

# GLOBAL ACTORS IN **TRADE FINANCE**

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With our customer-focused service approach and expert team, we have once again demonstrated an exceptional performance in the factoring sector. We have become a shining star thanks to our operational efficiency and product development efforts. Our synergy with BBVA has helped us stand out among our peers and become a global factoring company.

**Each of us is now among the most important actors, not only in Turkey but also worldwide.**

## OVERVIEW

# Independent Auditor's Report on the Management's Annual Report

## CONVENIENCE TRANSLATION INTO ENGLISH OF THE INDEPENDENT AUDITOR'S REPORT RELATED TO ANNUAL REPORT ORIGINALLY ISSUED IN TURKISH

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

### Opinion

We have audited the accompanying annual report of Garanti Faktoring A.Ş. ("the Company") for the period between 1 January 2017 and 31 December 2017.

In our opinion, the financial information included in the annual report and the analysis of the Board of Directors about the financial position of the Company are consistent, in all material respects, with the audited complete set of financial statements and information obtained during the audit and provides a fair presentation.

### Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing which is a component of the Turkish Auditing Standards ("TAS") issued 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 Annual Report 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.

### Auditor's Opinion on Complete Set of Financial Statements

We have expressed unmodified opinion on the complete set of financial statements of the Company for the period between 1 January 2017 and 31 December 2017 on 27 February 2018.

### Other Matter

The annual report of the Company for the period between 1 January 2016 and 31 December 2016 was audited by another auditor who expressed an unmodified opinion on the annual report on 27 February 2017.

### Board of Directors' Responsibility for the Annual Report

In accordance with the Articles 514 and 516 of the Turkish Commercial Code Numbered 6102 ("TCC") the Company's management is responsible for the following regarding the annual report:

- a) The Company's management prepares its annual report within the first three months following the reporting date of statement of financial position and submits it to the general meeting.
  - b) The Company's management prepares its annual report in such a way that it presents accurately, completely, directly, true and fairly the flow of annual operations and financial position of the Company. In this report, the financial position of the Company is assessed in accordance with the Company's financial statements. The annual report shall also clearly state the details about the Company's development and risks that might be encountered. The assessment of the board of directors on these matters is included in the report.
  - c) The annual report also includes:
    - Significant events after the reporting period,
    - The Company's research and development activities.
    - Employee benefits such as wages, premiums and bonuses paid to board members and key management personnel, appropriations, travel, accommodation and representation expenses, cash and cash facilities, insurance and similar guarantees.
- When preparing the annual report, the Board of Directors also considers the related regulations issued by the Ministry of Customs and Trade and related institutions.

### Auditor's Responsibility for the Audit of the Annual Report

Our objective is to express an opinion on whether the financial information included in the annual report and analysis of the Board of Directors in relation to the financial position of the Company are consistent with the audited financial statements of the Company and the information obtained during the audit and give a true and fair view and form a report that include this opinion in accordance with the TCC.



Orhan Akova, SMMM  
Partner

Istanbul, Turkey  
February 28, 2018

## Statement of Responsibility Related to Acceptance of the Annual Report

İstanbul, 28.02.2018

**ATTN: BORSA İSTANBUL A.Ş. PRESIDENCY  
İSTİNYE/İSTANBUL**

**BOARD OF DIRECTORS' RESOLUTION ON THE APPROVAL OF THE ANNUAL REPORT  
RESOLUTION DATE: 28/02/2018  
RESOLUTION NUMBER: 2018/009**

### STATEMENT OF RESPONSIBILITY

**AS PER THE 9<sup>TH</sup> ARTICLE OF THE SECOND SECTION OF THE CAPITAL MARKETS BOARD COMMUNIQUE NO.14.1 SERIES: II**

a) We have reviewed Garanti Faktoring A.Ş. (Company)'s annual report for the period 01.01.2017-31.12.2017.

b) Within the framework of the information we obtained in the scope of our tasks and responsibilities at the Company, the annual report does not include any misleading disclosure on material matters or deficiencies that might cause misconception about the disclosure as of the date it was made.

c) Within the framework of the information we obtained in the scope of our tasks and responsibilities at the Company, we do declare that the financial statements and the annual report prepared and issued as per the Communiqué on Financial Reporting Principles in Capital Markets (II-14.1) and the Ministry of Customs and Trade Regulation on "Determination of the Minimum Content of the Companies' Annual Report" No: 28395 (Date: 28.08.2012), honestly reflect the facts, the progress and the performance of the business and the financial status of the Company, together with the important risks and uncertainties.

Attachments:

Audited Annual Report December 1-31, 2017.

Mert ERCAN  
Executive Vice President

Hasan Hulki KARA  
General Manager

Ali ÇOŞKUN  
Member of Audit  
Committee

Serhat YANIK  
Member of Audit  
Committee

# THE MOST SYNERGETIC **ACTORS**

Thanks to the synergy created with BBVA, the Company delivers services via an extensive network while keeping its focus on meeting customer needs.





*BARIŞ IŞIKKENT / DIRECTOR*

*HURİYE TEKELİ / A. OFFICER*

*AHMET CAN ŞENEL / OFFICER*

## OVERVIEW

## About Garanti Factoring

### 17 Branches

Garanti Factoring delivers services in 14 Turkish provinces via 17 branches. The Company develops innovative products and services in response to customer needs with its continuous investment in advanced technology infrastructure, client-oriented service approach and specialized workforce.

## Garanti Factoring, which increased its Corporate Governance Principles Compliance Rating to 9.32 in 2017, is a component of Borsa Istanbul's Corporate Governance Index.

Garanti Faktoring is a powerful partner in international factoring transactions. Always aiming to create added value for its customers and the industry with its expert team and customer-focused approach, Garanti Faktoring is a pioneer in product consulting and product development. The Company develops customized corporate solutions with its highly competent workforce; stands out in the industry with its operational transaction speed; and has a wide correspondent network, thanks to its FCI membership.

Garanti Faktoring delivers services in 14 Turkish provinces via 17 branches. The Company develops innovative products and services in response to customer needs with its continuous investment in advanced technology infrastructure, client-oriented service approach, and specialized workforce.

Garanti Faktoring provides financing, guarantee and collection services related to domestic and foreign trade—with a special focus on trade financing and accounts receivable financing—to a broad customer base primarily consisting of SMEs, import and export companies, and other enterprises that have a wide supplier and dealer network.

Aktif Finans Faktoring Hizmetleri A.Ş. was incorporated on 4 September 1990 in Turkey to provide factoring services to industrial and commercial firms. After joining “Garanti” group companies in 2002 the commercial title of Aktif Finans Faktoring Hizmetleri A.Ş. was changed to

Garanti Faktoring Hizmetleri A.Ş. with the approval of the General Assembly Meeting relating to year 2001 held on 27 March 2002. At the General Assembly Meeting relating to year 2013 held on 17 April 2014 its commercial title was changed to Garanti Faktoring A.Ş. (“the Company”).

Garanti Faktoring operates in accordance with the Capital Markets Law, the Financial Leasing, Factoring and Financing Companies Law No. 6361 enacted on November 21, 2012, and the Regulation on the Establishment and Operation Principles of Financial Leasing, Factoring and Financing Companies issued by the Banking Regulation and Supervision Agency (BRSA) and published in Official Gazette No: 28627 on April 24, 2013.

Garanti Faktoring issued shares to the public in 1993 with the authorization of the Capital Markets Board (“CMB”); since that time, it has been listed on Borsa Istanbul (BIST). 81.84% share belongs to Garanti Bank and 9.78% belongs to Export Trade Bank of Turkey. Some 8.38% of Garanti Faktoring’s free-floating shares are traded on Borsa Istanbul.

Thanks to the synergy created with BBVA, the Company delivers domestic and international factoring services via an extensive network while keeping its focus on meeting customer needs. Garanti Faktoring was named the “Best Factoring Company in the World” for the third time in a row in 2017. It received “100% – perfect score” in all criteria – including service quality, correspondent network and export volume – becoming the only company to receive such a high score in the competition’s history.



As an indicator of Garanti Faktoring's financial strength, Fitch Ratings affirmed the Company's Long-Term Local and Foreign Currency IDR at BBB and Long-Term National Rating at AAA (tur).

Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. ("Kobirate") raised Garanti Faktoring's Corporate Governance Principles Compliance Rating to 9.32 in 2017. Garanti Faktoring is also included in the BIST Corporate Governance Index.

Garanti Faktoring A.Ş. is registered with the Istanbul Chamber of Commerce under registry No. 265852 and operates at:

Maslak Mahallesi Eski Büyükdere Caddesi No: 23  
Sarıyer İstanbul  
Telephone: +90 (212) 365 52 00  
Fax: +90 (212) 365 31 51

You can access the Company's web site in Turkish and English at [www.garantifactoring.com](http://www.garantifactoring.com).

**GARANTİ ALTINDA!**

Yurtiçi ve yurtdışı alacaklarınız **Alacağım Garanti**'de ürünümüz ile Garanti Faktoring güvencesi altında!

www.garantifactoring.com  
444 22 28  
0 800 823 1112  
Garanti Faktoring

# Garanti Faktoring at a Glance

Garanti Faktoring completed a total of 40,188 financing transactions with 7,475 customers in 2017. The company recorded a domestic transaction volume of TL 7,023 million, export transaction volume of TL 7,329 million, and import transaction volume of TL 763 million.





## OVERVIEW

## Strong Shareholding Structure

### 945 Branches

As of 2017, Garanti Bank delivers services with 937 branches in Turkey and nine branch locations abroad – seven in Cyprus, one in Luxembourg and one in Malta.

With nearly 20 thousand employees, Garanti responds to all the financial needs of its more than 14.6 million customers.

#### Türkiye Garanti Bankası A.Ş.

Established in 1946, Garanti Bank is Turkey's second largest private bank with consolidated assets of TL 356.3 billion as of December 31, 2017.

Garanti is an integrated financial services group operating in every segment of the banking sector, including corporate, commercial, SME, payment systems, retail, private, and investment banking together with its subsidiaries in pension and life insurance, leasing, factoring, brokerage, and asset management besides international subsidiaries in the Netherlands and Romania.

As of December 31, 2017, Garanti provides a wide range of financial services to more than 15 million customers with over 19 thousand employees through a multi-channel distribution network consisting of 937 domestic branches, eight foreign branch locations (seven in Cyprus, one in Malta), three international representative offices in London, Düsseldorf and Shanghai, in addition to 5,003 ATMs, an award winning Call Center, internet, mobile and social banking platforms, all built on a highly advanced technological infrastructure.

Aiming to achieve sustainable growth by creating value for all its stakeholders, Garanti bases its corporate strategy on the principles of “transparency,” “straightforwardness” and “accountability.” The Company

provides customers with products and services that meet their needs and continually works to improve the customer experience. Its competent and dynamic human resources, unique technological infrastructure, customer-centric service approach, innovative products and services offered with strict adherence to quality carry Garanti to a leading position in the Turkish banking sector.

Following the best practices in corporate governance, Garanti is jointly controlled by Banco Bilbao Vizcaya Argentaria S.A. (BBVA) the principal shareholders with 49.85% share. Having shares publicly traded in Turkey, depositary receipts in the UK and USA, Garanti has an actual free float of 50.07% in Borsa Istanbul as of December 31, 2017.

With its dynamic business model and superior technology integrated to its innovative products and services, Garanti continues to differentiate itself and facilitate the lives of its customers. Its custom-tailored solutions and wide product variety play a key role in reaching TL 285.5 billion cash and non-cash loans. The high asset quality attained through advanced risk management systems and a well-established risk culture place Garanti apart in the sector.

Building on the Bank's core values, Garanti Bank defines sustainability as a commitment to build a strong and successful business for the future, while minimizing negative environmental and social impacts, and sharing long-term values with its

customers, staff, shareholders and the communities where it operates. Garanti further strengthens its sustainable banking approach through community investment programs in a variety of topics ranging from sports to education, arts to nature and informing the business world.

### **Banco Bilbao Vizcaya Argentaria S.A**

After acquiring the stakes held by GE Capital Corporation and Doğuş Holding A.Ş. in 2011, Banco Bilbao Vizcaya Argentaria S.A ("BBVA") Group currently owns 49.85% of Garanti Bank shares. Garanti Bank is controlled jointly by Doğuş Holding and Banco Bilbao Vizcaya Argentaria S.A., under an equal partnership arrangement.

Established in 1857, BBVA ranks among the largest banks in Spain, has pioneer subsidiaries in South America, the biggest financial institution in Mexico, and one of the top 15 commercial banks in the US.

As of December 31, 2017, BBVA's assets amounted to EUR 690 billion, shareholders' equity was EUR 53.3 billion, and cumulated profit totaled EUR 3.52 billion. BBVA shares are traded on stock exchanges in Spain, New York, London, Mexico and Peru. As of year-end 2017, the Group's shares carried equal voting rights, with about 891 thousand shareholders across the globe.

BBVA has conducted business operations for more than 150 years. Currently, the Group serves about 72 million customers with 131,856 employees, 8,271 branches in over 30 countries. BBVA aims to "make age of opportunity real for everyone" with the customer-centric vision.

### **Türkiye İhracat Kredi Bankası A.Ş.**

Türkiye İhracat Kredi Bankası A.Ş. (Export Credit Bank of Turkey – Türk Eximbank) was established with a decree of the Turkish Council of Ministers published in the Official Gazette on August 21, 1987. The main objective of Türk Eximbank is to boost exports by providing loans.

The main objectives of Türk Eximbank are boosting exports, diversifying goods and services exported, introducing new markets for export goods, helping exporters increase their share in international commerce and providing them with the support they need for their operations. In addition, Türk Eximbank ensures that exporters and contractors operating abroad remain competitive and secure, provides support to and promotes both foreign investment in Turkey, and the production and sale of investment goods for export.

Türk Eximbank, as the sole corporate incentive source of export in Turkey, provides short, medium and long term cash and non-cash loans, insurance and guarantee programs to support exporters having the same objective, and

manufacturers that produce for export as well as contractors and entrepreneurs operating abroad. Since Türk Eximbank gathers all guarantee and insurance products under one roof, the integrity of services provided to exporters is greater than those offered by disparate official export credit agencies in developed countries.

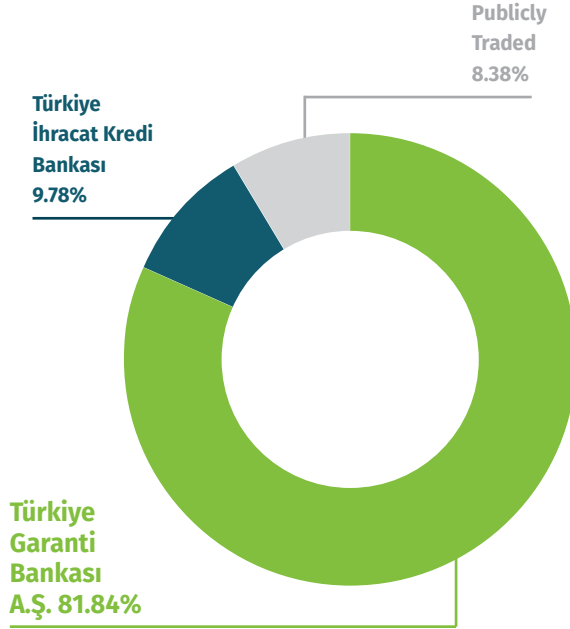
In 2017, Türk Eximbank provided US\$ 39.3 billion in total support to exports, US\$ 24.1 billion in cash loans and 15.2 US\$ billion in insurance/guarantees. As a result, Türk Eximbank extended cash and non-cash finance support to 25% of all exports made in Turkey. At year-end 2017, Türk Eximbank's assets totaled TL 85.4 billion, and paid-in capital amounted to TL 4.8 billion.

Türk Eximbank's headquarters is located in Istanbul. It operates regional offices in Ankara and Izmir, a branch in Gaziantep, Denizli, Kayseri, Bursa, Adana, Antalya, Konya, Gebze and the European side of Istanbul and liaison offices in Samsun, Trabzon, İzmir Kemalpaşa Organized Industrial Zone, Manisa Organized Industrial Zone, Eskişehir Chamber of Trade and Kahramanmaraş Chamber of Industry.

## OVERVIEW

## Company Capital and Shareholding Structure

As of December 31, 2017, Garanti Faktoring's paid-in capital amounted to TL 79,500,000.



Türkiye Garanti Bankası A.Ş. owns 55.4% of the registered shares of Garanti Faktoring. The Bank has acquired the remaining 26.4% of the Company's shares, which trade on BIST. Some 8.4% of Garanti Faktoring shares are traded on the BIST National Market.

## **Competitive Advantages of Garanti Faktoring**

- Strong brand and corporate reputation
- Well-qualified and experienced workforce
- A widespread branch network located across the country
- Fast operational processes
- Best customer relationship management solutions
- Pioneer in advanced technology
- Customer oriented innovative products and services
- Superior data warehouse and management reporting
- Integrated financial services offering
- Corporate governance culture

OVERVIEW

**Our Vision, Our Mission, Our Strategies and Our Core Values**

**Our Vision**

We aim to be the leading company of the sector by making a difference with the “Garanti” brand name.

**Our Mission**

Our mission is to create continuous added value for our customers, employees and shareholders, leading to improvement of the sector in which we operate thanks to our significant investments in human resources, technology and innovation.



## Our Strategies

- To become a company that makes a difference with high quality human capital, fast business processes, and exceptional service quality,
- To use technology effectively and increase efficiency by making continuous investments in our technology systems infrastructure,
- To offer services tailored to the needs of customers via innovative products and customized corporate solutions,
- To ensure that our strategies are based on profitable growth, high service quality, employee satisfaction as well as market driven data, and that customer needs are effectively met, monitored, and improved while ensuring interactive communication among employees.

## Our Core Values

- Our customers
- We are an ethical factoring company staffed by ethical employees
- “Our most important asset is human capital”
- Team work
- Continuous improvement
- Our social responsibilities

## OVERVIEW

## Financial Indicators and Ratios

### Factoring Receivables

(TL billion)

2013	1.99
2014	2.95
2015	2.85
2016	2.83
2017	3.36

### Total Assets

(TL billion)

2013	2.06
2014	2.99
2015	2.97
2016	2.90
2017	3.45

### Net Profit/Loss

(TL million)

2013	15.3
2014	20.5
2015	25.4
2016	19.7
2017	27.6

### Shareholders' Equity

(TL million)

2013	120.1
2014	140.4
2015	165.8
2016	185.5
2017	213

### Funds Borrowed and Marketable Securities Issued

(TL billion)

2013	1.90
2014	2.83
2015	2.79
2016	2.65
2017	3.21

### Non-performing Loans

(Net) (TL million)

2013	8.2
2014	10.8
2015	33.4
2016	16.4
2017	19.8

### TL 3.45 billion

Continuing its successful track record in 2017, Garanti Factoring increased total assets by 19% to TL 3.45 billion.

	2013	2014	2015	2016	2017
Return on Assets (%)	0.87	0.89	0.86	0.73	0.96
Return on Equity (%)	13.44	15.73	16.65	11.16	13.84
NPL (%)	1.92	1.88	3.31	2.49	2.76

## Garanti Faktoring Major Income Statement Items

<b>(TL thousand)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>FACTORING INCOME</b>	<b>134,792</b>	<b>188,109</b>	<b>237,682</b>	<b>244,268</b>	<b>286,315</b>
Factoring Interest Income	112,351	170,949	217,548	222,624	<b>263,228</b>
Factoring Commission Income	22,441	17,160	20,134	21,644	<b>23,087</b>
<b>FINANCIAL EXPENSES</b>	<b>(85,839)</b>	<b>(152,313)</b>	<b>(221,361)</b>	<b>(211,021)</b>	<b>(252,215)</b>
Interest Expense on Funds Borrowed	(84,047)	(106,182)	(153,471)	(143,286)	<b>(178,093)</b>
Interest Expense on Securities Issued	(1,341)	(44,158)	(63,805)	(56,478)	<b>(59,685)</b>
Other Fees and Commissions	(447)	(1,973)	(4,073)	(11,240)	<b>(14,436)</b>
Other*	(4)	-	(12)	(17)	<b>(1)</b>
<b>OPERATING EXPENSES</b>	<b>(37,267)</b>	<b>(38,224)</b>	<b>(40,035)</b>	<b>(78,945)</b>	<b>(43,196)</b>
Personnel Expenses	(21,908)	(22,132)	(22,867)	(24,292)	<b>(25,669)</b>
General Administrative Expenses	(15,149)	(16,012)	(17,129)	(17,923)	<b>(17,488)</b>
Other*	(210)	(80)	(39)	(36,730)	<b>(39)</b>
<b>OTHER OPERATION INCOME/EXPENSES</b>	<b>18,539</b>	<b>43,902</b>	<b>75,826</b>	<b>99,612</b>	<b>64,753</b>
Interest Income from Deposits	4,293	634	2,057	2,331	<b>1,953</b>
Derivative Financial Transactions Gains/Losses (Net)	(15,921)	32,263	81,384	20,055	<b>104,124</b>
Foreign Exchange Gains/Losses (Net)	30,133	10,218	(10,270)	39,230	<b>(42,926)</b>
Other**	34	787	2,655	37,996	<b>1,602</b>
<b>SPECIFIC PROVISION FOR NON-PERFORMING RECEIVABLES</b>	<b>(11,062)</b>	<b>(15,860)</b>	<b>(20,288)</b>	<b>(30,106)</b>	<b>(20,801)</b>
<b>TAX PROVISION FOR CONTINUING OPERATIONS</b>	<b>(3,861)</b>	<b>(5,098)</b>	<b>(6,394)</b>	<b>(4,092)</b>	<b>(7,253)</b>
<b>NET PERIOD PROFIT/LOSS*</b>	<b>15,302</b>	<b>20,516</b>	<b>25,430</b>	<b>19,716</b>	<b>27,603</b>

\*Includes loss from the sale of non-performing receivables in 2016.

\*\*Includes the amount of special provisions cancelled due to the sale of non-performing receivables in 2016.

## OVERVIEW

# Financial Situation and Performance Assessment in 2017

### Factoring Receivables

In 2017, Garanti Faktoring ranked third in the industry with factoring receivables of TL 3.36 billion and market share of 8.08%.

### Asset Size

With TL 3.45 billion in total assets and 7.90% market share, Garanti Faktoring ranked third in the sector in 2017.

### Transaction Volume

Garanti Faktoring recorded a transaction volume of TL 15.1 billion (US\$ 4.2 billion) in 2017.

For the year, domestic transactions totaled TL 7 billion (US\$ 1.9 billion); export transaction volume amounted to TL 7.3 billion (US\$ 2 billion); and import transaction volume totaled TL 763 million (US\$ 210 million). Garanti Faktoring ranked second with 10.44% market share of the sector's total transaction volume.

## Garanti Faktoring's Sector Distribution of Transaction Volume and Factoring Receivables – 2017

### Sector Distribution of Transaction Volume

	TL Thousand
<b>AGRICULTURAL SECTOR</b>	<b>612,698</b>
Agriculture, Livestock, Forestry	612,566
Fishing	132
<b>MANUFACTURING SECTOR</b>	<b>7,420,067</b>
Extraction of Metals Used for Energy Production	887
Extraction of Metals Not Used for Energy Production	674,352
Textile and Textile Products	1,616,132
Leather and Leather Products	4,914
Wood and Wood Products	17,687
Paper Raw Materials and Paper Products Printing	499,513
Nuclear Fuels, Petroleum and Coal Products	1,603,002
Chemical and Chemical Products and Artificial Fiber	864
Metal Key and Processed Material Manufacturing	310,009
Machinery and Equipment	300,459
Electrical and Optical Devices	9,050
Transportation Vehicles	2,248,609
Manufacturing Not Classified Elsewhere	133,789
Electrical Gas and Water Resources	800
<b>SERVICES SECTOR</b>	<b>5,517,344</b>
Construction	902,031
Wholesale and Retail Trade Motorized Vehicle Services	2,599,565
Hotels and Restaurants (Tourism)	58,260
Transportation, Warehousing, and Communication	1,430,465
Financial Institutions	475,579
Other Public, Social and Private Services	51,650
<b>OTHER</b>	<b>1,565,297</b>
<b>GRAND TOTAL</b>	<b>15,115,612</b>

\*Including net non-performing loans

### Sector Distribution of Factoring Receivables

	Amount* TL Thousand	(%)*
<b>AGRICULTURAL SECTOR</b>	<b>191,092</b>	<b>5,65%</b>
Agriculture, Livestock, Forestry	191,092	5,65%
<b>MANUFACTURING INDUSTRY</b>	<b>1.327,882</b>	<b>39,28%</b>
Transportation Vehicles	169,636	5.03%
Manufacturing Not Classified Elsewhere	51,239	1.51%
Textile and Textile Products	469,358	13.88%
Chemical and Chemical Products and Artificial Fiber	337	0.01%
Nuclear Fuels, Petroleum and Coal Products Industry	165,870	4.91%
Electrical and Optical Devices	1,490	0.03%
Extraction of Metals Not Used for Energy Production	90,350	2.66%
Paper Raw Materials and Paper Products Printing	137,133	4.06%
Metal Key and Processed Material Manufacturing	90,909	2.69%
Machinery and Equipment	149,088	4.41%
Wood and Wood Products	760	0.03%
Leather and Leather Products	1,055	0.03%
Extraction of Metals Used for Energy Production	18	0.00%
Electrical Gas and Water Resources	639	0.03%
<b>SERVICES SECTOR</b>	<b>-1,311,764</b>	<b>37,54%</b>
Wholesale and Retail Trade Motorized Vehicle Services	897,788	26.58%
Transportation, Warehousing, and Communication	119,583	3.55%
Construction	188,291	5.57%
Other Public, Social and Private Services	21,449	0.62%
Financial Institutions	1,478	0.03%
Hotels and Restaurants (Tourism)	83,185	2.46%
<b>OTHER</b>	<b>549,028</b>	<b>16,25%</b>
<b>GRAND TOTAL</b>	<b>3,379,766</b>	<b>100.00%</b>

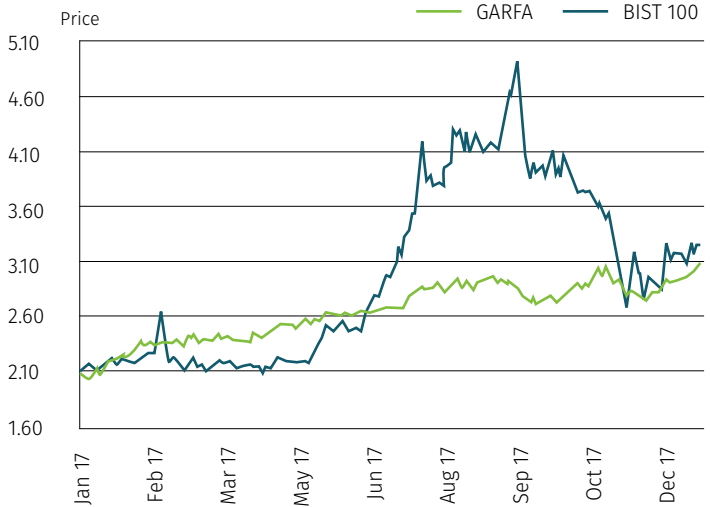
OVERVIEW

## Information on GARFA Shares

Garanti Faktoring shares have traded on Borsa Istanbul (BIST)'s National Market since 1993 under the ticker symbol "GARFA". The Company has been included in the BIST Corporate Governance Index since August 24, 2012.

In the period January-December 2017, GARFA stock reached TL 4.99 – the highest closing price – while the transaction volume totaled TL 324.1 million during the same period.

### Share Performance



### TL 324.1 million

During the period January-December 2017, GARFA stock reached a high closing price high of TL 4.99 while the transaction volume totaled TL 324.1 million.

## Credit Ratings

On June 8, 2017, the global credit rating agency Fitch Ratings affirmed its outlook for 4 private banks in Turkey, Garanti Bank and its subsidiaries in 2017 as follows:

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### Foreign Currency

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Long Term	BBB-
Short Term	F3
Outlook	Stable

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### Turkish Lira

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Long Term	BBB-
Short Term	F3
Outlook	Stable

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### National

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Long Term	AAA (tur)
Support Rating	2
Outlook	Stable

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The credit ratings report can be accessed on the Company's website ([www.garantifactoring.com](http://www.garantifactoring.com)), in the section Rating Reports under Investor Relations.

## OVERVIEW

## Corporate Governance Principles Compliance Rating

Kobirate International Credit Rating and Corporate Governance Services Inc. raised Garanti Faktoring's Corporate Governance Rating for the period August 19, 2017 – August 19, 2018 to 9.32, up from 9.26.

Garanti Faktoring places great importance on internalizing and implementing the Corporate Governance Principles throughout the organization. It is among a small number of companies that undergoes Corporate Governance Principles compliance rating evaluations in the factoring sector. The company's sixth Corporate Governance Principles Compliance Rating study was completed on August 19, 2017.

The report was prepared by Kobirate Uluslararası Kredi Derecelendirme ve Kurumsal Yönetim Hizmetleri A.Ş. (Kobirate) and shows that Garanti Faktoring's Corporate Governance Score rose from 9.26 to 9.32 for the period August 19, 2017 - August 19, 2018.

Companies rated in the range of "9-10" are defined thusly: "Corporate enterprises that comply with CMB's Corporate Governance Principles to a great extent; have established well-functioning internal control systems; are capable of detecting and actively controlling potential risks; protect shareholder rights in a fair manner; embrace a transparent approach to public disclosures;

safeguard the rights of stakeholders in an equitable manner; have a Board of Directors structure and operation methods that fully comply with Corporate Governance Principles; and companies that merit to be included in the BIST Corporate Governance Index in the event of a public offering."

The detailed report prepared by Kobirate is disclosed to the public on the Company's website ([www.garantifactoring.com](http://www.garantifactoring.com)), in the section Corporate Governance Compliance Rating Reports, under Investor Relations.



## Our Achievements

Based on the evaluation conducted by Factors Chain International, Garanti Faktoring earned a score of “100%” in FCI assessment to be awarded “World’s Best Export Factoring Company” for the third time.



### **World’s Best Export Factoring Company**

With its extensive know-how and high operational transaction speed, Garanti Faktoring makes a name for itself not only in Turkey but also in the international factoring industry.

Garanti Faktoring was named the “World’s Best Export Factoring Company” by Factors Chain International (“FCI”) for the third time, the world’s largest factoring network with more than 400 members. Based on the evaluation conducted by FCI, Garanti Faktoring earned a score of “100%” on all the evaluation criteria—including service quality, correspondent network, and export transaction volume—to become the top scorer in the history of FCI.

### **Turkey’s Most Popular Factoring Company**

Capital magazine named Garanti Faktoring the “Most Popular Factoring Company in Turkey” in 2017.

## OVERVIEW

## Board of Directors

### Ali Fuat Erbil Chairman

Ali Fuat Erbil graduated from Middle East Technical University, Department of Computer Engineering, earned his MBA from Bilkent University and obtained a Ph.D. in Banking and Finance from Istanbul Technical University. During his professional career, Mr. Erbil took on several different management roles in various private companies and banks. He joined Garanti in 1997 as Senior Vice President of Distribution Channels, and later served as Executive Vice President of Retail Banking and Distribution Channels between 1999 and 2012. In the latter role, he was also responsible for home financing and private banking. In 2012, he was appointed Executive Vice President of Financial Institutions and Corporate Banking at Garanti. Mr. Erbil has served as CEO and Board Member at Garanti Bank since September 2, 2015. He is also the Chairman of the Board of Directors at Garanti Leasing, Chairman of Garanti Romania Board of Directors and Board Member at Garanti Securities, Garanti Technology, Garanti Pension and Life, and Garanti Payment Systems. In addition, Mr. Erbil serves as a Member on the Board of Directors and Board of Trustees of Teachers Academy Foundation.

### Recep Baştuğ Vice Chairman of the Board of Directors

Recep Baştuğ graduated from Çukurova University, Department of Economy. In 1989, he joined Garanti Bank's Audit Department; between 1995 and 1999, he served as Corporate Branch Manager, then as Commercial Region Manager between 1999 and 2004. Between the years of 2004 and 2012, he served as Senior Vice President of Commercial Marketing and Sales Coordination. On January 1, 2013, he was appointed to his current position in the Company. He is also Board Member of Garanti Leasing and Garanti Fleet. Having 26 years of experience in banking and business administration, Mr. Baştuğ's areas of responsibility include Commercial Banking İstanbul and Ankara Marketing, Commercial Banking Anatolian Marketing, Consumer Financing.

**Ali Temel****Member of the Board of Directors/Member of the Credit Committee**

Ali Temel graduated from Boğaziçi University, Department of Electrical and Electronics Engineering and began his banking career in 1990 at a private bank. He joined Garanti Bank in 1997. After serving as Unit Manager in the Basic, Cash Management and Commercial Banking units, Mr. Temel worked as Assistant General Manager – Commercial Banking from 1999 to 2001 and Assistant General Manager – Credits between 2001 and 2012. He was appointed Head of Credit Risk Management on December 10, 2015. With 26 years of professional experience in banking and business administration, Mr. Temel is responsible for Corporate and Commercial Credits Risk Management, Retail and SME Credits Risk Management, Risk Planning Monitoring and Reporting, Risk Analytics, Technology and Innovation, and Regional Credits Coordination at Garanti Bank.

**Hasan Hulki Kara****General Manager/Member of the Board of Directors**

Hulki Kara graduated from Dokuz Eylül University, Department of Economics. He joined Garanti Bank in 1989. Mr. Kara served as 1<sup>st</sup> Degree Auditor on the Audit Board, Branch Manager and Region Manager within Garanti Bank. He has served as Board Member and General Manager at Garanti Faktoring since October 18, 2011.

**Osman Bahri Turgut  
Member of the Board of Directors/Corporate Governance Committee Member**

Osman Bahri Turgut graduated from Marmara University, Faculty of Economics and Administrative Sciences in 1990. Starting his professional career in 1990 at Garanti Bank on the Audit Board, he currently works as Head of Internal Audit and Control at Garanti Bank. Mr. Turgut also serves as Auditor at Garanti Bilişim Teknolojisi ve Tic. A.Ş., Garanti Finansal Kiralama A.Ş., Garanti Yatırım Menkul Kıymetler A.Ş., Garanti Portföy Yönetimi A.Ş., Garanti Ödeme Sistemleri A.Ş., Garanti Emeklilik ve Hayat A.Ş., Garanti Hizmet Yönetimi A.Ş. and Garanti Konut Finansmanı Danışmanlık Hizmetleri A.Ş. In addition, he is a Member of the Board of Directors at Garanti Bank's Pension Fund Foundation and at Garanti Kültür A.Ş.

**Cemal Onaran****Board Member**

Cemal Onaran graduated from Middle East Technical University, Department of Public Administration and started work as Assistant Inspector at Garanti Bank, Audit Committee Directorate. Between 2000 and 2007, he served as Regional Manager at Garanti Bank in various regions of Istanbul. In October 2007, Mr. Onaran was appointed General Manager at Garanti Mortgage upon the company's establishment. On August 1, 2012, he started serving as General Manager at Garanti Emeklilik ve Hayat A.Ş.; on January 1, 2017, he was appointed Assistant General Manager – SME Banking. Mr. Onaran has 26 years of professional experience in banking and business administration.

## OVERVIEW

## Board of Directors

**Serhat Yanık**  
**Independent Member/Audit Committee Member/Early Risk Detection Committee Member/ President of Corporate Governance Committee**

Serhat Yanık

holds a Bachelor's degree in Public Administration as well as a Master's degree and a Ph.D. in Business Administration from İstanbul University. He is currently acting as the President of Direct Procurement and Tender the Commission of İstanbul University, President of Accounting and Finance Department in the Faculty of Political Sciences School of Business Administration of İstanbul University, Finance Director of İstanbul University Hospitals General Directorate, Vice Manager of İstanbul University Circulating Capital Management. He is also Board Member of the Expert Accountants Association of Turkey and Editorial Board Member of the Internal Audit Bulletin of the Institute of Internal Audits and Member of the Association of University Hospitals Union. He also holds an Independent Accountant and Financial Advisor (CPA) license as well as an Independent Auditor License from the Public Oversight, Accounting and Auditing Standards Authority.

**Ali Coşkun**  
**Independent Member/Audit Committee Member/ Early Risk Detection Committee Member**

Ali Coşkun

graduated from İstanbul Technical University, Department of Industrial Engineering. In addition, he holds a Master's degree in Business Administration from Bosphorus University and Ph.D. degree in Accounting and Information Management from the University of Texas. He continues to pursue his career as an academician at Bosphorus University, Economics and Administrative Sciences Faculty. He is currently acting as Head of Bosphorus University Finance Research Center, Board Member of Bosphorus University Social Facility Administration, Vice-President of Bosphorus University Sustainable Development and Fair Production Research Center. He is also a Board Member at Capital Market Professionals Association and the Financial Literacy and Inclusion Association.

## Committees and Attendance at Committee Meetings

### AUDIT COMMITTEE

The Audit Committee was established with the aim of helping the Board of Directors to fulfill its overseeing duties regarding the functioning and effectiveness of the internal control system. The Committee in order to achieve compliance with the accounting system, financial reporting, public disclosure, internal control and internal audit system, independent external audit, laws, regulations and code of ethics, monitors and evaluates the Company's systems, processes and activities, and advises the Board of Directors if necessary. Committee convenes at least four times every year and anytime necessary.

The Audit Committee is composed of the Independent Members of the Board of Directors, Mr. Serhat Yanık and Mr. Ali Çoşkun.

The tasks of the Committee are as follows.

#### Internal Control System:

- To evaluate whether the Company management shares the importance of the internal control with the Company employees or not, and whether the Company adopts a "suitable culture" or not,
- To get information about the periodical and process oriented audit results performed by the Internal Audit Unit regarding implementation faults and deficiencies,

- Similarly, receiving regular information on Company activities from units specialized in Internal Control, Compliance and Risk Management
- To monitor deficiencies detected in the audit activities performed by the Internal Audit Unit, T. Garanti Bankası A.Ş. Audit Board and the other corporations, and informs the Company Board of Directors about non-recovered findings.

#### Internal Audit:

- To oversee whether or not the Internal Audit and Control Unit fulfills its obligations stipulated in the Internal Audit Regulation,
- To review the annual audit plan that is prepared by the Internal Audit and Control Unit and the revisions made in the annual audit and control plans before the Board of Directors' approval,
- To approve the appointments of the Internal Audit and Control Unit personnel,
- To review the Internal Audit and Control Unit Regulation before it is approved by the Board of Directors,
- To make the performance assessment of the Internal Audit and Control Manager. When necessary, the Committee may get the opinions of the Company General Manager on this issue,
- To monitor the decisions of the top management and the units reporting to them regarding the issues detected in the internal audit and control reports,

## OVERVIEW

## Committees and Attendance at Committee Meetings

- To evaluate the Internal Audit Unit activity report prepared regarding auditing activities and the reports that are submitted to the Committee by the Internal Audit Unit – including the results of the Internal Audit and Control Unit’s monitoring activities and its assessments, pursuant to Article 13/4 provisions of the Regulation on “Establishment and Operating Principles of Financial Leasing, Factoring and Financing Companies”
- To monitor the adequacy of the Internal Audit and Control Unit’s staff structure and the existing training, competency and expertise levels of the audit personnel and take necessary measures in order for audit and control unit personnel to be cultivated in the best manner theoretically and practically.

### Financial Reporting and Independent External Audit

- To oversee whether or not the Company’s financial reports include all the information that is correct and that must be reflected, whether or not they are prepared in compliance with the law and other relevant legislation, and moreover ensure that the detected faults and fraud are corrected,
- To select the independent audit firm, to prepare the audit agreements and to start the independent audit process as well as the independent audit firm’s auditing activities at all stages.

### Compliance with the Law, Regulation and Code of Ethics

- To oversee: i) the functioning of the internal systems, accounting and reporting systems within the framework of the law and relevant regulations, and ii) the integrity of the information produced,
- To review the consistency of the Company activities with the laws and regulations through the units reporting to itself,
- To oversee whether the Company’s internal policies and implementation procedures approved by the Board of Directors are complied with or not and makes suggestions to the Board of Directors about the necessary measures to be taken.

The Audit Committee convened seven times in 2017. In these meetings, important findings and the results of the periodic control activities that were detected in the unit audits made by the Internal Audit and Control Unit were discussed. The Compliance Officer provided information on compliance activities across the Company.

Moreover, information were provided to the members of the Audit Committee about the results of the audit activities – performed by the independent audit firms (Deloitte and KPMG) – regarding the Company’s financial data dated 31.12.2017, 31.03.2017, 30.06.2017, 30.09.2017, and about the prepared management recommendation letter.

## **CORPORATE GOVERNANCE COMMITTEE**

The Corporate Governance Committee was established with the aim of determining: i) whether the Corporate Governance Principles are implemented or not within the framework of the Corporate Governance Principles of the Articles of Association, legislation and the Capital Markets Board, and ii) the existence of possible conflict of interests in the Company.

The Chairman of the Corporate Governance Committee is Mr. Serhat Yanık, and the Members are Mr. Osman Bahri Turgut and Serap Çakır.

In accordance with the structuring of the Board of Directors, the Corporate Governance Committee was established with the aim of also performing the duties of the Nomination Committee and the Compensation Committee and assumed the tasks of these committees.

The tasks of the Committee are as follows:

- Monitoring the Company's consistency with the Corporate Governance Principles,
- Carrying out improvement activities on this issue and giving suggestions to the Board of Directors,
- Detecting conflicts of interest arising from non-compliance with the Corporate Governance Principles,
- Overseeing the activities of the Investor Relations Department.

Acting as the Nomination Committee:

- Creating a transparent system for the determination, assessment and training of the nominees of the Board of Directors and determining a policy on this issue,
- Evaluating the efficiency of the Board of Directors' structure,
- Determining and overseeing the approaches, principles and practices on the issue of performance evaluation and career planning of the Members of the Board of Directors and the Executive Directors,
- Submitting suggestions to the Board of Directors regarding changes that can be made on the issue of the Board of Directors' structure and efficiency.

Acting as the Compensation Committee:

- Preparing proposals regarding the compensation principles of the Members of the Board of Directors and the Executive Directors,
- Determining criteria that can be used regarding the performance of the Company and the members,
- Submitting proposals to the Board of Directors regarding the compensation of the Members of the Board of Directors and the Executive Directors.

In 2017, the Corporate Governance Committee convened four times.

## **EARLY RISK DETECTION COMMITTEE**

As per the Corporate Governance Communiqué II-17.1 published by the Turkish Commercial Code n. 6102 and the Capital Markets Board, the aim of the Committee carrying out its activities within the structure of the Board of Directors is to early diagnose the risks that may endanger the existence, progress and continuity of the Company, to take necessary measures regarding the detected risks and to carry out activities with the purpose of risk management.

The Committee is composed of the Independent Members of the Board of Directors, Mr. Serhat Yanık and Mr. Ali Çoşkun.

The tasks of the Committee are as follows:

- Based on the risk management strategies, determining risk management policies, implementation methods and risk management systems in line with the opinions of the Board of Directors, and designing effective internal control systems in order to comply with these policies and to ensure their implementation,
- Implementing necessary measures regarding the detected risks, carrying out activities for the risk management and monitoring the risk management practices,
- Requesting information, opinion and report from the relevant units if deemed necessary, with the aim of performing the risk monitoring function effectively,

## OVERVIEW

## Committees and Attendance at Committee Meetings

- Reviewing and evaluating the risk management system at least once a year,
- Informing the Board of Directors periodically about the risk management practices,
- Fulfilling other duties that are assigned or that will be assigned to the Committee through relevant legal legislation.

Since its establishment in 2014, the Committee submits its report to the Board of Directors every two months.

Early Risk Detection Committee convened six times in 2017. In these meetings, the Committee shared the reports – with the Members of the Board of Directors – that it prepared regarding the issues such as; compliance with standard ratio and the 376<sup>th</sup> Article of TTK (Turkish Commercial Code), status of the Company's foreign exchange position, status of the problem factoring receivables, cost-yield and maturity composition of the balance sheet, assets & liabilities composition and status of operational expenses (OPEX).

The field of tasks of the Committees and their working principles were determined and publicly announced on the Company website in the "Yatırımcı İlişkileri> Kurumsal Yönetim" section.

### ASSETS LIABILITIES COMMITTEE

The members of the Assets Liabilities Committee are; Hulki Kara (Member of the Board of Directors and General Manager), İlkyay Şahin Hamurcu (Executive Vice President), Erkan Coplugil (Executive Vice President); Mert Ercan (Executive Vice President), Volkan Şenünver (Senior Vice President), Fatma İpek Bilmiş (Senior Vice President), Nilgün Yılmaz (Senior Vice President), Eda Kayhan (Senior Vice President), Serap Çakır (Senior Vice President), Hasan Okay Tuncay (Senior Vice President), Hande Yağcı (Senior Vice President), Özcan Destancı (Senior Vice President), Tahsin Maden (Senior Vice President), Emre Özmen (Senior Vice President), Işın Ülker (Senior Vice President), Nazan Aktaş (Senior Vice President), Gamze Mert (Senior Vice President) and Ahmet Marangoz (Senior Vice President).

Sales and Marketing Regional Directors attend the Committee meetings every month alternately.

The Assets Liabilities Committee is responsible for the improvement of the Company's balance sheet and monitors the achievement level of the budget targets by evaluating the Company's interest rates, currency risks, liquidity risks and operational risks. Regularly monitoring the achievement of budget targets ensures that the decisions that will be executed by the related units are taken.

In 2017, the Committee was convened 47 times by the General Manager in order to discuss and assess the specified issues weekly.



### **CREDIT COMMITTEE**

The Credit Committee is composed of: Ali Temel (Credit Committee Member) and Hulki Kara (Member of the Board of Directors and the General Manager). Although İlkey Şahin (Executive Vice President) and Erkan Coplugil (Executive Vice President) are not the members of the Credit Committee, they may attend the meetings in order to present their opinion regarding loan proposals.

Garanti Faktoring Board of Directors transferred a certain part of its loan allocation authorization to the Credit Committee. Loan proposals that are submitted to the Headquarters by the regions but that exceed the authorization of the headquarters are presented to the Credit Committee which convenes once a week.

The Credit Committee examines the loan proposals and concludes the ones that are within the scope of its authorization. The Committee presents the loan proposals that exceed its authorization to the Board of Directors so that they are concluded.

### **CREDIT PROCESSES COMMITTEE**

The Credit Processes Committee members are: Hulki Kara (General Manager), İlkey Şahin Hamurcu (Executive Vice President), Mert Ercan (Executive Vice President), Erkan Coplugil (Executive Vice President), Nazan Aktaş (Organization and Process Development Senior Vice President), Tahsin Maden (Sales Marketing and Coordination - Senior Vice President), Emre Özmen (Credit Monitoring Senior Vice President), Nilgün Yılmaz (Operation and Legislation Senior Vice President), Eda Kayhan (Legal Affairs Senior Vice President), Özcan Destancı (Intelligence Senior Vice President), Hasan Okay Tuncay (Credits Allocation Senior Vice President) and Ahmet Marangoz (Manager of Corporate Sales and Structured Products). Whenever necessary, Regional Sales Managers may attend the meeting even though they are not Committee members.

The aim of the Committee is to create, develop and effectively manage loan processes that will enable correct and efficient analysis of the factoring requests and to respond to the need in a reasonable amount of time as prescribed by applicable laws and regulations.

### **IT COMMITTEE**

IT Committee Members are: Hulki Kara (Member of the Board of Directors and General Manager), Erkan Coplugil (Executive Vice President), İlkey Şahin (Executive Vice President), Mert Ercan (Executive Vice President), Işın Ülker (Senior Vice President), Nazan Aktaş (Senior Vice President) and Tahsin Maden (Senior Vice President).

If deemed necessary, company managers and employees may attend the meeting although they are not the Committee member.

The IT Committee was established to develop the Company's information technology roadmap by prioritizing IT needs and to monitor and evaluate deviations from approved priorities.

The Committee convened one time in 2017.

At the meeting in 2017, the IT Committee evaluated the projects completed in 2016, and determined the priorities for 2016 based on the requests of the Company's various business units. The priorities were discussed for 2017.

## OVERVIEW

## Senior Management



**Hulki Kara**  
**General Manager and Member of the Board of Directors**  
 See Page 25.



**Mert Ercan**  
**Executive Vice President**  
 Mert Ercan graduated from Dokuz Eylül University, Department of Business Administration. He joined Garanti Bank in 1999 and assumed duties as Vice Chairman on the Audit Board. Since March 15, 2011, he has served as Executive Vice President at Garanti Faktoring.



**İlkay Şahin**  
**Executive Vice President**  
 İlkay Şahin Hamurcu graduated from Istanbul University, Department of Business Administration. She started her career in 1992 at Pamukbank and subsequently went on to work at Koçbank and İktisat Bank, respectively. From 1998 to 2001, she assumed duties at Körfez Bank and afterwards at Osmanlı Bank, Garanti Bank and Garanti Leasing, respectively. Her career at Garanti Faktoring started in 2005 as Credit Manager and she has continued as Executive Vice President since April 1, 2011.



**Erkan Coplugil**  
**Executive Vice President**  
 Erkan Coplugil graduated from Istanbul Technical University, Department of Management Engineering. He joined Garanti Bank in 1998 and assumed duties in the Organization and Planning, Commercial Banking Units and also served as a Branch Manager. He has served as Executive Vice President at Garanti Faktoring since December 12, 2011.

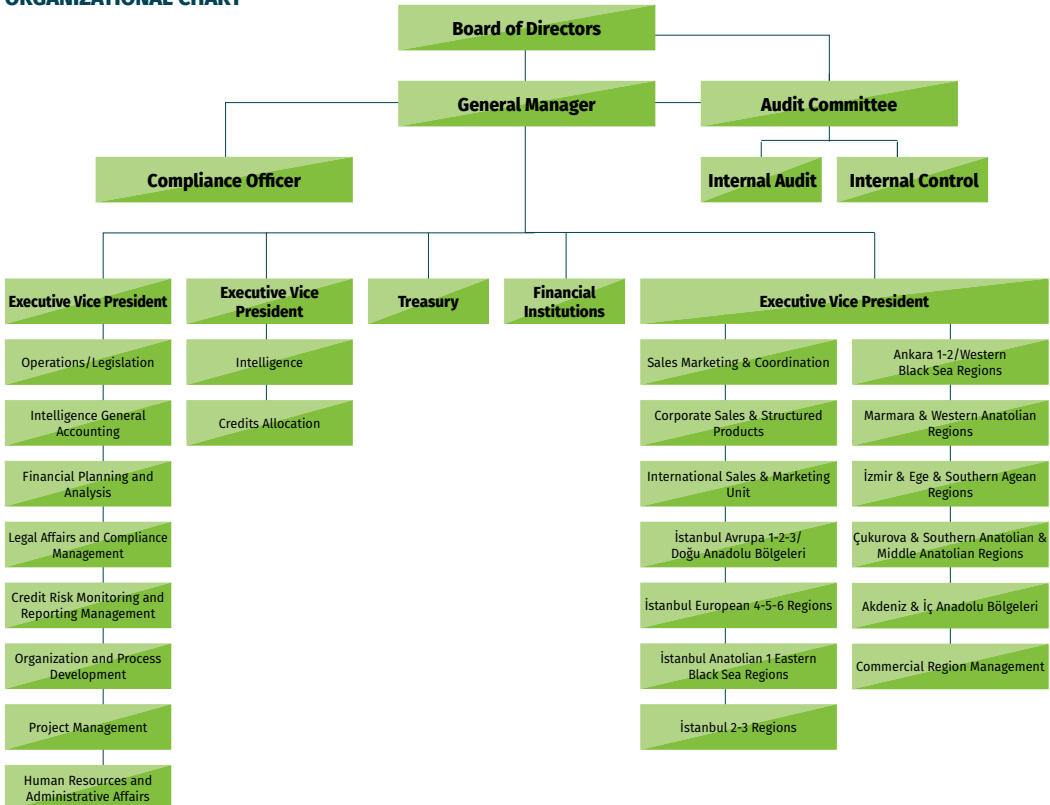
## Organizational Structure and Organizational Structure Changes

### CHANGES TO THE ORGANIZATIONAL STRUCTURE

During the period January 1-December 31, 2017, the following changes were made to the Company’s organizational structure:

- As of March 13, 2017, the Legal Affairs and Credit Monitoring Department was divided into two separate units: Legal Affairs and Compliance Department and Credit Risk Monitoring and Reporting Department. The Product Management and Business Development Department was closed down, and its duties transferred to the Sales Marketing and Coordination Department.
- As of September 15, 2017, the Commercial District Department, which was formerly under the umbrella of the Sales and Marketing Coordination Department, was separated from that Department and started operating in the form of a separate region reporting to the Assistant General Manager – Sales and Marketing.
- The internal control functions previously performed by the internal control personnel in the Internal Audit Unit were separated in line with the demands of BBVA, and restructured to report directly to the Audit Committee.

### ORGANIZATIONAL CHART



## OVERVIEW

In a first, Garanti Factoring has reached sixth position among 111 correspondents in both the exports and imports category.

## Chairman's Assessment

Esteemed stakeholders,

In view of the trends that followed the 2008 global financial crisis, there was relative stability in the world economy in 2017.

The latest OECD Economic Outlook report expects that in 2017, the world economy will grow at a rate of 3.6%, the US will close the year at 2.2%, the Eurozone at 2.4% and Japan at 1.5%

While the developed economies are on a path of recovery, it is predicted that India and China will reach a growth rate of around 6% in 2017, but Brazil will attain only 0.7% after a two-year recession.

The widespread expectation is that in 2018, the recovery will continue especially in advanced economies.

The main factors that underpin certain negative prospects are the expectations that the price of Brent oil may rise on a global scale, and that the Fed may continue to raise interest rates and reduce its balance sheet. On top of these, we can also add the fact that various geopolitical risks are still in place.

On the other hand, the economic growth in the US economy is spilling over into Europe, the UK and even Japan, and in case this process continues to pick up in 2018, the world economy could well grow between 3.3% and 3.7%.

Factors such as employment growth in the US, recovery across Europe, and a balanced growth composition in China will bolster international trade volumes and the global economy in 2018.

### Record growth in Turkey

Contrary to forecasts, Turkey's economy stood out in 2017 with its strong growth performance. The economy grew 5.3% in the first quarter and 5.4% in the second quarter, while the 11.1% growth in the third quarter went far beyond expectations.

A major factor underlying this growth was measures taken to dissipate the negative atmosphere created by the international conjuncture and the turmoil in neighboring countries, and to reinvigorate the domestic economy.

## TL 27.6 million

In 2017, Garanti Factoring's net profit increased by 40% to reach TL 27.6 million.

In this respect, the government facilitated the SMEs' and exporters' access to financing, and raised the upper limit of the warranties provided by the Credit Guarantee Fund (KGF) in Treasury-backed loans from TL 20 billion to TL 250 billion. The government established the portfolio guarantee system (PGS), which accelerates the warranty process, and the Treasury extended warranties of 85% for non-SMEs, 90% for SMEs and 100% for exporters, depending on the nature of the loan.

Many commentators suggest that Turkey's economy will be rather sensitive to global developments in 2018. Although there are certain risks such as an increase in oil prices having a negative impact on our current account deficit, a possible decision by Fed to raise interest rates more times than expected, not to mention the geopolitical situation in our region; it is considered that the rapid recovery seen in advanced economies and in particular Europe will have a positive effect on Turkey. It is expected that on the one hand, Turkey's exports to these economies will grow, and on the other hand, there will be an increase in the number of tourists from those countries arriving in Turkey. Such developments would have a positive impact on the Turkish current account deficit by increasing the amount of foreign currency entering Turkey, and keeping domestic demand strong.



## OVERVIEW

Chairman's  
Assessment

## Garanti Factoring creates added value for its customers and the sector with its customer-focused service perspective and highly specialized workforce.

The Turkish factoring sector also had a successful and profitable year, owing to the impact of the positive economic trends in Turkey and the world. In 2016, Turkey had leapfrogged China to become the world leader in export factoring transactions with correspondents, attaining a transaction volume of EUR 3.6 billion and a market share of 18%. Turkey managed to maintain this leadership position in 2017.

### **We are selected the world's best... Once again...**

As a global pioneer in its field, Garanti Factoring played a major role in this forward leap of the Turkish factoring sector.

In an assessment by Factors Chain International, which counts more than 400 factoring companies among its members, Garanti Factoring was named "The Best Factoring Company in the World" for the third time in a row. The Company received this award for the first time in 2015; and in 2016, became the first company to receive "100% -perfect score" in service quality, correspondent network and export volume. In 2017, Garanti Factoring was designated The Best Export

Factoring Company for the third consecutive time in a first for both the exports and imports category, and Garanti Factoring has thus reached sixth position among 111 correspondents.

Garanti Factoring creates added value for its customers and the sector with its customer-focused service approach and highly specialized workforce; and leads the pack by making a difference in product consultancy and product development efforts.

Factors underlying Garanti Factoring's success are a healthy financial structure, strong technological infrastructure, swift, top-quality services delivered by a highly qualified and experienced staff, and its corporate governance approach.

### **Our Corporate Governance Principles Compliance Score reaches 9.32**

Kobirate International Credit Rating and Corporate Governance Services Inc. increased Garanti Factoring's Corporate Governance Rating for 2017 to 9.32, from a previous 9.26, in recognition of the Company's consistent advancements in compliance to Corporate Governance Principles.

This score confirms that the Company views compliance to corporate governance principles not simply as just another task, but that it has internalized this effort as an integral part of its existence.

Garanti Factoring employees played the biggest role in bringing about this pride-inspiring achievement. Garanti Factoring considers its workforce as its most valuable asset. Accordingly, the Company's human resources vision is to become a success- and productivity-oriented corporation open to continuous development, where everyone is the leader of their business, success is rewarded according to measurable performance criteria, employee loyalty increases day after day, and employees feel satisfied. To reach this vision, the Company offers training programs to help employees hone their technical, professional and personal competencies.

### **Responsible Citizenship, Sustainable Growth**

Garanti Factoring's social responsibility perspective requires contributing not only to the economy, but also to the society at large. In this respect, through initiatives such as the CO-OP Project and Vocational High School Coaches Program, as well as various donations and scholarships, the Company contributes to the education of young people and supports sustainable growth through its eco-friendly practices.

Garanti Factoring is developing its processes to catch up with global standards, increasing its efficiency and profitability on a daily basis with the investments it realizes, and moving rapidly towards becoming a digital company of the information age: It will relentlessly continue its investments in this area and continue on its path towards becoming the best in the world, with your invaluable support.

Best regards,

**Ali Fuat Erbil**

Chairman

## **TL 3.36 billion**

Leading the Turkish factoring sector as a global pioneer in its field, Garanti Factoring brought its factoring receivables up to TL 3.36 billion in 2017.

## OVERVIEW

Garanti Factoring, the driving engine of the Turkish factoring sector, maintained its steady growth and closed the year with success.

## General Manager's Assessment

Esteemed stakeholders,

Following the recession in the previous years, the factoring sector made numerous achievements in the year 2017.

As of the end of 2017, the total turnover of the sector has reached TL 144.7 billion. In the same period, total factoring receivables of the sector materialized as TL 41.6 billion. The total assets of the sector reached TL 43.7 billion in an increase of 24.3% over the previous year, whereas total shareholders' equity grew by 12% to TL 5.8 billion. In this period, total receivables were TL 41.6 billion while net profit for the period materialized as TL 930 million, according to BRSA data.

The Turkish factoring sector figures among the best in the world, particularly in the field of export factoring, and has leapfrogged China in this field to become the world number one with an exporting factoring volume of EUR 3.6 billion.

At Factors Chain International's (FCI) award event to select the world's best factoring companies, Turkish companies held the top spot in the last six years, in another concrete confirmation of the success of the industry.

### Going Digital

The sector achieved a series of huge successes in the international arena, and will carry this positive performance into 2018 with its recent infrastructure and technology investments.

In Turkey as across the world, digitization tops the agenda of the factoring sector. There are two other agenda items that are closely related to the digitization process of the sector: The first is integration, and the second is supply chain financing. Upon the completion of work in these two areas, the sector will increase its contribution to Turkey's exports and its strong growth performance will continue.

Garanti Factoring, which is the driving engine of the Turkish factoring sector thanks to its skilled staff, product diversity and technological infrastructure, has also had a successful year and maintained its steady growth performance.

## USD 2 billion

Garanti Factoring, which had closed 2016 with a turnover of USD 1.8 billion in export factoring, brought this figure up by 11.9% to the order of USD 2 billion in 2017.



### **2017 was a profitable year**

In 2017, Garanti Factoring's total assets reached TL 3,452 million, factoring receivables TL 3,360 million, shareholders' equity TL 213 million, and its profit for the year TL 27.603 thousand.

In 2017, Garanti Factoring boosted its transaction volume and number of customers, performing a total of 40,188 financing transactions with 7,475 customers. The domestic transaction volume was TL 7,023 million, while the export transaction volume was TL 7,329 million and the import transaction volume TL 763 million.

### **Continuing to blaze a trail in the world**

After 2015 and 2016, Garanti Factoring was once again named "The Best Factoring Company in the World" by Factors Chain International. The Company thus received the award for the third time in a row in a first for both the exports and imports category, and reached sixth position among 111 correspondents.

In 2017, as was the case in 2016, the Company received "100% -perfect score" in all award criteria such as service quality, correspondent network and export volume.

Garanti Factoring closed 2016 with a turnover of USD 1.8 billion in export factoring, and increased this by 11.9% in 2017 to attain a turnover of USD 2.023 million.



## OVERVIEW

## Garanti Factoring is keen on continuing its technological investments and carrying its achievements even higher.

### General Manager's Assessment

**89%**

89% of Garanti Factoring's customers consist of SMEs. The Company helps SMEs open up to the world by providing them international solutions with its worldwide reputation, and thus contributes to the growth of Turkey's economy.

89% of Garanti Factoring's customers consist of SMEs. The Company helps SMEs open up to the world by providing them international solutions with its worldwide reputation, and thus contributes to the growth of Turkey's economy as well.

The Company expends intense efforts on new products and services to this end.

In 2016, Garanti Factoring had launched its receivables guarantee product in the domestic arena; in 2017, the Company extended this product to its overseas operations as well. The Company also spends efforts to expand the scope of its product that provides financing for receivables secured with a letter of guarantee, launched back in 2016. Our ground-breaking product, 'My Receivable is Under Garanti' remains an unmatched product in the sector with its special terms and scope, and continues to make important contributions to our customers' business. In addition to these, the Company works on developing new supply chain financing products for overseas operations that will appeal especially to our import customers.

### Continued infrastructure investments

Garanti Factoring enhances its technological infrastructure day after day in order to provide new products and services to its customers, and to further strengthen its corporate structure.

Garanti Factoring has become a more agile, productive and profitable company thanks to process improvements and infrastructure investments, and now aims to improve its corporate governance approach while continuing to invest in technology to reach ever more ambitious achievements.

The Company continues its integration efforts into the recently created Supplier Financing Platform. The largest beneficiary of the Supplier Financing Platform will be customers in the SME segment, since they will be able to access faster and cheaper financing through this platform. The Company is keen on reinforcing its position in the sector by increasing the number of SME customers through investments to this segment.

### **We shall maintain our leadership in exports**

If our country's export potential is taken into consideration, it is clear that Garanti Factoring cannot stay away from international markets. At Garanti Factoring, we have developed strong correspondent relationships in our export markets by harnessing the power of the Garanti brand and our successful business model, and thereby coupled this achievement with growth in our export operations.

In 2018, we aim to maintain our leadership in this segment by preserving our market share in export factoring. The ready-to-wear, yarns and automotive spare parts industries are sectors with a significant share in export factoring. We predict that growth in these sectors will continue in 2018. The share of export factoring in Garanti Factoring's overall turnover is 48%. We consider that this share will remain at the same level in 2018.

In the factoring sector, there is increased interest in guaranteed operations. Accordingly, Garanti Factoring aims to grow with its guaranteed products in both domestic and international transactions.

### **Employees are key to our success**

Our highly skilled workforce played the most important role in Garanti Factoring's success. The Company attaches huge importance to investments designed to increase the competence of its human resources. To this end, more than 250 training sessions were organized in 2017, on 55 different in-class and on-the-job training topics. A total of 2,781 hours of in-class and on-the-job training were delivered and the training period per employee reached 17 hours on an annual basis

In addition to these, with a view towards providing quicker responses to the training needs of employees, 46 different e-courses were delivered in 2017 and employees participated in 8 different conferences, seminars and congresses in their fields of professional expertise.

I would like to extend my gratitude to our employees who have turned us into a global brand and to our stakeholders for their unfaltering support. In the upcoming period, we shall reach even further with top quality products and services.

Best regards,

**Hulki Kara**

CEO

More than 250 training sessions were organized in 2017, on 55 different in-class and on-the-job training topics. A total of 2,781 hours of in-class and on-the-job training were delivered and the training period per employee reached 17 hours on an annual basis.

## OVERVIEW

## Overview of The Turkish and Global Economy

Turkey's economy showed remarkable growth of 11.1% in 2017, thanks to government incentives to reinvigorate the markets.

### The global economy has finally overcome the crisis

2017 witnessed a general recovery in the world economy. The US, Eurozone and the UK fully exited the crisis by boosting their economic growth rates. Japan, grappling with recession for many years, posted positive growth figures. Emerging economies such as China and India continued to expand above the world average despite some decline in the growth rates.

US economic growth in the third quarter was revised to 3.2%. Economic activity in the country demonstrated a positive performance in the last quarter as well. America's inflation indicators are also relatively moderate.

The Eurozone's PMI figure reached its highest level in the last seven years, supporting a positive outlook on economic activity.

The first phase of Brexit negotiations between the UK and the EU was completed. The Bank of England, which raised policy rates in November, left interest rates unchanged in December.

### Positive environment will continue in 2018

With inflation rates remaining below target in the aforementioned countries, robust growth and the positive outlook is expected to continue into 2018.

The Federal Reserve raised its policy rate by 25 basis points at its last meeting of the year. Fed members predicted that three interest rate hikes will follow in 2018, and their growth and inflation forecasts were seen to improve.

Tax reform recently passed in the US brought down the corporate tax rate from 35% to 21%. The possible effects of tax reductions on economic activity and monetary policy remain uncertain.

At its meeting on December 14, the ECB did not announce monetary policy changes. However, the ECB raised its 2017 and 2018 growth forecasts for the Eurozone, and reaffirmed its expectation that the recovery in economic activity will continue.

**Turkey's record-breaking growth**

Thanks to government incentives to revive the markets, the Turkish economy expanded 5.3% and 5.4% in the first two quarters of 2017, followed by 11.1% in third quarter – the first double-digit growth performance since 2011. This was the strongest overall performance of the Turkish economy in the last six years.

The recovery in labor force indicators continued in September due to the favorable climate created by the incentives. The seasonally adjusted unemployment rate declined to 10.7% in September, down 0.1 point from the previous period.

Seasonally adjusted industrial production increased 7.3% on an annual basis in October. This performance confirmed the continuation of robust industrial activity in the first month of the last quarter and suggested that Turkish economic growth will reach 7%.

**Current account deficit and inflation on the rise**

Despite the good news, Turkey's foreign trade deficit continued to climb in November. In the period, exports went up 11.2% while imports rose 21.3% year-on-year. As a result, the foreign trade deficit jumped 52.4% on an annual basis to USD 6.3 billion.

In the first 10 months of the year, the Turkish current account deficit expanded by 33.7% year-on-year to USD 35.3 billion. According to 12-month cumulative figures, the current account deficit totaled USD 41.9 billion in October, its highest level since July 2015.

In the first 11 months of the year, budget expenditures rose 17.7% while budget revenues increased 13.0%. As a result, the budget deficit quickly widened to TL 26.5 billion.

The monthly increase in consumer prices came in at 0.69% in December, slightly above market expectations, while annual inflation stood at 11.92%.

At its meeting on December 14, CBRT took a step to strengthen monetary tightening in order to limit the deterioration of the inflation outlook, by raising the Late Liquidity Window interest rate 50 basis points to 12.75%.

## OVERVIEW

## Factoring Sector Overview

As of end-2017, there are 61 factoring companies affiliated with the Association of Financial Institutions in Turkey.

### FACTORING IN TURKEY

Factoring transactions in Turkey began in the 1980s and were initially conducted by banks. Today, factoring companies are regulated by the “Financial Leasing, Factoring and Financing Companies Law No. 6361” published in Official Gazette No: 28496 on December 13, 2012, and the “Regulation on the Establishment and Operating Principles of Financial Leasing, Factoring and Financing Companies No: 28627” issued by the Banking Regulation and Supervision Agency (“BRSA”) on April 24, 2013. As of end-2016, 61 factoring companies operated in Turkey under the supervision of the Association of Financial Institutions (“FKB”). Factoring is a financial transaction in which companies that sell products and services through forward contracts transfer their accounts receivable to a third party financial company to ensure cash flow and secure their receivables. Factoring is basically defined as financing, guarantee and collection services.

In Turkey, a significant portion of domestic trade is forward transactions, while the cash against goods (open account transaction) payment method is widely used for export sales. Due to payment habits and methods in the Turkish market, trading companies rely on factoring to meet their need for cash and payment guarantee.

The factoring sector developed quickly in the country, especially during the second half of the 2000s in terms of transaction volume and customer numbers. After the Banking Regulation and Supervision Agency (“BRSA”) began overseeing factoring companies in 2006, the industry became more institutionalized and transparent. In recent years, factoring has become an essential instrument in financial markets due to the increased popularity of factoring products as well as more access channels to customers.

In 2016, the factoring industry strengthened its collaboration with Türk Eximbank. After obtaining access to Eximbank's export rediscount credits, which are extended to exporters, the factoring industry executed an agreement with Eximbank in 2016 to use insured receivables as additional collateral. Subsequently, factoring companies began to provide financing to exporters for their export receivables, which are secured under Eximbank's insurance policies.

Additionally, FKB is currently developing the system infrastructure and the legal framework for the Supplier Finance product, which it plans to launch in 2017.

### **FACTORING WORLDWIDE**

Since the 1950s, several factoring companies providing advanced services have been established in many countries. Unable to develop more fully until the 1970s, factoring became a reliable financing method after the 1973 oil crisis for many enterprises seeking to expand their operations internationally under more challenging global trade conditions.

In line with widespread economic growth, a rebound in trade, better risk analysis, and more aware customers, factoring has become a modern financing method for companies around the world. In parallel with the expansion of factoring into new industries and regions, the rapid rise in computer usage and technology advancements, the merger of independent organizations with large commercial banks, and the increased competition within the sector, the global factoring volume is increasing rapidly.

Today, a well-established factoring industry is present in more than 50 countries, particularly in Europe (68%), the US (20%) and America (9%).

The global factoring industry has expanded at an average annual rate of 13% over the last 25 years.

# BEST PRODUCTION AT THE BOX OFFICE

After a year of outstanding performance, the Company increased the profit by 40%.







EMİNE YEŞİLYURT / ASSISTANT OFFICER

DUYGU DEMİR / ASSISTANT OFFICER

ÖZLEM ARSLAN / ASSISTANT OFFICER

## OPERATIONS AND OBJECTIVES IN 2017

### Sales, Marketing and Coordination

#### 7,475 customers

In 2017, Garanti Faktoring served a total of 7,475 customers through its 17 branch locations across Turkey. The Company's domestic and international transaction volume amounted to TL 7,023 million and TL 8,092 million, respectively.

## Garanti Faktoring provides its services to a broad customer base that has a wide supplier and dealer network.

Garanti Faktoring conducts domestic and international factoring transactions via an extensive network while keeping its focus on customer needs.

Garanti Faktoring provides its services to a broad customer base primarily consisting of SMEs, import and export companies, and other enterprises that have a wide supplier and dealer network. Boasting the most extensive branch network among bank subsidiary companies, Garanti Faktoring delivers its products and services across the country.

#### 9.8% increase in transaction volume

In 2017, Garanti Faktoring served a total of 7,475 customers through its 17 branch locations across Turkey. The Company's domestic and international transaction volume amounted to TL 7,023 million and TL 8,092 million, respectively.

The Sales, Marketing and Coordination Unit at Garanti Faktoring aims to deliver the right products to the right customers through the right channels at the right time, in line with customer segmentation and profitability models.

The Sales, Marketing and Coordination Unit is charged with formulating and implementing marketing strategies and tactical marketing plans geared toward target customer segments. The Unit revises these plans whenever necessary, shares them with regional offices, monitors implementation, and resolves any issues that may arise.

#### New system designs

In 2018, Garanti Faktoring plans to develop new systems designed to boost the number and volume of transactions, particularly in the SME segment. Additionally, the Company aims to play a more active role and maintain its leader position in the market share of correspondent guaranteed import-factoring transactions related to the overseas operations of its customers.

Garanti Faktoring also plans to continue making capital investments in systems infrastructure and human resources in 2018. The Company targets improving operational efficiency while striving to realize its set performance objectives.

## Corporate Sales and Structured Products

A pioneer among factoring companies in terms of product advisory and development, Garanti Factoring designs specialized products and solutions for enterprises with its robust and experienced workforce. Thanks to the innovative products it develops, Garanti Factoring stands out among the competition and creates added value for its customers.

In 2017, the Corporate Sales and Structured Products Unit further expanded the reach and scope of innovative products in both domestic and international transactions within this perspective.

### **Collection Guarantee Broadened its Portfolio**

As in previous years, the Collection Guarantee offering, which Garanti Factoring added to its product portfolio in 2013, continued to generate huge demand in 2017. Therefore, the Company focused its efforts on this product while adding new export products to its portfolio.

Domestic and export applications as well as import applications will be included in the system in 2018. The scope of the current work system will be further expanded with import applications.

The Company also continued to make progress and focus on new products in the areas of Supplier Financing and Commercial Collection Management.

Technology investments and related systemic developments in Supplier Finance in 2017 will continue into 2018.

As part of Commercial Collection Management, work started on Net Recommendation Score and Customer Satisfaction measurements in 2017. These efforts will continue in 2018.

Placing great importance on innovation, Garanti Faktoring leads the sector with an array of breakthrough products and spectacular fast service.

## OPERATIONS AND OBJECTIVES IN 2017

### Corporate Sales and Structured Products

In 2017, the Company stepped up its social media activity to support customer communications. To this end, the Company's website was redesigned to serve as an application channel.

#### **The Product Management and Business Development**

The Unit is primarily responsible for developing new products and business partnerships in accordance with factoring legislation, while improving the effectiveness of existing products and executing marketing activities to promote new products.

In 2017, the Company further improved and expanded the scope of its existing product portfolio and launched new products.

In a project launched jointly by the Association of Financial Institutions ("FKB") and Türk Eximbank in 2015, factoring companies began to offer affordable financing to exporters, provided by Eximbank. This collaboration was further expanded in 2016 to include financing for receivables secured under Eximbank's credit insurance.

#### **Applications accepted through the new website**

In 2017, the Company stepped up its social media activity to support customer communications. To this end, the Company's website was redesigned to serve as an application channel.

Customer products are displayed on the internet branch.

2018 will be the year of innovations in digitalization.

## In 2017, Garanti Faktoring stepped up its social media activity to support customer communications.

### International Sales and Marketing

The Client and Correspondent Relations Unit continued to make a difference with an expert team that expanded the correspondent network into new markets. The Unit delivers tailored solutions to clients by cooperating with correspondent factoring companies based on a wide product range thanks to strong relationship management, providing top quality services to clients in their foreign operations with an innovative and customer oriented approach.

Boasting the most extensive branch network among bank subsidiary companies, Garanti Faktoring expanded its export factoring customer base significantly in 2017, compared to previous years in FCI data. The Company also increased its market share of correspondent guaranteed export-factoring turnover to 31.77%.

#### **Export factoring volume was boosted to US\$ 2 billion in 2017**

Garanti Faktoring guarantees faster, easier and more reliable forward cash against goods sales to its customers by capitalizing on the wide correspondent network of Factors Chain International ("FCI"), the world's largest factoring network consisting of more than 400 members in 90 countries. Providing affordable financing for its clients' foreign receivables, Garanti Faktoring boosted its export factoring volume to US\$ 2 billion in 2017.

#### **The world's best for the second year in a row**

Thanks to its high quality services, innovative products and remarkable achievements, Garanti Faktoring was voted the "World's Best Export Factoring Company" for three years in a row. Based on the evaluation conducted by Factors Chain International ("FCI"), the world's largest factoring network with more than 400 members across the globe, Garanti Faktoring earned a score of "100%" on all the evaluation criteria—including service quality, correspondent network, and export transaction volume—to become the top scorer in the history of FCI and the world's best in 2015, 2016 and 2017.

Garanti Faktoring accelerated efforts to ensure continued success, and made capital investments in systems infrastructure throughout 2017. Knowing the important role that a highly qualified staff plays in export and import factoring transactions, the Company sent employees to overseas training programs and encouraged them to participate in international certification exams.

In 2018, Garanti Faktoring plans to maintain the growth momentum it has achieved in correspondent guaranteed export and import factoring, increase the number of customers across the country, particularly in the export segment, conduct more customer and branch visits to stay in close contact with customers, and to visit correspondent companies to further improve correspondent relations.

## OPERATIONS AND OBJECTIVES IN 2017

### Credits Allocation and Intelligence

In 2017, Garanti Faktoring started to share systematic reports on a daily/weekly/monthly basis to develop early warning procedures.

The Credits Allocation and Intelligence Unit is responsible for performing credit analysis on sellers and buyers in keeping with the Company's credit policy. While conducting these analyses, the Unit assesses economic trends, the general state of the industries in which customers operate, and market conditions, in addition to individual customer information. All necessary credit and intelligence analyses are performed within the credit process in order to determine the credibility of sellers and buyers, and to make decisions based on the findings. Following the allocation of credit, the Unit also provides credit management services.

In credit worthiness analysis, the Company continued its effective loan management through a buyer and/or seller-based credit allocation approach in 2017.

In 2018, system and infrastructure studies will continue to boost the efficiency of existing limit allocation applications for SMEs.

#### Intelligence Unit

In 2017, systematic reports aimed at developing early warning procedures were produced on a daily/weekly/monthly basis. These reports started being shared with the units concerned.

Designs for one of the Unit's most important efforts – the Drawer Rating Project – were completed and subsequently approved by senior management. The initiative awaits implementation in line with the Company's project schedule.

Especially in the second half of the year, the Turkish government injected funds into the economy via KGF and KOSGEB loans. The first positive effects of this stimulus were felt in terms of an improvement in bad checks. The percentage of bad checks fell to 2.3% in 2017 (versus 3.7% in 2016), while the Company's bad check percentage was only 0.3%, well below the nationwide average.

## Financial Institutions

Garanti Faktoring focuses on financing domestic and international trade in response to customer demands. The Company also works to deepen its relationships with partner banks to provide funding at convenient terms to its customers.

Garanti Faktoring's relationships with domestic and international banks. It continues to successfully manage the Company's relationships with banks based in Turkey as well as in Europe, North America, and Central Asia, thanks to Garanti Faktoring's powerful relationship management capabilities.

The Financial Institutions Unit also manages the relationship with the global credit rating agency Fitch Ratings, and carries out activities to improve Garanti Faktoring's recognition and raise the Company's profile abroad.

### **Diversification of funding sources**

Garanti Faktoring, well-known internationally for its strong relationship management skills, continued efforts to diversify its sustainable funding sources in 2017.

In 2016, Garanti Faktoring further diversified its sustainable funding resources. Focusing on factoring facilities of domestic and overseas trade to meet customer needs, the Company has deepened its relationships with partner banks and obtained financing for customers under favorable terms.

During the year, Garanti Faktoring maintained the number of its partner banks and deepened the relations, also provided the base to fund its balance sheet under the most favorable terms and conditions possible. To that end, the Company collaborated with foreign banks, in particular, in the area of international trade finance, further deepening and bolstering its relationships with creditors.

In the coming period, the Company plans to strengthen its collaboration with banks in the area of foreign trade finance, and particularly with Europe-based banks.

In 2018, Garanti Faktoring aims to cooperate closely with the Treasury Unit to diversify the portfolio of domestic bond investors and to further strengthen its relationship with local banks.

## OPERATIONS AND OBJECTIVES IN 2017

### Treasury

## The Turkish lira-denominated bond issuance program has significantly contributed to Garanti Faktoring's asset-liability management practices in 2017.

The Treasury Unit meets the funding needs and manages the cash flow of Garanti Faktoring. In addition, the Unit manages the liquidity risk and maturity risk by setting the Company's interest rates in order to maximize balance sheet net margins and minimize fluctuations. It makes necessary transactions in the spot or derivatives markets by closely monitoring market conditions and making required analyses. The Treasury Unit also manages the Company's relations with banks. The Unit's main objective is to increase Garanti Faktoring's profitability by closely monitoring capital and financial markets.

The Treasury Unit's main objective is to increase the Company's profitability by closely monitoring capital and financial markets. The Turkish lira-denominated bond issuance program, which started in 2013, has significantly contributed to Garanti Faktoring's asset-liability management practices in 2017.

#### **Amortized bonds with total nominal value of TL 1,215 million**

In 2017, Garanti Faktoring issued discount bonds with a six-month maturity and total nominal value of TL 1,230 million offered exclusively to qualified investors via private placement. The Company also amortized bonds with a total nominal value of TL 946 million.

Despite a volatile interest and foreign currency exchange rate environment, the Company plans to pursue its current business strategy and prioritize bond issues in 2018 as well.



In 2017, the Operations Unit conducted 40,188 credit allocations and processed a total of 539,837 invoices.

## Operations and Legislation

The Operations and Legislation Unit ensures that all transactions are performed properly and timely in accordance with applicable laws, regulations, and international factoring rules and pursuant to Garanti Faktoring's policies and procedures. In addition, the Unit provides effective solutions to problems caused by the nature of transactions, and offers legislative and regulatory consultancy services to sales teams and other units in line with their responsibilities.

The Operations and Legislation Unit structured some project based transactions, continued to ensure conformity of factoring practices with legislative and regulatory requirements, and clarified the standards by receiving the opinion of authorities while taking a primary role in the sector for uncertainties in 2017.

### **40,188 Credit Allocations**

In 2017, the Operations Unit conducted 40,188 credit allocations and processed a total of 539,837 invoices.

During the year, the Operations and Legislation Unit boosted operational efficiency and ensured legal and regulatory compliance. Thanks to ongoing system improvements and training support across the organization, the Unit gained more experience. It also ensured the completion of transactions within standard periods and quality levels, and with minimal operational risk, especially in a high risk period.

### **Internal Training Programs**

The Operations and Legislation Unit voluntarily contributes to internal training and industry-based training programs. In addition to technology-related capital investments, investment in human capital will also continue in 2018 with training programs for all the Company's units.

## OPERATIONS AND OBJECTIVES IN 2017

### Human Resources and Training

Garanti Faktoring boasts a highly qualified and dynamic workforce that makes a difference. At end-2017, the Company employed 156 personnel.

Garanti Faktoring considers employees its most valuable asset. Always aiming high for leadership, Garanti Faktoring maintains a stable structure by continuously investing in employees and improving corporate human resource practices under this vision.

Always aiming to be the sector leader, Garanti Faktoring understands that the main component underlying stable growth is a highly qualified, dynamic workforce that makes a difference. To this end, the Company continues to invest in its employees, and hones its human resources practices day after day.

Garanti Faktoring boasts a highly qualified and dynamic workforce that makes a difference. At end-2017, the Company employed 156 personnel.

#### **2,781 hours of training**

Garanti Faktoring provides its employees with training programs to help them improve their technical and professional knowledge as well as personal skills. In 2017, the Company organized more than 250 classroom and on-the-job training courses on 55 different topics, delivering 2,781 hours of training in total. Each employee on average received 17 hours of training for the year.

Aiming to meet the training needs of employees in a fast and convenient way, Garanti Faktoring also provided 46 different e-learning courses in 2017. Additionally, staff members participated in eight different conferences and seminars related to their respective areas of expertise.

Training programs organized in 2017 included technical and professional courses, such as Advanced Excel, Access, Recent Economic Developments, Obligations Law, Commercial Law, and Financial Mathematics among others. Personal development courses offered included Stress Management, Coaching Skills, Speed Reading Techniques, Persuasion and Conflict Management, Results Orientation, Advanced Presentation Skills, Personal Leadership Skills, Creative Drama in Communications, Proper and Effective Speaking, Self-Motivation, Analytical Thinking and Decision Making.

#### **Occupational Health and Safety Training**

Under the Company's occupational health and safety training programs, 63 employees attended the in-class training course on Basic Occupational Health and Safety & Emergency in 2017. In addition to basic training programs, one employee completed First-Aid Certification Training.

All new employees completed the e-learning course on Anti-Money Laundering and Combatting the Financing of Terrorism. In addition to this training, some other e-learning courses were also provided to the employees such as Information Security, Data Sharing Process, Ethic and Rightness Principles and for the related departments Volcker Rule.

As in previous years, the training programs FCI were included in Garanti Faktoring's training catalogue in 2017. The Company also keeps rewarding the employees who successfully completed these certification programs. The Company participated in the aforementioned training seminars, as well as training programs by the Banks' Association of Turkey and the Association of Financial Institutions during the year.

### Career maps

In line with the human resources policy, Garanti Faktoring aims to cultivate future managers by giving priority to promoting from within the Company. All the promotions that took place at Garanti Faktoring in 2017 used internal candidates from among the Company's own staff.

To this end, the Company created Career Roadmaps based on objective and transparent criteria to determine the appropriate career paths for employees that match their skills, experience, expectations, and goals. Since that time, these roadmaps have guided employees on their individual career paths.

The Company conducts performance assessments online, twice a year for Head Office

employees and once a year for sales teams, via the e-performance appraisal system.

### Rewarding 18 Employees

The purpose of the recognition program is to reward employees who "make a difference", in line with the Company's goals and strategies, in selected categories, and to create awareness of excellence across the organization. In 2017, 18 employees received awards in various categories.

With the Foreign Language Proficiency Bonus, Garanti Faktoring aims to motivate its personnel to improve their foreign language skills. This bonus is available to all employees up to the management levels. The Company pays the exam fees for staff members who take and pass the proficiency test.

### Distribution of Employees by Gender (%)

Male	42
Female	58

### Average Age of Employees (YEARS)

Male	36
Female	35

### Education Level

Primary School	1
High School	11
Associate Degree	11
Bachelor's Degree	107
Master's Degree	25
Doctoral Degree	1

### In-class and on-the-job training provided to employees (hours)

Per person	17
Total	2,781

# BEST SUPPORTING **ACTORS**

The composition of our balance sheet is changing. We provide support to small and medium sized enterprises. SMEs account for 89% of our active customers.





TOLGA NEBİL / DIRECTOR

GAMZE AYDIN / CUSTOMER SERVICES REPRESENTATIVE

## SIGNIFICANT IMPROVEMENTS IN COMPANY OPERATIONS

### Research and Development

## In 2017, Garanti Factoring implemented various projects to improve internal business processes and comply with the sector's functioning of the sector.

In 2017, Garanti Factoring implemented various projects to improve internal business processes and comply with the sector's functioning of the sector. To boost customer satisfaction and productivity, Garanti Factoring aims to develop its organizational structure and business practices to lay the groundwork for more productive operations.

Garanti Faktoring conducts continuous efforts to achieve its productivity targets and goal of becoming the industry leader. In 2017, the Company executed projects to improve internal processes and align Garanti BBVA Group consolidation studies its operations with industry-wide practices.

In 2017, Datawarehouse infrastructure was set up to launch the DWH project, which aims to bring together the Garanti Factoring reporting system under a single roof and improve work efficiency. According to plans, the project will be commissioned in 2018.

The use of the Expenses Menu began in 2017 in order to ensure that all transactions related to operating expenses are executed and monitored in line with approved processes. In addition, systematic improvements were made to provide and report data for the IFRS9 – Expected Credit Loss Provisions Model.

## Investments

During the 2017 accounting period, Garanti Faktoring:

- Purchased tangible assets amounting to TL 430 thousand and intangible assets (software) amounting to TL 3,620 thousand.



## SIGNIFICANT IMPROVEMENTS IN COMPANY OPERATIONS

### Risk Management Policies

## In 2017, Garanti Factoring revised its risk policies in response to changing economic conditions, risk appetite and institutional practices.

#### Financial Risk Management Objectives and Policies

The purpose of the Garanti Faktoring's risk management strategy is to ensure the optimal allocation of the Company's capital by respecting a risk-benefit balance and guarantee growth according to this balance while measuring the risks that endanger the Company's business activities, within the framework of Garanti Group policies and practices.

Garanti Faktoring's fundamental approach to risk management includes defining and analyzing risks according to the volume, type and complexity of the Company's business activities; ensuring compliance with local and international laws, rules and regulations; maintaining the enterprise's financial strength by monitoring and controlling the risks in order to limit possible negative market conditions on the capital and gains; and creating a risk culture all across the Company by establishing risk transparency and awareness.

As part of risk management efforts, Garanti Faktoring reviewed its risk management models and organization as a whole in 2017. Existing policies were revised in light of changing economic conditions, risk appetite and institutional practices, with new policies developed as needed. Early warning limits, necessary actions, and upper limits were reviewed in terms of liquidity,

exchange rate and interest rate risks; all limits and actions were included in the policies.

A Risk Management Committee was established for monitoring the designated policies and action plans. Members of the Committee were selected and its working principles were determined.

#### Credit Risk

Garanti Faktoring is subject to credit risk because of factoring transactions. The Company has a defined credit policy whereas credit risk management is mostly based on allocation and pre-monitoring processes and credit risks are constantly monitored.

Companies that lack credit allocation criteria cannot start a credit relationship with Garanti Faktoring. The Credit Committee regularly meets and all credit requests are considered on their own individual merit. Early warning systems are also introduced for the supervision of allocated credits and necessary studies and customer credibility measurements are performed for certain customers. The Company has subcommittees in charge of credit processes and NPL management to ensure effective monitoring of credit risk.



**Market Risk**

Garanti Faktoring uses hedging instruments in accordance with changing market conditions; meanwhile, market risks are managed via derivative transactions and risk avoiding positions in line with risk appetite limits approved by the Board of Directors. Factoring receivables as well as cash flow and liquidity risks are managed by monitoring maturities of bank credits and deposit accounts.

**Liquidity Risk**

Liquidity risk is managed in conformity with the established risk management policies in order to ensure that measures are taken, as needed, on a timely and appropriate basis against possible liquidity squeezes that might result from market conditions and the balance sheet structure.

The Company's liquidity management policy anticipates a certain liquidity gap that is sufficient to ensure the ability to sustain actual funding; utilize investment opportunities; meet credit obligations; and deal with possible liquidity squeezes. The Company's funding base relies on credit utilization transactions with banks and bond issuance. The required diversification of assets and liabilities is maintained to fulfill payment obligations without interruption considering relevant currencies. For Turkish lira and foreign currency liquidity management, Garanti Faktoring monitors its cash flow in relation to assets and liabilities and estimates the Company's future liquidity needs.

**Operational Risk**

The Internal Audit Unit regularly supervises proper functioning of the Company's internal control system and the efficiency of controls used for operational risks.

Systems controls, controls performed by the employees in ordinary work processes, organizational structure, allocation of authorizations and responsibilities, which all together make up the Company's internal control system, as well as the control environment related to the general risk management approach, are evaluated.

Systematic or procedural limits are applied to enhance the control environment on activity fields. These limits are set by the Board of Directors to limit operational risks taking into account the importance of the work for the Company, the risk involved and the size of the possible loss, and the qualifications of the employee in charge of the transaction. These limits are evaluated periodically and updated in accordance with needs.

Policies and procedures related to business continuity management under extraordinary circumstances were formulated and made available. This effort allows the Company to continue protecting its corporate reputation, fulfilling legal obligations and meeting customer needs even under adverse conditions.

**Reputation Risk**

The Human Resources and Internal Audit Unit define the ethical principles that regulate the conduct of Company employees and work relations, and monitors the compliance thereof. The Company avoids any transaction and activity that may pose a reputation risk in the eye of the authorities, customers and other market players, and acts with the utmost care for the benefit of society, environment and humanity. The Company carries out all transactions and activities in full compliance with applicable laws and regulations, Corporate Governance Principles as well as social, ethical and environmental values and principles.

Compliance with the Company's social media policy, which was developed by taking into consideration the rising importance of social media and its effects on enterprises, is overseen by the relevant unit.

## SIGNIFICANT IMPROVEMENTS IN COMPANY OPERATIONS

### **Assessment of the Internal Control, Internal Audit and Risk Management Systems by the Audit Committee**

The Company's fundamental and essential principles include risk-focused audit; active supervision by the Board of Directors and Senior Management; establishing and monitoring appropriate Company policies; measuring, assessing and reporting risks in a timely, accurate and impartial manner, and the establishment of a sufficient and effective internal control system.

In this regard, the Internal Audit Unit performed audits and controls on the performance and efficiency of the Company's internal control and risk management systems within the scope of the 2017 audit plan approved by Board of Directors. The Unit also provided consulting, and carried out inquiries whenever necessary.

The Internal Audit Unit aims to assess the risks that threaten the Company's corporate governance processes, operations and information systems, considering at the same time the realization of corporate strategic targets, reliability and accuracy of financial and operational information,

effectiveness and efficiency of activities and programs, protection of assets as well as compliance with laws and internal regulations. In parallel, the Internal Control Unit conducted control activities related to the effectiveness of internal control systems under the 2017 control plan approved by the Board of Directors. The Unit regularly reported the results it obtained to the Company's senior management and Audit Committee.

In 2017, the Audit Committee and the Board of Directors supervised the sufficiency and efficiency of internal control, risk management and internal audit systems as well as the operation of these systems with accounting and reporting systems within the framework of applicable regulations. In 2018, the Audit Committee and the Board of Directors will continue to supervise the sufficiency and efficiency of risk management and internal audit systems in line with Company strategies and activities.

Ali Çoşkun  
Member of Board of Directors  
Member of Audit Committee

Serhat Yanık  
Member of Board of Directors  
Member of Audit Committee

## **Information on Direct and Indirect Subsidiaries and Respective Share Ratios**

Garanti Faktoring A.Ş. has neither direct or indirect subsidiaries nor any respective share ratios as of December 31, 2017.

## **Information on Acquired Shares**

As of December 31, 2017, Garanti Faktoring A.Ş. has not acquired any of its own shares.

## **Information on Private Audit and Public Audit**

The Company did not undergo any private audits in 2017.

## **Lawsuits Filed Against Garanti Faktoring A.Ş.**

During fiscal year 2017, there were no lawsuits brought against Garanti Faktoring that may affect the financial position and operations of the Company. Administrative or Judicial Sanctions Imposed on Garanti Faktoring or its Board Members.

## **Information on Administrative or Legal Penalties Imposed on Garanti Faktoring A.Ş. and/or Board Members**

During fiscal year 2017, there were no lawsuits brought against Garanti Faktoring that may affect the financial position and operations of the Company. Administrative or Judicial Sanctions Imposed on Garanti Faktoring or its Board Members.

SIGNIFICANT  
IMPROVEMENTS IN  
COMPANY OPERATIONS

**Previous Period  
Budget and  
Performance  
Assessment**

As the sector grew, Garanti Factoring's share within the sector became 8.2% for receivables and 10.4% for turnover.

As the industry's total shareholders' equity increased 8.4% over 2016, Garanti Faktoring achieved 11.2% growth in shareholders' equity during the year.

In 2017, the assets grew by 19.1% and increased from TL 2.8 billion to TL 3.5 billion compared to the previous year. Regarding the 2017 balance sheet details, financial inclusion was taken as basis, and the risk on average was increased by 52% in the SME segment while the current situation was maintained in the other customer segments.

As of 2017 yearend, the non-performing loans (NPL) coverage ratio was 79.3% while the NPL ratio was 2.76% with a positive score of 0.7 points compared to the sector.

In spite of the increasing cost of interest rates under the market conditions, Garanti Factoring increased its funding diversity, lowering its funding costs and maintaining its balance sheet spreads.

<b>Assets (TL million)</b>	<b>2016</b>	<b>2017</b>
Liquid Assets and Banks	10	19
Factoring Receivables	2,835	3,360
Other	54	73
<b>Total Assets</b>	<b>2,899</b>	<b>3,452</b>

<b>LIABILITIES</b>	<b>2016</b>	<b>2017</b>
Funds Borrowed	2,149	2,149
Bond Issuance	504	796
Other	61	24
Shareholder's Equity	185	213
<b>Total Liabilities</b>	<b>2,899</b>	<b>3,452</b>

<b>Net Profit (Thousand TL)</b>	<b>2016</b>	<b>2017</b>
Net Interest Income	25,174	27,402
Other Income	73,487	43,397
Operating Expenses	78,945	43,196
<b>Net Profit</b>	<b>19,716</b>	<b>27,603</b>

	<b>Garanti Faktoring</b>	<b>SECTOR</b>
<b>Growth Rate</b>		
Average Assets	1.7	20.9
Average Factoring Receivables	3.0	22.0
Average Equity	11.2	8.4
NPL Ratio	2.76	3.5
Number of Total Factoring Employees	-4.9	1.3

<b>Garanti Faktoring Market Shares (%)</b>	<b>2017</b>	<b>2017</b>
Average Assets	9.4	7.9
Average Factoring Receivables	9.7	8.2
Total Factoring Turnover	11.4	10.4
Average Equity	3.7	3.8

<b>Profitability Ratios (%)</b>	<b>2016</b>	<b>2017</b>
Average Return on Assets	0.7	0.96
Average Return on Equity	11.0	13.60
Operating Income/Average Assets	9.0	10.4
Operating Expense/Average Assets	1.6	1.6
Net Interest Margin	1.3	1.3
Coverage Ratio	77.30	79.3

SIGNIFICANT  
IMPROVEMENTS IN  
COMPANY OPERATIONS

## Donations and Assistance in 2017 – Social Responsibility Projects

## In 2017, the Community Volunteers Foundation provided scholarship to 12 students with Garanti Faktoring Scholarship Fund.

Garanti Faktoring A.Ş. can make donations and aid to foundations, associations, schools, universities and similar organizations with social missions, provided that it complies with Capital Markets Board regulations.

The Company's Donations and Assistance Policy was approved at the Extraordinary General Assembly Meeting held on January 14, 2013 and published on the website [www.garantifactoring.com](http://www.garantifactoring.com), under the section "Investor Relations, Corporate Governance."

The Company draws up its donation and aid policy and submits it for the approval of the General Assembly. Shareholders are then briefed at the General Assembly Meeting under a separate agenda item on the total amount and respective beneficiaries of all donations and aid made during the period pursuant to the policy approved by the General Assembly as well as any changes to the policy.

The Company keeps the size of donations and aid at a minimum level since its fundamental purpose is to ensure high income received by its investors and shareholders.

### Donations totaling TL 67,855

In 2017, Garanti Faktoring donated TL 33,000 to Community Volunteers Foundation; TL 22,750 to KAÇUV, TL 5,000 to Hayata Bağış Derneği (Donate Life); TL 905 to the Turkish Educational Foundation; and TL 4,500 to Nihad Sayar Education Foundation; TL 1,700 to Private Sector Valonteers. The Company's donations totaled TL 67,855 for the year.

### Scholarships to 12 students

Garanti Faktoring provided scholarships to 12 students through the Garanti Faktoring Scholarship Fund constituted under the Community Volunteers Foundation.

### CO-OP Project

Under the eighth edition of Bahçeşehir University's CO-OP project, "Garanti Faktoring: The World of Receivable Finance" classes continued during spring semester 2017. The Company's managers delivered 24 hours of classroom training on the sector to the students of Bahçeşehir University for a total of nine weeks during the spring term. Further, students also actively participated in the customer visits over the course of one week. As in previous years, students showed great interest in the program in 2017.

Under the eighth edition of Bahçeşehir University's CO-OP project, "Garanti Faktoring: The World of Receivable Finance" classes continued during spring semester 2017.

#### **Private Sector Volunteers Foundation's School-Friendly Program – Vocational High School Coaches**

Garanti Faktoring's corporate volunteers received training in basic coaching skills and joined a personal development program for student groups at Mehmet Ali Büyükhanlı Vocational and Technical Anatolian High School. The volunteers will share their industry experience with students at the school.

#### **KAÇUV Philanthropy Run and Birthday Celebration**

Garanti Faktoring's corporate volunteers joined the İstanbul Marathon to give their support to

KAÇUV (Foundation for Hope to Children with Cancer)'s Second Family Home Project.

In addition, Company employees organized a birthday celebration at a hospital for children being treated for cancer.

#### **Environmental Practices**

As in previous years, Garanti Faktoring preferred to print its agendas and calendars on 100% recycled paper to support sustainable development. Used paper, plastic bottle caps and plastic courier packages are collected within the Company for recycling purposes.



## SIGNIFICANT IMPROVEMENTS IN COMPANY OPERATIONS

### Information on Group Companies

Transactions realized with the parent company and its subsidiaries are ordinary commercial activities; there is no transaction, or any measure taken or avoided in favor of the holding company or its subsidiaries, with or without the direction of the parent company.

No counter action or measures became necessary or avoided since there was no legal proceeding started thereof, and thus no damage occurred regarding this issue.

### Amendments to The Articles of Association

In accordance with the Capital Markets Board Communiqué on Principles Regarding the Registered Capital System, the Capital Markets Board's permit dated December 21, 2016 and numbered 29833736-110.03.02-E.13738, and the Ministry of Customs and Trade General Directorate of Domestic Trade's permit dated December 27, 2016 and numbered 50035491-431.02-E-00021345721; at the Ordinary General Assembly 2016, dated April 18, 2017, the Registered Capital Ceiling period specified in Article 6 of the Company's Articles of Association was extended until the end of 2020, and Article 6 of the Articles of Association was amended to reflect the change.

#### **OLD VERSION REGISTERED CAPITAL:**

Article 6: The Company has adopted the registered capital system within the framework of the Capital Market Law and under the Capital Markets Board's permission numbered 709, dated October 8, 1993. The Company's registered capital amounts to TL 175,000,000, which is divided into 17,500,000,000 shares, each with a nominal value of 1.-Kr.

The permission for the registered capital ceiling that was granted by the Capital Markets Board is valid for the period 2012-2016 (five years). Even if the permitted registered capital ceiling has not been reached as of the end of 2016, in order for the Board of Directors to adopt a resolution regarding the capital increase, it is mandatory to obtain permission

#### **NEW VERSION REGISTERED CAPITAL:**

Article 6: The Company has adopted the registered capital system within the framework of the Capital Market Law and under the Capital Markets Board's permission numbered 709, dated October 8, 1993. The Company's registered capital amounts to TL 175,000,000, which is divided into 17,500,000,000 shares, each with a nominal value of 1.-Kr.

The permission for the registered capital ceiling that was granted by the Capital Markets Board is valid for the period 2016-2020 (5 years). Even if the permitted registered capital ceiling has not been reached as of the end of 2020, in order for the Board of Directors to adopt a resolution regarding the capital increase, it is mandatory to obtain permission from the



**OLD VERSION****REGISTERED CAPITAL:**

from the Capital Markets Board for the ceiling that was previously permitted or for a new ceiling amount, and to receive authorization from the General Assembly for a new time period. If such authorization cannot be obtained, it shall be deemed that the Company has been excluded from the registered capital system.

The Board of Directors is authorized to raise the issued capital up to the registered capital ceiling by issuing new shares, whenever it deems necessary, between the years of 2012 and 2016, in accordance with the provisions of the Capital Market Law. The Board of Directors is also authorized to restrict the rights of privileged shareholders, to limit the preemptive rights of shareholders to obtain new shares, and to issue new shares at a price lower than the premium or nominal value. The authority to restrict the preemptive rights to obtain new shares shall not be exercised in a manner leading to inequality among shareholders. The Board of Directors is authorized, without being bound by the provisions of the Turkish Commercial Code pertaining to capital increase, to raise the issued capital up to the registered capital ceiling by issuing bearer shares.

The Company's issued capital of TL 79,500,000 (Seventy-nine million, five hundred thousand Turkish lira) has been divided into 7,950,000,000 shares each with a nominal value of 1.-Kr (One kuruş); of these shares, 4,004,242,898.779 are Class A shares and 3,945,757,101.221 are (Class B) registered shares.

**NEW VERSION****REGISTERED CAPITAL:**

Capital Markets Board for the ceiling that was previously permitted or for a new ceiling amount, and to receive authorization from the General Assembly for a new time period. If such authorization cannot be obtained, the Company cannot raise the capital with a Board of Directors' resolution.

The Board of Directors is authorized to raise the issued capital up to the registered capital ceiling by issuing new shares, whenever it deems necessary, between the years of 2016 and 2020, in accordance with the provisions of the Capital Market Law. The Board of Directors is also authorized to restrict the rights of privileged shareholders, to limit the preemptive rights of shareholders to obtain new shares, and to issue new shares at a price lower than the premium or nominal value. The authority to restrict the preemptive rights to obtain new shares shall not be exercised in a manner leading to inequality among shareholders. The Board of Directors is authorized, without being bound by the provisions of the Turkish Commercial Code pertaining to capital increase, to raise the issued capital up to the registered capital ceiling by issuing bearer shares.

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## SIGNIFICANT IMPROVEMENTS IN COMPANY OPERATIONS

### Amendments to The Articles of Association

#### **OLD VERSION REGISTERED CAPITAL:**

As per Law No: 5274 regarding Amendments to the Turkish Commercial Code, the nominal value of shares was changed from TL 1,000 to 1 Ykr. Due to this amendment, the total number of shares has decreased; therefore, each 10 former shares having a former par value of 1,000.-- TL shall be replaced by one share having a par value of 1 (Yeni/New) Kuruş. This amendment in and of the nominal/par values of shares has been made without prejudice to the existing rights of the shareholders arising out of the shares they currently hold so that all their existing rights are reserved. Shares representing the capital are monitored on a registered basis pursuant to registration principles.

While the nominal values of shares have been changed to 1 Yeni (New) Kuruş per share, as per Law No: 5274 regarding Amendments to the Turkish Commercial Code, the term "Yeni (New)" was removed from the currency denominations "Yeni Türk Lirası (New Turkish Lira)" and "Yeni Kuruş (New Kuruş)" as per Decree No: 2007/11963 of the Council of Ministers on April 4, 2007, and thereby, these were amended as "Turkish Lira" and "Kuruş."

The issued capital has been fully paid up in cash. The Board of Directors is authorized to issue shares of all classes, privileged shares, at a price either below or above the nominal value; to limit the preemptive rights of shareholders to obtain new shares; and to restrict the rights of privileged shareholders.

#### **NEW VERSION REGISTERED CAPITAL:**

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The issued capital has been fully paid up in cash. The Board of Directors is authorized to issue shares of all classes, privileged shares, at a price either below or above the nominal value; to limit the preemptive rights of shareholders to obtain new shares; and to restrict the rights of privileged shareholders.

## Regulations on Factoring Legislation

An amendment was made to Article 6, paragraph 4 of the Regulation on Accounting Applications and Financial Statements of Financial Leasing, Factoring and Financing Companies, published in the Official Gazette numbered 30157 and dated August 17, 2017. According to the amendment, if there are multiple receivables independent of each other from a debtor, and if a special provision has been set aside for any of these receivables pursuant to the provisions of the first and second paragraphs, then special provisions of the same proportion will also have to be set aside for the other receivables. However, factoring companies, if there are multiple receivables independent of each other from a debtor and if a special provision has been set aside for any of these receivables pursuant to the provisions of the first and second paragraphs, can set aside a special provision according to an assessment on the basis of receivables rather than debtors.

The Regulation's Article 9/A entitled "Exceptions" states that the special and general provision rates will be taken as 0% for receivables from public agencies and companies.

The "Regulation on the Amendment of the Regulation on the Procedures and Principles that Apply in Factoring Transactions" was published in the Official Gazette dated October 6, 2017 and numbered 30202.

The regulation provides definitions for e-invoice and e-archive invoice, and states that e-invoice and e-archive invoice transactions can be performed without keeping the image of the referenced invoices if these are confirmed by the Turkish Revenue Administration's Central Invoice Registration System.

It was also stipulated that, in guaranteed export and import transactions, if the company and the invoice debtor have signed an exclusive contract which covers the invoice or contract provisions that underpin the commercial transaction that serves as the basis for the factoring transaction and which includes information on the bill of exchange issued or endorsed by the invoice debtor in question, then transactions can be made by checks or promissory notes endorsed directly by the invoice debtor/buyer, without the endorsement of the seller firm.

SIGNIFICANT  
IMPROVEMENTS IN  
COMPANY OPERATIONS

**Important  
Developments  
That Occurred  
after the End of  
the Operating Year**

No developments of special importance took place after the operating year ended.

## Compensation and Benefits Granted to Board Members and Executives with Management Responsibility

Salaries and Other Benefits to Board Members and Managers with Administrative Responsibility is available under the topic “5.6 Financial Rights” specified in the “Corporate Governance Principles Compliance Report” section of this report.

## Garanti Faktoring A.Ş. Profit Distribution Policy and Information Regarding Profit Distribution

Garanti Faktoring A.Ş. (Company) Profit distribution Policy was determined; within the framework of the Turkish Commercial Code, Capital Market Law and Capital Markets Board legislation, regulations and decisions and the relevant provisions of the Tax Procedure Law; and in line with the Corporate Governance practices, our Company’s strategies and financial plans; and by considering the economic situation of the country and the sector and by maintaining the delicate balance between our shareholders’ expectations and our Company’s requirements.

Our Company determines the dividend amount, dividend distribution ratio and dividend payment method (cash and/or scrip issue), within the frame work of the relevant legislation and Articles of Association provisions and in line with the General Assembly decisions.

There are no privileges in our Company’s profit distribution, and without per diem deduction, profit is distributed to all shares equally as of the date of distribution.

Dividends can be paid in equal or varying installment amounts provided that a decision is taken at the General Assembly Meeting that decided to make a profit distribution. There are no regulations in our Company’s Articles of Association stipulating advanced dividend payments.

In case the Board of Directors makes a proposal to the General Assembly not to distribute any profit, information regarding the reasons of this situation and the method to use the non-distributed profit is included in the agenda item on profit distribution and is submitted to the shareholders’ approval at the General Assembly Meeting. This information is also publicly announced in the annual report and on our Company’s website.

## SIGNIFICANT IMPROVEMENTS IN COMPANY OPERATIONS

### Garanti Faktoring A.Ş. Profit Distribution Policy and Information Regarding Profit Distribution

In case an amendment is made to the profit distribution policy, the policy will be presented to the approval of the shareholders at the General Assembly Meeting, and the Board of Directors decision and reasons regarding this amendment are publicly announced within the framework of the regulations of the Capital Markets Board Communiqué on "Disclosure of Material Matters" on the Company's website.

At the Ordinary General Assembly Meeting held on April 18, 2017, taking into consideration the Company's financial statements for the period January 1-December 31, 2016, prepared under Capital Markets Board (CMB)'s "Communiqué on the Principles Regarding Financial Reporting in the

Capital Markets (Series (II-14.1))" and in accordance with Turkish Accounting Standards/Turkish Financial Reporting Standards (TAS/TFRS) and the financial statement format imposed by the CMB, and audited by DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., the Board of Directors proposed, in accordance with the principle of "Determining and Distributing Profit" in the Company's Articles of Association, to set aside the tax provisions from the 2016 profit of TL 23,806,744.88 and transfer the remaining net period profit of TL 19,715,544.16 to the legal and extraordinary profit reserves account, taking into consideration the impact of net deferred tax of TL 7,764,442.80 that was calculated from the 2016 period profit, and to keep it within the Company. The Board of Directors' proposal was approved by the General Assembly.

## Transactions with Related Parties

Garanti Faktoring's related party transactions are specified in footnote n.25 of the financial statements of Garanti Faktoring A.Ş. as of the 31<sup>st</sup> of December 2017 on page 142.

# SPECIAL JURY **PRIZE**

For the third year  
in a row, FCI named  
us the “World’s Best  
Export Factoring  
Company.”







DILAN ACAR / ATTORNEY

ÜMİT YILDIZ / DIRECTOR

## CORPORATE GOVERNANCE

## Corporate Governance Compliance Report

### SECTION 1 - CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

Garanti Faktoring A.Ş. (Company) pursues and practices the Corporate Governance Principles published by the Capital Markets Board (CMB) Our Company has adopted full compliance with the Corporate Governance Principles stipulated in the Law and has got a corporate governance approach based on transparency, equality, responsibility and accountability. Our Company complies with the compulsory Corporate Governance Principles stipulated in the Corporate Governance Communiqué II-171 and adopts the principle of implementing the non-compulsory Corporate Governance Principles that would not have impact on our Company's competitive power, trade secrets and on the information that will create opportunity inequalities between the shareholders and stakeholders.

As a result of the rating assessment made for the sixth time this year in order to register our Company's practices regarding compliance with the Corporate Governance Principles, our Company's Corporate Governance Rating score for the 19.08.2017-19.08.2018 period rose from "9.26" to "9.32" with a report issued by Kobirate International Credit Rating and Corporate Governance Services Inc. (Kobirate Inc.).

This result indicates; that Garanti Faktoring complies significantly with the Corporate Governance Principles published by the Capital Markets Board, and that it has established internal control systems and that these systems are active, and that it rightfully oversees shareholders' rights, and that the public disclosure and transparency activities are at carried out at a high level, and that its rightfully oversees stakeholders' rights, and that the structure of the Board of Directors and working conditions of Garanti Faktoring fully comply with the Corporate Governance Principles.

The details of the Corporate Governance Principles rating scores in major topics are given below in a comparison to the previous period;

<b>Topic</b>	<b>Weight Ratio %</b>	<b>August, 16 - August, 17 2017 (5<sup>th</sup> Period Revised)</b>	<b>August, 17 - August, 18 2016 (5<sup>th</sup> Period)</b>
Shareholders	25	92.02	92.70
Public Disclosure & Transparency	25	97.67	97.67
Stakeholders	15	90.90	92.93
Board of Directors	35	90.01	90.52
<b>Total</b>	<b>100</b>	<b>92.60</b>	<b>93.21</b>

## SECTION 2 – SHAREHOLDERS

### 2.1 Investor Relations Department

Within our Company Investor Relations Department's activities are carried out by the General Accounting Unit.

Authorized persons are listed in the table below:

Name	Title	License Number/Type	Phone	E-mail
Mert Ercan	Executive Vice President	-	(212) 365 52 13	mercan@garantifactoring.com
		701222/Corporate Governance Rating License, Capital Markets Activities Level 3 License, 305653/Derivative Financial Instruments License, 602587/Credit Rating License		
Serap Çakır	Unit Manager		(212) 365 52 18	scakir@garantifactoring.com
Ümit Yıldız	Supervisor		(212) 365 52 15	uyildiz@garantifactoring.com
Müge Bal Güngörmez	Assistant Officer	525739/ Capital Markets Activities Level 1 License	(212) 3655221	MGungormez@garantifactoring.com

Main responsibilities of the department:

- Answering their written and verbal information requests of shareholders and investors,
- Carrying out relations with shareholders and investors, keeping records of the written and verbal information requests and documents up-to-date and secure,
- As per the Capital Markets Board Communiqué on Material Matters, fulfilling the obligation making public disclosure by announcing the information (that must be publicly disclosed) via Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)) and on [www.garantifactoring.com](http://www.garantifactoring.com) in the “Yatırımcı İlişkileri” section,
- Preparing and issuing financial reports in conformity with the Capital Markets Board Communiqué on Capital Markets’ Financial Reporting Principles (II-14.1) published in the Official Gazette n.28676 (Date: 13th of September 2013), and announcing them via Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)) and on Company website [www.garantifactoring.com](http://www.garantifactoring.com),
- To prepare annual and interim activity reports in accordance with the principles set out in the communiqués and regulations issued by the Capital Markets Board and the Ministry of Customs and Trade, to disclose these reports on the Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)) and to publish them on the corporate website at [www.garantifactoring.com](http://www.garantifactoring.com)
- Preparing and issuing Annual Reports and interim activity reports in conformity with the principles stipulated in the communiqués and regulations and announcing them via Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)) and on Company website [www.garantifactoring.com](http://www.garantifactoring.com), via “Investor Relations ” webpage structured within the scope of the Capital Markets Board’s Corporate Governance Communiqué on the website [www.garantifactoring.com](http://www.garantifactoring.com), giving and updating information to provide “Bilgi Toplumu Hizmeti” within the scope of the Ministry of Customs and Trade Regulation on Capital Companies’ Websites,

## CORPORATE GOVERNANCE

## Corporate Governance Compliance Report

- Making Company's General Assembly Meetings, in compliance with the Articles of Association and Garanti Faktoring A.Ş. Internal Directive on General Assembly's Working Principles and Procedures,
- To coordinate ratings activities and relations with rating companies
- Performing Company's capital increase transactions and enabling shareholders & investors to use rights offering and scrip issue arising from capital increase,
- Making changes to the Company Articles of Association in conformity with the relevant legislation,
- Performing profit distribution transactions in accordance with the 26nd Article of the Articles of Association in case the General Assembly decides to distribute profit,
- Preparing and revising policies and procedures within the scope of Capital Markets Board Communiqués and other regulations in order to increase the Company's compliance with the corporate governance principles.
- Keeping track of and reporting stock price and volume movements, and presenting reports,
- Presenting reports to Corporate Governance Committee and Board of Directors.

### 2.2 Shareholders' Right to Information

Shareholders' information requests are evaluated without making any discrimination among the shareholders provided that they do not interfere with trade secrets and/or company interests that require protection. Various information about the Company is available for shareholders and investors on the Company's website (prepared in Turkish and English) [www.garantifactoring.com](http://www.garantifactoring.com) in the "Yatırımcı İlişkileri" section and in the "Bilgi Toplumu Hizmetleri" section.

In these sections, news and announcements regarding the Company's Corporate Governance Reports, Financial Reports and Independent Audit Reports, Annual Reports, Material Matter Disclosures, Rating Report, Rating Reports for Compliance with Governance Principles and developments and changes about the Company are available for all shareholders' and investors' information and use. In order to enable shareholders to make written and verbal information requests [GFYatirimcilliskileri@garantifactoring.com](mailto:GFYatirimcilliskileri@garantifactoring.com) e-mail address and phone numbers were made available on the Public Disclosure Platform, and on the website [www.garantifactoring.com](http://www.garantifactoring.com) in "Yatırımcı İlişkileri >Kurumsal Yönetim" page. Shareholders' right to appoint private auditors is specified in the 16<sup>th</sup> Article of

the Articles of Association as; “Shareholders’ right to appoint private auditors as stipulated in the provisions of the legislation, is reserved.” On January, 1 – December, 31 2017, shareholders’ made no requests to appoint a private auditor.

### 2.3 General Assembly Meetings

General Assembly Meetings are held in conformity with the regulations specified in the Company’s Articles of Association and “Garanti Faktoring A.Ş. Internal Directive on General Assembly’s Working Principles and Procedures” that entered into effect upon the approval of the Ordinary General Assembly Meeting held on 29.03.2016.

Garanti Faktoring made its 2016 Ordinary General Assembly Meeting on 18.04.2017 at the Company Headquarters.

Ordinary General Assembly Meeting was held with the participation of T. Garanti Bankası A.Ş. and Türk İhracat Kredi Bankası A.Ş. (Turkish Export Credit Bank Inc.) by proxy. The meeting quorum was 91.62%. Other shareholders and media did not attend the meeting.

Ordinary General Assembly Meetings were held with the Board of Directors decision. Within the framework of the legal timeframe and general provisions shareholders were informed

about the call for the meeting, meeting date, meeting location and agenda items in conformity with the relevant procedures. Shareholders and stakeholders were simultaneously informed with the disclosure of material matters made; via Electronic General Assembly System (EGKS) and Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)) and on our website [www.garantifactoring.com](http://www.garantifactoring.com).

Before the General Assembly Meeting, agenda items, power of attorney sample, informative document, balance sheet, profit-loss statements, independent audit reports and their footnotes, auditor report, Board of Directors decision regarding profit distribution, Annual Report and decision regarding the election of the Independent Audit Board, were prepared and made available for the review of shareholders in prior to the meeting date on our website [www.garantifactoring.com](http://www.garantifactoring.com) in the “Yatırımcı İlişkileri” section and via Electronic General Assembly System (EGKS).

Simultaneously, it was publicly announced via Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)). Furthermore, General Assembly Meeting minutes and attendance lists were made available for shareholders’ and stakeholders’ review on our website [www.garantifactoring.com](http://www.garantifactoring.com) in the “Yatırımcı İlişkileri > Genel Kurul Toplantıları” section.

### 2.4 Right to Vote and Minority Rights

T. Garanti Bankası A.Ş. and Türk İhracat Kredi Bankası A.Ş. shares do not have any privileges to make nomination to the Board of Directors. Garanti Faktoring does not have any subsidiaries or is not a subsidiary in a structure that brings a parent company relationship. Minority shares are not represented in the management.

An amendment to the Articles of Association, regarding the exercise of minority rights by shareholders who hold more than one-twentieth of the capital, was approved first by Board of Directors resolution dated February 10, 2015 and numbered 5, and then by the Ordinary General Assembly 2014 dated April 29, 2015 after the necessary permits were received from the relevant legal authorities.

### 2.5 Right to Dividend

There are no privileges in profit sharing. Profit distribution methods and processes are stipulated in the Turkish Code of Commerce, Capital Markets Board regulations and Company’s Articles of Association.

At the end of the activity period, upon the Board of Directors’ decision on profit distribution, the issue is publicly announced via disclosure of

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material matters ([www.kap.gov.tr](http://www.kap.gov.tr)). Board of Directors' decision on profit distribution is presented to the approval of the General Assembly and the dividend amount determined by the General Assembly is distributed to the shareholders, within the timeframe stipulated and within the framework of the Capital Markets Board Communiqué on Dividends (II-191).

Garanti Faktoring A.Ş. Profit Distribution Policy that was approved at the 2013 Ordinary General Assembly Meeting held on the 17<sup>th</sup> of April 2014 is publicly announced to the shareholders via disclosure of material matters ([www.kap.gov.tr](http://www.kap.gov.tr)), and under the Corporate Governance sub-section of the "Investor Relations" section on the website [www.garantifactoring.com](http://www.garantifactoring.com). The Profit Distribution Policy is also included in the annual and interim annual reports.

### **Garanti Faktoring A.Ş. Profit Distribution Policy**

Garanti Faktoring A.Ş. (Company) Profit Distribution Policy was determined; within the framework of the Turkish Code of Commerce, Capital Markets Law and Capital Markets Board' legislations,

regulations and decisions and the relevant provisions of the Tax Procedure Law; and in line with the Corporate Governance practices, our Company's strategies and financial plans; and by considering the economic situation of the country and the sector and by maintaining the delicate balance between our shareholders' expectations and our Company's requirements.

Our Company determines the dividend amount, dividend distribution ratio and dividend payment method (cash and/or scrip issue), within the frame work of the relevant legislation and Articles of Association provisions and in line with the General Assembly decisions.

There are no privileges in our Company's profit distribution, and without per diem deduction profit is distributed to all shares equally as of the date of distribution.

Dividends can be paid in equal or varying installment amounts provided that a decision is taken at the General Assembly Meeting that decided to make a profit distribution. There are no regulations in our Company's

Articles of Association stipulating advanced dividend payments.

In case the Board of Directors makes a proposal to the General Assembly not to distribute any profit, information regarding the reasons of this situation and the method to use the non-distributed profit is included in the agenda item on profit distribution and is submitted to the shareholders' approval at the General Assembly Meeting. This information is also publicly announced in the annual report and on our Company's website.

In case an amendment is made to the profit distribution policy, the policy will be presented to the approval of the shareholders at the General Assembly Meeting, and the Board of Directors decision and reasons regarding this amendment are publicly announced within the frame work of the regulations of the Capital Markets Board Communiqué on Material Matters (II-15.1) on the Company website [www.garantifactoring.com](http://www.garantifactoring.com).

At the 2016 Ordinary General Assembly Meeting held on 18.04.2017, the Board of Directors

decision regarding the issue of setting aside the necessary amount from the 2016 profit for tax, and transferring the remaining profit to the legal and extraordinary reserve funds to keep it within the structure of the Company, was discussed and approved at the General Assembly.

#### 2.6. Transfer of Shares

As per the provisions of the Company's Articles of Association, group A and B shares registered shares. Apart from the Group B registered shares, due to the fact the shares of other groups are not publicly traded, if shareholders wish to transfer their Group A registered shares, other shareholders who have registered shares in those groups will have the privileged right to purchase the shares (that will be transferred) in proportion to their own shares and at their current price. For this purpose, the shareholders who wish to transfer their shares, must notify the other shareholders who have registered shares via notary public. Within one month after this notification, if no one among the current shareholders wishes to purchase these shares, the shares can be transferred to third parties upon the Board of Directors' decision.

Publicly traded registered shares are outside the scope of this regulation. Company's capital cannot be less than the amount specified in the "Financial Leasing, Factoring and Financing Companies" Law Act n.6361 (date: 21/11/2012). Acquisition and transfer of shares are subject to Banking Regulation and Audit Board's approval.

### SECTION 3 – PUBLIC DISCLOSURE AND TRANSPARENCY

Our Company's information policy entered into effect with the Board of Directors decision taken on 16.12.2013 in order to promptly, completely, accurately, and comprehensibly inform its shareholders, investors and all stakeholders including the public about all information and developments regarding the Company's activities and relevant period performance and future expectations. Within the frame work of the Capital Markets Board Communiqué on Material Matters (II-15.1)", our Company's information policy was revised with the Board of Directors approval (19.08.2014) and was announced via Public Disclosure Platform (KAP), and on the website [www.garantifactoring.com](http://www.garantifactoring.com).

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### 3.1. Corporate Website and Its Content

Garanti Faktoring's website – structured within the scope of the Corporate Governance Principles in Turkish and English – is at the web-address [www.garantifactoring.com](http://www.garantifactoring.com).

On our Turkish website [www.garantifactoring.com](http://www.garantifactoring.com) in the "Investor Relations" section within the scope of the Corporate Governance Principles; below topics are regularly updated and made available for the information of the shareholders and public.

- Corporate Governance
- Shareholders' Structure
- Board of Directors
- Committees
- Articles of Association
- Trade Registry – MERSİS
- Prospectus and Circular
- Corporate Governance Principles Compliance Report
- Information Policy
- Compensation Policy
- Profit Distribution Policy
- Donations and Aids Policy
- Severance and Notice Payment Policy
- Share Repurchase Policy
- Environmental and Social Credit Policies
- Information Regarding Related Party Transactions
- Code of Ethics
- Factoring Sectors' Code of Ethics
- Independent Auditor
- Investor Relations
- Financial Reports
- Annual Reports

- Related Institutions
  - Disclosure of material matters
  - Credit Ratings
  - General Assembly Meetings
  - Corporate Governance Principles Compliance Rating Reports
- Bond Issuances are regularly updated and presented to the information of the shareholders and the public.

Within the scope of the relevant regulation of the Ministry of Customs and Trade, the issues that must be published are specified, and the "Information Society Services Garanti Faktoring A.Ş." section is updated regularly.

### 3.2. Annual Report

The Company's annual reports are prepared and issued in "Turkish" and "English" in conformity with the provisions of the Capital Markets Board Communiqué on "Corporate Governance Principles" and Ministry of Customs and Trade Regulation on "Determining the Minimum Content of Annual Reports of the Companies" published in the Official Gazette n.28395 (date: 28.08.2012).

Annual reports are presented to the approval of the Board of Directors and are publicly announced via Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)) and on the website [www.garantifactoring.com](http://www.garantifactoring.com) in the "Investor Relations" section under the topic of "Annual Reports".



## SECTION 4 – STAKEHOLDERS

### 4.1. Informing the Stakeholders

Our Company accepts the principle of protecting all stakeholders' rights with regards to the activities of the Company and informing them about the company policies and procedures.

Garanti Faktoring, regularly informs the stakeholders via disclosure of material matters on Public Disclosure Platform by sharing on Information Security portfolio's corporate website and with press releases, social media announcements and internal announcements. Stakeholders' information requests are answered by the Executive Vice President in charge of the Investor Relations Department and Sales Marketing and Coordination Department. Written information requests sent via company's website by using GFYatirimcilliskileri@garantifactoring.com and information@garantifactoring.com e-mail addresses, are answered within the timeframes stipulated in the Corporate Governance Communiqué.

Every year, an assessment of the Company's performance in the previous year and targets for the coming year are presented by the CEO to all employees at "Vision Meetings." In addition, all the procedures, policies and announcements are published on

the in-house portal to keep staff informed quickly. Stakeholders can contact the Corporate Governance Committee or Audit Committee through the communication method of their choice.

Pursuant to Garanti Faktoring Ethics and Integrity Principles Procedure, Article 31. entitled Prevention of Conflicts of Interest, the procedures to be followed by employees in the event of a conflict of interest are stated in the Ethics Notification Hotline Procedure. When acts are witnessed contrary to applicable law and ethical principles, employees can report the situation to the Ethics Notification Hotline via the e-mail address etikbildirim@garantifactoring.com or the phone number + (90) 212 286 77 03, both of which are under the responsibility of the Compliance Department.

Possible conflicts of interest between the Company and suppliers that provide it various services are avoided through contractual agreements.

### 4.2. Stakeholders' Participation in the Management

Company affairs and management is carried out by the Board of Directors elected by the General Assembly. There are no efforts concerning the participation of stakeholders in management.

Garanti Faktoring, every year organizes a General Manager presentation and vision meetings with the participation of all company employees. With periodical region budget and performance meetings and weekly assets/liabilities meetings, information on Company's progress is provided, suggestions are communicated and developments are tracked.

### 4.3. Human Resources Policy

The aim of the Garanti Faktoring human resources policy is to be a corporation; (i) that is managed with the Company's code of ethics adopting international human rights without making any language, religion, race, and gender discrimination, and (ii) where success is rewarded over transparent and measurable performance criteria, in a success and efficiency oriented environment that is open to continuous progress, and (iii) where employees are happy and everyone is the leader of his/her job.

There are career paths determined with objective and transparent criteria in Garanti Faktoring where all our employees get trainings to improve their technical, professional and individual skills. Within the limits of the Company Garanti Faktoring adopts the principle of providing its employees with all kinds of social means on the road to success besides the importance it gives to training.

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Garanti Faktoring believes that the most important factor behind the success that creates difference in the sector is the qualified human resources, and thus uninterruptedly continues to invest in increasing employees' potentials and performances.

There is no human resources representative appointed to carry out relations with the employees. Because of being a medium scale subsidiary and having 180 staff members in Turkey, Human Resources personnel carry out all tasks and responsibilities of the human resources management, within the frame work of the general functions of human resources.

Regarding the issue of recruiting personnel, relevant criteria are specified in the Article 20 of the Human Resources Regulation under the topic of Recruitment Terms and Conditions.

There haven't been any complaints about discrimination. All processes of human resources management are evaluated by the Human Resources Unit and shared, if necessary, with the top management to find a solution as soon as possible.

In line with the needs and demands, some of the unit functions and regions are restructured within the Company. Activities such as establishing relevant new units in the organization structure that will support Company's progress, changing the unit names, structuring new region offices, creating employees' job descriptions, are carried out by Organization and Process Development Unit and Human Resources Unit, and regularly announced on the Company web portal (intranet) where Company employees can easily access.

Performance and awarding process carried out by the Human Resources Unit, is clearly explained to company employees on the company web portal while employees are informed about their performances. Policies and regulations about promotion, job rotation and EVA premium systems that will be associated to performance results, are announced on the company web portal (intranet).

#### 4.4. Code of Ethics and Social Responsibility

The Garanti Factoring Ethical Principles and Rules policy document is shared with the public at [www.garantifactoring.com](http://www.garantifactoring.com), under the section "Corporate Governance." Under the policy, the Garanti Factoring Ethics and Integrity Committee was established as an internal body that operates in line with the provisions of the Ethics and Integrity Principles (Ethical Principles) approved by the Board of Directors.

In line with its vision, mission and strategic targets, Garanti Faktoring A.Ş. pursues the following principles in its sector:

- Having a corporate approach that targets to achieve reliability and efficiency;
- Being respectful, accountable, elucidative, honest, fair and transparent towards all entities it has relations with;
- Respecting the third parties' intellectual and commercial property rights relating to their products and services;
- Being fair, trustworthy towards its employees, as well as guiding them in their development;
- Respecting people, environment and work performed;
- Taking all laws and regulations as basis in all its activities.

It is the responsibility of all directors and employees of the Company to practice the code of ethics and maintain their sustainability and durability by improving them in parallel to the developing conditions.

Protecting the Company's prestige, and meticulously fulfilling all necessities of its field of business establishes the basis of this responsibility.

In all its transactions, Garanti Faktoring pays utmost attention to environmental and social awareness, and makes sure that its business relations' environmental impacts and customer requests are clearly evaluated. All transactions and customer activities within this scope are monitored to see if they meet the social and environmental standards necessitated by the Company policies and legislations. In order to manage our Company's environmental and social impacts, Environmental and Social Credit Policies were put into effect with the Board of Directors Decision n.2014/53 taken on 19.08.2014. Within the scope of social responsibility activities; lectures and relevant information were given by our Company's managers to Bahçeşehir students under the

"Garanti Faktoring; The World of Receivable Finance" brand within the scope of Bahçeşehir University CO-OP project, organized by Garanti Faktoring A.Ş. for the 8<sup>th</sup> time in 2017.

The Garanti Factoring Scholarship Fund, established under the umbrella of the Community Volunteers Foundation, provides scholarship support to 12 students.

Support Boxes are installed to meet the basic needs of children under long term hospital care and their families. The objective is to reach out to 110 young patients and their families by the end of one year. In addition, the Company and KAÇUV jointly organized 24 birthday events for youth and made donations to the Koruncuk Foundation on the occasion of Women's Day in 2017.

In 2017, Garanti Faktoring supported sustainable development by using 100% recyclable "Cyclus coated" paper for agenda and calendar printing without cutting any trees.

Moreover, in order to support recycling within the Company; batteries, paper, plastic bottle caps and cargo bags are still being collected.

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### SECTION 5 - BOARD OF DIRECTORS

#### 5.1. Board of Directors' Structure and Formation

Board of Directors is elected from among the candidates nominated by the Group (A) shareholders.

The number and qualifications of the independent members of the Board of Directors, are determined in accordance with the regulations regarding Capital Markets Board's compulsory Corporate Governance Principles. The independent members of the Board of Directors are elected in conformity with these regulations.

In the 7<sup>th</sup> Article of Garanti Faktoring Articles of Association; Board of Directors' duties and term, Board of Directors Meetings and remuneration of the members are specified.

In case a member position in the Board of Directors becomes vacant, the Board of Directors elects a legally qualified temporary member – to be submitted to the approval of the first General Assembly that will be held – from among the same group shareholders. Members elected in this manner will serve until the General Assembly Meeting and complete the term of office of their predecessors in case the General Assembly approves the election. In case

an independent member position becomes vacant in the Board of Directors regulations regarding Capital Markets Board's compulsory Corporate Governance Principles are applicable.

Garanti Faktoring's Board of Directors is composed of eight members. Chairman of the Board of Directors of the Company is Ali Fuat Erbil. Our Company's General Manager is Hulki Kara.

Board of Directors' executive members are; Ali Fuat Erbil, Recep Baştuğ, Hulki Kara,

Non-executive members are; Ali Temel, Osman Bahri Turgut, Cemal Onaran.

Independent Members of the Board of Directors are; Serhat Yanık and Ali Çoşkun.

#### **Duties & Tasks Assumed by the Members of the Board of Directors**

and Their Term of Office At the 2015 Ordinary General Assembly Meeting held on the 23<sup>rd</sup> of March 2016, regarding the term of office and election of the real person members of the Board of Directors with expired term of office, decision was taken by majority vote to; have the candidates submitted to the Corporate Governance Committee – acting as the Nomination Committee – evaluated by the committee, and elect – in line with the proposal

made by the representative of T. Garanti Bankası A.Ş. – Ali Fuat Erbil, Osman Bahri Turgut and Hasan Hulki Kara as Real Person Members of the Board of Directors with term of office for 3 years, elect Serhat Yanık and Ali Çoşkun – candidates who were evaluated and submitted with a report to the Board of Directors by the Corporate Governance Committee (acting as the Nomination Committee) – as Independent Members of the Board of Directors with term of office for 3 years (23.03.2016– 23.03.2019).

Pursuant to the Board of Directors resolution dated March 13, 2017, changes made during the year to the membership of the Board of Directors were discussed and approved at the Ordinary General Assembly held on April 18, 2017, under Agenda Item 6.

Duties & Tasks Assumed by the Members of the Board of Directors is given below.

- Chairman of the Board of Directors is Ali Fuat Erbil, and the Vice Chairman of the Board of Directors is Recep Baştuğ.
- Independent Members of Board of Directors Assistant Professor Serhat Yanık and Assistant Professor Ali Çoşkun are members of the Audit Committee.
- Within the scope of Capital Markets Board Communiqué on Corporate Governance Principles; a Corporate Governance

Committee was established within the structure of the Board of Directors.

- As per the Capital Markets Board's Communiqué on Corporate Governance Principles, and the Turkish Code of Commerce n.6102, the Early Risk Detection Committee was established within the structure of Board of Directors. Committee Members are Assoc. Prof. Dr. Serhat Yanık and Assistant Prof. Ali Çoşkun that are from the Independent Board Members. Serhat Yanık is the chairman of the Committee.

### **Résumés of the Members of the Board of Directors and Tasks Assumed Outside the Company**

#### **Ali Fuat Erbil** Chairman of the Board of Directors

Ali Fuat Erbil is a graduate of Middle East Technical University Computer Engineering Department, Bilkent University (MBA), Istanbul Technical University Banking and Finance PhD program. Ali Fuat Erbil worked as a manager in various private sector corporations and banks. He joined Garanti Bank in 1997 as Distribution Channels Manager, and later served as Vice CEO (Assistant General Manager) in charge of Retail Banking and Distribution Channels between 1999 and 2012. In this position, Erbil was also in charge of mortgage loans and private banking. In 2012, he was appointed

as the Vice CEO (Assistant General Manager) in charge of Financial Institutions and Corporate Banking. He became CEO (General Manager) of Garanti Bank on the 2<sup>nd</sup> of September 2015. Erbil is also member of the Bank's Board of Directors. Fuat Erbil serves as Chairman of the Board of Directors of Garanti Finansal Kiralama A.Ş., Chairman of Garanti Romania Board of Directors, member of the Board of Directors of Garanti Yatırım Menkul Kıymetler A.Ş., Garanti Bilişim Teknolojisi ve Ticaret Türk A.Ş., Garanti Emeklilik ve Hayat A.Ş., and Garanti Ödeme Sistemleri A.Ş. He is also a member of the Board of Directors and member of the Board of Trustees of Teachers Academy Foundation.

#### **Recep Baştuğ** Vice Chairman of the Board of Directors

Recep Baştuğ graduated from Çukurova University, Department of Economics and joined Garanti Bank in the Audit Committee Directorate in 1989. He served as Corporate Branch Manager between 1995 and 1999, Commercial Region Manager from 1999 to 2004, and Coordinator of the Commercial Banking Marketing Department from 2004 until 2012. Mr. Baştuğ also serves as Board Member at Garanti Leasing and Garanti Fleet. He has 26 years of experience in banking and business administration. Mr.

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Baştuğ is responsible for Garanti Bank's Commercial Banking Marketing – Istanbul and Ankara, Commercial Banking Marketing – Anadolu, and Consumer Finance operations. He was appointed to his current position as of January 1, 2013.

### **Ali Temel** Board Member / Credit Committee Member

Ali Temel graduated from Boğaziçi University, Department of Electrical and Electronics Engineering and began his banking career in 1990 at a private bank. He joined Garanti Bank in 1997. After serving as Unit Manager in the Basic, Cash Management and Commercial Banking units, Mr. Temel worked as Assistant General Manager – Commercial Banking from 1999 to 2001 and Assistant General Manager – Credits between 2001 and 2012. He was appointed Head of Credit Risk Management on December 10, 2015. With 26 years of professional experience in banking and business administration, Mr. Temel is responsible for Corporate and Commercial Credits Risk Management, Retail and SME Credits Risk Management, Risk Planning Monitoring and Reporting, Risk Analytics, Technology and Innovation, and Regional Credits Coordination at Garanti Bank.

### **Hasan Hulki Kara** Member of the Board of Directors/General Manager

Kara was born in 1965. He graduated from Dokuz Eylül University, Department of Economics. Kara joined T. Garanti Bankası A.Ş. in 1989 and served as 1<sup>st</sup> Degree Bank Examiner, Branch Manager and Region Manager. He is Member of the Board of Directors and General Manager at Garanti Factoring A.Ş. since October 18, 2011.

### **Osman Bahri Turgut** Member of the Board of Directors /Member of the Corporate Governance Committee

Osman Bahri Turgut was born in 1969 in Rize. He started university education in 1986 at Marmara University, Department of Economics and received his bachelor's degree in 1990. The same year, Osman Bahri Turgut started his professional career at T. Garanti Bankası A.Ş. as Assistant Bank Examiner, and served as Branch Manager, Vice Chairman of the Audit Board, Commercial Loans Unit Manager, Internal Control Center Manager and the Head of Internal Audit and Control. He still serves as Chairman of the T. Garanti Bankası A.Ş. Audit Board. He is a Member of the Board of Directors and member of the Audit Committee at Garanti Finansal Kiralama A.Ş., Garanti

Filo Management i Hizmetleri A.Ş., Member of the Board of Directors at T. Garanti Bankası A.Ş. Pension and Assistance Foundation, Garanti Kültür A.Ş., Member of the Audit Committee at Garanti Leasing SA, Garanti Consumer Finance SA and Garanti Ödeme Sistemleri A.Ş.

### **Cemal Onaran**

#### **Member of the Board of Directors**

Cemal Onaran graduated from Middle East Technical University, Department of Public Administration and started work as Assistant Inspector at Garanti Bank, Audit Committee Directorate. Between 2000 and 2007, he served as Regional Manager at Garanti Bank in various regions of Istanbul. In October 2007, Mr. Onaran was appointed General Manager at Garanti Mortgage upon the company's establishment. On August 1, 2012, he started serving as General Manager at Garanti Emeklilik ve Hayat A.Ş.; on January 1, 2017, he was appointed Assistant General Manager – SME Banking. Mr. Onaran has 26 years of professional experience in banking and business administration.

### **Serhat Yanık**

#### **Independent Member/Audit Committee Member/Early Risk Detection Committee Member/Chairman of the Corporate Governance Committee**

Serhat Yanık was born in 1970. He received his bachelor's degree in Public Administration and master's degree and PhD degree in Business Administration from İstanbul University. He continues his career as an academician at the Business Administration Department of İstanbul University Faculty of Political Sciences. At the same time, he serves as; the Head of Direct Procurement and Tender Commission of İstanbul University, Head of İstanbul University Faculty of Political Sciences Business Administration Department Accounting and Finance, Finance Director of İstanbul University Hospitals (HAGED) and Assistant Manager of İstanbul University Circulating Capital Management. He is also a Member of the Board of Directors of Expert Accountants Association of Turkey (EAAT), Editorial Board Member of TIDE Magazine and Member of the Association of University Hospitals. He also has got Independent Accountant and Financial Advisor (CPA) License, and Independent Auditor License from the Public Oversight, Accounting and Auditing Standards Authority.

### **Ali Coşkun**

#### **Independent Member/Audit Committee Member/ Early Risk Detection Committee Member**

Ali Coşkun was born in 1975. He received his bachelor's degree from İstanbul Technical University, Department of Industrial Engineering, his master's degree in Finance from Bosphorus University and his PhD degree in "Accounting and Information Management" from University of Texas. He continues his career as an academician at Bosphorus University, in the Business Administration Department of the Faculty of Economics and Administrative Sciences. At the same time, he assumes administrative tasks as; Member of the Board of Directors of Bosphorus University "Center for Research in Corporate Governance and Financial Regulation", Member of the Board of Directors of Bosphorus University Social Facility Administration, Assistant Manager of Sustainable Development and Cleaner Production Center. He is also Member of the Board of Directors at Financial Literacy and Inclusion Association (FODER) and at Capital Market Professionals Association.

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### Independence Statements of the Independent Members of the Board of Directors

#### INDEPENDENCE STATEMENT

February 18, 2016

I do declare that I am a candidate for assuming the role of an "Independent Member" on the Board of Directors of Garanti Faktoring A.Ş. (Company), pursuant to the criteria stipulated in the Capital Markets Board's Corporate Governance Communiqué II-171, and within this scope:

a) Within the last five years, no executive employment relationship that would give important duties and responsibilities has been established between myself, my spouse, my second degree relatives by blood or by marriage and (i) the Company and (ii) subsidiaries of the Company, and (iii) shareholders who control the management of the Company or who have significant influence in the Company and juridical persons controlled by these shareholders; and that I (individually or collectively) neither possess more than 5% of any and all Company capital or voting rights or privileged shares nor have significant commercial relations,

b) Within the last five years, I have not worked as an executive manager who would have important duties and responsibilities or have not been a member of the Board of Directors or been a shareholder (more than 5%) particularly in the companies that provide auditing, rating and consulting services for the Company (including tax audit, legal audit, internal audit), and in the companies that the Company purchases products and services from or sells products and services to within the framework of the agreements signed (during the timeframe of selling/ purchasing of the products and services),

c) I do have the professional training, know how, and experience that will help me properly carry out the tasks and duties I will assume as a result of my independent membership on the Board of Directors,

d) In accordance with the legislation, I will not be working fulltime in public institutions and organizations (except working as an academic at the university) after being elected as a member,

e) I am considered a resident in Turkey according to the Income Tax Law (n.193) dated 31/12/1960,

f) I do have the strong ethical standards, professional standing and experience that will help me positively contribute to the activities of the Company and remain neutral in conflicts of interest between the Company and the shareholders, and that will help me make decisions freely by taking the rights of the stakeholders into consideration,

g) I will be able to spare sufficient time for the activities of the Company to an extent that will help me pursue the activities of the Company and fulfil the requirements of my tasks and duties,

h) I have not been a member of the Board of Directors of the Company for more than six (6) years in total within the last decade,

i) I have not been an independent member of the Board of Directors in more than three (3) of the companies controlled by the Company or by the shareholders who control the management of the Company and in more than five (5) of the publicly traded companies in total,

j) I have not been registered and announced on behalf of the juridical person elected as a member of the Board of Directors.

Associate Professor Dr. Serhat Yanik  
TR ID Number:



**INDEPENDENCE STATEMENT**

February 18, 2016

I do declare that I am a candidate for assuming the role of an "Independent Member" on the Board of Directors of Garanti Faktoring A.Ş. (Company), pursuant to the criteria stipulated in the Capital Markets Board's Corporate Governance Communiqué II-171, and within this scope:

a) Within the last five years, no executive employment relationship that would give important duties and responsibilities has been established between myself, my spouse, my second degree relatives by blood or by marriage and (i) the Company and (ii) subsidiaries of the Company, and (iii) shareholders who control the management of the Company or who have significant influence in the Company and juridical persons controlled by these shareholders; and that I (individually or collectively) neither possess more than 5% of any and all Company capital or voting rights or privileged shares nor have significant commercial relations,

b) Within the last five years, I have not worked as an executive manager who would have important duties and responsibilities or have not been a member of the Board of Directors or been a shareholder (more than 5%) particularly in the companies that provide auditing, rating and consulting services for the Company (including tax audit, legal audit, internal audit), and in the companies that the Company purchases products and services from or sells products and services to within the framework of the agreements signed (during the timeframe of selling/ purchasing of the products and services),

c) I do have the professional training, know how, and experience that will help me properly carry out the tasks and duties I will assume as a result of my independent membership on the Board of Directors,

d) In accordance with the legislation, I will not be working fulltime in public institutions and organizations (except working as an academic at the university) after being elected as a member,

e) I am considered a resident in Turkey according to the Income Tax Law (n.193) dated 31/12/1960,

f) I do have the strong ethical standards, professional standing and experience that will help me positively contribute to the activities of the Company and remain neutral in conflicts of interest between the Company and the shareholders, and that will help me make decisions freely by taking the rights of the stakeholders into consideration,

g) I will be able to spare sufficient time for the activities of the Company to an extent that will help me pursue the activities of the Company and fulfil the requirements of my tasks and duties,

h) I have not been a member of the Board of Directors of the Company for more than six (6) years in total within the last decade,

i) I have not been an independent member of the Board of Directors in more than three (3) of the companies controlled by the Company or by the shareholders who control the management of the Company and in more than five (5) of the publicly traded companies in total,

j) I have not been registered and announced on behalf of the juridical person elected as a member of the Board of Directors.

Ass. Associate Professor Dr. Ali Coşkun  
TR ID Number: :

## CORPORATE GOVERNANCE

## Corporate Governance Compliance Report

Independence statements of the independent members of the Board of Directors are shared with the public under the sections “Investor Relations” and “General Assembly Meetings” on the Company website at [www.garantifactoring.com](http://www.garantifactoring.com).

With a General Assembly decision, Members of our Board of Directors are allowed to assume duties outside the Company as per the 395<sup>th</sup> and 396<sup>th</sup> Articles of the Turkish Code of Commerce and, Capital Markets Board’s Corporate Governance Principles.

There are no specific rules binding the Members of the Board of Directors to assume duties outside the Company.

### 5.2. Board of Directors’ Activity Principles

Board of Directors Meetings are held in accordance with the procedures of the “Internal Regulation Regarding the Procedures and Principles of the Board of Directors Meetings” prepared within the frame work of the Articles of Association, Turkish Code of Commerce and Capital Markets Board’s Corporate Governance Principles.

Board of Directors convenes with the majority of the total number of members and takes decisions with the majority of the members attending the meeting. Members of the Board of Directors do not have weighted right to vote and/or negative veto right. Members may vote “accept” or “decline” in the

Board of Directors. They cannot vote “abstain”. Members who vote “decline” shall write their reason under the ballot.

Board of Directors decisions taken as a result of the discussions made at the Board of Directors Meetings, are recorded in the Board of Directors decision book. As per the relevant Article of the New Turkish Code of Commerce, Board of Directors decision books openings and closings shall be notarized and completed within the specified timeframes.

In the fourth quarter of 2017, 21 Board of Directors Meetings were held with the attendance of the majority of the total number of members. In 2016, as a result of the Board of Directors Meetings 38 pages of meeting minutes were recorded. Board of Directors took 34 decisions by either making meetings or by reviewing files. At the meetings held throughout the period, there were no issues that included opposition of any of the Board of Directors members that would need to be recorded in the decision minutes. Members of the Board of Directors do not have weighted right to vote and/or negative veto right.

### 5.3. Number, Structure, and Independency of the Committees Established under the Board of Directors

In accordance with the Capital Markets Corporate Governance Principles, the Board of Directors established an Audit Committee and a Corporate Governance

Committee under the Board of Directors. Our Board of Directors did not establish a Nomination Committee or a Compensation Committee, and thus the tasks of these committees are carried out by the Corporate Governance Committee. Within the frame work of relevant legislation provisions, Board of Directors may establish other necessary or required committees. Committees' working principles are determined by the Board of Directors, and committee members are elected by the Board of Directors. Tasks and duties, working principles and names of the members of the committees are publicly announced via Public Disclosure Platform ([www.kap.gov.tr](http://www.kap.gov.tr)) and Company website.

The CEO and the General Manager did not assume any tasks or duties in the committees. Due to our Company's Board of Directors structure the number Independent Members of the Board of Directors is 2 (two). Due to the fact that at least the chairmen of the established committees and all members of the Audit Committee must be independent members, we were not able to comply with the principle stipulating that the members of the Board of Directors cannot assume tasks in more than one committee. One of our independent members of the Board of Directors has to assume tasks in two separate committees.

Corporate Governance Committee Members are Serhat Yanık, Osman Bahri Turgut and Serap Çakır. Committee convened 4 (four) times in the third quarter of 2017.

#### **Corporate Governance Committee;**

At the Corporate Governance Committee meeting held on the 13th of March 2017; The Corporate Governance Committee, in its capacity as Nomination Committee, did not have any objections to the appointment of Recep Baştuğ, Ali Temel and Cemal Onaran – whose detailed CVs are attached – to replace Gökhan Erün, Turgay Gönensin and Luis Vicente Gasco Tamarit, who resigned from the Garanti Factoring Board of Directors, pursuant to the Corporate Governance Principles. Corporate Governance Committee determined that the abovementioned persons are able to spare the sufficient time for the activities of the Company to an extent that will help them pursue the activities of the Company and fulfil the requirements of their tasks and duties. Corporate Governance Committee decided to submit to the Company's Board of Directors that electing the candidates as Members of the Company's Board of Directors is considered appropriate by the Committee.

On 7<sup>th</sup> of April 2017, Corporate Governance Committee (acting as the Remuneration Committee) decided to propose to the Board of Directors; I) remained – within the scope of Garanti Factoring A.Ş.'s remuneration policy – the amount of TL 143,748 paid annually and separately in 2016 as honorarium to each Independent Member of the Board of Directors elected at the Ordinary General Assembly meeting of Garanti Faktoring A.Ş. held on the 23th of March 2016, and thus II) to make honorarium payment of gross TL 143,748 annually and separately to each Independent Member of the Board of Directors for 2017.

At the Corporate Governance Committee meeting held on 23.06.2017; A decision was taken to; I) extend for one year the Rating and Corporate Governance Service Agreement, with expiry date of 23.06.2017, signed with Kobirate International Credit Rating and Corporate Governance Services Inc., and II) authorize Kobirate to perform rating as remaining the same before the other conditions.

At the Corporate Governance Committee meeting held on 27.09.2017; he evaluations were made on the Corporate Governance rating and actions for the oncoming year were discussed.

Audit Committee members are Serhat Yanık and Ali Coşkun.

## CORPORATE GOVERNANCE

## Corporate Governance Compliance Report

The Committee convened 8 (eight) times as of the fourth quarter of 2017. At these meetings, important findings of the audits performed by the Internal Audit Unit and the results of the periodical control activities were discussed. Moreover, information was given about the actions taken for previous findings. The Audit Committee members were given information by Deloitte, about the results of the audit performed by independent audit firm (Deloitte (31.12.2016) and KPMG) on the Company's financial data on dates; 31.12.2016, 31.03.2017, 30.06.2017 and 30.09.2017, and about the management recommendation letter. In addition, the Committee was informed about internal control activities and the activities of the Compliance Officer.

Early Risk Detection Committee members are Serhat Yanık and Ali Çoşkun.

The Committee convened 6 (six) times as of the fourth quarter of 2017. At these meetings, the Committee presented the Board of Directors Members and the auditor its reports regarding; compliance with standard ratio, compliance with the 376<sup>th</sup> Article of the Turkish Code of Commerce, the trend of the Company's foreign exchange position, the outstanding factoring receivables, cost-return and maturity composition of the balance sheet, asset-liability composition and trend of operational expenses.

### 5.4. Risk Management and Internal Control Mechanism

For the Company, building an effective risk management system and creating a strong internal control environment is the most important factor behind sustainable growth and development. Our Company continuously monitors its risks via its technological infrastructure and business processes; and makes reporting to management staff to give clues about strategic and daily decisions. Our Company analyzes value at risk and maturity in order to measure market and liquidity risks. Our Company's foreign currency position is daily monitored and reported to the relevant units and the top management in order to manage it within the allocated limits.

The Company's Risk Management Policy was updated to become more comprehensive in 2017. With this policy Garanti Faktoring aims to measure the risks within the frame work of risk management strategy and Company activities and to distribute the capital optimally by maintain the risk-yield balance and to achieve growth within the frame work of this balance. Within this scope, main principles are; (i) Detecting and analyzing the risks in line with the volume, characteristic, and complexity of the Company activities; (ii) Complying with international and local legal regulations; (iii) Protecting the financial strength by monitoring and controlling risks in order to limit the impacts of potential negative market conditions on the

capital and revenue; (iv) Creating a risk culture within the Company by creating transparency and risk awareness.

Internal control mechanisms were built for all Company personnel to comply with and to practice in order to; (i) carry out Company activities in conformity with the legislation in force and within the framework stipulated by the Board of Directors, and (ii) to maintain the integrity and reliability of the accounting and reporting systems.

Via Audit Committee, the Internal Audit Unit functions under the Board of Directors. Within the scope of the annual audit plan prepared according to risk assessments, Internal Audit Unit audits the effectiveness and efficiency of the internal control and risk management systems in a manner covering the entire Company.

### 5.5. Company's Strategic Targets

Garanti Faktoring's vision is to create difference with Garanti identity and to be the leading company of the sector. Its mission is to pioneer the progress of the sector with the investments it makes in human resources, technology and innovation and to continuously create value added for its customers, employees and shareholders.

Our Strategies:

- To be a company that creates difference with its high quality human resources, fast and efficient processes and service quality,
- To use technology effectively and increase efficiency by making continuous investment in technological infrastructure,
- With its innovative products and customer-specific corporate solutions, to provide its customers with services in line with their needs,
- To effectively implement, monitor, and develop our strategies that are constructed on profitable growth, service quality and employee satisfaction, that are structured in line with the market data and customer needs. To make sure a structure based on interactive communication is embraced among the employees.

Within the framework of these strategies, annual budgets are structured and submitted to the approval of the Board of Directors. Target achievement and development is continuously monitored at the Assets/Liabilities Committee meetings organized by the company management in weekly periods and at the region budget meetings chaired by the General Manager. Results achieved with regard to the Company's strategic targets are discussed by the Board of Directors at the Board of Directors meetings held quarterly. Management reporting infrastructure and systems provide real-time information on developments.

### 5.6. Financial Rights

"Remuneration Policy Regarding Members and Executives" is publicly announced via website [www.garantifactoring.com](http://www.garantifactoring.com) with the rights, interests, remuneration and the criterias, under the "Investor Relations Corporate Governance" section, and in "Section 2 - Remuneration and All Benefits of the Members of the Board of Directors and Executives" section of this report.

The financial rights provided to the members of the Board of Directors and executives, were listed as follows in the 10<sup>th</sup> agenda item at the Ordinary General Assembly Meeting held on 18.04.2017, for the shareholders' information.

Our Company, does not lend money, extend credit, or does not extend credit such as "personal loans" by means of third persons or does not give surety to any of the members of the Board of Directors' or executive managers.

FINANCIAL  
INFORMATION

## Statement of Responsibility Related to Acceptance of the Financial Tables

**İstanbul, 30.01.2018**

**BORSA İSTANBUL A.Ş. DIRECTORATE  
İstinye / İSTANBUL**

**DECISION DATE: 30/01/2018  
DECISION NUMBER: 2018/003**

**AS PER THE 9<sup>TH</sup> ARTICLE OF THE SECOND SECTION OF THE CAPITAL  
MARKETS BOARD COMMUNIQUE N.14.1 SERIES: II**

a) We have reviewed Garanti Faktoring A.Ş.'s (Company) financial tables prepared as of 31.12.2017.

b) Within the framework of the information we obtained in the scope of our tasks and responsibilities at the Company, the financial tables does not include any misleading disclosure on material matters or deficiencies that might cause misconception about the disclosure as of the date its was made.

c) Within the framework of the information we obtained in the scope of our tasks and responsibilities at the Company, we do declare that the financial statements and the annual report prepared and issued as per the Communiqué on Financial Reporting Principles in Capital Markets (II-14.1) honestly reflect the facts, the progress and the performance of the business and the financial status of the Company, together with the important risks and uncertainties.

Best Regards,

**Mert Ercan**  
Executive Vice  
President

**Hasan Hulki Kara**  
General  
Manager

**Ali Çoşkun**  
Member of Audit  
Committee

**Serhat Yanık**  
Member of Audit  
Committee

# **GARANTİ FAKTORİNG A.Ş.**

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

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

**30 January 2018**

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



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

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

#### A) Report on the Audit of the Financial Statements

##### Opinion

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

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

##### Basis for Opinion

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





## Key Audit Matters

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

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



#### Other Matter

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the "BRSA Accounting and Financial Reporting Legislation", and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

#### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

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



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

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

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

#### **B) Report on Other Legal and Regulatory Requirements**

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

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

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



Orhan Akova,  
Partner



30 January 2018  
İstanbul, Turkey

#### **Additional paragraph for convenience translation to English:**

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

## FINANCIAL INFORMATION

### GARANTİ FAKTORİNG A.Ş. STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2017 (Amounts expressed in thousands of Turkish lira ("Thousands of TL") unless otherwise indicated.)

ASSETS	Notes	Audited 31 December 2017			Audited 31 December 2016		
		TL	FC	TOTAL	TL	FC	TOTAL
<b>I. CASH, CASH EQUIVALENTS AND CENTRAL BANK</b>							
<b>II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)</b>	3	19,327	-	19,327	336	58	394
2.1 Financial Assets Held for Trading		-	-	-	-	-	-
2.2 Financial Assets at Fair Value Through Profit and Loss		-	-	-	-	-	-
2.3 Derivative Financial Assets Held for Trading	3,1	19,327	-	19,327	336	58	394
<b>III. BANKS</b>	4	6,177	13,019	19,196	595	9,008	9,603
<b>IV. RECEIVABLES FROM REVERSE REPURCHASE AGREEMENTS</b>							
<b>V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)</b>	5	-	-	-	-	-	-
<b>VI. FACTORING RECEIVABLES</b>	6	2,242,027	1,117,957	3,359,984	1,895,694	939,095	2,834,789
6.1 Discount Factoring Receivables		933,809	122,809	1,056,618	790,868	93,907	884,775
6.1.1 Domestic		964,630	21,850	986,480	820,405	18,455	838,860
6.1.2 Foreign		-	101,647	101,647	-	76,108	76,108
6.1.3 Unearned Income (-)		(30,821)	(688)	(31,509)	(29,537)	(656)	(30,193)
6.2 Other Factoring Receivables		1,308,218	995,148	2,303,366	1,104,826	845,188	1,950,014
6.2.1 Domestic		1,308,218	297,836	1,606,054	1,104,826	377,164	1,481,990
6.2.2 Foreign		-	697,312	697,312	-	468,024	468,024
<b>VII. FINANCIAL LOANS</b>							
7.1 Consumer Loans		-	-	-	-	-	-
7.2 Credit Cards		-	-	-	-	-	-
7.3 Installment Commercial Loans		-	-	-	-	-	-
<b>VIII. LEASE RECEIVABLES</b>							
8.1 Lease Receivables		-	-	-	-	-	-
8.1.1 Financial lease receivables		-	-	-	-	-	-
8.1.2 Operational lease receivables		-	-	-	-	-	-
8.1.3 Unearned income (-)		-	-	-	-	-	-
8.2 Leased Construction in Progress		-	-	-	-	-	-
8.3 Advances Given for Leasing Operations		-	-	-	-	-	-
<b>IX. OTHER RECEIVABLES</b>							
<b>X. NON-PERFORMING RECEIVABLES</b>	7	19,782	-	19,782	16,435	-	16,435
10.1 Non-Performing Factoring Receivables		95,335	-	95,335	72,388	-	72,388
10.2 Non-Performing Financial Loans		-	-	-	-	-	-
10.3 Non-Performing Leasing Receivables		-	-	-	-	-	-
10.4 Specific Provisions (-)		(75,553)	-	(75,553)	(55,953)	-	(55,953)
<b>XI. DERIVATIVE FINANCIAL ASSETS FOR HEDGING PURPOSES</b>							
11.1 Fair Value Hedging		-	-	-	-	-	-
11.2 Cash Flow Hedging		-	-	-	-	-	-
11.3 Net Foreign Investment Hedging		-	-	-	-	-	-
<b>XII. INVESTMENTS HELD TO MATURITY (Net)</b>							
<b>XIII. SUBSIDIARIES (Net)</b>							
<b>XIV. ASSOCIATES (Net)</b>							
<b>XV. JOINT VENTURES (Net)</b>							
<b>XVI. TANGIBLE ASSETS (Net)</b>	8	1,939	-	1,939	2,309	-	2,309
<b>XVII. INTANGIBLE ASSETS (Net)</b>	9	5,491	-	5,491	5,219	-	5,219
17.1 Goodwill		-	-	-	-	-	-
17.2 Other		5,491	-	5,491	5,219	-	5,219
<b>XVIII. PREPAID EXPENSES</b>	11	3,568	137	3,705	3,242	68	3,310
<b>XIX. CURRENT TAX ASSETS</b>	10	1,280	-	1,280	-	-	-
<b>XX. DEFERRED TAX ASSETS</b>	10	15,585	-	15,585	22,135	-	22,135
<b>XXI. OTHER ASSETS</b>	11	5,351	229	5,580	4,384	872	5,256
<b>SUB TOTAL</b>		2,320,537	1,131,344	3,451,881	1,950,349	949,103	2,899,452
<b>XXII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)</b>							
22.1 Held For Sale		-	-	-	-	-	-
22.2 Discontinued Operations		-	-	-	-	-	-
<b>TOTAL ASSETS</b>		2,320,537	1,131,344	3,451,881	1,950,349	949,103	2,899,452

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

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

LIABILITIES	Notes	Audited 31 December 2017			Audited 31 December 2016		
		TL	FC	Total	TL	FC	Total
I. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	3,2	2,018	-	2,018	31,051	-	31,051
II. FUNDS BORROWED	12	1,698,504	720,251	2,418,755	1,639,361	510,086	2,149,447
III. FACTORING PAYABLES	6	1,435	9,268	10,703	860	7,905	8,765
IV. LEASING PAYABLES		-	-	-	-	-	-
4.1 Financial lease payables		-	-	-	-	-	-
4.2 Operational lease payables		-	-	-	-	-	-
4.3 Other		-	-	-	-	-	-
4.4 Deferred Financial Leasing Expenses		-	-	-	-	-	-
V. MARKETABLE SECURITIES ISSUED (Net)	13	795,583	-	795,583	503,619	-	503,619
5.1 Bills		795,583	-	795,583	503,619	-	503,619
5.2 Asset-backed Securities		-	-	-	-	-	-
5.3 Bonds		-	-	-	-	-	-
VI. MISCELLANEOUS PAYABLES	14	2,291	485	2,776	4,852	1,436	6,288
VII. OTHER LIABILITIES	14	-	25	25	-	130	130
VIII. DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES		-	-	-	-	-	-
8.1 Fair Value Hedging		-	-	-	-	-	-
8.2 Cash Flow Hedging		-	-	-	-	-	-
8.3 Net Foreign Investment Hedging		-	-	-	-	-	-
IX. TAXES PAYABLE	15	3,202	-	3,202	2,576	-	2,576
X. PROVISIONS	16	5,351	482	5,833	4,764	412	5,176
10.1 Reserves for Restructuring		-	-	-	-	-	-
10.2 Reserves For Employee Benefits		4,885	-	4,885	4,188	-	4,188
10.3 Other Provisions		466	482	948	576	412	988
XI. DEFERRED RECEIVABLES		-	-	-	-	-	-
XII. TAX LIABILITY	10	-	-	-	6,947	-	6,947
XIII. DEFERRED TAX LIABILITY		-	-	-	-	-	-
XIV. SUBORDINATED LOANS		-	-	-	-	-	-
XIV. SUB TOTAL		2,508,384	730,511	3,238,895	2,194,030	519,969	2,713,999
XV. PAYABLES RELATED TO ASSETS FOR SALE AND DISCONTINUED OPERATIONS		-	-	-	-	-	-
15.1 Held for Sale		-	-	-	-	-	-
15.2 Discontinued Operations		-	-	-	-	-	-
XVI. SHAREHOLDERS' EQUITY	17	212,986	-	212,986	185,453	-	185,453
16.1 Paid-in Capital		79,500	-	79,500	79,500	-	79,500
16.2 Capital Reserves		-	-	-	-	-	-
16.2.1 Share Premium		-	-	-	-	-	-
16.2.2 Share Cancellation Profits		-	-	-	-	-	-
16.2.3 Other Capital Reserves		-	-	-	-	-	-
16.3 Other comprehensive income or expense that will not be reclassified subsequently to profit or loss		(592)	-	(592)	(522)	-	(522)
16.4 Other comprehensive income or expense that will be reclassified subsequently to profit or loss		-	-	-	-	-	-
16.5 Profit Reserves		106,475	-	106,475	86,759	-	86,759
16.5.1 Legal Reserves		7,496	-	7,496	6,896	-	6,896
16.5.2 Statutory Reserves		-	-	-	-	-	-
16.5.3 Extraordinary Reserves		98,979	-	98,979	79,863	-	79,863
16.5.4 Other Profit Reserves		-	-	-	-	-	-
16.6 Profit or Loss		27,603	-	27,603	19,716	-	19,716
16.6.1 Prior Years Profit or Loss		-	-	-	-	-	-
16.6.2 Current Year Profit/Loss		27,603	-	27,603	19,716	-	19,716
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,721,370</b>	<b>730,511</b>	<b>3,451,881</b>	<b>2,379,483</b>	<b>519,969</b>	<b>2,899,452</b>

FINANCIAL  
INFORMATION**GARANTİ FAKTORİNG A.Ş.****STATEMENT OF OFF-BALANCE SHEET ITEMS AS AT 31 DECEMBER 2017**

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

OFF-BALANCE SHEET ITEMS	Notes	Audited 31 December 2017			Audited 31 December 2016		
		TL	FC	Total	TL	FC	Total
<b>I. IRREVOCABLE FACTORING OPERATIONS</b>		471,263	394,410	865,673	266,280	372,459	638,739
<b>II. REVOCABLE FACTORING OPERATIONS</b>		623,414	226,534	849,948	505,760	56,493	562,253
<b>III. GUARANTEES TAKEN</b>	26.1	393,692	21,608,968	22,002,660	129,335	20,376,262	20,505,597
<b>IV. GUARANTEES GIVEN</b>	26.2	1,321,944	39,898	1,361,842	1,097,330	401	1,097,731
<b>V. COMMITMENTS</b>	26.3	1,050	1,045	2,095	294	294	588
5.1 Irrevocable Commitments		1,050	1,045	2,095	294	294	588
5.2 Revocable Commitments		-	-	-	-	-	-
5.2.1 Lease Commitments		-	-	-	-	-	-
5.2.1.1 Finance Lease Commitments		-	-	-	-	-	-
5.2.1.2 Operational Lease Commitments		-	-	-	-	-	-
5.2.2 Other Revocable Commitments		-	-	-	-	-	-
<b>VI. DERIVATIVE FINANCIAL INSTRUMENTS</b>	26.4	697,992	666,488	1,364,480	728,519	747,089	1,475,608
6.1 Derivative Financial Instruments for Hedging Purposes		-	-	-	-	-	-
6.1.1 Fair Value Hedges		-	-	-	-	-	-
6.1.2 Cash Flow Hedges		-	-	-	-	-	-
6.1.3 Net Investment Hedges		-	-	-	-	-	-
6.2 Derivative Financial Instruments Held For Trading		697,992	666,488	1,364,480	728,519	747,089	1,475,608
6.2.1 Forward Buy/Sell Transactions		-	-	-	69	69	138
6.2.2 Swap Buy/Sell Transactions		697,992	666,488	1,364,480	728,450	747,020	1,475,470
6.2.3 Options Buy/Sell Transactions		-	-	-	-	-	-
6.2.4 Futures Buy/Sell Transactions		-	-	-	-	-	-
6.2.5 Other		-	-	-	-	-	-
<b>VII. ITEMS HELD IN CUSTODY</b>	26.5	811,463	172,547	984,010	657,167	127,908	785,075
<b>TOTAL OFF BALANCE SHEET ITEMS</b>		<b>4,320,818</b>	<b>23,109,890</b>	<b>27,430,708</b>	<b>3,384,685</b>	<b>21,680,906</b>	<b>25,065,591</b>

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

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

INCOME STATEMENT	Notes	Audited	
		1 January - 31 December 2017	1 January - 31 December 2016
<b>I. OPERATING INCOME</b>	18	<b>286,315</b>	<b>244,268</b>
<b>FACTORIZING INCOME</b>		<b>286,315</b>	<b>244,268</b>
1.1 Factoring Interest Income		263,228	222,624
1.1.1 Discount		112,141	77,864
1.1.2 Other		151,087	144,760
1.2 Factoring Commission Income		23,087	21,644
1.2.1 Discount		16,085	16,845
1.2.2 Other		7,002	4,799
<b>RECEIVABLES FROM FINANCIAL LOANS</b>		-	-
1.3 Financial Loans Interest Income		-	-
1.4 Financial Loans Fees and Commissions Receivables		-	-
<b>OPERATING RECEIVABLES</b>		-	-
1.5 Financial Leasing Receivables		-	-
1.6 Operational Leasing Receivables		-	-
1.7 Leasing Operations Fees and Commissions Receivables		-	-
<b>II. FINANCIAL EXPENSES (-)</b>	19	<b>(252,215)</b>	<b>(211,021)</b>
2.1 Interest Expense on Funds Borrowed		(178,093)	(143,286)
2.2 Interest Expense on Factoring Payables		-	-
2.3 Finance Lease Expense		-	-
2.4 Interest Expense on Securities Issued		(59,685)	(56,478)
2.5 Other Interest Expenses		(1)	(17)
2.6 Other Fees and Commissions		(14,436)	(11,240)
<b>III. GROSS PROFIT/LOSS (I-II)</b>		<b>34,100</b>	<b>33,247</b>
<b>IV. OPERATING EXPENSES (-)</b>	20	<b>(43,196)</b>	<b>(78,945)</b>
4.1 Personnel Expenses		(25,148)	(23,752)
4.2 Retirement Pay Provision Expenses		(521)	(540)
4.3 Research and Development Expenses		-	-
4.4 General Administrative Expenses		(17,488)	(17,923)
4.5 Other		(39)	(36,730)
<b>V. OPERATING GROSS PROFIT/LOSS</b>		<b>(9,096)</b>	<b>(45,698)</b>
<b>VI. OTHER OPERATION INCOME</b>	21	<b>432,269</b>	<b>387,949</b>
6.1 Interest Income from Deposits		1,953	2,331
6.2 Interest Income from Reverse Repurchase Agreements		-	-
6.3 Interest Income from Marketable Securities		-	-
6.3.1 Interest Income from Financial Assets Held for Trading		-	-
6.3.2 Interest Income from Financial Assets at Fair Value Through Profit and Loss		-	-
6.3.3 Interest Income from Financial Assets Available For Sale		-	-
6.3.4 Interest Income from Financial Assets Held to Maturity		-	-
6.4 Dividend Income		-	-
6.5 Interest Received from Money Market Placements		107,203	52,564
6.5.1 Derivative Financial Transactions		107,203	52,564
6.5.2 Other		-	-
6.6 Foreign Exchange Gains		321,421	294,795
6.7 Other		1,692	38,259
<b>VII. SPECIFIC PROVISION FOR NON-PERFORMING RECEIVABLES (-)</b>	22	<b>(20,801)</b>	<b>(30,106)</b>
<b>VIII. OTHER OPERATION EXPENSES</b>	23	<b>(367,516)</b>	<b>(288,337)</b>
8.1 TO OWNERS OF ORDINARY SHARES		-	-
8.1.1 Financial Assets at Fair Value Through Profit and Loss		-	-
8.1.2 Financial Assets Available For Sale		-	-
8.1.3 Financial Assets Held to Maturity		-	-
8.2 Expense from Impairment on Tangible and Intangible Assets		-	-
8.2.1 Impairment on Tangible Assets		-	-
8.2.2 Impairment on Assets Held for Sale and Discontinued Operations		-	-
8.2.3 Impairment on Goodwill		-	-
8.2.4 Impairment on Intangible Assets		-	-
8.2.5 Impairment on Subsidiaries, Associates and Joint Ventures		-	-
8.3 Losses from Derivative Financial Transactions		(3,079)	(32,509)
8.4 Foreign Exchange Losses		(364,347)	(255,565)
8.5 Other		(90)	(263)
<b>IX. NET OPERATING INCOME (I+...+VI)</b>		<b>34,856</b>	<b>23,808</b>
<b>X. AMOUNT IN EXCESS RECORDED AS GAIN AFTER MERGER</b>		-	-
<b>XI. NET MONETARY GAIN/LOSS</b>		-	-
<b>XII. PROFIT/LOSS ON CONTINUING OPERATIONS BEFORE TAX (VII+VIII-IX)</b>		<b>34,856</b>	<b>23,808</b>
<b>XIII. TAX PROVISION FOR CONTINUING OPERATIONS (±)</b>	10	<b>(7,253)</b>	<b>(4,092)</b>
13.1 Current Tax Charge		(684)	(11,856)
13.2 Deferred Tax Charge (-)		(6,569)	-
13.3 Deferred Tax Benefit (+)		-	7,764
<b>XIV. NET PERIOD PROFIT/LOSS FROM CONTINUING OPERATIONS</b>		<b>27,603</b>	<b>19,716</b>
<b>XV. INCOME ON DISCONTINUED OPERATIONS</b>		-	-
15.1 Income on Assets Held for Sale		-	-
15.2 Gain on Sale of Associates, Subsidiaries and Joint Ventures		-	-
15.3 Other Income on Discontinued Operations		-	-
<b>XVI. EXPENSE ON DISCONTINUED OPERATIONS (-)</b>		-	-
16.1 Expenses on Assets Held for Sale		-	-
16.2 Losses on Sale of Associates, Subsidiaries and Joint Ventures		-	-
16.3 Other Expenses on Discontinued Operations		-	-
<b>XVII. PROFIT/LOSS ON DISCONTINUED OPERATIONS BEFORE TAX</b>		-	-
<b>XVIII. TAX PROVISION FOR DISCONTINUED OPERATIONS (±)</b>		-	-
18.1 Current Tax Charge		-	-
18.2 Deferred Tax Charge (+)		-	-
18.3 Deferred Tax Benefit (-)		-	-
<b>XIX. NET PERIOD PROFIT/LOSS FROM DISCONTINUED OPERATIONS</b>		-	-
<b>XX. NET PERIOD PROFIT/LOSS</b>		<b>27,603</b>	<b>19,716</b>
Earnings/Loss Per Share (Kurus (0.01 TL) per thousand shares)	24	0.34720755	0.24800000

FINANCIAL  
INFORMATION**GARANTİ FAKTORİNG A.Ş.**  
**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

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

	Notes	Audited	
		1 January - 31 December 2017	1 January - 31 December 2016
<b>I. PERIOD INCOME/LOSS</b>		27,603	19,716
<b>II. OTHER COMPREHENSIVE INCOME</b>		(70)	(25)
<b>2.1 ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>		(70)	(25)
2.1.1 Gains/(losses) on revaluation of tangible asset		-	-
2.1.2 Gains/(losses) on revaluation of intangible asset		-	-
2.1.3 Gains/(losses) on remeasurement of defined benefit pension plan		(89)	(31)
2.1.4 Other items that will not be reclassified to profit or loss		-	-
2.1.5 Taxation on comprehensive income that will not be reclassified to profit or loss		19	6
2.1.5.1 Tax income/charge		-	-
2.1.5.2 Deferred tax income/charge		19	6
<b>2.2 ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS</b>		-	-
2.2.1 Translation differences for transactions in foreign currency		-	-
2.2.2 Income/expenses on revaluation or reclassification of available for sale financial assets		-	-
2.2.3 Gains/(losses) from cash flow hedges		-	-
2.2.4 Gains/(losses) from net investment hedges		-	-
2.2.5 Other items that will be reclassified to profit or loss		-	-
2.2.6 Taxation on comprehensive income that will be reclassified to profit or loss		-	-
2.2.6.1 Tax income/charge		-	-
2.2.6.2 Deferred tax income/charge		-	-
<b>III. TOTAL COMPREHENSIVE INCOME (I+II)</b>		27,533	19,691





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

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

STATEMENT OF CASH FLOWS	Notes	Audited	Audited
		1 January - 31 December 2017	1 January - 31 December 2016
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
1.1 Operating profit before changes in operating assets and liabilities		4,663	27,862
1.1.1 Interest/Leasing income received		257,102	236,762
1.1.2 Interest/Leasing expenses		(223,524)	(203,281)
1.1.3 Dividends received		-	-
1.1.4 Fees and commissions received		20,456	22,207
1.1.5 Other income		-	-
1.1.6 Collections from previously written off receivables	7	1,201	1,453
1.1.7 Payments to personnel and service suppliers		(42,268)	(39,973)
1.1.8 Taxes paid	10	(8,920)	(5,349)
1.1.9 Other		616	16,043
1.2 Changes in operating assets and liabilities		(306,796)	151,242
1.2.1 Net (increase) decrease in factoring receivables		(563,317)	61,878
1.2.2 Net (increase) decrease in other assets		(3,315)	15,699
1.2.3 Net increase (decrease) in factoring payables		1,938	5,466
1.2.4 Net increase (decrease) in funds borrowed		256,644	67,398
1.2.5 Net increase (decrease) in due payables		-	-
1.2.6 Net increase (decrease) in other liabilities		1,254	801
I. Net cash provided from operating activities		(302,133)	179,104
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
2.1 Cash paid for purchase of joint ventures, associates and subsidiaries		-	-
2.2 Cash obtained from sale of joint ventures, associates and subsidiaries		-	-
2.3 Fixed assets purchases	8	(430)	(1,530)
2.4 Fixed assets sales	8	-	9
2.5 Cash paid for purchase of financial assets available for sale		-	-
2.6 Cash obtained from sale of financial assets available for sale		-	-
2.7 Cash paid for purchase of financial assets held to maturity		-	-
2.8 Cash obtained from sale of financial assets held to maturity		-	-
2.9 Other	9	(3,620)	(4,272)
II. Net cash provided from investing activities		(4,050)	(5,793)
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
3.1 Cash obtained from funds borrowed and securities issued		1,230,170	959,829
3.2 Cash used for repayment of funds borrowed and securities issued		(916,049)	(1,165,277)
3.3 Capital increase		-	-
3.4 Dividends paid		-	-
3.5 Payments for finance leases		-	-
3.6 Other		-	-
III. Net cash provided from financing activities		314,121	(205,448)
IV. Effect of change in foreign exchange rate on cash and cash equivalents		1,656	1,322
<b>V. Net increase/decrease in cash and cash equivalents</b>		<b>9,594</b>	<b>(30,815)</b>
<b>VI. Cash and cash equivalents at the beginning of the period</b>		<b>9,603</b>	<b>40,418</b>
<b>VII. Cash and cash equivalents at the end of the period</b>	2.5	<b>19,197</b>	<b>9,603</b>

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

		THOUSANDS OF TURKISH LIRA (TL)	
		Audited	Audited
		1 January -	1 January -
		31 December 2017	31 December 2016
	Notlar		
<b>I.</b>	<b>DISTRIBUTION OF CURRENT YEAR PROFIT (*)</b>		
1.1	CURRENT PERIOD PROFIT	34.856	23.808
1.2	TAXES AND LEGAL DUTIES PAYABLE (-)	7.253	4.092
1.2.1	Corporate tax (income tax)	684	11.856
1.2.2	Withholding tax	-	-
1.2.3	Other taxes and duties	6.569	(7.764)
<b>A.</b>	<b>NET PROFIT FOR THE PERIOD (1.1-1.2)</b>	<b>27.603</b>	<b>19.716</b>
1.3	ACCUMULATED LOSSES (-)	-	-
1.4	FIRST LEGAL RESERVES (-)	-	(600)
1.5	OTHER STATUTORY RESERVES (-)	-	-
<b>B.</b>	<b>NET PROFIT AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]</b>	<b>27.603</b>	<b>19.116</b>
1.6	FIRST DIVIDEND TO SHAREHOLDERS (-)	-	-
1.6.1	To owners of ordinary shares	-	-
1.6.2	To owners of privileged shares	-	-
1.6.3	To owners of redeemed shares	-	-
1.6.4	To profit sharing bonds	-	-
1.6.5	To holders of profit and loss sharing certificates	-	-
1.7	DIVIDENDS TO PERSONNEL (-)	-	-
1.8	DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
1.9	SECOND DIVIDEND TO SHAREHOLDERS (-)	-	-
1.9.1	To owners of ordinary shares	-	-
1.9.2	To owners of privileged shares	-	-
1.9.3	To owners of redeemed shares	-	-
1.9.4	To profit sharing bonds	-	-
1.9.5	To holders of profit and loss sharing certificates	-	-
1.10	SECOND LEGAL RESERVES (-)	-	-
1.11	STATUS RESERVES (-)	-	-
1.12	EXTRAORDINARY RESERVES	-	(19.116)
1.13	OTHER RESERVES	-	-
1.14	SPECIAL FUNDS	-	-
<b>II.</b>	<b>DISTRIBUTION OF RESERVES</b>		
2.1	APPROPRIATED RESERVES	-	-
2.2	SECOND LEGAL RESERVES (-)	-	-
2.3	DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1	To owners of ordinary shares	-	-
2.3.2	To owners of privileged shares	-	-
2.3.3	To owners of redeemed shares	-	-
2.3.4	To profit sharing bonds	-	-
2.3.5	To holders of profit and loss sharing certificates	-	-
2.4	DIVIDENDS TO PERSONNEL (-)	-	-
2.5	DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
<b>III.</b>	<b>EARNINGS PER SHARE (per YTL'000 face value each)</b>	<b>0,34720755</b>	<b>0,24800000</b>
3.1	TO OWNERS OF ORDINARY SHARES (per YTL'000 face value each)	0,34720755	0,24800000
3.2	TO OWNERS OF ORDINARY SHARES (%)	34,72	24,80
3.3	TO OWNERS OF PRIVILEGED SHARES	-	-
3.4	TO OWNERS OF PRIVILEGED SHARES (%)	-	-
<b>IV.</b>	<b>DIVIDEND PER SHARE</b>		
4.1	TO OWNERS OF ORDINARY SHARES (per YTL'000 face value each)	-	-
4.2	TO OWNERS OF ORDINARY SHARES (%)	-	-
4.3	TO OWNERS OF PRIVILEGED SHARES	-	-
4.4	TO OWNERS OF PRIVILEGED SHARES (%)	-	-

(\*) Decision regarding to the 2017 profit distribution will be made at general assembly meeting.

## FINANCIAL

**GARANTİ FAKTORİNG A.Ş.**  
**NOTES TO THE FINANCIAL STATEMENTS AS AT AND**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**  
*(Amounts are expressed in Turkish Lira (thousands of "TL.") unless otherwise indicated.)*

**1 ORGANIZATION AND OPERATIONS OF THE COMPANY**

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

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

The Company operates in accordance with the Capital Markets Law and "Financial Leasing, Factoring and Financing Companies Law" published in the Official Gazette dated 13 December 2012 and numbered 28496 and the "Regulation on Principles For Establishment And Operations Of Financial Leasing, Factoring and Financing Companies" issued by the Banking Regulation and Supervision Agency ("BRSA") dated 24 April 2013 and numbered 28627 published in the Official Gazette.

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

	Shareholding		Shareholding	
	31 December 2017	(%)	31 December 2016	(%)
Türkiye Garanti Bankası AŞ	65.066	81,84	65.066	81,84
Türkiye İsvaçet Kredi Bankası AŞ	7.773	9,78	7.773	9,78
Publicly Traded	6.661	8,38	6.661	8,38
Capital	79.500	100,00	79.500	100,00

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

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

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

Maslak Mahallesi Eski Büyükdere Caddesi No: 23 Söğüt / İstanbul

The Company provides factoring operations with 17 (seventeen) branches in Turkey.

**Approval of Financial Statements:**

The financial statements were approved and authorized for issue by the Board of Directors based on the Board of Directors decision dated 30 January 2018. The General Assembly has the authority to change the financial statements.

**GARANTİ FAKTORİNG A.Ş.**  
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**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 communiqué on "Communiqué on Uniform Chart of Accounts and Prospectus to be implemented by Financial Leasing, Factoring and Financing Companies and on Financial Statements to be announced to Public" published in the Official Gazette dated 24 December 2013 and numbered 28861 and the "Regulation on Principles For Establishment And Operations Of Financial Leasing, Factoring and Financing Companies" and other regulations, communiqués and circulars published by the BRSA and Turkish Accounting Standards ("TAS") published by the Public Oversight Accounting and Auditing Standards Authority ("POA") for the matters not legislated by the aforementioned regulations (together "the BRSA Accounting and Financial Reporting Legislation").

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

**2.1.2 Functional Currency**

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

**2.1.3 Preparation of Financial Statements in Hyperinflationary Periods**

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

**2.1.4 Offsetting**

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

**2.2 Changes in Accounting Policies**

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

**2.3 Changes in Accounting Estimates and Errors**

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

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**2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)**

**2.3 Changes in Accounting Estimates and Errors (Continued)**

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

Note 3 – Financial Assets at Fair Value Through Profit and Loss

Note 6 – Factoring Receivables

Note 7 – Non-performing Receivables

Note 8 – Tangible Assets

Note 9 – Intangible Assets

Note 10 – Tax Assets and Liabilities

Note 16 – Provisions

**2.4 New and Revised Turkish Accounting Standards**

**Standards and interpretations issued but not yet effective**

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

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

**TFRS 9 Financial Instruments (2017 version)**

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

**TFRS 15 Revenue from Contracts with Customers**

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

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

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

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

**2.4. New and Revised Turkish Accounting Standards (continued)**

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

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

**IFRIC 22 – Foreign Currency Transactions and Advance Consideration**

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

**IFRS 16 Leases**

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

**IFRIC 23 –Uncertainty Over Income Tax Treatments**

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

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

**2.5 Summary of Significant Accounting Policies**

**(a) Revenue**

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

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

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

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

**(b) Financial Instruments**

Financial Assets

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

Held to Maturity Investments

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

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



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

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

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

**Financial Assets (continued)**

**Available for Sale Financial Assets**

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

**Factoring Receivables and Other Receivables**

Factoring receivables and other receivables are stated at fair value at initial recognition. Subsequent to initial recognition, all receivables except for factoring receivables are carried at amortized cost using the effective interest method. Interest income is calculated and accounted by using the effective interest rate method.

Specific provisions are allocated on factoring receivables in accordance with the regulation on "Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies" published in the Official Gazette dated 24 December 2013 and numbered 28861.

**Impairment of Financial Assets**

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

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

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

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

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

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

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

**Financial Assets (continued)**

***Cash and Cash Equivalents***

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

***Derivative Financial Instruments and Hedge Accounting***

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

**Financial Liabilities**

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

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

**Financial liabilities at fair value through profit or loss**

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

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

**Other financial liabilities**

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

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

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

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

**(c) *Tangible Assets and Amortization***

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

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

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

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

**(d) *Intangible Assets***

**Intangible Fixed Assets Acquired**

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

**Computer Software**

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

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

**(e) *Impairment of Assets***

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

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

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

**(f) Capital Increases**

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

**(g) Retirement Pay Provision**

Under the Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Company. Such payments are considered as being part of defined retirement benefit plan in accordance with the TAS 19 "Employee Benefits" ("TAS 19").

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

**(h) Provisions, Contingent Liabilities and Contingent Assets**

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

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

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

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

**(i) Borrowing Costs**

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

**(j) Effects of Changes in Exchange Rates**

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

The foreign currency exchange rates used by the Company as at 31 December 2017 and 31 December 2016 are as follows:

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

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

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

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

**(k) Earnings per Share**

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

**(l) Events After the Reporting Period**

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

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

**(m) Segment Reporting**

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

**(n) Income Tax**

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

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

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

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

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

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

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

**(n) Income Tax (continued)**

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

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

**(o) Statement of Cash Flows**

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

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

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

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

**Cash and Cash Equivalents:**

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

**GARANTİ FAKTORİNG A.Ş.**  
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**3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)**

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

**3.1 Derivative Financial Assets Held for Trading**

Details of derivative financial assets held for trading that arise from forward and currency swap buy-sell agreements as at 31 December 2017 and 31 December 2016 are as follows:

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

**3.2 Derivative Financial Liabilities Held for Trading**

Details of derivative financial liabilities held for trading that arise from currency swap buy-sell agreements and forward contracts as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Derivative financial liabilities held for trading	2.018	-	31.051	-
	<b>2.018</b>	<b>-</b>	<b>31.051</b>	<b>-</b>

**4 BANKS**

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

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Demand Deposits	6.177	13.019	595	9.008
	<b>6.177</b>	<b>13.019</b>	<b>595</b>	<b>9.008</b>

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

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INFORMATION**GARANTİ FAKTORİNG A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AS AT AND  
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**5 FINANCIAL ASSETS AVAILABLE FOR SALE**

Financial assets available for sale are composed of unquoted equity share investments as at 31 December 2017 and 31 December 2016.

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

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

**6 FACTORING RECEIVABLES AND PAYABLES***Factoring Receivables*

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

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

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

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

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

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



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

*Factoring Payables*

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

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Factoring payables	1.435	9.268	860	7.905
	<b>1.435</b>	<b>9.268</b>	<b>860</b>	<b>7.905</b>

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

**7 NON-PERFORMING RECEIVABLES**

Details of the Company's non-performing factoring receivables and the provisions allocated for them as at 31 December 2017 and 31 December 2016 are as follows:

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

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

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

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

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**7 NON-PERFORMING RECEIVABLES (Continued)**

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

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

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

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

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

**8 TANGIBLE ASSETS**

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

	1 January 2017	Additions	Disposals	31 December 2017
<b>Acquisition Cost</b>				
Furniture and fixtures	4.798	148	(4)	4.942
Vehicles	19	-	-	19
Leasehold improvements	1.437	282	-	1.719
	<b>6.254</b>	<b>430</b>	<b>(4)</b>	<b>6.680</b>
<b>Accumulated Depreciation</b>		Depreciation for the period	Disposals	31 December 2017
Furniture and fixtures	2.796	714	(2)	3.508
Vehicles	19	-	-	19
Leasehold improvements	1.130	84	-	1.214
	<b>3.945</b>	<b>798</b>	<b>(2)</b>	<b>4.741</b>
<b>Net book value</b>	<b>2.309</b>			<b>1.939</b>

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

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**8 TANGIBLE ASSETS (Continued)**

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

	1 January 2016	Additions	Disposals	31 December 2016
<b>Acquisition Cost</b>				
Furniture and fixtures	3.416	1.410	(28)	4.798
Vehicles	19	-	-	19
Leasehold improvements	1.317	120	-	1.437
	<b>4.752</b>	<b>1.530</b>	<b>(28)</b>	<b>6.254</b>

	1 January 2016	Charge for the period	Disposals	31 December 2016
<b>Accumulated Depreciation</b>				
Furniture and fixtures	2.303	520	(27)	2.796
Vehicles	19	-	-	19
Leasehold improvements	1.076	54	-	1.130
	<b>3.398</b>	<b>574</b>	<b>(27)</b>	<b>3.945</b>

<b>Net book value</b>	<b>1.354</b>			<b>2.309</b>
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**9 INTANGIBLE ASSETS**

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

	1 January 2017	Additions	Disposals	31 December 2017
<b>Acquisition Cost</b>				
Rights	3.076	-	-	3.076
Other (Software)	13.953	3.620	-	17.573
	<b>17.029</b>	<b>3.620</b>	<b>-</b>	<b>20.649</b>

	1 January 2017	Charge for the period	Disposals	31 December 2017
<b>Accumulated Amortization</b>				
Rights	3.076	-	-	3.076
Other (Software)	8.734	3.348	-	12.082
	<b>11.810</b>	<b>3.348</b>	<b>-</b>	<b>15.158</b>

<b>Net book value</b>	<b>5.219</b>			<b>5.491</b>
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**9 INTANGIBLE ASSETS (Continued)**

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

	1 January 2016	Additions	Disposals	31 December 2016
<b>Acquisition Cost</b>				
Rights	3.076	-	-	3.076
Other (Software)	9.681	4.272	-	13.953
	<b>12.757</b>	<b>4.272</b>	<b>-</b>	<b>17.029</b>
<b>Accumulated Amortization</b>		<b>Charge for the period</b>	<b>Disposals</b>	<b>31 December 2016</b>
Rights	3.076	-	-	3.076
Other (Software)	5.930	2.804	-	8.734
	<b>9.006</b>	<b>2.804</b>	<b>-</b>	<b>11.810</b>
<b>Net book value</b>	<b>3.751</b>			<b>5.219</b>

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

**10 TAX ASSETS AND LIABILITIES*****Corporate Tax***

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

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

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

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax is calculated as 20% of the income in the year 2017 (2016: 20%). With the amendment made in the law, this ratio was set at 22% for the years 2018, 2019 and 2020.

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

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

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**10 TAX 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.

	1 January – 31 December 2017	1 January – 31 December 2016
Reported profit before taxation	34.856	23.808
Calculated tax on reported profit	(6.971)	(4.762)
Permanent differences:		
Non-deductible expenses	(571)	(749)
Non-taxable income	34	534
Reversal of prior year corporate tax provision	-	957
Other	255	(52)
<b>Tax Charge</b>	<b>(7.253)</b>	<b>(4.092)</b>

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

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

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

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

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

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

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**16 TAX ASSETS AND LIABILITIES (Continued)**

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

	<u>31 December 2017</u>	<u>31 December 2016</u>
<b>Temporary Differences</b>		
Factoring receivable provisions	59.399	42.857
Unearned factoring interest income	31.509	30.193
Valuation differences of derivative financial assets	2.018	31.051
Premium pay provision	1.673	1.520
Reserve for employee benefits	2.195	1.792
Cash collected commissions	1.579	3.508
Valuation differences of factoring receivables	1.433	1.226
Unused vacation accrual	1.017	876
Other provisions	1.463	576
<b>Temporary differences related to deferred tax assets</b>	<b>102.286</b>	<b>113.599</b>
Valuation differences of derivative financial assets	19.377	394
Prepaid letter of guarantee and underwriting commissions	3.083	-
Temporary differences on tangible and intangible assets	2.055	1.886
Commission income accruals	1.141	549
Valuation differences of bonds and funds borrowed	398	97
<b>Temporary differences related to deferred tax liabilities</b>	<b>26.904</b>	<b>2.926</b>
<b>Deferred tax assets / (liabilities)</b>		
Factoring receivable provisions	11.923	8.571
Unearned factoring interest income	6.933	6.039
Valuation differences of derivative financial assets	444	6.211
Reserve for employee benefits	439	358
Premium pay provision	368	304
Cash collected commissions	347	702
Valuation differences of factoring receivables	315	245
Unused vacation accrual	224	175
Other provisions	313	115
<b>Deferred tax assets</b>	<b>21.306</b>	<b>22.720</b>
Valuation differences of derivative financial assets	(4.252)	(79)
Prepaid letter of guarantee and underwriting commissions	(678)	-
Temporary differences on tangible and intangible assets	(452)	(377)
Commission income accruals	(251)	(110)
Valuation differences of bonds and funds borrowed	(88)	(19)
<b>Deferred tax liabilities</b>	<b>(5.721)</b>	<b>(585)</b>
<b>Deferred tax assets (net)</b>	<b>15.585</b>	<b>22.135</b>

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**10 TAX ASSETS AND LIABILITIES (Continued)**

Movements of deferred tax assets are as follows:

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

**11 PREPAID EXPENSES AND OTHER ASSETS**

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

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

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

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

**12 FUNDS BORROWED**

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

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Funds borrowed	1.698.504	720.251	1.639.361	510.086
	<b>1.698.504</b>	<b>720.251</b>	<b>1.639.361</b>	<b>510.086</b>

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**12 FUNDS BORROWED (Continued)**

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

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

TL 1.209.354 of the funds borrowed as at 31 December 2017 is borrowed from Takasbank Money Market (31 December 2016: TL 825.072). TL 1.314.500 worth of guarantee has been given for the funds borrowed from Takasbank Money Market (31 December 2016: TL 1.089.000).

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

**13 MARKETABLE SECURITIES ISSUED**

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

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

The Company issued discounted bills only for qualified investors.

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



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**14 MISCELLANEOUS PAYABLES AND OTHER LIABILITIES**

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

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

**15 TAX PAYABLES AND LIABILITIES**

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

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

**16 PROVISIONS**

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

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

**16.1 Provision for Employee Benefits**

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

**Retirement Pay Provision**

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

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**16 PROVISIONS (Continued)**

**16.1 Provision for Employee Benefits (Continued)**

*Retirement Pay Provision (Continued)*

Some transitional provisions related to the pre-retirement service term were excluded from the scope of the Law since the related law was amended as of 23 May 2002. The amount of compensation to be paid is equal to one month's salary and as at 31 December 2017, this amount is limited to a maximum of TL 4.732,48 (full) (31 December 2016: TL 4.297,21 (full)). The amount of compensation to be paid is equal to one month's salary for every and each year of employment.

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2017, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 8,40% and a discount rate of 11,70%, resulting in a real discount rate of approximately 3,04% (31 December 2016: inflation rate of 7,80%, discount rate of 11,20%, real discount rate of approximately 3,15%).

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

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

*Personnel Bonus Accrual*

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

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

*Unused Vacation Accrual*

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

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

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**16 PROVISIONS (Continued)**

**16.2 Other Provisions**

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

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

**17 SHAREHOLDERS' EQUITY**

**17.1 Paid-in Capital**

As at 31 December 2017, the Company's share capital amounts to TL 79.500 (31 December 2016: TL 79.500). As at 31 December 2017, the Company has 7.950.000.000 (31 December 2016: 7.950.000.000) total registered shares consisting of 4.004.242.970 preferred shares and 3.945.757.030 ordinary shares with a par value of Kuruş ("Kr") 1 each (31 December 2016: Kr 1).

**17.2 Capital Reserves**

None. (31 December 2016: None)

**17.3 Other Comprehensive Income or Expense**

As at 31 December 2017, TL (593) includes actuarial gain/ losses of employee termination benefits and its deferred tax effect that will not be reclassified subsequently to profit or loss. (31 December 2016: TL (522) includes actuarial gain/ losses of employee termination benefits and its deferred tax effect that will not be reclassified subsequently to profit or loss.)

**17.4 Profit Reserves**

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

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

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

**18 OPERATING INCOME**

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

	1 January- 31 December 2017	1 January - 31 December 2016
Factoring interest income	263.228	222.674
Factoring fee and commission income (net)	23.087	21.644
	<b>286.315</b>	<b>244.268</b>

**19 FINANCE EXPENSES**

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

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

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**20 OPERATING EXPENSES**

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

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

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

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

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**21 OTHER OPERATING INCOME**

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

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

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

**22 SPECIFIC PROVISIONS FOR NON-PERFORMING RECEIVABLES**

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

	1 January- 31 December 2017	1 January - 31 December 2016
Specific provision expenses	20.801	30.106
	<b>20.801</b>	<b>30.106</b>

**23 OTHER OPERATING EXPENSES**

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

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

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

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**24 EARNINGS PER SHARE**

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

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

**25 RELATED PARTY TRANSACTIONS**

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

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

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

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

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

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

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

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

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



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**25 RELATED PARTY TRANSACTIONS (Continued)**

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

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

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**25 RELATED PARTY TRANSACTIONS (Continued)**

<i>General Administrative Expenses</i> <sup>(7)</sup>	1 January- 31 December 2017	1 January- 31 December 2016
Türkiye Garanti Bankası AŞ	2.035	1.726
Garanti FİO Yönetim Hizmetleri AŞ	1.337	1.299
İstanbul Teknis ve Sekizinci Bankası AŞ	1.002	1.027
Garanti Finansal Kiralama AŞ	538	719
Antor Turizm AŞ	92	146
Garanti Emeklilik ve Hayat AŞ	84	65
Doğuş Bilgi İşlem ve Teknoloji Hizmetleri A.Ş.	6	5
	<b>5.234</b>	<b>4.987</b>

<sup>(7)</sup> Includes rent expense, IT maintenance and contract expense, transaction commission, car rental expense, travelling expense and insurance expense.

	1 January- 31 December 2017	1 January- 31 December 2016
<b>Income from Financial Derivatives</b>		
Türkiye Garanti Bankası A.Ş.	35.390	28.444
Garanti Bank International NV	8.236	10.816
	<b>43.626</b>	<b>39.260</b>
<b>Losses from Financial Derivatives</b>		
Türkiye Garanti Bankası A.Ş.	3.188	4.107
Garanti Bank International NV	844	5.659
	<b>4.032</b>	<b>9.766</b>

**Salary and other benefits provided to board members and executives:**

The amount of salary and other benefits provided to board members and executives by the Company for the period ended 31 December 2017 is TL 12.798 (31 December 2016: TL 10.952).

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**26 CONTINGENT ASSETS AND LIABILITIES**

**26.1 Guarantees Received**

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

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

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

**26.2 Guarantees Given**

Guarantees given as at 31 December 2017 and 31 December 2016 consist of letters of guarantee given to the institutions below:

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

**26.3 Commitments:**

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

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Foreign exchange buy-sell commitments	1.050	1.045	294	294
	<b>1.050</b>	<b>1.045</b>	<b>294</b>	<b>294</b>

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

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

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

**26.5 Safety Securities**

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

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

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**27 NATURE AND LEVEL OF RISKS FROM FINANCIAL INSTRUMENTS**

**27.1 Financial Risk Management Purpose and Policies**

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

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

**27.1.1 Credit Risk**

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

Under the credit allocation;

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

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

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

Credit monitoring phase;

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

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

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

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

**27.1 Financial Risk Management Purposes and Policies (Continued)**

**27.1.2 Market Risk**

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

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

**27.1.3 Liquidity Risk**

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

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

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

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

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

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

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

**27.1 Financial Risk Management Purposes and Policies (Continued)**

**27.1.4 Operational Risk**

All operational risks are managed under the supervision of the Board of Directors and the Audit Committee in accordance with the framework that covers; risk identification, risk assessment, risk monitoring and risk control/mitigation. Each unit of the Company is responsible from their own operational risk monitoring, controlling and mitigating their operational risk by taking the necessary actions. The ultimate responsibility is on the relevant senior management. In order to create an effective "internal control system", the Company makes necessary organizational arrangements, establishes the appropriate communication and information systems and constitutes monitoring function.

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

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

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

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

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

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

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

**27.1 Financial Risk Management Purposes and Policies (Continued)**

**27.1.5 Reputation Risk**

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

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

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



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

**27.2 Explanations on Risk Management**

**27.2.1 Credit Risk**

31 December 2017	Factoring Receivables			Non-performing receivables			Other Assets			Financial Derivative Assets Held for Trading	Financial Assets Held for Trading
	Related Party	Others	Related Party	Others	Related Party	Others	Related Party	Others	Banks		
Maximum net credit risk as of balance sheet date (A+B+C+D+E)	-	3.359.984	-	19.782	-	5.579	-	5.579	19.196	-	19.327
A. Carrying value of financial assets that are not past due nor impaired	-	3.296.788	-	-	-	5.579	-	5.579	19.196	-	19.327
B. Net book value of financial assets whose terms are reassessed, if not accepted as past due nor impaired	-	-	-	-	-	-	-	-	-	-	-
C. Financial assets that are past due but not impaired	-	63.196	-	-	-	-	-	-	-	-	-
- carrying value	-	63.196	-	-	-	-	-	-	-	-	-
- the part under guarantee with collateral etc	-	-	-	-	-	-	-	-	-	-	-
D. Net book value of impaired assets	-	-	-	19.782	-	-	-	-	-	-	-
- Past due (gross carrying value)	-	-	-	92.940	-	-	-	-	-	-	-
- Impairment (-)	-	-	-	(75.553)	-	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	2.395	-	-	-	-	-	-	-
- Not past due (gross carrying value)	-	-	-	-	-	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-	-	-	-	-	-
- The part of net value under guarantee with collateral etc.	-	-	-	-	-	-	-	-	-	-	-
E. Off balance sheet items that include credit risk	-	-	-	-	-	-	-	-	-	-	-



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

**27.2 Explanations on Risk Management (Continued)**

**27.2.2 Liquidity Risk**

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

<b>31 December 2017</b>				
<b>Contractual Maturities</b>	<b>Carrying Amount</b>	<b>Total Expected Cash Outflows</b>	<b>Less than 3 months</b>	<b>3-12 months</b>
<b>Non-derivative financial liabilities</b>	<b>3.227.817</b>	<b>3.284.632</b>	<b>2.345.775</b>	<b>938.857</b>
Funds borrowed	2.418.755	2.436.240	2.195.895	240.345
Bonds issued	795.583	834.913	136.401	698.512
Factoring payables	10.709	10.709	10.703	-
Sundry creditors	2.766	2.776	2.776	-
<b>Contractual Maturities</b>	<b>Carrying Amount</b>	<b>Total Expected Cash Outflows</b>	<b>Less than 3 months</b>	<b>3-12 months</b>
<b>Derivative financial liabilities and foreign exchange buy-sell commitments</b>	<b>31.589</b>	<b>37.155</b>	<b>12.912</b>	<b>24.243</b>
Derivative cash inflows	699.042	704.688	454.131	250.557
Derivative cash outflows	(667.533)	(667.533)	(441.219)	(226.314)
<b>31 December 2016</b>				
<b>Contractual Maturities</b>	<b>Carrying Amount</b>	<b>Total Expected Cash Outflows</b>	<b>Less than 3 months</b>	<b>3-12 months</b>
<b>Non-derivative financial liabilities</b>	<b>2.668.119</b>	<b>2.689.236</b>	<b>2.149.867</b>	<b>539.369</b>
Funds borrowed	2.149.447	2.153.392	2.134.814	18.578
Bond issued	503.619	520.791	-	520.791
Factoring payables	8.765	8.765	8.765	-
Sundry creditors	6.288	6.288	6.288	-
<b>Contractual Maturities</b>	<b>Carrying Amount</b>	<b>Total Expected Cash Outflows</b>	<b>Less than 3 months</b>	<b>3-12 months</b>
<b>Derivative financial liabilities and foreign exchange buy-sell commitments</b>	<b>(13.376)</b>	<b>(13.376)</b>	<b>(15.129)</b>	<b>1.753</b>
Derivative cash inflows	731.410	731.410	315.411	415.999
Derivative cash outflows	(744.786)	(744.786)	(330.540)	(414.246)

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

**27.2 Explanations on Risk Management (Continued)**

**27.2.3 Market Risk**

*Foreign currency risk*

Foreign currency risk is the risk arising from the value changes on financial instruments related with the change in exchange rates. The Company is exposed to currency risk due to its foreign currency borrowings. The currencies that the foreign currency risk of the Company mainly arises from are USD, Euro and GBP. As the financial statements of the Company are presented in TL, the financial statements are affected by fluctuations in these exchange rates against TL. The Company's net short/ (long) position arises from the assets, liabilities and derivative financial instruments in foreign currencies as at 31 December 2017 and 31 December 2016.

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

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

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

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

**27.2 Explanations on Risk Management (Continued)**

**27.2.3 Market Risk (Continued)**

**Foreign Currency Risk (Continued)**

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

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

(\*) Includes the foreign currency indexed factoring receivables amounting to TL 282.716 that are presented in TL column on the balance sheet.

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

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

**27.2 Explanations on Risk Management (Continued)**

**27.2.3 Market Risk (Continued)**

**Foreign Currency Risk (Continued)**

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

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

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

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

**27.2 Explanations on Risk Management (continued)**

**27.2.3 Market Risk (Continued)**

*Foreign currency sensitivity risk*

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

TL	
31 December 2017	Profit/(Loss)
USD	452
EURO	398
GBP	738
<b>Total</b>	<b>1.588</b>

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

*Interest Rate Risk*

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

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

## FINANCIAL

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

**27.2 Explanations on Risk Management (continued)**

**27.2.3 Market Risk (Continued)**

*Interest Rate Sensitivity Analysis*

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

	Carrying Value	
	31 December 2017	31 December 2016
<b>Fixed Rate</b>		
Factoring receivables	2.701.096	2.280.204
Funds borrowed	2.257.573	2.016.933
Marketable securities issued	795.583	503.619
<b>Floating Rate</b>		
Factoring receivables	658.888	554.585
Funds borrowed	161.183	132.514

If interest rates of the floating rate instruments denominated in USD and EURO were 100 basis points higher/lower at the date of reserve and all other variables were constant as of 31 December 2017, net income for the period would decrease/increase by TL 4.977 (31 December 2016: TL 4.221) as a result of higher/lower interest expense from floating interest rate financial instruments.

**Capital Risk Management**

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

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

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

**28 FINANCIAL INSTRUMENTS**

*Fair Value of Financial Instruments*

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



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**28 FINANCIAL INSTRUMENTS (Continued)**

*Fair Value of Financial Instruments Classification*

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

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

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

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

31 December 2017	Level 1	Level 2	Level 3	Total
<b>Derivative financial assets held for trading</b>	-	19.327	-	19.327
	-	19.327	-	19.327
<b>Derivative financial liabilities held for trading</b>	-	2.018	-	2.018
	-	2.018	-	2.018
<b>31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Derivative financial assets held for trading</b>	-	394	-	394
	-	394	-	394
<b>Derivative financial liabilities held for trading</b>	-	31.051	-	31.051
	-	31.051	-	31.051

**29 EVENTS AFTER THE REPORTING PERIOD**

None.

## Garanti Faktoring A.Ş. Contact Information

Branch Name	Address	Telephone
Head Office	Maslak Mahallesi Eski Büyükdere Caddesi No:23 Sarıyer/İstanbul	(+90212) 365 31 50
Head Office (Outbuilding)	Maslak Mahallesi Eski Büyükdere Caddesi Oycan Plaza No:15 K:6 Sarıyer/İstanbul	(+90212) 365 52 00
Adana Branch	Reşatbey Mah. Atatürk Cad. Mimar Semih Rüstem İş Merkezi No:18 K:4 Blok 01020 Seyhan/Adana	(+90322) 355 10 68
Ankara Branch	Kızılırmak Mah. 1441. Sok. Meva İş Merkezi No: 8/5-8/6 Çukurambar Çankaya/Ankara	(+90312) 287 12 89
Ankara OSTİM Branch	Ostim Mah. Yüzüncü Yıl Bulvarı No:2 Yenimahalle Ankara	(+90312) 592 71 29
Antalya Branch	Kızılırmak Mah. 2754 Sokak No:1 Oficity İş Merkezi Muratpaşa Antalya	(+90242) 310 94 83
Bursa Branch	Nilpark AVM Karaman Mah. İzmir yolu Cad. No:90 K:6 Nilüfer/Bursa	(+90224) 249 53 66
Denizli Branch	Saraylar Mah. Gazi Mustafa Kemal Bulv. No:2 Saraylar/Denizli	(+90258) 295 46 44
Gaziantep Branch	Mücahitler Mah. Gazimuhtarpaşa Bulvarı No:48 K:4 Şehitkamil/Gaziantep	(+90342) 211 68 56
İstanbul Anadolu Branch	Koşuyolu Mah. Koşuyolu Cad. No: 59/61 Koşuyolu Kadıköy/İstanbul	(+90216) 340 03 20
İstanbul Avrupa Branch	15 Temmuz Mah. Bahar Cad. No:71/A K:5 Güneşli Bağcılar İstanbul	(+90212) 630 53 87
İstanbul Beylikdüzü Branch	Cumhuriyet Mah. Gürpınar Yolu No:7 Beylikdüzü/İstanbul	(+90212) 657 96 21
İstanbul İMES Branch	Des Sanayi Sitesi Sosyal Tesisler 1.Cadde A Blok No:1 ESENŞEHİR ÜMRANIYE/İSTANBUL 78-79	(+90216) 528 32
İstanbul Karaköy Branch	Müeyyetzade Mah. Kemeraltı Cad. No:24/A Karaköy 34425 İstanbul	(+90212) 377 12 31
İzmir Branch	Adalet Mah. Manas Bulvarı Folkart Tower No:39/1 B Kule Kat:19 No:1901 Bayraklı/İzmir	(+90232) 488 70 16
Kayseri Branch	Cumhuriyet Mahallesi Nazmi Tokar Cad. No:15/A 38040 Melikgazi/Kayseri	(+90352) 207 23 47/48
Kocaeli İsmetpaşa Branch	İsmetpaşa Cad. No:20 Kat:3 Gebze/Kocaeli	(+90262) 678 69 49
Konya Branch	Büsan Özel Organize Sanayi Bölgesi Fevzi Çakmak Mah. Kosgeb Cad. No:1/G 42010 Karatay/Konya	(+90332) 221 10 78
Trabzon Branch	Sanayi Mah. Devlet Karayolu Cad. Dedehan İş hanı No:89 Kat:5 Trabzon	(+90462) 377 06 49

