Financial Liabilities at Fair Value Through Profit or Loss

Changes in fair values are accounted for in the profit or loss statement. Net gains or losses in the statement of profit or loss include the interest paid on the financial paint in question.

### *(c) TFRS 16 Leases*

The Company has started to apply TFRS 16 Leases standard (“TFRS 16”) starting from 1 January 2019. TFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

***Definition of Leasing***

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under TFRIC 4 Determining Whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under TFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

## 2 *BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)*

### 2.5 *Summary of Significant Accounting Policies (continued)*

#### *(c) TFRS 16 Leases (continued)*

On transition to TFRS 16, the Company elected to apply it as it used to be defined as a lease by using the practical expedient to the assessment of which transactions are leases. It applied TFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under TAS 17 and TFRIC 4 were not reassessed. Therefore, the definition of a lease under TFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Company has elected not to separate non-lease components and will instead account for the lease and non- lease components as a single lease component.

The Company has allocated to each lease and non-lease component, based on its relative stand-alone price, at the reassessment or inception of a contract containing a lease component. However, for the properties it is tenant, the Company has chosen not to separate non-lease components and to account for non-lease and non-lease components as a single lease component.

***As a lessee***

The Company leases properties and vehicles. Under TFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Company has elected not to recognise to the financial statements right-of-use assets and lease liabilities for properties and vehicles leases with a lease term of 12 months or less. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company presents lease liabilities in ‘Lease Liabilities (Net)’ in the statement of financial position.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

When a right-of-use asset meets the definition of investment property, it is presented in investment property. The right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Company’s accounting policies.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

## 2 *BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)*

### 2.5 *Summary of Significant Accounting Policies (continued)*

### *(c) TFRS 16 Leases (continued)*

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

On June 5, 2020, the POA published the Concessions Granted in Lease Payments in relation to COVID-19 "Changes to TFRS 16 Leases" and structured them in the "Leases Standard by publishing TFRS 16". With this change, COVID-19 was justified in the exemption to find out if there was a change in the lease in the tenants' payments. The change in question did not have a significant impact or financial performance on the Company's financial performance.

### *(d) 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 |

### *(e) 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.

## 2 *BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)*

### 2.5 *Summary of Significant Accounting Policies (continued)*

### *(e) Intangible Assets (continued)*

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.

| **Intangible Assets** | **Estimated useful lives (Year)** |
|---|---|
| Rights | 3-5 |
| Software | 3-5 |

### *(f) 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 which were subject to impairment are reviewed for possible reversal of the impairment at each reporting date.

### *(g) Capital Increase*

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

### *(h) 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.

## 2 *BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)*

### 2.5 Summary of Significant Accounting Policies (continued)

### *(i) 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.

### *(j) Borrowing Costs*

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

### *(k) 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 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| USD | 7,3405 | 5,9402 |
| EURO | 9,0079 | 6,6506 |
| GBP | 9,9438 | 7,7765 |

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.

### *(l) 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.

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

### 2.5 Summary of Significant Accounting Policies (continued)

***(m) 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.

***(n) Segment Reporting***

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

***(o) 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 amount 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.

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.

(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)

***(o) Income Tax(continued)***

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.

***(p) 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 2020 | 31 December 2019 |
|---|---|---|
| Case / Effective | 1 | - |
| Cash and Cash Equivalents | 12.502 | 11.930 |
| Blocked Deposits | (657) | - |
| | **11.846** | **11.930** |

***(r) Covid-19 pandemic effects***

Covid - 19 outbreaks influence spreading in the world and Turkey. Covid-19 was declared as a pandemic by World Health Organization (WHO) in 11 March 2020, and the measures taken against the pandemic, exposure to the pandemic in all countries has led to disruptions in almost all countries and has adversely affected the economic conditions both globally and locally. Based on the evaluation made by the Company Management, the economic effects of this pandemic have been evaluated as not having a significant adverse effect on the Company as of the report date.

## 3 CASH, CASH EQUIVALENTS AND CENTRAL BANK

Details of cash and cash equivalents as at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | TL | FC | TL | FC |
| Cash and cash equivalents | 1.622 | 10.224 | 1.518 | 4.472 |
| Time deposits (*) | 657 | - | - | 5.940 |
| Expected credit losses | (21) | (77) | (7) | (81) |
| | **2.258** | **10.147** | **1.511** | **10.331** |

(*) TL 657 is held as collateral for Takasbank Monetary Market transactions.

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

## 4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (NET)

As of 31 December 2020 and 31 December 2019, financial assets at fair value through profit or loss consist of government bonds issued as collateral for trading in the Takasbank Money Market (31 December 2019: None) and shares representing equity securities not listed.

| | 31 December 2020 | | | 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | Carrying Value | | % Share Rate | Carrying Value | | % Share Rate |
| | TL | FC | | TL | FC | |
| Pledged / Blocked | 39.661 | - | - | - | - | - |
| Factors Chain International (FCI) | - | 9 | 1,72 | - | 7 | 1,72 |
| | **39.661** | **9** | | **-** | **7** | |

## 5.1 DERIVATIVE FINANCIAL ASSETS

Derivatives are initially recorded at their fair values. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The details of derivative financial assets consisting of currency swap agreements. As at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | TL | FC | TL | FC |
| Derivative financial assets | 1.921 | - | - | - |
| | **1.921** | **-** | **-** | **-** |

## 5.2 DERIVATIVE FINANCIAL LIABILITIES

The details of derivative financial liabilities consisting of currency swap agreements. As at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | TL | FC | TL | FC |
| Derivative financial liabilities | 252 | - | - | - |
| | **252** | **-** | **-** | **-** |

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

# 6 FINANCIAL ASSETS AT AMORTISED COST (NET)

## 6.1 Factoring Receivables and Payables

***Factoring Receivables***

Details of factoring receivables as at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| **Financial assets at amortised cost (net)** | **TL** | **FC** | **TL** | **FC** |
| Discounted Factoring Receivables (Net) | 1.010.724 | 163.041 | 917.390 | 143.866 |
| Other Factoring Receivables | 1.075.365 | 545.199 | 740.917 | 288.233 |
| Non Performing Receivables | 118.959 | 13.281 | 150.872 | 188.885 |
| Expected Credit Losses (-) | (123.599) | (14.123) | (139.511) | (185.896) |
| *Stage 1* | *(9.676)* | *(842)* | *(4.566)* | *(257)* |
| *Stage 2* | *(7.642)* | - | *(7.016)* | - |
| *Stage 3* | *(106.281)* | *(13.281)* | *(127.929)* | *(185.639)* |
| **Factoring receivables** | **2.081.449** | **707.398** | **1.669.668** | **435.088** |

Based on the BRSA's decision dated 8 December 2020 and numbered 9312, for factoring receivables that are delayed between 90 and 180 days from 17 March 2020 until 30 June 2021 and continue to be classified in the second stage, taking into account the probability of default as 100% makes provision for lifetime expected credit losses. However, according to the Company's risk models, since loss given default is a parameter that increases with aging for Stage 3, it has been taken into account in the same way as other factoring receivables in Stage 2.

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

## 6 FINANCIAL ASSETS AT AMORTISED COST (NET) (continued)

### 6.1 Factoring Receivables and Payables (continued)

***Factoring Receivables (continued)***

Stage 1 overdue receivables of the company are TL 23 (31 December 2019: TL 5.380) and the delay periods are as allows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| ***Stage 1*** | ***TL*** | ***FC*** | ***TL*** | ***FC*** |
| ***Overdue 1 month*** | 23 | - | 5.380 | - |
| | **23** | **-** | **5.380** | **-** |

Stage 2 overdue receivables of the company are TL 1.169 (31 December 2019: TL 203) and the delay periods are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| ***Stage 2*** | ***TL*** | ***FC*** | ***TL*** | ***FC*** |
| *Overdue 1 month* | 347 | - | 77 | - |
| Overdue 1-3 months | 604 | - | 126 | - |
| Overdue 3-6 months | 218 | - | - | - |
| | **1.169** | **-** | **203** | **-** |

***Factoring Payables***

Details of short term factoring payables as at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| Factoring payables | 639 | 2.647 | 507 | 10.093 |
| | **639** | **2.647** | **507** | **10.093** |

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

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

## 6 FINANCIAL ASSETS AT AMORTISED COST (NET) (continued)

### 6.2 Non-Performing Receivables

Details of the Company's non-performing factoring receivables as at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| Non-performing Factoring Receivables | 118.959 | 13.281 | 150.782 | 188.885 |
| | **118.959** | **13.281** | **150.782** | **188.885** |

### 6.3 Expected Credit Losses

Details of the Company's expected credit losses for factoring receivables at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| Expected credit losses | (123.599) | (14.123) | (139.511) | (185.896) |
| | **(123.599)** | **(14.123)** | **(139.511)** | **(185.896)** |

The movements of expected credit losses for factoring receivables for the year ended 31 December 2020 and 31 December 2019 are as follows:

| | **1 January-31 December 2020** | **1 January-31 December 2019** |
|---|---|---|
| **Opening balance 1 January** | **325.407** | **250.943** |
| TFRS 9 opening adjustment | - | 20.204 |
| *Expected credit loss of the period ;* | | |
| Stage 1 | 8.787 | 2.580 |
| Stage 2 | 3.682 | 7.016 |
| Stage 3 | 21.576 | 53.694 |
| *Collections/reversals of the period ;* | | |
| Stage 1 | (3.092) | (4.908) |
| Stage 2 | (3.056) | (163) |
| Stage 3 | (4.636) | (3.959) |
| Deducted receivables provision cancellations | | |
| Stage 3 | (210.946) | - |
| | **137.722** | **325.407** |

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

## 7 TANGIBLE ASSETS

Movements in tangible fixed assets for the period ended 31 December 2020 are as follows:

| | 1 January 2020 | Additions | Disposals | 31 December 2020 |
|---|---|---|---|---|
| **Acquisition Cost** | | | | |
| Furniture and fixtures | 5.427 | 10 | (852) | 4.585 |
| Vehicles | 19 | - | - | 19 |
| Leasehold improvements | 1.757 | 211 | - | 1.968 |
| ***Right-of-use*** | | | | |
| Leased buildings | 2.357 | 3.902 | (1.693) | 4.536 |
| ***Right-of-use*** | - | - | - | - |
| Vehicles | 3.633 | - | (62) | 3.571 |
| | **13.163** | **4.123** | **(2.607)** | **14.679** |

| **Accumulated Depreciation** | 1 January 2020 | Depreciation for the period | Disposals | 31 December 2020 |
|---|---|---|---|---|
| Furniture and fixtures | 4.712 | 402 | (804) | 4.310 |
| Vehicles | 19 | - | - | 19 |
| Leasehold improvements | 1.395 | 92 | - | 1.487 |
| Leased buildings | 383 | 1.178 | (511) | 1.050 |
| Vehicles | 1.400 | 1.412 | (53) | 2.759 |
| | **7.909** | **3.084** | **(1.368)** | **9.625** |
| | | | | |
| **Net book value** | **5.254** | | | **5.254** |

(*)As of 31 December 2020, the insurance amount on tangible assets are TL 339 (31 December 2019: TL 1.490) and the insurance premium amount is TL 1 (31 December 2019: TL 3).

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

## 7 TANGIBLE ASSETS (continued)

Movements in tangible assets for the year ended 31 December 2019 are as follows:

| | 1 January 2019 | Additions | Disposals | 31 December 2019 |
|---|---|---|---|---|
| **Acquisition Cost** | | | | |
| Furniture and fixtures | 5.420 | 22 | (15) | 5.427 |
| Vehicles | 19 | - | - | 19 |
| Leasehold improvements | 1.757 | - | - | 1.757 |
| ***Right-of-use*** | | | | |
| Leased buildings | - | 2.822 | (495) | 2.327 |
| ***Right-of-use*** | - | - | - | - |
| Vehicles | - | 3.820 | (187) | 3.633 |
| | **7.196** | **6.664** | **(697)** | **13.163** |

| **Accumulated Depreciation** | 1 January 2019 | Depreciation for the period | Disposals | 31 December 2019 |
|---|---|---|---|---|
| Furniture and fixtures | 4.132 | 594 | (14) | 4.712 |
| Vehicles | 19 | - | - | 19 |
| Leasehold improvements | 1.310 | 85 | - | 1.395 |
| Leased buildings | - | 878 | (495) | 383 |
| Vehicles | - | 1.587 | (187) | 1.400 |
| | **5.461** | **3.144** | **(696)** | **7.909** |
| | | | | |
| **Net book value** | **1.735** | | | **5.254** |

## 8 INTANGIBLE ASSETS

The movement of intangible assets for the period ended 31 December 2020 is as follows:

| | 1 January 2020 | Additions | Disposals | 31 December 2020 |
|---|---|---|---|---|
| **Acquisition Cost** | | | | |
| Rights | 3.076 | - | - | 3.076 |
| Other (Software) | 30.688 | 8.008 | - | 38.696 |
| | **33.764** | **8.008** | - | **41.772** |

| **Accumulated Amortization** | 1 January 2019 | Charge for the period | Disposals | 31 December 2019 |
|---|---|---|---|---|
| Rights | 3.076 | - | - | 3.076 |
| Other (Software) | 21.264 | 6.188 | - | 27.452 |
| | **24.340** | **6.188** | - | **30.528** |
| | | | | |
| **Net book value** | **9.424** | | | **11.244** |

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

## 8 INTANGIBLE ASSETS (continued)

The movement of intangible assets for the period ended 31 December 2019 is as follows:

| | 1 January 2019 | Additions | Disposals | 31 December 2019 |
|---|---|---|---|---|
| **Acquisition Cost** | | | | |
| Rights | 3.076 | - | - | 3.076 |
| Other (Software) | 23.750 | 6.938 | - | 30.688 |
| | **26.826** | **6.938** | - | **33.764** |

| **Accumulated Amortization** | **1 January 2019** | **Charge for the period** | **Disposals** | **31 December 2019** |
|---|---|---|---|---|
| Rights | 3.076 | - | - | 3.076 |
| Other (Software) | 16.112 | 5.152 | - | 21.264 |
| | **19.188** | **5.152** | - | **24.340** |
| **Net book value** | **7.638** | | | **9.424** |

As at 31 December 2020 and 31 December 2019, the Company has not any intangible asset that is generated within the company.

## 9 TAX ASSETS AND LIABILITIES

*Corporate Tax*

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

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

The effective tax rate in 31 December 2020 is 22% (2019: 22%).While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax is calculated as 22% of the income as at 31 December 2020 (2019: 22%). The corporate income tax rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 with the amendment of legislation.

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.

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

## 9 TAX ASSETS 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.

Tax provision movement

| | **1 January – 31 December 2020** | **1 January – 31 December 2019** |
|---|---|---|
| Reported profit before taxation | 64.671 | 31.031 |
| Calculated tax on reported profit | (14.228) | (6.827) |
| Permanent differences: | | |
| Effect of change in tax rate | (186) | 282 |
| TFRS 9 transition effect of change in tax rate | - | (24) |
| Non-deductible expenses | (107) | (24) |
| **Tax Charge** | **(14.521)** | **(6.593)** |

The tax (expense) / income in the profit or loss statement for the periods ended 31 December 2020 and 31 December 2019 are summarized below:

Based on the 26th article of the Income Tax Law and the Law on Making Amendments to Some Laws, which entered into force by publishing in the Official Gazette dated 19 July 2019 and numbered 30836, the special provisions set aside from 1 January 2019 have been taken into account in the calculation of corporate tax provision.

Corporate tax payable as of 31 December 2020 and 31 December 2019 are as follows:

| | **31 December 2020** | **31 December 2019** |
|---|---|---|
| Temporary tax paid in current period | (3.329) | (7.701) |
| Withholding income tax | (91) | (313) |
| **Current Period Tax Receivable/ (Payable)** | **(3.420)** | **(8.014)** |

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

## 9 TAX ASSETS AND LIABILITIES (continued)

*Income Withholding Tax* (continued)

The tax rate used in the calculation of deferred tax assets and liabilities is 20% (31 December 2019: 22%).

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Temporary Differences** | | |
| Unused tax loss(*) | 95.306 | 13.007 |
| Unearned factoring interest income | 49.089 | 41.714 |
| Expected credit losses Stage 3 | 48.065 | 211.488 |
| Expected credit losses Stage 1 and stage 2 | 18.258 | 11.926 |
| Personnel premium provision | 4.868 | 3.853 |
| Reserve for employee benefits | 4.208 | 2.920 |
| Valuation differences of TFRS 16 | 3.309 | 3.238 |
| Unused vacation accrual | 1.682 | 1.361 |
| Provisions for lawsuit | 1.667 | 1.127 |
| Deferred income accruals | 1.557 | 17 |
| Valuation differences of BITT accruals | 1.167 | 1.084 |
| Valuation differences on interest accruals | 1.105 | 601 |
| Valuation differences of derivative financial assets | 252 | - |
| Other provisions | - | 419 |
| ***Temporary differences related to deferred tax assets*** | **230.533** | **292.755** |
| | | |
| Temporary differences on tangible and intangible assets | 3.754 | 3.055 |
| Valuation difference of IFRS 16 | 3.550 | 2.923 |
| Valuation differences of derivative financial assets | 1.921 | - |
| Commissions rediscounts of factoring receivables | 1.718 | 1.163 |
| Prepaid guarantee letter and brokerage commissions | 575 | 471 |
| Valuation differences of bonds and funds borrowed | 351 | 15 |
| Other | 361 | - |
| ***Temporary differences related to deferred tax liabilities*** | **12.230** | **7.627** |

(*) *As at 31 December 2020, there is a tax loss of amounting to TL 95.306 and the expiration date is 31 December 2025.*

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

## 9 TAX ASSETS AND LIABILITIES (continued)

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Deferred tax assets / (liabilities)** | | |
| Unused financial losses | 19.062 | 2.862 |
| Unearned factoring interest income | 9.818 | 9.177 |
| Expected credit losses Stage 3 | 9.613 | 42.298 |
| Expected credit losses Stage 1 and 2 | 3.652 | 2.624 |
| Personnel premium provision | 974 | 848 |
| Provision for severance pay | 842 | 584 |
| Valuation difference of TFRS 16 | 662 | 712 |
| Unused vacation accrual | 336 | 299 |
| Provisions for lawsuit | 333 | 232 |
| Prereceived commissions | 311 | 4 |
| Valuation differences of BITT accruals | 233 | 238 |
| Valuation differences on interest accruals | 211 | 132 |
| Valuation differences of derivative financial assets | 50 | 92 |
| ***Deferred tax assets*** | **46.107** | **60.102** |
| | | |
| Temporary differences on tangible and intangible assets | (751) | (672) |
| Valuation difference of TFRS 16 | (710) | (643) |
| Valuation differences of derivative financial assets | (384) | - |
| Commissions rediscounts of factoring receivables | (344) | (256) |
| Prepaid guarantee letter and brokerage commissions | (115) | (104) |
| Valuation differences of bonds and funds borrowed | (70) | (3) |
| Other | (72) | - |
| **Deferred tax liabilities** | **(2.446)** | **(1.678)** |
| | | |
| **Deferred tax assets (net)** | **43.661** | **58.424** |

(*)*As at 31 December 2019, there is a tax loss of amounting to TL 95.306 and the expiration date is 31 December 2025.*

Movements of deferred tax assets are as follows:

| | 1 January - 31 December 2020 | 1 January - 31 December 2019 |
|---|---|---|
| Corporate tax refund for 2018 | 378 | 607 |
| Cancellation of previous years' corporate tax provision | - | 242 |
| Deferred tax income / loss | (14.899) | (7.442) |
| **Balance at the end of the period** | **(14.521)** | **(6.593)** |

(*) The lawsuit filed against the Large Taxpayers Tax Office on 24 May 2019 regarding the fact that the special provisions for doubtful receivables that are at the stage of lawsuit and execution are not considered as deduction in the tax base in the Corporate Tax Declaration of 2018, has been concluded in favor of the Company. In the 2018 corporate tax return, an excess payment of TL 378 was accrued and a cash refund is expected. The relevant amount has been shown in the current period profit and loss statement by netting off the current tax provision and deferred tax income of the same amount has been cancelled.

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

## 9 TAX ASSETS AND LIABILITIES (continued)

The Company calculates deferred income tax assets and liabilities by taking into account the effects of temporary differences arising as a result of different evaluations between BRSA Accounting and Financial Reporting Legislation and Tax Procedure Law.

## 10 OTHER ASSETS

Details of other assets as at 31 December 2020 and 31 December 2019 are as follows:

| | **31 December 2020** | | **31 December 2020** | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| Receivables from BITT accruals | 5.001 | 181 | 2.950 | 110 |
| Prepaid expenses | 595 | 63 | 549 | 71 |
| Other | 192 | 298 | 83 | 132 |
| | **5.788** | **542** | **3.582** | **313** |

## 11 FUNDS BORROWED

Details of funds borrowed as at 31 December 2020 and 31 December 2019 are as follows:

| | **31 December 2020** | | **31 December 2019** | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| Funds borrowed | 1.449.664 | 638.026 | 1.590.602 | 414.529 |
| | **1.449.664** | **638.026** | **1.590.602** | **414.529** |

Interest rates are the higher and lower rate interval for the variable and fixed rate loans as at 31 December 2020 and 31 December 2019.

| | **31 December 2020** | | | | **31 December 2019** | | | |
|---|---|---|---|---|---|---|---|---|
| | | | **TL Equivalent** | | | | **TL Equivalent** | |
| | **Original Amount** | **Interest Rate (%)** | **Up to 1 Year** | **1 Year and over** | **Original Amount** | **Interest Rate (%)** | **Up to 1 Year** | **1 Year and over** |
| TL | 1.449.664 | 9,05-19,06 | 1.449.664 | - | 1.590.602 | 14,11-25,50 | 1.477.464 | 113.138 |
| USD | 50.087 | 0,50-4,46 | 367.660 | - | 31.349 | 4,73-4,80 | 186.216 | - |
| EURO | 27.620 | 0,30-3,68 | 248.802 | - | 30.299 | 0,40-2,21 | 201.503 | - |
| GBP | 2.168 | 0,30-3,89 | 21.564 | - | 3.447 | 1,95-3,02 | 26.810 | - |
| **Total** | | | **2.087.690** | | | | **1.891.993** | **113.138** |

(*) TL 490.037 of the funds borrowed as at 31 December 2020 is borrowed from Takasbank Money Market (31 December 2019: TL 199.130). TL 668.500 worth of guarantee has been given for the funds borrowed from Takasbank Money Market (31 December 2019: TL 648.550).

As at 31 December 2020 and 31 December 2019, the remaining funds borrowed are uncollateralized.

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

## 12 LEASE OBLIGATIONS

Details of lease obligations as at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| Nominal | 4.351 | 1.180 | 3.186 | 2.466 |
| Cost | (635) | (24) | (1.012) | (87) |
| **Carrying Value** | **3.716** | **1.156** | **2.174** | **2.379** |

## 13 MARKETABLE SECURITIES ISSUED

Details of marketable securities issued as at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| ***Bonds*** | | | | |
| Nominal | 584.939 | - | - | - |
| Cost | 563.477 | - | - | - |
| **Carrying Value** | **582.026** | **-** | **-** | **-** |

The Company issued discounted bonds only for qualified investors.

| 1 January – 31 December 2020 | | | 1 January – 31 December 2019 | | |
|---|---|---|---|---|---|
| **Date of issue** | **Nominal value** | **Maturity** | **Date of issue** | **Nominal value** | **Maturity** |
| 29.07.2020 | 144.887 | 22.01.2021 | - | - | - |
| 01.10.2020 | 168.054 | 05.01.2021 | - | - | - |
| 16.10.2020 | 199.997 | 14.01.2021 | - | - | - |
| 03.11.2020 | 72.000 | 01.02.2021 | - | - | - |
| **Total** | **584.939** | | **-** | | |

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

## 14 PROVISIONS

Details of provisions as at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| Provision for employee benefits | 10.758 | - | 8.134 | - |
| Provision for lawsuits | 1.168 | - | 787 | - |
| Provision for brokerage commissions | - | 737 | - | 535 |
| Other provisions | 499 | - | 791 | - |
| | **12.425** | **737** | **9.712** | **535** |

### 14.1 Provision for Employee Benefits

Provision for employee benefits as at 31 December 2020 includes retirement pay provision amounting to TL 4.208 (31 December 2019: TL 2.920), unused vacation accrual amounting to TL 1.682 (31 December 2019: TL 1.361) and personnel bonus accrual amounting to TL 4.868 (31 December 2019: TL 3.853).

Under the Turkish Labor Law, the Company is required to pay employment termination benefits to each employee whose contract is terminated after one service year or who is entitled to a retirement at the age of 60 (58 for women) after 25 service years (20 for women) or who is called for military service or who is dead. Some transitional provisions related to the pre-retirement service term were excluded from the scope of the Law since the related law was amended as of 23 May 2002. The amount of compensation to be paid is equal to one month's salary and this amount for the period 01 January – 31 December 2020 is TL 7.117.7 (full), (31 December 2019: TL 6.379,86 (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 2020, 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 9,70% and a discount rate of 13% (31 December 2019: inflation rate of 8,20%, discount rate of 12,50%).

Movement of retirement pay provision as at 31 December 2020 and 31 December 2019 are as follows:

| | 1 January-<br>31 December 2020 | 1 January-<br>31 December 2019 |
|---|---|---|
| **Net liability at the beginning of the period** | **2.920** | **2.343** |
| Severance indemnity paid in the period | (205) | (238) |
| Recognized under income statement | 813 | 854 |
| Retirement provision recognized under other comprehensive income | 680 | (39) |
| **Net liability at the end of period** | **4.208** | **2.920** |

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

## 14 PROVISIONS (continued)

### 14.1 Provision for Employee Benefits (continued)

***Personnel Bonus Accrual***

Movement of the personnel bonus provision as at 31 December 2020 and 31 December 2019 are as follows:

| | 1 January-<br>31 December 2020 | 1 January-<br>31 December 2019 |
|---|---|---|
| **Balance at 1 January** | **3.853** | **2.184** |
| Paid in the period | (2.386) | (1.296) |
| Reversal | (413) | (635) |
| Accrual for the period | 3.814 | 3.600 |
| **Balance at the end of the period** | **4.868** | **3.853** |

### 14.2 Other Provisions

***Unused Vacation Accrual***

The movement of unused vacation provisions as at 31 December 2020 and 31 December 2019 are as follows

| | 1 January-<br>31 December 2020 | 1 January-<br>31 December 2019 |
|---|---|---|
| **Balance at 1 January** | **1.361** | **865** |
| Paid in the period | (102) | (29) |
| Reversal | (102) | (63) |
| Accrual for the period | 525 | 588 |
| **Balance at the end of the period** | **1.682** | **1.361** |

As at 31 December 2020, the Company has set aside TL 737 correspondent allowance provision, TL 1.167 continuing legal proceedings, TL 500 continuing legal proceedings (As 31 December 2019 TL 417 is other wages to be paid to staff TL 553 is correspondent allowance provision, TL 1.127 continuing legal proceedings and TL 34 is other expense rediscount).

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| **Balance at 1 January** | **1.578** | **535** | **1.496** | **493** |
| Paid in the period | (549) | (535) | (1.343) | (493) |
| Accrual for the period | 638 | 737 | 1.425 | 535 |
| **Balance at the end of the period** | **1.667** | **737** | **1.578** | **535** |

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

## 15 OTHER LIABILITIES

Details of other liabilities as at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | TL | FC | TL | FC |
| Taxes payable | 3.290 | - | 2.482 | - |
| Transitory liability accounts | 28 | 351 | 16 | 2.012 |
| Transfer payable | - | 1.765 | - | 1.758 |
| Other payables | 690 | 4 | 719 | 108 |
| Deferred commissions | 1.557 | - | 17 | - |
| **Other liabilities** | **5.565** | **2.120** | **3.234** | **3.878** |

## 16 SHAREHOLDERS' EQUITY

### 16.1 Paid-in Capital

As at 31 December 2020, the Company's share capital amounts to TL 79.500 (31 December 2019: TL 79.500). As at 31 December 2020, the Company has 7.950.000.000 (31 December 2019: 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 2019: Kr 1).

### 16.2 Capital Reserves

None (31 December 2019: None).

### 16.3 Other Comprehensive Income or Expense

As at 31 December 2020, TL (1.170) 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 2019: TL (626) includes actuarial gain/ losses of employee termination benefits and its deferred tax effect that will not be reclassified subsequently to profit or loss).

### 16.4 Accumulated Other Comprehensive Income or Expense

None (31 December 2019: None.).

### 16.5 Profit Reserves

As at 31 December 2020, the Company's profit reserves comprise of the legal reserves amounting to TL 10.757 (31 December 2019: TL 9.205) and extraordinary reserves amounting to TL 74.353 (31 December 2019: TL 67.497).

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

## 16 SHAREHOLDERS' EQUITY (continued)

### 16.6 Profit Distribution (continued)

### 16.6 Profit Distribution

| Profit distribution table | 31 December 2019 |
|---|---|
| Net Profit for the year | 24.438 |
| Legal Reserves (-) | 1.552 |
| DISTRIBUTABLE NET PROFIT OF THE PERIOD | 22.886 |
| Donations (+) | 79 |
| Distributable net profit of the period (with Donations) | 22.965 |
| EXTRAORDINARY RESERVES | 22.965 |

(*) As of 1 January 2019, the loss of TL 16.030, which was classified under the "Previous Years' Profit Loss" due to the initial transition to TFRS 9 Financial Instruments Standard, has been transferred to the extraordinary reserves account. Including this amount, a total of TL 6.856 has been classified into extraordinary reserves.

## 17 OPERATING INCOME

The details of operating income for the periods ended 31 December 2020 and 31 December 2019 are as follows:

| | 1 January-<br>31 December 2020 | 1 January-<br>31 December 2019 |
|---|---|---|
| Factoring interest income | 297.653 | 368.204 |
| Factoring fee and commission income (net) | 11.815 | 7.624 |
| | **309.468** | **375.828** |

## 18 FINANCE EXPENSES

The details of finance expenses for the periods ended 31 December 2020 and 31 December 2019 are as follows:

| | 1 January-<br>31 December 2020 | 1 January-<br>31 December 2019 |
|---|---|---|
| Interest expenses on funds borrowed | 161.436 | 176.025 |
| Interest expenses on marketable securities issued | 26.190 | 80.449 |
| Financial lease expenses | 417 | 556 |
| Fees and commissions given | 757 | 6.825 |
| Other interest expense | 706 | 8 |
| | **189.506** | **263.863** |

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

## 19 OPERATING EXPENSES

The details of operating expenses for the periods ended 31 December 2020 and 31 December 2019 are as follows:

| | **1 January-31 December 2020** | **1 January-31 December 2019** |
|---|---|---|
| Personnel expenses | 30.025 | 29.185 |
| Depreciation and amortization charges | 9.272 | 8.296 |
| IT maintenance and contract expenses | 2.900 | 2.951 |
| Consultancy expenses | 1.085 | 898 |
| Legal case expenses | 1.072 | 1.609 |
| Communication expenses | 845 | 972 |
| Provision for retirement pays | 813 | 854 |
| Subscription expenses | 763 | 794 |
| Maintenance and repair expenses | 701 | 1.963 |
| Vehicle expenses | 516 | 667 |
| Rent expenses | 322 | 1.074 |
| Taxes and duties | 278 | 397 |
| Losses from liquidated receivables | 115 | 50 |
| Representation expenses | 60 | 307 |
| Travel expenses | 37 | 142 |
| Other | 512 | 669 |
| | **49.316** | **50.828** |

The details of personnel expenses classified under operating expenses for the periods ended 31 December 2020 and 31 December 2019 are as follows:

| | **1 January-31 December 2020** | **1 January-31 December 2019** |
|---|---|---|
| Salaries and wages | 20.860 | 20.041 |
| Bonuses | 3.814 | 3.600 |
| Social security premium employer's share | 2.792 | 2.300 |
| Personnel transportation expenses | 291 | 737 |
| Insurance expenses | 590 | 662 |
| Personnel food expenses | 578 | 652 |
| Per diem payments | 336 | 322 |
| Unemployment insurance employer's share | 326 | 278 |
| Training expenses | 25 | 211 |
| Other | 413 | 381 |
| | **30.025** | **29.185** |

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

## 20 OTHER OPERATING EXPENSES

The details of other operating expenses for the periods ended 31 December 2020 and 31 December 2019 are as follows:

| | **1 January-<br>31 December 2020** | **1 January-<br>31 December 2019** |
|---|---|---|
| Foreign exchange profits | 131.576 | 44.876 |
| Reversal of expected losses provision (*) | 11.528 | 9.030 |
| Profits on derivative financial transactions | 5.539 | 3.185 |
| Interests received from securities | 1.689 | - |
| Interests received from banks | 691 | 1.945 |
| Other | 660 | 492 |
| | **151.683** | **59.528** |

*(*) Includes TL 39 of reversal of expected losses provision for banks and TL 705 default interest provision calculated for third phase.*

## 21 PROVISIONS

The details of expected credit loss for the periods ended as at 31 December 2020 and 31 December 2019 are as follows:

| | **1 January-<br>31 December 2020** | **1 January-<br>31 December 2019** |
|---|---|---|
| Stage 1 (*) | 8.842 | 2.650 |
| Stage 2 | 3.682 | 7.016 |
| Stage 3 (**) | 84.926 | 55.285 |
| | **97.450** | **64.951** |

*(*) The expected loss provision for assets classified under Cash, Cash Equivalents and Central Bank is included (TL 55).*
*(**) The foreign currencies (TL 62.561) include the increase in exchange rate for the expected earnings provision and 788 TL default interest provision calculated for the third stage*

## 22 OTHER OPERATING EXPENSES

The details of other operating expenses for the periods ended 31 December 2020 and 31 December 2019 are as follows:

| | **1 January-<br>31 December 2020** | **1 January-<br>31 December 2019** |
|---|---|---|
| Foreign exchange losses | 59.247 | 23.453 |
| Losses on derivative financial transactions | 252 | 480 |
| Securities on impairment expense | 169 | - |
| | **59.668** | **23.933** |

## 23 EARNINGS PER SHARE

Calculation of earnings per share for the periods ended 31 December 2020 and 31 December 2019 are as follows:

| | 1 January – 31 December 2020 | 1 January – 31 December 2019 |
|---|---|---|
| **Net profit for the period** | 50.150 | 24.438 |
| Weighted average number of shares with 1 KR of nominal value (thousand) | 7.950.000 | 7.950.000 |
| **Earnings per thousand shares (KR)** | **630,82** | **307,40** |

## 24 RELATED PARTY TRANSACTIONS

The details of receivables and payables due from and due to related parties as at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| **Bank balances** | | | | |
| Türkiye Garanti Bankası A.Ş. | 1.522 | 3.786 | 1.360 | 9.013 |
| Demand deposits | 1.522 | 3.786 | 1.360 | 9.013 |
| Garantibank International NV | 1 | 6.244 | 1 | 900 |
| Demand deposits | 1 | 6.244 | 1 | 900 |
| | **1.533** | **10.030** | **1.361** | **9.913** |

The amount of cheques and notes at custody of Türkiye Garanti Bankası A.Ş. related with factoring receivables as at 31 December 2020 is TL 1.353.879 (31 December 2019: TL 776.701).

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| **Funds borrowed** | | | | |
| Türkiye Garanti Bankası AŞ | 596.110 | 413.332 | 755.315 | 29.111 |
| Garantibank International NV | - | 21.509 | - | - |
| | **596.110** | **434.841** | **755.315** | **29.111** |

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

## 24 RELATED PARTY TRANSACTIONS (continued)

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| **Miscellaneous Payables:** | | | | |
| Türkiye Garanti Bankası A.Ş. | 57 | - | 11 | - |
| | **57** | - | **11** | - |

Income and expenses from related parties for the periods ended 31 December 2020 and 31 December 2019 are as follows:

| | 1 January – 31 December 2020 | 1 January – 31 December 2019 |
|---|---|---|
| **Interest income from factoring receivables** | | |
| Garanti Bank International NV | 1.643 | 106 |
| | **1.643** | **106** |

| | 1 January – 31 December 2020 | 1 January – 31 December 2019 |
|---|---|---|
| **Interest income on bank deposits** | | |
| Türkiye Garanti Bankası A.Ş. | 36 | 279 |
| | **36** | **279** |

| | 1 January – 31 December 2020 | 1 January – 31 December 2019 |
|---|---|---|
| **Interest expenses on funds borrowed** | | |
| Türkiye Garanti Bankası A.Ş. | 75.783 | 54.153 |
| Garanti Bank International NV | 99 | 56 |
| | **75.882** | **54.209** |

| | 1 January - 31 December 2020 | 1 January – 31 December 2019 |
|---|---|---|
| **Fees and commissions given** | | |
| Garanti Yatırım Menkul Kıymetler A.Ş. | 759 | 1.502 |
| Türkiye Garanti Bankası A.Ş. | 201 | 134 |
| Garanti Bank International NV | 64 | 91 |
| | **1.024** | **1.727** |

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

## 24 RELATED PARTY TRANSACTIONS (continued)

| *General Administrative Expenses* (*) | 1 January – 31 December 2020 | 1 January – 31 December 2019 |
|---|---|---|
| Türkiye Garanti Bankası AŞ | 3.740 | 2.169 |
| Garanti Filo Yönetim Hizmetler AŞ | 1.416 | 1.765 |
| İstanbul Takas ve Saklama Bankası AŞ | 551 | 271 |
| Garanti Finansal Kiralama AŞ | 154 | 334 |
| Garanti Emeklilik ve Hayat AŞ | - | 116 |
| | **5.862** | **4.655** |

(*) *General Administrative Expenses comprises of rent expense, IT maintenance and contract expenses, transaction commissions, car rental expenses, travelling expenses and insurance expenses.*

The details of off-balance sheet transactions from related parties for the periods ended 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| **Commitments:** | | | | |
| Türkiye Garanti Bankası A.Ş. Securities sale transactions | 39.787 | - | - | - |
| | **39.787** | **-** | **-** | **-** |

| | 1 January- 31 December 2020 | 1 January- 31 December 2019 |
|---|---|---|
| **Profits from Financial Derivatives** | | |
| Türkiye Garanti Bankası A.Ş. | 1.411 | 183 |
| | **1.411** | **183** |
| **Losses from Financial Derivatives** | | |
| Türkiye Garanti Bankası A.Ş. | - | 25 |
| | **-** | **25** |

**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 2020 is TL 3.633 (31 December 2019: TL 3.844).

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

## 25 CONTINGENT ASSETS AND LIABILITIES

### 25.1 Guarantees Received

Guarantees received for the Company's factoring receivables as at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| Sureties received (*) | - | 27.702.762 | - | 20.290.987 |
| Finance notes | 2.200 | 5.155.029 | 39.900 | 2.644.067 |
| Insurance coverage | 45.118 | 48.372 | 214.627 | 61.491 |
| Correspondent guarantees | - | 162.027 | - | 112.841 |
| Mortgage | 30.500 | 3.450 | 36.513 | 4.479 |
| Chattel mortgage | 281 | 49.543 | 281 | 36.578 |
| Customer cheques | 375 | - | - | - |
| Letters of guarantee | - | - | 500 | - |
| | **78.474** | **33.121.183** | **291.821** | **23.150.443** |

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

### 25.2 Guarantees Given

Guarantees given as at 31 December 2020 and 31 December 2019 consist of letters of guarantee given to the institutions below:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | **TL** | **FC** | **TL** | **FC** |
| Takasbank (Note 11) | 668.500 | - | 648.500 | - |
| Courts | 5.981 | 47 | - | - |
| Other | 4 | - | 5.692 | 128 |
| Guarantees given to the reporter | - | 16.382 | 4 | - |
| | **674.485** | **16.429** | **654.196** | **128** |

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

## 25 CONTINGENT ASSETS AND LIABILITIES (continued)

### 25.3 Commitments

As of 31 December 2020 and 31 December 2019, the details of the securities sale agreements are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | TL | FC | TL | FC |
| Securities Sale Commitments | 39.787 | - | - | - |
| | **39.787** | **-** | **-** | **-** |

### 25.4 Derivative Financial Instruments

The details of derivative agreements as at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | TL | FC | TL | FC |
| Currency swap buy transactions | 48.801 | - | - | - |
| Currency swap sell transactions | - | 46.245 | - | - |
| | **48.801** | **46.245** | **-** | **-** |

### 25.5 Safety Securities

The details of cheques and notes in collection as at 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | TL | FC | TL | FC |
| Cheques in collection | 1.325.705 | 200.630 | 774.831 | 150.765 |
| Notes in collection | 10.981 | 27.719 | 9.767 | 22.402 |
| | **1.336.686** | **228.349** | **784.598** | **173.167** |

## 26 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS

### 26.1 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.

#### *26.1.1 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.

## 26 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)

### 26.1 Financial Risk Management Purposes and Policies (continued)

#### *26.1.2 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.

#### *26.1.3 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.

## 26 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)

### 26.1 Financial Risk Management Purposes and Policies (continued)

#### *26.1.4 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.

## 26 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS (continued)

### 26.1 Financial Risk Management Purposes and Policies (continued)

### 26.1.5 Reputation Risk

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

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

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

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

## 26 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)

### *26.1.6 Credit Risk*

| **31 December 2020** | **Factoring Receivables** | | **Non-performing receivables** | | **Other Assets** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Related Party** | **Others** | **Related Party** | **Others** | **Related Party** | **Others** | **Cash and Cash Equivalents** | **Derivative Financial Assets Held for Trading** |
| **Maximum net credit risk as at balance sheet date (A+B+C+D+E)** | **-** | **2.776.169** | **-** | **12.678** | **-** | **-** | **12.405** | **-** |
| A. Carrying value of financial assets that are not past due nor impaired | - | 2.793.137 | - | - | - | - | 12.503 | - |
| 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 | - | 1.192 | - | - | - | - | - | - |
| -carrying value | - | 1.192 | - | - | - | - | - | - |
| - the part under guarantee with collateral etc | - | - | - | - | - | - | - | - |
| D.Net book value of impaired assets | - | (18.160) | - | 12.678 | - | - | (98) | - |
| - Past due (gross carrying value) | - | - | - | 132.240 | - | - | - | - |
| - Impairment (-) | - | (18.160) | - | (119.562) | - | - | (98) | - |
| -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 | - | - | - | - | - | - | - | - |

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

## 26 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)

### *26.1.6 Credit Risk (continued)*

| **31 December 2019** | **Factoring Receivables** | | **Non-performing receivables** | | **Other Assets** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Related Party** | **Others** | **Related Party** | **Others** | **Related Party** | **Others** | **Banks** | **Derivative Financial Assets Held for Trading** |
| **Maximum net credit risk as at balance sheet date (A+B+C+D+E)** | **-** | **2.078.567** | **-** | **26.189** | **-** | **-** | **11.842** | **-** |
| A. Carrying value of financial assets that are not past due nor impaired | - | 2.084.823 | - | - | - | - | 11.930 | - |
| 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 | - | 5.583 | - | - | - | - | - | - |
| -carrying value | - | 5.583 | - | - | - | - | - | - |
| - the part under guarantee with collateral etc | - | - | - | - | - | - | - | - |
| D.Net book value of impaired assets | - | (11.839) | - | 26.189 | - | - | (88) | |
| - Past due (gross carrying value) | - | - | - | 339.757 | - | - | - | - |
| - Impairment (-) | - | (11.839) | - | (313.568) | - | - | (88) | |
| -The part of net value under guarantee with collateral etc. | - | - | - | - | - | - | - | - |
| - Not past due (gross carrying value) | - | - | - | - | - | - | - | - |
| - Impairment (-) | - | - | - | - | - | - | - | - |
| - The part of net value under guarantee witl collateral etc. | - | - | - | - | - | - | - | - |
| E. Off balance sheet items that include credit risl | - | - | - | - | - | - | - | - |

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

## 26 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)

### 26.2 Explanations on Risk Management (continued)

#### *26.2.2 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 2020**

| Contractual Maturities | Carrying Amount | Total Expected Cash Outflows | Less than 3 months | 3-12 months | 1-5 years |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | **2.677.874** | **2.722.446** | **2.249.586** | **469.738** | **3.122** |
| Funds borrowed | 2.087.690 | 2.128.690 | 1.660.392 | 468.298 | - |
| Securities issued | 582.026 | 584.939 | 584.939 | - | - |
| Factoring payable | 3.286 | 3.286 | 3.286 | - | - |
| Payable leasing transactions | 4.872 | 5.531 | 969 | 1.440 | 3.122 |

| 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** | **2.512** | **2.512** | **2.512** | **-** | **-** |
| Derivative cash inflows | 48.801 | 48.801 | 48.801 | - | - |
| Derivative cash outflows | 46.289 | 46.289 | 46.289 | - | - |

**31 December 2019**

| Contractual Maturities | Carrying Amount | Total Expected Cash Outflows | Less than 3 months | 3-12 months | 1-5 years |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | **2.020.284** | **2.076.453** | **1.903.451** | **169.365** | **3.715** |
| Funds borrowed | 2.025.131 | 2.060.201 | 1.892.485 | 167.716 | - |
| Factoring payables | 10.600 | 10.600 | 10.600 | - | - |
| Other payables | 4.553 | 5.652 | 366 | 1.649 | 3.715 |

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

## 26 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)

## 26.2 Explanations on Risk Management (continued)

### *26.2.3 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 2020 and 31 December 2019.

Foreign currency assets and liabilities as at 31 December 2020 and 31 December 2019 are as follows:

| | **31 December 2020 (TL equivalent )** | **31 December 2019 (TL equivalent )** |
|---|---|---|
| A. Foreign currency monetary assets | 718.033 | 445.667 |
| B. Foreign currency monetary liabilities | (644.686) | (431.414) |
| C. Derivative financial instruments | (46.245) | - |
| **Net foreign currency position (A+B+C)** | **27.102** | **14.253** |

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

## 26 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)

### 26.2 Explanations on Risk Management (continued)

#### *26.2.3 Market Risk* (continued)

*Currency Risk (continued)*

The table below summarizes the Company's foreign currency position in detail as at 31 December 2020 and 31 December 2019. Carrying amounts of the Company's foreign currency monetary assets and liabilities are presented with their original currencies:

| **31 December 2020** | **USD** | **EURO** | **GBP** | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 2.603 | 3.546 | 3.998 | 10.147 |
| Financial assets at fair value through profit or loss | - | 9 | - | - |
| Factoring receivables (Net) | 422.676 | 258.661 | 26.061 | 707.398 |
| Other Assets (*) | 151 | 327 | 1 | 479 |
| **Total assets** | **425.430** | **262.543** | **30.060** | **718.033** |
| **Liabilities** | | | | |
| Funds borrowed | 367.660 | 248.802 | 21.654 | 638.026 |
| Factoring payables | 1.209 | 1.118 | 320 | 2.647 |
| Sundry creditors and other liabilities | 515 | 2.802 | 696 | 4.013 |
| **Total liabilities** | **369.384** | **252.722** | **22.580** | **444.686** |
| **Net foreign currency position** | **56.046** | **9.821** | **7.480** | **73.347** |
| Derivative Financial Assets | (46.245) | - | | (46.245) |
| **Net position** | **9.801** | **9.821** | **7.480** | **27.102** |

(*) Prepaid expense amounting to TL 63 that is presented in other assets is excluded from the table.

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

## 26 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)

### 26.2 Explanations on Risk Management (continued)

### 26.2.3 Market Risk (continued)

| **31 December 2019** | **USD** | **EURO** | **GBP** | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Banks | 6.701 | 2.780 | 850 | 10.331 |
| Financial assets at fair value through profit or loss | - | 7 | - | 7 |
| Factoring receivables (Net) | 183.450 | 219.855 | 31.783 | 435.088 |
| Other assets (*) | 223 | 12 | 6 | 241 |
| **Total Assets** | **190.374** | **222.654** | **32.639** | **445.667** |
| **Liabilities** | | | | |
| Funds borrowed | 186.216 | 201.503 | 26.810 | 414.529 |
| Factoring payables | 3.362 | 6.470 | 261 | 10.093 |
| Sundry creditors and other liabilities | 450 | 5.823 | 519 | 6.792 |
| **Total liabilities** | **190.028** | **213.796** | **27.590** | **431.414** |
| **Net foreign currency position** | **346** | **8.858** | **5.049** | **14.253** |
| **Net position** | **346** | **8.858** | **5.049** | **14.253** |

(*) Prepaid expense amounting to TL 72 that is presented in other assets is excluded from the table.

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

## 26 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)

### 26.2 Explanations on Risk Management (continued)

#### *26.2.3 Market Risk (continued)*

*Foreign currency sensitivity risk*

10% decrease in the TL against the relevant foreign currencies as at 31 December 2020 results in an increase in profit before tax for the period amounting to TL 2.710 (31 December 2019: TL 1.426 increase). This analysis is made with the assumption that the other variables were held constant as at 31 December 2020 and 31 December 2019.

| **TL**<br>**31 December 2020** | **Profit/(Loss)** |
|---|---|
| USD | 980 |
| EURO | 982 |
| GBP | 748 |
| **Total** | **2.710** |

| **TL**<br>**31 December 2019** | **Profit/(Loss)** |
|---|---|
| USD | 35 |
| EURO | 836 |
| GBP | 505 |
| **Total** | **1.426** |

*Interest Rate Risk*

Weighted average effective interest rates applied to financial instruments as at 31 December 2020 and 31 December 2019 are as follows:

| | **31 December 2020** | | | | **31 December 2019** | | | |
|---|---|---|---|---|---|---|---|---|
| | **USD (%)** | **EURO (%)** | **GBP (%)** | **TL (%)** | **USD (%)** | **EURO (%)** | **GBP (%)** | **TL (%)** |
| **Assets** | - | - | - | 17,97 | - | - | - | - |
| Factoring receivables | 6,18 | 3,07 | 5,45 | 22,32 | 5,79 | 3,59 | 441 | 16,30 |
| **Liabilities** | - | - | - | 5,35 | - | - | - | - |
| Marketable securities issued | - | - | - | 12,98 | - | - | - | - |
| Funds borrowed | 3,91 | 0,84 | 1,77 | 15,98 | 3,98 | 1,01 | 2,73 | 15,86 |

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

## 26 NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (continued)

### 26.2 Explanations on Risk Management (continued)

#### *26.2.3 Market Risk (continued)*

*Interest rate risk sensitivity analysis*

The Company's financial instruments that have interest rate sensitivity as at 31 December 2020 and 31 December 2019 are as follows:

| | Carrying Value | |
|---|---|---|
| **Fixed Rate** | **31 December 2020** | **31 December 2019** |
| Factoring receivables | 2.794.329 | 2.090.406 |
| Time deposits | 657 | 5.940 |
| Funds borrowed | 1.755.528 | 1.621.732 |
| Financial assets at fair value through profit or loss | 39.670 | - |
| Debt securities issued | 582.026 | - |
| | | |
| **Floating Rate** | | |
| Funds borrowed | 332.162 | 383.399 |

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 2020, net income for the period would decrease/increase by TL 3.322 (31 December 2019: TL 3.834) 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 16.

It is shown by the 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.

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

## 27 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 values of financial assets and liabilities at amortized cost including cash and banks, factoring receivables and short term bank loans denominated in TL approximate their carrying values due to their short term nature.

*Fair Value of Financial Instruments Classification*

The table below presents the fair value determination method of the financial instruments at fair value as at 31 December 2020. 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 2020** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss (Net) | 39.670 | - | - | 39.670 |
| Derivative financial assets | - | 1.921 | - | 1.921 |
| | **39.670** | **1.921** | **-** | **41.591** |
| Derivative financial liabilities | - | 252 | - | 252 |
| | **-** | **252** | **-** | **252** |

## 28 EVENTS AFTER THE REPORTING PERIOD

None.