EKSPO FAKTORİNG 2018

ANNUAL REPORT

EKSPO Faktoring A.Ş.

CONTENTS

MURAT TÜMAY
CHAIRMAN OF THE BOARD AND
GENERAL MANAGER

GÜRBÜZ TÜMAY
HONORARY CHAIRMAN

Our foundation is strong...

We are backed by a deep-rooted banking tradition and half a century of experience in this field...

We always uphold our values and operate with a management model that combines our know-how with an innovative approach...

We have a robust financial structure and solid business partners which, by uniting our strengths, ensure our growth...

We form and cherish long-lasting relationships based on mutual trust and accompany our clients on their journey to success...

We combine all these strengths under Ekspo Faktoring...

We are proceeding towards the future with firm steps, driven by our successful reputation and strong foundation.

MESSAGE FROM THE CHAIRMAN

We have successfully completed a year during which various global and domestic economic issues were at the forefront.

Dear Stakeholders,

In the U.S., the FED raised interest rates by 50 basis points as the economy showed signs of recovery and the inflation rates declined slightly. Meanwhile, the European Central Bank decreased the limit of its Asset Purchase Program from € 30 billion to € 15 billion, thus signaling the possibility of an interest rate hike. These developments raised the pressure on the exchange rates of developing countries including Turkey.

Additionally, President Trump's advocacy of an increasingly protectionist trade policy has not only caused a tariff war between the U.S. and China, it has also initiated a trend whereby various countries are emulating the same trade policy as part of their global trading strategies. The Turkish economy's ongoing vulnerable structure suffered a brief shock in the second half of the year due to the already strained U.S.-Turkey relations adversely effected by the sentencing of pastor Brunson. However, with the introduction of additional measures, Turkish Lira recovered more than half of its sharp losses in a relatively short period of three months.

Improvement in the relations with the U.S., Turkey's exemption from the list of sanctioned countries against Iran, current account surplus after August, and decline in inflation rate expectations all contributed to a brief economic recovery. Nevertheless, the declining performance of the real sector caused the financial sector to tighten credit supplies and the uncertainties regarding the current account balance bred short-term economic uncertainties. Consequently, both the real and financial sectors adopted a 'wait-and-see' approach towards the domestic economy for the year 2019, at least until the municipal elections on March the 31st.

The challenging global conjuncture will most likely force Turkey to follow sound economic policies in 2019. Rising interest rates due to FED's tight monetary policy and trade wars between the U.S. and China clearly show that there is no place for any errors in Turkey's economic policy in the upcoming period when elections will be on the agenda once again.

Ekspo Faktoring successfully completed the year 2018

At Ekspo Faktoring, we achieved

successful results in 2018. Meanwhile, the unforeseen economic fluctuations had a negative impact on the economy in the second half of the year and the factoring sector was no exception. After growing by 23% in the first half of the year compared with year-end 2017 results, our assets decreased by 35% to TL 290 million by the end of 2018. Two key reasons for this decrease were the pre-election period 'wait-and-see' policy adopted by our clients and the shrinking global trade volume. In the meantime, our shareholders' equity rose from TL 128 million to TL 152 million with a 19% annual increase.

Gross profit up by 45%

In 2019, we are committed to continue our policy of retaining profits in the Company. Our foreign trade volume continues to grow with support from foreign correspondent banks. Last year, we provided financing to our clients by mediating a total foreign trade volume of USD 64 million, consisting of USD 51 million in exports and USD 13 million in imports. In the meantime, our gross profit was up by 44% from TL 26 million to TL 37 million.

Development of FinMobile

We have successfully completed the initial testing stage of FinMobile, Turkey's first mobile financing app. The application's designing stage was initiated in 2017 and we are planning to introduce the app to our clients in 2019.

As Ekspo Faktoring, we will continue to offer innovations that will improve our relationships with our clients, contribute to their efficiency and help them grow. I would like to express my heartfelt gratitude to all of our stakeholders, and our valued clients in particular for their valuable contributions in the 2018 operating period.

Sincerely yours,

MURAT TÜMAY
CHAIRMAN OF THE BOARD AND GENERAL MANAGER

BOARD OF DIRECTORS

MURAT TÜMAY
CHAIRMAN & GENERAL MANAGER

Murat Tümay (born in 1974, Istanbul) holds a Bachelor's degree in Economics from Clark University. After graduation, he worked at The Park Avenue Bank N.A., as Analyst, Assistant Manager, and Manager, respectively. After working at executive positions at Turkcell İletişim Hizmetleri and İş-Tim Telekomünikasyon Hizmetleri A.Ş. (2000-2002), he joined Ekspo Faktoring A.Ş. where he has been serving as General Manager and Chairman.

ZEYNEP Ş. AKÇAKAYALIOĞLU
DEPUTY CHAIR

Zeynep Şükriye Akçakayalıoğlu (born in 1969, Istanbul) holds a Bachelor's degree in Management from the University of West Georgia. After working as a Director at Arthur Andersen İnsan Kaynakları Danışmanlığı A.Ş. (1991-1999), she joined Royal Yönetim Danışmanlığı A.Ş. as a board member and Ekspo Faktoring A.Ş., where she is a founding partner and board member since the firm's establishment.

HASAN AKÇAKAYALIOĞLU
MEMBER

Hasan Akçakayalıoğlu (born in 1963, Ankara), holds Bachelor's and Master's degrees in Computer Engineering from Middle East Technical University and an MBA from Yeditepe University. Mr. Akçakayalıoğlu worked at London and Istanbul offices of Arthur Andersen & Andersen Consulting, and served in executive positions and as General Manager at a number of banks. In addition to board memberships at various banks located in the Netherlands, Romania, Bulgaria and Kazakhstan, he also served as a Board Member at the Turkish Industry & Business Association and as the Chairman of the Turkish-Israeli Business Council of Foreign Economic Relations Board. Mr. Akçakayaoğlu is currently the Chairman of Bank Pozitif, C Faktoring A.Ş. and Demir Kyrgyz International Bank, and he has been serving on the Board of Ekspo Faktoring A.Ş. since October 2018.

ŞERİF ORHAN ÇOLAK
MEMBER

Şerif Orhan Çolak (born in 1945, Istanbul) studied Economics at Université de Neuchâtel. Following his graduation, he began his career in 1971 as a Manager at Altın Mekik Tic. ve San. A.Ş.. Over the years, he worked as a Director in various financial institutions, including Uluslararası Endüstri ve Ticaret Bankası A.Ş., Facto Finans A.Ş., Banque Internationale de Commerce, İktisat Bankası T.A.Ş., Credit Lyonnais Suisse and Credit Agricole Suisse. Mr. Çolak has been serving on the Board of Ekspo Faktoring A.Ş. since 2011.

MISSION, VISION, STRATEGIC GOALS

Mission

Leading the way for the Turkish non-banking financial sector in increasing its share in domestic and foreign trade by incorporating the latest and highly demanded global financing models into its corporate product portfolio.

Holding a competitive edge in the sector with its corporate governance approach and innovative products by offering advantageous financial products to numerous companies operating in different industries.

Implementing quality and efficiency-based practices in client relations management.

Becoming a regional leader in international trade.

Vision

Maintaining a steady growth and reaching an asset size of TL 470 million by the end of 2019.

Strategic Goals

Catering to the ever-changing needs of the real sector with innovative products and services.

Ensuring sustainable growth by providing services that focus on quality and efficiency.

Maintaining competitive strength by developing tailor-made financing models for companies operating in different industries.

Contributing to foreign trade by offering financing support to Turkish companies in their international operations.

Standing out as a company with a highly qualified human resource by providing professional and personal improvement opportunities for its employees.

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BILLION TURKISH LIRAS

2018 TURNOVER

Ekspo Faktoring, which offers Turkey's first structured financing products to a variety of industries, manages its operations with a visionary perspective since its establishment.

EKSPO FAKTORİNG AT A GLANCE

As an active and reliable financial institution both in Turkey and international markets, Ekspo Faktoring brings together deep-rooted banking experience and know-how with an innovative approach to provide its clients with a variety of products and services.

ROBUST AND RELIABLE STRUCTURE

Founded in 2000 backed with nearly 40 years of banking experience and a capital of TL 1 million, Ekspo Faktoring soon became a leading institution in the finance sector. Focusing on quality, efficiency and client satisfaction in all of its activities, Ekspo Faktoring established itself as one of the leading institutions in the financial sector. With a strong capital structure, business processes developed in line with universal ethical values, innovative management philosophy and a highly qualified human resource, Ekspo Faktoring aims for sustainable growth and focuses on ensuring transparency and reliability across all its operations.

PIONEERING AND VISIONARY PERSPECTIVE

Managed with a visionary perspective, Ekspo Faktoring also aims to introduce pioneering practices to the sector. The innovative practices, products and services that Ekspo Faktoring launches bring a competitive edge to the Company. By offering Turkey's first structured financing products for various industries, the Company has acted as an intermediary in foreign trade transactions amounting to approximately USD 400 million in the last six years as well as letter of credit transactions worth over USD 88 million. As the first Company in the Turkish factoring sector to fully disclose its financial statements, Ekspo Faktoring also has other firsts to its name such as being rated by an international credit rating agency, publishing its annual report and implementing SWIFT (The Society for Worldwide Interbank Financial Telecommunication System), all of which contribute to its pioneering position.

TRADITIONAL AND INNOVATIVE APPROACH

Following the footsteps of its founders with deep-rooted banking experience, Ekspo Faktoring has successfully captured the perfect balance of innovation and tradition driven by the second generation at the helm, carrying out all business processes without sacrificing conventional values. This combination in today's evolving and transforming business world gives the Company superiority in responding to changing demands and a competitive edge in swiftly generating effective financial solutions for its clients in line with their expectations and needs.

PROACTIVE APPROACH, CREATIVE PRODUCTS

One aspect that helps to position Ekspo Faktoring in the lead is its ability to develop creative customized products and services by analyzing client needs and expectations. Ekspo Faktoring adopts a proactive approach and prioritizes keeping up with the rapid changes in the world and anticipating the dynamics of tomorrow. This enables the Company to offer the most suitable financing, guarantee and cash management solutions in a timely manner in order to meet the future needs of its clients. With this capability, Ekspo Faktoring undertakes successful business processes and projects with some of Turkey's most prominent companies. With a broad range of products and services, in particular contract financing, project financing, order financing, pre-sales financing, supply chain financing and structured products, Ekspo Faktoring meets the financing needs of numerous companies operating in a diverse spectrum of industries such as textiles, transportation, construction and manufacturing that form the backbone of the Turkish economy.

LOYAL CLIENTS, LONG-LASTING RELATIONSHIPS

Since its foundation, Ekspo Faktoring has adopted an approach that places the client at the center of all of its business processes and focuses on ensuring ultimate client satisfaction. With effective and fast solutions generated in line with the expectations and needs, the Company builds and maintains long-lasting client relationships based on mutual trust. Due to its superior service quality, Ekspo Faktoring's client portfolio is predominantly composed of loyal clients which the Company has served for many years, resulting in a client retention ratio well above the sector average.

Following the developments in the clients' industries and paying regular visits to clients enable Ekspo Faktoring to keep the relations alive and well.

STRONG INTERNATIONAL CONNECTIONS

Another important competitive advantage of Ekspo Faktoring is the strong international correspondent relations developed over many years. The Company is well known for its effective and consistent position in the global financial markets, thanks to the confidence it inspires with its strong financial structure as well as its transparent and accountable management approach. The fact that its financial superiority is confirmed by international rating agencies also brings an important competitive edge to Ekspo Faktoring as a preferred partner of real sector in foreign trade transactions. With a wide correspondent network spanning from Japan to the U.S., Ekspo Faktoring further strengthened its correspondent relations with domestic and foreign banks and financial institutions in 2018. Operating with a financing capacity of USD 500 million, the Company mediated in foreign trade finance amounting to USD 64 million in 2018. The Company's target for 2019 is to increase its domestic and increase transaction volume by 60%.

PARTNERSHIPS WITH ESTABLISHED INSTITUTIONS

Ekspo Faktoring offers privileged services to its clients thanks to partnerships with strong and established banking institutions in various countries, helping them to improve their competitiveness by providing medium and long-term resources and guarantees for their imports. The Company's partnerships include institutions such as Black Sea Trade and Development Bank, U.S. Exim Bank, Spain's Banco Sabadell and Turkish Eximbank. In this context, Ekspo Faktoring enables utilization of Turkish Eximbank loans by its clients, as well as supporting cotton imports from the U.S. through its partnership with Banco Sabadell.

CONSISTENT PERFORMANCE

In 2018, Ekspo Faktoring reached a total volume of USD 51 million in exports and USD 13 million in imports, with 76% and 24% of its turnover related domestic and foreign transactions, respectively. As of year-end 2018, Ekspo Faktoring achieved TL 290 million in assets, TL 1.4 billion in turnover and TL 37.6 million in profits, increased its shareholders' equity by 19% to TL 152 million with. The Company has maintained a consistent path in its successful performance to steadily increase its profitability since its establishment. With innovative strategies, robust shareholders' equity and corporate governance approach, Ekspo Faktoring will sustain the stable performance of 2018 in the future in a manner to contribute to its home country's development.

HIGHLY QUALIFIED HUMAN RESOURCE

Without doubt, one of the main contributors to Ekspo Faktoring's consistent performance-based success is its highly qualified human resource consisting of solution-focused and dynamic employees. With an aggregate experience of 198 years, the Ekspo Faktoring team serves clients with high ethical standards and responsibility. Adopting a perfectionist approach, the Company's employees are well-equipped to develop solutions that meet the clients' needs and expectations. In addition to being good team members, they also follow the developments in the financial sector closely and keep up with the requirements of the business world. Operating with the most competent human resource in the Turkish financial sector, Ekspo Faktoring supports the continuous development of its employees while constantly enhancing its service infrastructure.

KEEPING UP WITH TECHNOLOGICAL DEVELOPMENTS

Ekspo Faktoring aims at ensuring ultimate client satisfaction in all its operations and closely monitors technological innovations to achieve operational speed and efficiency. The Company regularly invests in its rich technological infrastructure to update its capacity and capabilities. In 2012, Ekspo Faktoring became the first company in the sector to implement SWIFT, the secure information transfer system. Currently, the Company conducts correspondence with banks and international financial institutions via this secure system. In 2014, the Company's system infrastructure was renewed and this was followed in 2016 by important investments made in line with the requirements of the Risk Center under the Banks Association of Turkey. With these investments, the virtual platform capacity of the Company was doubled and enhancements were carried out regarding logging, testing environments, centralized management of the technological infrastructure, and data security.

SUPPORTING THE NATIONAL ECONOMY

With a client portfolio of Turkey's leading companies, Ekspo Faktoring focuses both on domestic and export activities of its clients and offers the most suitable financing options by assessing their needs with a multi-dimensional approach. With successful project, contract and order financing activities realized with companies operating in industries including construction, tourism, textiles, metals, machinery and equipment, durable consumer goods, foodstuffs and energy, and mainly importing raw materials for export purposes, Ekspo Faktoring supports the real sector and undertakes important missions in financing the Turkish economy.

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MILLION TURKISH LIRAS

SHAREHOLDERS’ EQUITY

Ekspo Faktoring, a leading factoring company with a robust capital structure in the finance sector, continued to support of the Turkish real sector in 2018 by offering a broad range of products and services to its clientele, which consists of prominent companies.

MANAGEMENT APPROACH

With a well-established organizational structure, Ekspo Faktoring continues to introduce novelties that create a buzz in the sector through a proactive management approach.

Behind Ekspo Faktoring's successful implementation of the "new traditional banking" approach lies two important factors: the vast experience of its founders and the synergy created by the blending of this experience with the innovative spirit of the second generation. With practices that prioritize transparency and reliability in all of its operations, Ekspo Faktoring comes to the forefront among its peers in the sector as the first company to disclose its financial statements, publish its annual report, appoint independent board members and be audited by international independent audit firms. The Company's management approach has played a key role in raising the standards of this sector.

Ekspo Faktoring is managed with a proactive strategy, aiming to anticipate the upcoming developments in the market. The Company acts with financial discipline and accountability by complying with international criteria, legislation, specifications and standards in force, and ethical values. The corporate governance approach of Ekspo Faktoring, supported by its experienced human resource and industry expertise, is based on transparent management, and effective risk management and internal control mechanisms. With two independent members serving on the Board of Directors, the Company commits itself to the principles of transparency and accountability.

CORPORATE GOVERNANCE THROUGH COMMITTEES

Ekspo Faktoring has a number of committees that ensure the implementation of the company culture and corporate governance approach at same standards throughout the entire organization, and enhance internal communication. Active since the establishment of the Company, these committees aim to achieve sustainable corporate development and contribute to improve efficiency in business processes. The committees and their respective duties are described below:

ASSET-LIABILITY (ALCO) COMMITTEE

Headed by the General Manager, the ALCO Committee convenes weekly with the group managers, who carry out activities that might affect the balance sheet. The meeting agenda includes evaluation of the balance sheet, departmental activities, credit risks of clients, general economic data, current political and economic developments, current legislation and prospective placements, as well as determination of the weekly strategy.

RISK ASSESSMENT COMMITTEE

The Risk Assessment Committee convenes regularly on a weekly basis and more frequently when needed. The Committee considers the proposals regarding corporate clients' utilization requests and evaluates the suggestions of the Marketing Department to approve or refuse them within the limits of its authority. Proposals exceeding these limits are presented to the Board of Directors for approval.

INFORMATION TECHNOLOGIES COMMITTEE

Headed by the General Manager, the Information Technologies Committee convenes annually, and is responsible for researching the new technologies that the Company might need to make investments in. Ekspo Faktoring is audited by an international independent audit firm to prevent internal and external risks associated with information technologies. Taking action according to the results of this audit is among the principal duties of the Information Technologies Committee.

HUMAN RESOURCES COMMITTEE

The Human Resources Committee, headed by the Board Member in charge of Human Resources, convenes every December. The Committee evaluates the vertical (advancement in title as well as duties and responsibilities) and horizontal (a change in duties and responsibilities under the same title) promotion of all employees and reaches its final decisions. Also, the Committee determines the actions - from orientation processes for new employees to training programs - to enhance human resources efficiency.

LIQUIDITY COMMITTEE

The Liquidity Committee, chaired by the General Manager, convenes weekly with senior executives. Current interest rates in the financial markets, weekly positions to be taken with the banks and interest rates offered by banks are discussed, considering daily, weekly, quarterly, semi-annual and, if possible, annual outlooks. The Committee is also responsible for assessing available bank limits and collaterals maintained with banks, determining the financial institutions to work with and obtaining information about their financial structures.

PRODUCTS AND SERVICES

Ekspo Faktoring regards its clients as business partners and offers them tailor made products and services developed by following and analyzing relevant industries.

- STRUCTURED FINANCE
- PRE-SHIPMENT FINANCE
- COMMODITY FINANCE
- AGRICULTURAL LOANS
- GSM 102
- IMPORT FINANCE
- EXPORT FINANCE
- TRADE FINANCE SOLUTIONS
- PAYMENT GUARANTEE
- PURCHASING TRADE RECEIVABLES
- SUPPLY CHAIN FINANCE
- ECA LOANS

Placing client satisfaction philosophy at the core of all of its business processes, Ekspo Faktoring offers a range of products and services to meet client expectations and needs. As the Company continues to support the real sector with products and services tailored to client requirements, it offers its clients financing, guarantee and cash management alternatives in a timely manner to meet their future needs. In addition to providing project financing for its clients' domestic and international transactions, Ekspo Faktoring also offers guarantee and collection services. In 2018, the Company focused on enriching and improving its product range and implementing more effective marketing strategies to expand its client portfolio. With its strong financial structure, Ekspo Faktoring is committed to ensuring transparency and acting conscientiously for its clients against all kinds of volatility that may occur in the financial and real sectors. The Company uses these processes as opportunities to better understand its clients and to enhance its risk management experience. Ekspo Faktoring closely monitors the conditions in the geographic markets that have economic and trade relations with Turkey and assesses financing opportunities to support its clients in creating maximum added value.

With FinMobile, a mobile app that Ekspo Faktoring began developing in 2017, the Company will soon introduce another novel practice in Turkey. The R&D process on FinMobile, the testing stage of which was initiated in 2018, is ongoing.

STRUCTURED FINANCE

Importing raw materials and semi-finished goods to be used in export-aimed production as well as producing energy, and extracting of natural resources are of utmost importance for the exports and national prosperity of emerging economies including Turkey. The commodity prices that fared high in the recent years have caused an unprecedented rise in demand, thus forcing businesses to seeking additional credit lines. Structured finance, which has so far played a key role in meeting these demands, provides funds against pledging future cash flows and current receivables as collateral. Ekspo Faktoring has been providing structured pre-export financing options since 2012. With USD 142 million in structured finance secured through international finance institutions to date, it has supported industrial companies for sourcing raw materials.

PRE-SHIPMENT FINANCE

Pre-shipment finance involves financing the costs of exports until the goods are shipped. Ekspo Faktoring has been providing this service since 2008 to enable its clients to receive an advance payment up to a certain percentage of the total export amount on the condition that the export contract is assigned to Ekspo Faktoring. This percentage is determined by considering several parameters, such as the continuity and reliability of the relations between the client and the buyer, the duration of shipment and the client's credibility since the amount would be claimed from the client in the event that the export receivable cannot be collected. This type of financing allows the client to gain a price advantage when procuring the goods in cash or to perform debt servicing.

COMMODITY FINANCE

Commodity finance is a mechanism that supports small, medium- or large-sized industrial clients to benefit from short-term financing for raw material imports to be used in export-aimed production or domestic sales. Ekspo Faktoring has been heavily involved in commodity finance as a major line of its business since 2010, mainly focusing on the energy sector and agricultural commodities with its know-how and expertise in these respective fields. The Company offers these financial products to its clients with the support of the world's leading banks and export credit agencies.

AGRICULTURAL LOANS

Agriculture is a major industry for many developed and emerging economies including Turkey. Ekspo Faktoring provides trade finance for a wide range of agricultural products, such as cotton, sugar, soybean, cocoa, coffee and tobacco. In addition to meeting the daily financing needs of its clients since 2012, Ekspo Faktoring has also been offering increasing fund support against commodity liens and pre-shipment finance services backed by its business partners based in America, Europe and the Far East.

GSM 102

For Turkish importers, agricultural product imports from the U.S. can be financed within the scope of the GSM 102 program run by the Commodity Credit Corporation (CCC) under the U.S. Department of Agriculture. In GSM loans, this organization insures the sovereign and corporate risk while the loan is granted by the intermediary bank in the U.S.. In the utilization stage of the loan, a sight letter of credit is opened for the importer, and following the shipment, the intermediary bank in the U.S. pays the exporter by granting loan to Ekspo Faktoring.

In this transaction, although Ekspo Faktoring is the debtor, the loan is actually extended to the importer in Turkey; this is why a credit line is allocated for this company by Ekspo Faktoring. Principal is repaid annually or semi-annually. The GSM 102 program, which encompasses a wide range of goods, is offered for a maximum term of two years. In GSM transactions, total import amount (generally on FOB basis, or CIF for some goods) is lent with no obligation of an advance payment.

Offered since 2012, within this program products such as forestry products, wheat, wheat flour, semolina, rice, brown rice, feed seeds, animal feed products, protein foods, fish, vegetable oils, seeds, tallow, oil, fat, dairy products, meat, feeder cattle, cotton, cotton thread, cotton products, sowing seeds, ethanol, breeding farm animals (cattle, sheep, goats, horses - including the sperm and the embryo) and breeding poultry can be imported.

IMPORT FINANCE

Ekspo Faktoring offers intermediary services for clients that import non- commodity products. Within this scope, the guarantee given by Ekspo Faktoring to the foreign institution against the risk of non-payment by the importing clients is accepted by international banks. The guarantee provided by Ekspo Faktoring is recognized by the largest banks in the Far East, Asia, America and Europe and, if need be, a discount is applied and the supplier is paid in advance. Thanks to its international reputation and correspondent network, Ekspo Faktoring is able to meet its clients' import finance needs swiftly.

EXPORT FINANCE

Cash flow is a common problem that many exporters face. Companies need to generate cash to finance their growth. Financing is an important issue, particularly for exporters selling goods to developed and emerging countries. In export finance, exporters are provided with funds at attractive costs against current or future receivables. Furthermore, comprehensive insurance agreements made by export development agencies or private insurance companies provide long-term funding for machinery exports or large-scale commodity exports of emerging countries with a certain level of risk or countries that experience domestic turbulence, thus preventing political or credit risks that could be posed. With vast experience in this field, Ekspo Faktoring has been offering export finance since 2002.

TRADE FINANCE SOLUTIONS

With a team of experienced specialists, Ekspo Faktoring creates unique financing structures to help its clients achieve liquidity. Trade finance solutions involve a structure in which several products that Ekspo Faktoring offers can be combined to meet the clients' needs, such as: purchasing current or future receivables, guarantees, purchasing extending trade receivables irrevocably, supply chain financing, discounting confirmed letters of credit, post-financing, acknowledging assignment of receivables giving payment guarantee, and inventory financing.

To date, the Company has met its clients' financing needs with several structuring deals as it constantly seeks new and innovative solutions.

PAYMENT GUARANTEES

Payment guarantees are used in minimizing potential commercial and sovereign risks that might arise in open account export transactions with emerging or developed countries. Such guarantees are typically used to cover the possibility of non-payment of debts that are generated by a transaction or over a period of time. Ekspo Faktoring has provided payment guarantee services to its clients since 2004.

PURCHASING TRADE RECEIVABLES

Purchasing trade receivables (factoring) is a service that Ekspo Faktoring has been providing since 2004. This process involves purchasing trade rights of the seller covered by a contract and paying a specific amount to the seller in advance. This financing method offers several benefits such as maintaining a strong financial structure, control and management of receivables, finding alternative financing resources, resolving undercapitalization issues, facilitating management and operations, and also maintaining a sound relationship between the client and buyer in the case of undisclosed transactions.

SUPPLIER FINANCE

In recent years, supplier finance has been recognized by many foreign and Turkish CFOs as a significant tool that provides working capital and finance opportunities. Large-scale buyers that utilize the supplier finance method generate low-cost alternative financing resources for many primary product and service suppliers, helping them with their cash flow. With the supplier financing method offered since 2009, Ekspo Faktoring provides its clients with the opportunity to make deferred payments.

ECA LOANS

Ekspo Faktoring provides exclusive services for its clients through export credit agency (ECA) loans.

U.S. Exim Bank: Turkey buys substantial amounts of agricultural raw material from the U.S. Under the scope of an agreement that Ekspo Faktoring signed with the U.S. Exim Bank in 2011, it acts as an intermediary for industrial importers in deferred payments, thus offering low-cost finance up to six months in imports from the U.S. to Turkey.

Black Sea Trade and Development Bank: In 2013, Ekspo Faktoring signed a credit agreement with the Black Sea Trade and Development Bank to finance international trade for USD 5 million with a maturity of 370 days. The funds are aimed to finance import activities that Turkish companies engage in with member states of the Black Sea Trade and Development Bank and to support Turkish companies in their global export efforts. This credit line, first established in 2013, was doubled in 2014 to reach USD 10 million.

Turkish Eximbank: In 2015, Ekspo Faktoring became one of the first factoring companies to be allocated a credit line by the Turkish Eximbank. The Company offers post-shipment export rediscount loans through this scheme. Aiming to boost the competitive strength of its exporter clients in global markets, Ekspo Faktoring provides the most cost-effective export finance options in Turkey. While the current system was available with a maximum term of 180 days, Eximbank's Short-Term Export Credit Insurance Program now offers 360 days for exporters.

Takasbank Money Market: In 2015, a credit line was established for Ekspo Faktoring by Takasbank A.Ş., enabling the Company to make transactions in the Takasbank Money Market. As an organized market, Takasbank Money Market enables intermediary institutions and banks to meet the needs of those who have surplus and/or deficit funds. Pursuant to a General Memorandum (no. 1215) issued by Takasbank A.Ş. on March 16, 2015, financial leasing, factoring and financing companies were allowed to become members of the Takasbank Money Market. The limit set for Ekspo Faktoring by Takasbank A.Ş. is utilized actively.

EKSPO FAKTORİNG
2018 FIGURES

TL **152 MILLION**
SHAREHOLDERS' EQUITY

TL **290 MILLION**
ASSET SIZE

TL **1.4 BILLION**
TURNOVER

76% DOMESTIC
24% INTERNATIONAL
SHARE IN TURNOVER

USD **64 MILLION**
FOREIGN TRADE FINANCE

USD **51 MILLION**
EXPORT TURNOVER

USD **13 MILLION**
IMPORT TURNOVER

TL **37.6 MILLION**
PROFIT BEFORE INCOME TAXES

3%
NON-PERFORMING LOAN RATIO

64

MILLION U.S. DOLLARS
FOREIGN TRADE FINANCING SUPPORT

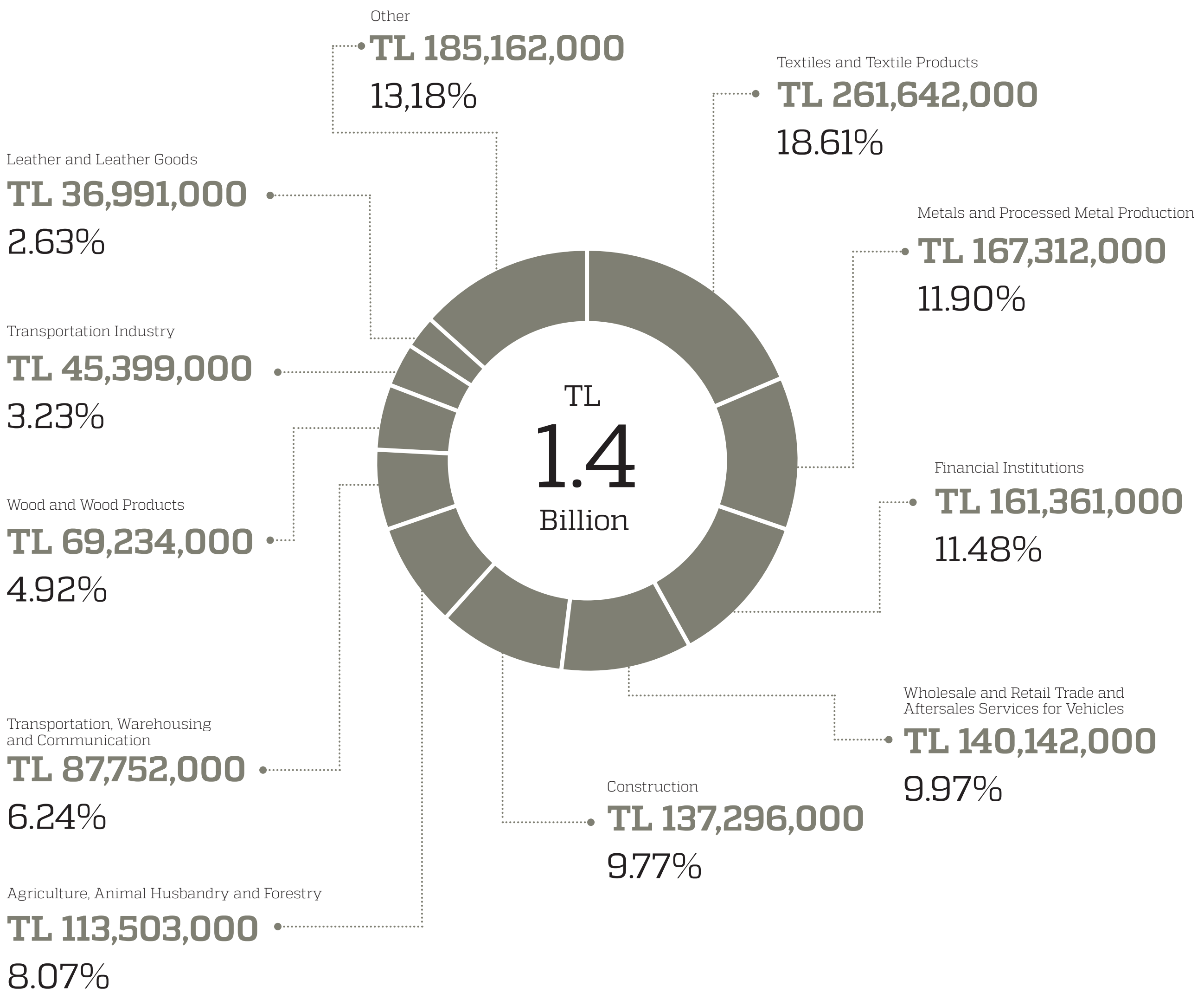
Ekspo Faktoring extends financing support for domestic and international transactions of its clients as well as foreign trade projects of companies that operate in a range of industries from textiles to healthcare, from IT to finance.

FINANCED TRANSACTIONS IN 2018

Focused on enriching and further improving its product portfolio by closely monitoring market conditions, Ekspo Faktoring supported its clients operating in various industries by financing foreign trade transactions of nearly USD 400 million.

Ekspo Faktoring, serving as a solid bridge between the Turkish private sector and domestic and foreign financing institutions, supports its clients with traditional import and export financing products as well as innovative foreign trade products shaped according to client requirements. In line with a targeted marketing approach, the Company develops strategies to help its clients in various industries toward attaining their business goals. In 2018, Ekspo Faktoring continued to support the Turkish private sector with USD 64 million in foreign trade finance, offering solutions to clients operating in various industries from wholesale trade and textiles to finance, construction and transportation.

FINANCED TRANSACTIONS BY INDUSTRY



FINANCED FOREIGN TRADE TRANSACTIONS IN 2018

Ekspo Faktoring, which supports companies operating in industries such as textiles, mining, IT, healthcare and finance, with innovative foreign trade products expanded its portfolio in 2018 with the addition of clients from other sectors like boat making, automotive supply and chemicals.

HOME TEXTILES

EXPORT FINANCING

USD 24 million (2018)

With a significant share in global home textiles trade, the Turkish home textiles industry is among Turkey's highest exporting sectors. Ekspo Faktoring supports the industry through medium-term financing of apparel and home textiles exports.

TEXTILES

IMPORT FINANCING

USD 9 million (2018)

As the textiles industry steadily grows in terms of investments and employment, it also creates significant tax revenues for the state through imports. Ekspo Faktoring continues to provide import financing for major textile companies.

TEXTILES AND APPAREL

EXPORT FINANCING

USD 9 million (2018)

Gaining momentum from the second half of the 1980s onward, Turkish textile exports grew significantly, becoming the most important export item. As the industry creates great added value for the Country's economy, Ekspo Faktoring continues to support apparel exports through long-term financing.

STEEL PRODUCTS

EXPORT FINANCING

USD 7 million (2018)

The steel industry, which is primarily focused on production of high value products such as construction steels, pipes and profiles, continues to grow with new investments. Ekspo Faktoring provides export financing for the steel industry.

BOAT MAKING AND AUTOMOTIVE SUPPLY INDUSTRIES

EXPORT FINANCING

USD 5.1 million (2018)

Ekspo Faktoring has worked with clients in the emerging boat making and automotive supply industries in Turkey for many years. In 2018, this support continued with higher transactions.

AQUACULTURE PRODUCTS

EXPORT FINANCING

USD 5 million (2018)

In recent years, investments in aqua-farming in seas and inland water resources along with facilities and infrastructure for cultivating and processing seafood have gained momentum. Ekspo Faktoring provides financing support for frozen fish and processed seafood exports to various European countries.

CHEMICAL PRODUCTS

IMPORT FINANCING

USD 2.2 million (2018)

Chemical products have a key role for several Turkish industrial sectors. Last year Ekspo Faktoring provided financing support for import transactions.

HEALTHCARE PRODUCTS

IMPORT FINANCING

USD 2.1 million (2018)

Companies involved in selling medical and healthcare products were another industry segment that Ekspo Faktoring supported with import financing in 2018.

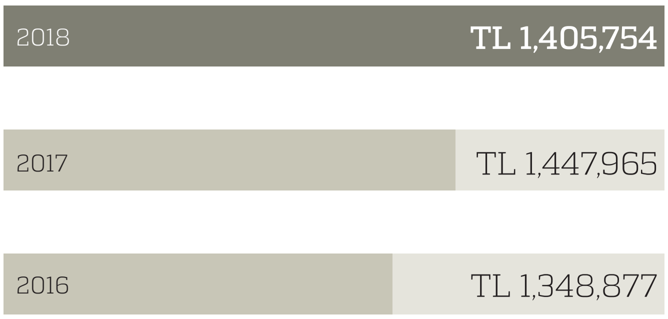
FINANCIAL INDICATORS

With shareholders' equity reaching TL 152 million, Ekspo Faktoring maintained its client-focused growth target, achieving total financed transaction volume of TL 1,406 million in 2018.

FINANCIAL INDICATORS	DECEMBER 2016 (TL THOUSAND)	DECEMBER 2017 (TL THOUSAND)	DECEMBER 2018 (TL THOUSAND)	DECEMBER 2018 (USD THOUSAND)
TOTAL ASSETS	341,704	445,314	289,755	55,077
TOTAL SHAREHOLDERS' EQUITY	111,308	127,695	152,200	28,930
PAID IN CAPITAL	60,000	60,000	60,000	11,404
NET WORKING CAPITAL	109,381	144,833	151,745	28,844
FACTORING RECEIVABLES	331,452	432,976	267,796	50,903
FACTORING PAYABLES	5,932	8,717	8,261	1,570
NET ADVANCES TO CLIENTS	325,520	424,259	259,535	49,332
BANK LOANS. BOND LOANS	221,008	304,206	124,183	23,604
TOTAL INCOME	57,672	66,725	92,106	19,110
FACTORING INCOME	56,186	64,203	86,294	17,904
GROSS PROFIT	21,304	26,064	37,653	7,812
NET PROFIT	17,028	20,887	29,305	6,080

FINANCIAL DATA (%)	DECEMBER 2016	DECEMBER 2017	DECEMBER 2018
CURRENT RATIO (TIMES)	1.50	1.40	2.10
LIQUIDITY RATIO (TIMES)	1.50	1.38	2.08
NET WORKING CAPITAL/TOTAL ASSETS RATIO	32	28	52
LIQUID ASSETS/TOTAL ASSETS RATIO	99	98	98
DEBTS/ASSETS (INDEBTEDNESS RATIO)	67	71	47
DEBTS/EQUITY (FINANCIAL LEVERAGE RATIO)(TIMES)	2.10	2.24	0.82
FINANCIAL LIABILITIES/TOTAL ASSETS RATIO	65	71	43
INTEREST COVERAGE RATIO (TIMES)	1.90	1.82	1.95
AVERAGE COLLECTION PERIOD (DAYS)	85	91	90
TOTAL EXPENSES/TURNOVER RATIO	3	3.6	3.9
GROSS PROFIT MARGIN	18	15	25
NET PROFIT MARGIN (SALES PROFITABILITY)	7	7	11
RETURN ON EQUITY (EQUITY PROFITABILITY)	20	22	27

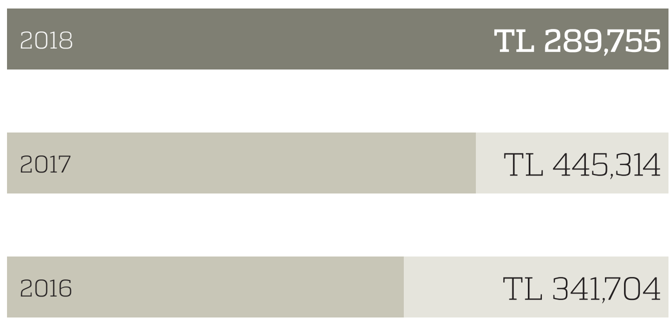
TOTAL TURNOVER (TL THOUSAND)



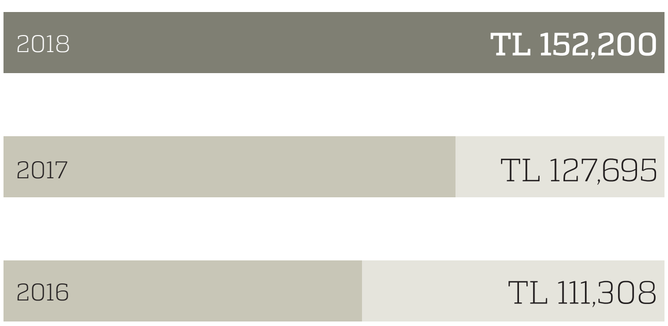
TOTAL INCOME (TL THOUSAND)

GROSS PROFIT (TL THOUSAND)

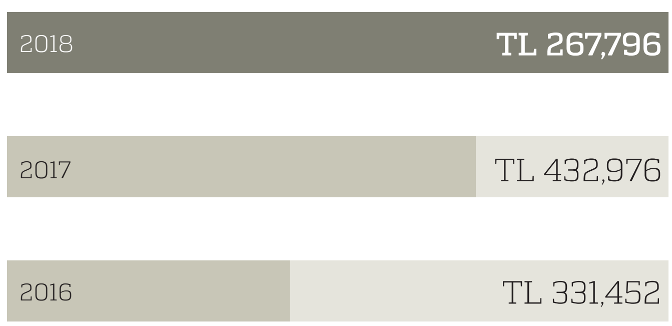
TOTAL ASSETS (TL THOUSAND)



TOTAL SHAREHOLDERS' EQUITY (TL THOUSAND)



FACTORING RECEIVABLES (TL THOUSAND)



2018 PERFORMANCE

As the solution partner of successful projects, Ekspo Faktoring completed 2018 with a consistent performance trend, strengthening its leading position in the sector by expanding its product portfolio and service diversity.

STABLE PERFORMANCE

Ekspo Faktoring continued to maintain the perfect balance between traditional banking and innovative management concepts while sustaining its successful performance in 2018. Managing its turnover with consistency since its establishment, the Company achieved significant progress in its financial indicators by helping to bring successful projects to completion. As of year-end 2018, the Company's turnover amounted to TL 1.4 billion.

Ekspo Faktoring primarily serves Turkey's top 500 companies and multinationals, and develops unique products tailored to the financial requirements of its clients, regarded as business partners. Building and maintaining long-lasting relationships with clients, based on mutual trust and a win-win approach, Ekspo Faktoring has taken part in several important business processes and projects in 2018.

SUPPORTING TRADE FINANCING

With a broad and diverse product and service portfolio, Ekspo Faktoring supports importers and exporters by developing and offering effective foreign trade financing solutions. In 2018, the Company maintained its leading position in financing exports and imports.

Operating with an experienced team of experts, the Company continued to provide financial services and resources with a strategic perspective to help clients achieve their targets, in both domestic and foreign trade and gave support to foreign trade with approximately USD 64 million of financing.

SOLUTION PARTNER TO EXPORTERS

In today's circumstances where Turkish companies trying to sell to foreign markets face a number of challenges, the services that Ekspo Faktoring offers bring important financial benefits, resulting in a competitive edge. The Company, which offers financial resources to its clients, secured via an extensive international correspondent network stands at the forefront of the sector as a solution partner to exporters with well-defined assurances. Ekspo Faktoring strives to find new markets for export products and to offer exporters a competitive edge in international markets, providing valuable contribution toward realizing Turkey's export potential.

The Company extended USD 51 million in export financing for textiles, aquaculture, metals and cement industries in 2018, and it aims to reach USD 64 million in export financing in the coming year.

INTERNATIONAL PARTNERSHIPS WITH AN IMPACT

Visits by senior executives of the Company to international finance institutions with the aim of establishing partnerships to further strengthen foreign connections continued in 2018. Ekspo Faktoring added Banco Sabadell of Spain to its network of partnerships in 2016 to support clients importing cotton from the USA into Turkey.

As a member of Factors Chain International (FCI), the world's largest non-bank financial services network since 2004, Ekspo Faktoring continued to expand its correspondent network and financial resources in 2018, thanks to strong relationships with member institutions. FCI, set up in 1968 as an umbrella organization to develop a framework for international factoring and promote best practices in international standards, has grown into a global network with almost 400 members in 90 countries. Transactions carried out by the members of the world's largest factoring network account for approximately 80% of global factoring volume.

CONTRIBUTING TO ECONOMY

Maintaining a competitive edge with a fast decision-making process and a flexible organizational structure that enables quick implementation of decisions, Ekspo Faktoring stands apart in the sector with innovative and pioneering practices. Thanks to the operations carried out with this innovative approach and the projects supported, the Company contributes to national economy as well, with total assets amounting to TL 290 million.

INTERNATIONAL RATINGS AND AUDITS

Ekspo Faktoring, firmly positioned in the sector with its sound asset quality and strong shareholders' equity, has been evaluated by international rating agencies Fitch, Moody's and JCR Eurasia Rating since 2006. The Company changes the rating agencies and audit firms at certain intervals as specified by the European Union audit reform for the assurance of audit results and ratings.

Ekspo Faktoring believes that the rotation of rating agencies and audit firms will improve quality and play a preventive role against global and local financial crises such as those that occurred in recent years. The rating of a company is a highly regarded indicator in the eyes of lenders or investors, and all pricing is based on this score. Such ratings also contribute to the reputation of an institution. In the future, once sufficient depth is achieved, pricing of funds to be secured from domestic money markets will be based on this rating.

JCR Eurasia Rating upgraded the Long-term National Rating of Ekspo Faktoring from 'A (Trk)' to 'A+ (Trk) and determined the outlook of the Company's Short-term National Rating of 'A-1 (Trk)' as STABLE following the rating process finalized on May 9, 2019.

FINANCIAL ADVANTAGES

Ekspo Faktoring preserved its financial advantages in 2018 thanks to its robust financial structure and continued to offer its clients opportunities to achieve world-class results.

COST-EFFECTIVE RESOURCE GENERATION

Partnering with the largest banks worldwide, Ekspo Faktoring is among a small number of non-bank financial institutions whose risks are purchasable. Driven by the principles of mutual trust and transparency, the Company continues to create resources for Turkish companies at reasonable costs. For the past 18 years, Ekspo Faktoring has been striving to improve relations between global and Turkish companies, and has been elevating its reputation continuously in the international arena.

Ekspo Faktoring adopts a global perspective to offer its clients opportunities for achieving world-class results. With significant competitive advantages such as solid capital structure, qualified human resource and solution-based business culture, Ekspo Faktoring is a leading company that offers innovative products and services in the non-bank financial sector.

STRONG FINANCIAL PARTNER

Ekspo Faktoring further strengthened its correspondent relationships with domestic and foreign banks and financial institutions in 2018 and maintained its ascent through successful strategic partnerships. With its strategic goals in sight, Ekspo Faktoring has expanded its product portfolio and developed effective solutions for foreign trade financing to become one of the strongest financial partners of the companies focused on foreign trade.

Ekspo Faktoring has a financing capability with a size of approximately USD 500 million. The Company acted as an intermediary for foreign trade finance amounting to USD 64 million in 2018, and is targeting 60% growth in domestic and international transactions in 2019.

TAILORED FINANCING SOLUTIONS

The products and services that Ekspo Faktoring offers include a variety of international transactions such as Irrevocable Export Financing, Revocable Export Financing, Assignment of Export Letters of Credit, Import Letters of Credit, the U.S. Department of Agriculture GSM 102 Loan, U.S. Exim Bank, Black Sea Trade and Development Bank loans, Assignment of Export Receivables with Acceptance Credit, Import Financing, and Direct Factoring. The Company's offering for the domestic market also includes Assignment of Receivables without Notice, Assignment of Receivables with Notice and Assignment of Receivables via Checks and Bonds, as well as products and services aimed at financing deferred trade transactions.

Ekspo Faktoring has gained a significant competitive edge since 2011 by placing emphasis on supplier finance, providing consultancy services in areas such as the market, industry analyses and project finance with its expertise in domestic and foreign transactions.

TURNOVER, PROFITABILITY, SHAREHOLDERS' EQUITY

Traditionally, Ekspo Faktoring does not distribute dividends and retains its profit as part of shareholders' equity. The shareholders' equity of the Company, founded in 2000 with TL 1 million capital, has reached TL 152 million as of year-end 2018. Ekspo Faktoring has focused on sustainability since its establishment, maintaining disciplined and steady growth ever since. As of year-end 2018, the Company reached a transaction volume of TL 1.4 billion, with 76% domestic and 24% international transactions. In 2018, Ekspo Faktoring posted a net profit of approximately TL 29 million, completely derived from the Company's main operations. The Company carries manageable levels of maturity, liquidity and currency risks.

LEVERAGE

The Company's low leverage ratio is among the primary factors that give Ekspo Faktoring a competitive edge. Its low leverage ratio has enabled Ekspo Faktoring to develop strong relationships with domestic and international correspondents and financial institutions.

Ekspo Faktoring has carried out its operations basing heavily on its shareholders' equity and has achieved a high level of profitability through effective business processes. Pursuant to Banking Regulation and Supervision Agency (BDDK) Regulation dated 24.04.2013, non-bank finance companies are required to continuously maintain a shareholders' equity/total assets ratio of minimum 3%. Ekspo Faktoring stands out among its competitors with an unparalleled 52% ratio.

ASSET QUALITY

Ekspo Faktoring's non-performing loans level fares well below the sector average. While the ratio of non-performing loans for the sector as a whole was 6.5% in 2018, this ratio was 3.2% for Ekspo Faktoring. Furthermore, 98% of the Company's receivables are revocable. Ekspo Faktoring takes utmost care to ensure that a single party's debt does not exceed 10% of the related client's total outstanding risk. This is a clear indication of the Company's high asset quality and the reliability of its rating system.

Ekspo Faktoring continuously improves its risk evaluation system using methods applied by leading international rating agencies with the aim of assessing its financial receivables in a healthy and consistent manner. The Company adds low-risk clients to its portfolio to maintain the asset quality above sector average.

ASSET SIZE

Ekspo Faktoring's asset size amounted to TL 290 million as of year-end 2018. With its industry expertise, strong funding structure and qualified human resource, the Company generates fast and effective solutions in line with client expectations and requirements and with this approach serving numerous domestic and foreign businesses operating in different industries.

Ekspo Faktoring regards its clients as long-lasting and loyal business partners and structures the resources secured from domestic and foreign banks with advantageous terms and conditions in order to offer the financing tailored to its client expectations.

Ekspo Faktoring's target for 2019 is to reach TL 470 million in loans. With its financial advantages confirmed by international rating agencies, Ekspo Faktoring aims to maintain its profitability as well as its strong support of the real sector by developing fast and cost-effective solutions for its clients in 2019.

GLOBAL ECONOMY

According to IMF data, global economy grew by 3.7% in 2018, in line with expectations. The anticipation for growth is slightly below this level in 2019 and 2020. Thus, the global economy is expected to grow 3.5% and 3.6% in 2019 and 2020, respectively.

THE U.S.- CHINA TRADE WAR

The tariffs imposed in 2018 led to a trade war between the U.S. and China and became the main reason for the decline that ensued in global trade. Meanwhile, failure of the British Parliament to set out the roadmap for Brexit was another major contributor to the growing global uncertainty.

The U.S. economy grew by 2.9% in 2018, coming very close to its 3% growth target. Tax cuts amounting to USD 1.5 trillion and increase in government spending were introduced to drive growth. The U.S. economy is expected to grow at the sustainable rate of 2-3% annually in the following years.

In 2018, the FED continued its gradual tightening strategy in monetary policy, raising policy interest rate on four occasions up to 2.25-2.50% levels. In March 2019, it announced that it did not have any plans for interest rate hikes is for the remainder of the year.

In order to ensure his reelection in November 2020, President Donald Trump will need to persuade the American public that the current term of his presidency has been successful. Therefore, it seems inevitable that he will attempt to write new economic and geopolitical success stories to put behind important issues such as impeachment arguments, which were first fueled by the alleged Russian interference in the 2016 presidential elections. On the other hand, the Mueller Report and the debates between Trump and his opponents on the political stage will no doubt contribute to the ongoing uncertainty in the U.S. economy. Accordingly, President Trump can be expected to make even more radical decisions on international economic and trade sanctions.

In the Euro Zone, inflation rate was recorded as 1.6% in 2018. The Bank of Japan, on the other hand, announced that the issue of maintaining the expansionary monetary policy for their medium term target inflation of 2%, will be handled depending on the developments.

EURO AREA

The Euro Area grew by 1.8% in 2018, signaling to the beginnings of a slowdown. Some of the key reasons for this include the low growth rates of the major member states and the uncertainties in global trade. The European Commission anticipates 2019 growth rate to remain at 1.8%.

EUROPE

As the uncertainty brought about by the chaotic Brexit process continued, the U.K. economy was able to grow by only 1.4% in 2018, the lowest growth rate that the country experienced since 2012. On the other hand, the German and French economies grew by 1.5% and 1.6%, respectively. The Bank of England targets a low growth rate of 1.2% in 2019 while Germany and France aim to grow by 1% and 1.7%, respectively.

CHINESE ECONOMY

The Chinese economy recorded the lowest growth rate of the last 28 years with 6.6% in 2018. The ongoing trade war with the U.S. is the most important factor in the slowdown of China's economic growth. Inflation rate, on the other hand, was 1.9% with a slight increase compared to the 1.6% of 2017. Given the impact of the ongoing trade war with the U.S., the Chinese economy is anticipated to grow by 6.3% in 2019. China's dollar reserve, which was USD 3.1 trillion at the beginning of 2018, closed the year at the same level.

EMERGING MARKETS

The Indian economy is estimated to have grown by 7.4% in 2018. This demonstrates that the growth of the Indian economy accelerated (6.7%) compared to 2017. The World Bank anticipated that the Indian economy will grow by 7.5% annually in 2019 and 2020.

OIL AND COMMODITY PRICES

Oil prices were down nearly by 24%, ending 2018 at USD 50.6. Increase in supply and lack of significant growth in demand in line with the sluggish global economy were two of the key reasons for this decline.

The commodity price index followed a downward trend during the year, with no significant spike expected in 2019. Oil prices are expected to rise about 10% in 2019.

2019 EXPECTATIONS

In January 2019, the World Bank announced that it expected the growth in global economy to slow down to around 2.9%. On the other hand, IMF reported in January 2019 that it anticipated the global economy to grow by 3.5% and 3.6% in 2019 and 2020, respectively.

According to the World Bank, average growth rate expected in developed countries is 2%, while in emerging countries this rate is 4.7%. Due to rising foreign debts of the emerging countries, the U.S. dollar was stronger in 2019 while factors such as fluctuations in financial markets due to geopolitical reasons and the increase in raw material prices exacerbated the vulnerability of these countries against potential serious financial and economic shocks.

TURKISH ECONOMY

The Turkish economy faced significant challenges and volatility in 2018. Spikes in foreign currency rates, rising inflation and sluggish economic growth are some of the signs that 2019 will be another difficult year.

RECESSION AND INFLATION PERIOD

After recording high growth rates of 7.2% and 5.3% in the first and second quarters of 2018, respectively, the Turkish economy entered recession starting from the third quarter on. Declining to 1.6% growth rate in the third quarter, the economy began to give signs of contraction.

The economy further contracted by 3% in the last quarter of the year, resulting in total growth of 2.6% in 2018, a rate that was far below the targeted 5.5% in the Medium-Term Program. This led the markets to seriously question the credibility of the economic growth and inflation rate targets set by the government. In 2018, current account deficit shrank by USD 19.5 billion compared to 2017, declining to USD 27.6 billion.

Inflow of net foreign direct investments increased 22.2%, reaching USD 13.2 billion as foreign trade deficit decreased by 28.4% to USD 55 billion.

LOWER CURRENT ACCOUNT DEFICIT

In addition to the decrease in foreign trade deficit, the current account deficit also declined to USD 27.6 billion, its lowest level since 2009, with the help of recovery in tourism revenues. In 2018, the current account deficit decreased by 41.6% compared to the year before, and the current account deficit to GDP ratio stood at 3.6%. Budget expenditures rose by 22.4% to reach TL 830 billion and budget revenues increased by 20.2% to reach TL 758 billion.

As a result of the increasing interest costs due to interest rate hikes and the negative impact of the weakening domestic demand on budget revenues, the budget deficit reached almost TL 73 billion.

The increase in tax revenues, which constitute 86% of budget revenues, was recorded as 15.8%. Tax revenues increased by TL 85 billion to reach TL 621 billion. Of this increase, the leading portion was claimed by the TL 26.6 billion increase in income tax revenues. The central government's gross debt stock was TL 1.068 trillion. Of this debt stock, local currency debt accounted for TL 581.5 billion and foreign currency debt accounted for TL 485.3 billion.

EXPORTS AND IMPORTS

Exports increased by 7% to reach USD 167.9 billion, while imports decreased by 4.8% to reach USD 223 billion. Compared to the previous year, foreign trade volume grew by 0.1% to USD 391 billion while foreign trade deficit decreased by 28.4% to USD 55 billion, and the ratio of exports to imports was recorded as 75.3%.

FIXED UNEMPLOYMENT RATE

Given the economic and political developments in Turkey, the unemployment rate continued at the same levels as in the previous year. According to official data, the unemployment rate was 11% in 2018 with an increase of 0.1% from 2017. The total number of unemployed reached 3.5 million people. In terms of labor force participation rates, the rate was 72.7% among men and 34.2% among women.

MAJOR SPIKE IN INFLATION AND FX RATES

With the introduction of the Presidential Government System in 2018, the number of ministries was reduced and the management of the economy was centralized under a single authority. Consequently, the Undersecretariat of Treasury was merged with the Finance Ministry to form the Ministry of Treasury and Finance. In addition to the impact of the U.S.-China trade war, Brexit developments, the FED's interest rate hikes and geopolitical risks, Turkey also became the subject of speculative currency attacks.

The tensions in Turkish-American relations were reflected on the markets while the speculative movements that began in August caused deterioration in basic indicators, particularly in foreign exchange and interest rates. Due to the acceleration in the devaluation of Turkish Lira, rising oil prices and unpredictable movements in food prices, inflation rates climbed to their highest levels within the last 15 years.

The inflation rate rose in line with foreign exchange rates and saw its peak at 25.2% in October, a downward trend began and it declined to 20.3% by the end of the year, thanks to tight monetary and fiscal policies, necessary measures taken and the launch of the Anti-Inflation Program. All of these developments led to a more pronounced loss in the growth momentum.

Following the simplification efforts in monetary policies in May, Turkish Central Bank (TCMB) once again adopted weekly repo bid rates as policy interest rate. TCMB's weighted average cost of funding increased by 11.25 percentage points compared to 2017 and reached 24% following the interest rate increases in April, May, June, August and September.

TURKEY'S RATINGS DOWNGRADED

Rating agencies Standard & Poor's (S&P), Fitch and Moody's are currently keeping Turkey's credit rating still below 'investment' levels. Fitch downgraded Turkey's rating to 'BB' in July 2018, and changed its outlook from stable to negative. After downgrading Turkey's rating from 'BB' to 'BB-' in May 2018, S&P further downgraded the rating to 'B+' while maintaining outlook as stable in August 2018. Moody's downgrades came in March 2018, with credit rating down from 'Ba1' to 'Ba2', and August 2018, down to 'Ba3'.

2019 EXPECTATIONS

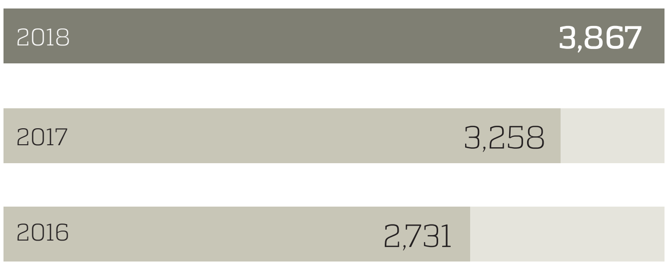
Turkish economy is anticipated to go through challenging times in 2019. Even though increasing exports emerged as an advantage to offset the economic contraction caused by lower domestic demand, re-entering the growth trend will only be possible by assuring confidence in the economy management both at home and abroad.

The results of the government's efforts to decrease inflation and achieve a budget balance throughout the year are expected to gradually build an environment of confidence. However, possible negative developments in global trade volume, fluctuations in capital markets, the FED's interest rate decisions and other adverse situations can have serious impact on the course of the economy. In short, the year ahead will be extremely critical for the Turkish economy. Both the OECD and the World Bank have announced that they anticipate Turkish economy to grow by 2.3% in 2019.

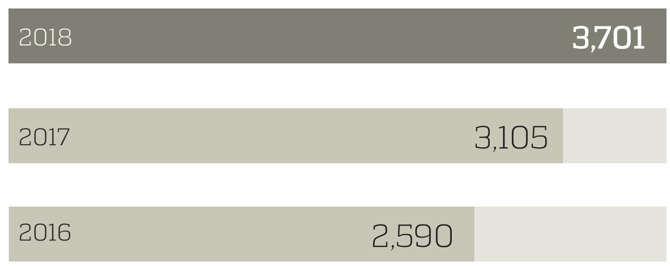
ECONOMIC DATA

The growth rate of the Turkish economy, which had reached 7.4% the previous year, saw a sharp decline to 2.6% while GDP in current prices rose to TL 3.7 trillion TL in 2018.

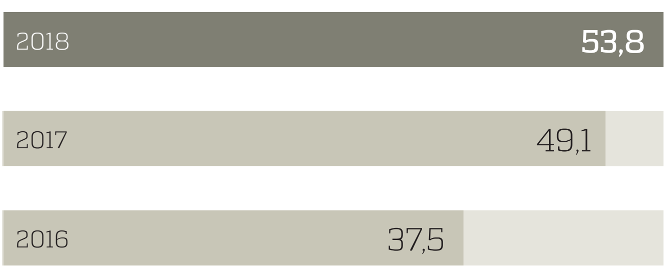
BANKING INDUSTRY TOTAL ASSETS (TL BILLION)



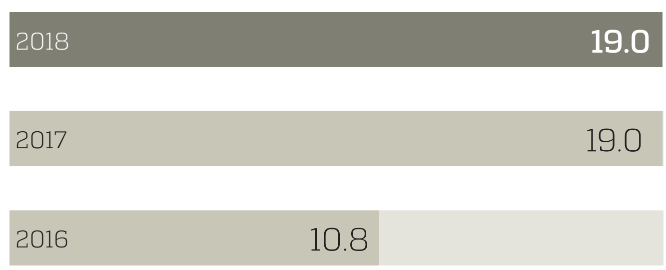
GROSS DOMESTIC PRODUCT (CURRENT PRICES) (TL BILLION)



BANKING SECTOR NET PROFIT (TL BILLION)



GROSS DOMESTIC PRODUCT GROWTH RATE (CURRENT PRICES) (%)



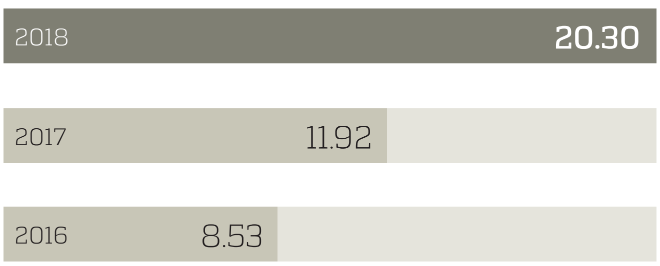
IMPORTS (USD BILLION)

EXPORTS (USD BILLION)

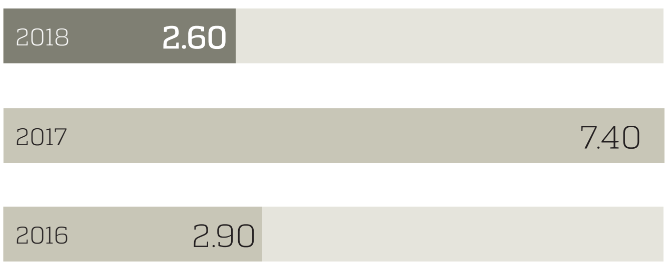
Source: Banking Regulation and Supervision Agency (BDDK) and Turkish Statistical Institute (TÜİK)

Turkish exports were up 6.87% to reach USD 167.9 billion while imports decreased by 4.78% to USD 223 billion in 2018.

CONSUMER PRICE INDEX (%)



GROWTH RATE OF THE TURKISH ECONOMY (%)



UNEMPLOYMENT RATE (%)

GROSS DOMESTIC PRODUCT PER CAPITA (USD)

Source: Banking Regulation and Supervision Agency (BDDK) and Turkish Statistical Institute (TÜİK)

EVOLUTION OF BANKING IN TURKEY

The roots of the Turkish banking sector go back to the 19th century. As of year-end 2018, 50 banks are operational with 11,493 branches and 206,974 employees. The banking sector recorded 18.7% increase in total assets while successfully maintaining profitability and growth last year.

DEEP-ROOTED BANKING TRADITION

The Turkish banking system is built on a deep-rooted banking tradition dating back to the 19th century. The economic life in the last period of the Ottoman Empire was shaped by heavy influence of the economic structure in European countries. With the establishment of foreign banks, followed by Ottoman Bank in 1863, money and capital markets began to develop in the modern sense.

Following the declaration of the Second Constitutionalist Monarchy Period, national banks that relied on domestic capital grew in number. That period, which ended with the War of Independence, is significant in Turkish history as a time of gaining experience in banking.

At the Turkish Economy Congress, which convened four months prior to the signing of the Treaty of Lausanne, the economic targets of the Republic were set, and several privileges previously granted to foreign banks were retracted by the Treaty. The resolutions reached during the Congress about the national character of economic development constituted the first steps of the statist approach that would make its mark on the Turkish economy until the 1950s. The “golden principle” was adopted for public finance with a balanced budget approach that aims to avoid deficits in the state budget.

DEVELOPMENT PERIOD IN NATIONAL BANKING

Following the proclamation of the Republic, several banks were established through government incentives to promote national banking and the Central Bank of the Republic of Turkey (TCMB) was founded in 1931. After the Great Depression that led to economic collapse worldwide, government interventions were seen in banking. Starting with this period, the weight of public banks increased in Turkey.

After World War II, government control over the economy began to loosen as a new development policy led by the private sector started to prevail. Private sector banking flourished in this period, and with the transition to multi-party democracy, the economy began to expand beyond borders. However, from 1953 onward, the economic balances were upset as inflation rates and foreign trade deficit rose rapidly.

STATE-CONTROLLED BANKING

The first half of the 1960s saw 15 banks closing and going into liquidation. The banking system was once again under government control. Until the 1980s, the Turkish economy maintained an isolated outlook with the governments adjusting interest rates and exchange rates without much consideration for international markets.

From 1980 onward, liberalization was introduced in the financial system and the economy reopened to international markets. As the financial system expanded with rapid economic growth, the banking sector began integrating with international banking and financial systems. Several international banking institutions including commercial, investment and retail banks started operations in Turkey and established partnerships with Turkish banks while major Turkish banks opened branches and established new banks abroad.

THE BIRTH OF FOREIGN EXCHANGE MARKETS

With the regulations that came into force in 1989, money markets and foreign currency markets were established and investors began to turn to foreign currency. However, the Treasury and TCMB fell short in introducing regulations to balance this new trend. In this competitive environment where the number of banks multiplied and the market itself determined the interest rates, the banking system faced a crisis that was exacerbated with the influence of globalization.

With TCMB lacking sufficient reserves to intervene in a timely and efficient manner, the banking and financial crisis of 1994 spread and became a threat for the entire banking sector and the economy. The main reason for the banking sector to be so seriously affected by the 1994 crisis was the drop in profitability due to the low exchange rate-high interest rate policies of 1989-1993 no longer being in place.

INTRODUCTION OF FACTORING

The first factoring activities in Turkey began in 1988 with transactions carried out by the banks. In 1990, the first authorized factoring company was founded. Factoring, which is the leading sector in the non-banking financial segment with an important role in diversifying and developing financial services, began to develop rapidly from the second half of the 2000s onward.

Turkey entered the new millennium in an environment of major economic decisions. In February 2001, another economic crisis unfolded with the decline of confidence in financial markets. Consequently, the money and foreign currency policies projected in the Disinflation Program of 2000 were abandoned and a flexible exchange rate system was adopted on February 22, 2001, effectively bringing the disinflation program to an end.

IMPACT OF CRISES ON BANKING

The 2000-2001 crisis caused significant damage on the financial system, and particularly on the Turkish banking sector. The "Restructuring Program for the Banking System", introduced in the aftermath of the crisis under the supervision of the IMF, marked the start of a reform in the financial system. Within the scope of the program, the capital structures of the state owned banks were reinforced, their duty loss receivables were paid, the regulations allowing new duty losses to occur were repealed and their short-term liabilities were dissolved.

The fundamental reforms introduced after 2001 enabled the banking sector to gain a strong financial and operational structure through effective regulations, inspections and strict risk management. Today, the sector, with a strong capital structure, more resilience against crises and better international competitiveness, stands apart among the struggling banking sectors in other emerging and developed countries. As a matter of fact, Turkey happened to be the only OECD member state not to extend any type of open or discreet public support to the banking sector after the 2008-2009 crisis.

SUSTAINABLE GROWTH IN THE SECTOR

The sector has grasped the importance of introducing regulations for its sustainability by identifying the issues in the system in a timely manner and resolving them quickly and efficiently. A strong economy can only be possible through a growing and healthy financial sector. In a country like Turkey with resource deficits, having a strong banking sector is essential for using financial savings in the most economically efficient way. Establishing such a financial system depends primarily on the level of confidence in the system itself, and macroeconomic balances supported by political stability.

As of year-end 2018, there are 50 banks including 34 deposit banks along with participation and development - investment banks in the banking sector, operating with 11,493 branches and 206,974 employees. The banking sector recorded 18.7% increase in total assets while successfully maintaining profitability and growth in 2018.

OVERVIEW OF THE BANKING SECTOR IN 2018

The Turkish banking sector recorded growth in 2018 despite the volatile periods in economy. The sector's annual profit grew by 9.6% to reach TL 53.8 billion.

RECESSION YEAR

The economic recession that impacted the economy in the second half of 2018 led to a decrease in credit demand and a decline in profitability. Equities, compounded by retained profits, rose to TL 421.7 billion with 17.5% increase while average return on equity decreased 0.9 percentage points to 13.8%.

The Turkish banking sector sustained its healthy growth in 2018 with an increase of approximately 18.7% in total assets, bringing it to TL 3,867 billion. Total loans amounted to TL 2,394 billion, accounting for 61.9% of the assets. As of year-end 2018, the sector's interest income and interest expenses reached TL 368.5 billion and TL 222.3 billion, respectively, with the sector earning TL 53.8 billion in net profit for the period. The increase in credit supply and demand with the support of KGF (Credit Guarantee Fund) was the most important driving force of the sector. The capital adequacy ratio of the banking sector was recorded as 17.3% as of year-end 2018 while net profit increased by 9.6% on an annual basis.

CURRENCY EFFECTS, DECLINE IN CREDIT DEMAND AND RETURNS

The fast increase in credit supply and demand in 2017 aided by the loans under KGF guarantee began to lose its momentum in early 2018. Increased financing costs along with the decrease in domestic credit demand resulted in the annual growth of total TL loan volume to decline to 2% as of December 2018. In the same period, foreign currency loans decreased by 1% in USD terms while total loan volume expanded by 14.1% with the effect of changes in foreign exchange rates. Total assets of the banking sector grew by 18.7% compared to year-end 2017, reaching TL 3,867 billion.

The sector's net profit increased only by 9.6% to reach TL 53.8 billion compared to previous year. Return on assets was down from 1.6% to 1.4% while return on equity decreased from 16.0% to 14.8% compared to previous year. The fluctuations in foreign exchange rates throughout the year were the determining factor in the level of deposits, the main funding source of the banking sector. The decline in credit demand also led to a decrease in the sector's other resource requirements. Foreign currency deposits recorded a 29.5% increase on annual basis with the effect of exchange rates while TL deposits grew by 9.4% in volume in the same period. In this respect, the sector's long-term external debt rollover ratio was 76% in 2018.

DEVELOPMENTS IN THE FACTORING SECTOR

In 2018, as the heightened risk of Turkish economy was acutely felt, factoring companies chose to restrict credit supply in connection with foreign exchange rate increases. Following these developments, the real sector also began to experience serious issues in loan repayments and collection of receivables. The companies faced difficulties in financing their ongoing investments and suspended new investment plans, which led to a decline in new loan applications.

The factoring sector, which grew steadily until the first half of 2018, opted to impose stricter terms and conditions for loans or to restructure and spread receivables to longer terms due to the tight liquidity seen after July 2018 because of high inflation and foreign exchange rates. The overdue receivables ratio in the sector quickly rose from 3.5% to 6.5% due to tight liquidity in the markets. Meanwhile, the number of bounced checks deposited to banks increased by 35.1% in 2018 compared to the previous year. Since factoring companies increased their interest rates based on heightened risk perception, the sector's profits rose by 40.6% in 2018 to TL 1.3 billion. With increased profitability, the equity structure in the sector was strengthened and leverage ratios dropped. In the first half of 2019, the overdue receivables ratio is projected to increase and in the second half, expanding risk appetite of the factoring companies is expected to drive growth as the economy is projected to gradually recover.

As of year-end 2018, there are 58 companies registered with the Association of Financial Institutions (FKB), operating with 354 branches and providing jobs for 4,355 employees. The transaction volume of the sector increased by 1% annually to reach TL 144.1 billion, consisting of TL 119.9 billion in domestic funding, TL 22 billion in export financing and TL 2.2 billion in import financing. Factoring receivables and asset size declined by 24.5% and 20.9% to TL 31.4 billion and TL 34.6 billion, respectively.

THE SECTOR STANDS STRONG

Total loan amount in the banking sector was up 14.1% from the previous year, reaching TL 2,394 billion in 2018. The sector maintained a low ratio of non-performing loans however, overdue receivables increased annually by 51%, climbing to TL 96.7 billion. While 3.87% of the loans turned into non-performing loans, securities portfolio rose 14.3% to TL 477.1 billion. Seeing rapid increase in 2018, deposits and other resources rose by 19% and 18.7%, respectively.

While the annual growth rate of equity declined from 19.6% in 2017 to 13.8% in 2018, the share of equity in total liabilities remained almost the same at 10.9%. With a capital adequacy ratio of 17.3%, the sector performed better than regulatory ratios.

2019 EXPECTATIONS

In terms of the Turkish economy, 2019 is expected to be a year of stabilization and finding balance. It is generally accepted that the economic slowdown would continue in the first half of 2019. While the Turkish economy is anticipated to enter a limited recovery stage starting with the second half of 2019 on, the recovery process is expected to be gradual and slow. Accordingly, annual economic growth would be below the potential growth rate. The stabilization in the economic activity, low energy prices, increase in competitiveness and the rise in tourism revenues are expected to positively affect the current account balance.

While a change in inflation rates is not anticipated in the first half of the year, it is quite likely that the rates would fall in the second half of the year to lower double digit figures. The course of the Turkish lira, volatility in food and oil prices, and domestic demand conditions should continue to play an important role in the course of the inflation rates. Depending on how inflation rate expectations evolve, the TCMB is expected to maintain its tight monetary policy stance until a permanent improvement in inflation rates is achieved.

HIGHLIGHTS OF THE FACTORING SECTOR

(TL MILLION)

	DECEMBER 2016	DECEMBER 2017	DECEMBER 2018	INCREASE (%)
INTERNATIONAL TURNOVER	20,032	27,337	24,264	-11.2
DOMESTIC TURNOVER	102,664	117,399	119,852	2.1
TOTAL TURNOVER	122,695	144,737	144,116	-0.4
RECEIVABLES IN FOREIGN CURRENCY	4,088	4,467	4,698	5.2
RECEIVABLES IN TL	26,947	38,081	26,712	-29.9
TOTAL RECEIVABLES	31,036	42,548	31,410	-26.2
LOANS AND BORROWINGS AGAINST ISSUED INSTRUMENTS	26,899	36,195	26,556	-26.6
SHAREHOLDERS' EQUITY	5,082	5,781	6,770	17.1
TOTAL ASSETS	33,080	43,715	34,579	-20.9
NET PROFIT	670	935	1,306	40.6
NON-PERFORMING FACTORING RECEIVABLES (GROSS)	1,505	1,500	2,076	38.4
SPECIAL PROVISIONS	1,283	1,318	1,717	30.2
NON-PERFORMING FACTORING RECEIVABLES (NET)	222	182	359	97.5
NON-PERFORMING FACTORING RECEIVABLES (GROSS/SHAREHOLDERS' EQUITY, %)	29.6	25.9	33.1	27.7
NON-PERFORMING FACTORING RECEIVABLES (NET/SHAREHOLDERS' EQUITY, %)	4.4	3.2	5.6	74.3
SPECIAL PROVISIONS/ASSETS (%)	3.9	3.0	5.0	65.5

Source: The Association of Financial Institutions

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MILLION TURKISH LIRAS

ASSET SIZE

Ekspo Faktoring aims to maintain its highly reputable position in the Turkish financial sector, and to create value for all of its stakeholders and clients in particular.

INTERNAL AUDIT AND FINANCIAL CONTROL

Ekspo Faktoring carries out its operations by fully respecting transparency and accountability principles, and ensures that internal audits and financial control activities are conducted regularly, efficiently and effectively.

EFFECTIVE INTERNAL CONTROL SYSTEM

Internal audits in companies include all methods and measures that aim to improve operational efficiency, protect the assets, investigate the accuracy and reliability of accounting information, and promote commitment to pre-defined management policies. An effective internal audit system is in place at Ekspo Faktoring in order to reach the Company's goals and demonstrate the reliability of its financial statements in compliance with predefined policies and legislative/ administrative regulations.

Audit, risk management and financial control are priority areas for financial companies that compete in the international arena and aim for sustainable development and growth. Ensuring that there are sufficient and auditable internal controls can be a very effective tool in managing current assets and growth-related risks. The Capital Markets Board (SPK), the Banking Regulation and Supervision Agency (BDDK) and Risk Center of the Banks Association of Turkey (TBB Risk Center) require businesses to conduct regular audits and risk management activities.

TRANSPARENCY AND ACCOUNTABILITY

Since its foundation, Ekspo Faktoring has always prioritized full compliance with transparency and accountability principles and therefore undergoes internal and external audits performed by its own financial control department and independent international audit firms. The Company protects its financial data and information through internal and external audits without ever compromising these principles.

Teams of experts in their respective fields are tasked with internal and external audits at Ekspo Faktoring while two separate independent audit firms, among the leading international companies, conduct tax and financial statement audits. Furthermore, material disclosures are regularly submitted to the BDDK and the Ministry of Treasury and Finance, and two separate independent audit reports are prepared under the International Financial Reporting Standards (IFRS) and BDDK formats.

EFFECTIVE INTERNAL AUDITS AND FINANCIAL CONTROL

The Internal Audit and Financial Control Department at Ekspo Faktoring serves to ensure that all operations are effectively managed in accordance with the Regulation on Financial Leasing, Factoring and Financing Companies as well as the Company's management policies. The department is responsible for making sure that the information in the books, records and data systems are readily available. The Internal Audit Department is further responsible for auditing the activities, which employees on all levels are required to perform for the Company to function seamlessly within the governance and organizational structure defined by the Board of Directors and Senior Management. All activities of the Internal Audit and Financial Control Department are carried out by two key individuals, the Internal Audit and Financial Control Manager, and the Internal Audit and Financial Control Analyst. The results of these independent operational, financial and other controls performed by the Department are reported to the management concurrently.

REGULAR CONTROLS AND ANALYSES

Internal Audit activities include inspecting the transactions performed by relevant departments and reporting the results thereof pursuant to the Code of Obligations (TBK), Turkish Commercial Code (TTK), Tax Procedure Code (VUK), applicable statutory decrees, as well as regulations and communiqués issued by Banking Regulation and Supervision Agency (BDDK), Financial Crimes Investigation Board (MASAK), and the Undersecretariat of Treasury and other related legislation.

Financial Control, on the other hand, involves inspecting financial statements prepared in compliance with IFRS and BDDK standards, preparing quarterly Non-Bank Financial Institutions Supervision System reports and submitting them to BDDK and obtaining confirmation that these reports are imported to the database.

The Internal Audit and Financial Control Department is also responsible for creating the Company's budget forecasts through macro- and micro-economic analyses, preparing relevant reports and presenting them to the Board of Directors.

FULL COMPLIANCE WITH LAWS AND REGULATIONS

Since January 9, 2008, non-bank finance companies have been included as obliged parties within the scope of Law No. 5549 on Prevention of Laundering Proceeds of Crime and the related regulation (26751). Accordingly, the Company Management assigns tasks to the Internal Audit Department to take informative and preventive measures in compliance with MASAK notices and the provisions of the regulation. Pursuant to regulation no. 26999 of September 16, 2008, the Board of Directors has assigned the duties of the MASAK Compliance Officer to the Internal Audit and Financial Control Manager.

The Compliance Officer attends the trainings given by the Association of Financial Institutions and MASAK, and informs the employees about important seminar notes to consider. Law No. 6698 on Protection of Personal Data (KVKK) was published in the Official Gazette No. 29677 of April 7, 2016. The obligated parties were given two years until April 7, 2018 for full compliance after the KVKK came into force. Ekspo Faktoring fulfills its obligations under this law. The Compliance Officer is also responsible for searching the sanctions lists (UN, OFAC, EU Blacklist, etc.) issued by international organizations for background checks of persons and companies in relation to foreign transactions.

PROACTIVE APPROACH

Another duty of the Internal Audit and Financial Control Department is to monitor the domestic and international transactions of clients, minimize risks, and predict and mitigate possible issues. For this purpose, the activities of the Marketing, Operations, Treasury, Accounting, Risk Assessment and Foreign Transactions Departments are audited by the Department according to defined workflows. The issues identified are resolved within the day, and weekly and monthly reports are prepared to present to the Senior Management and the Board of Directors.

PROFESSIONAL AND PERSONAL DEVELOPMENT OF EMPLOYEES

The Internal Audit and Financial Control Department is furthermore responsible for convening the Internal Audit Committee at regular intervals and implementing the resolutions reached by the Committee. The Department also manages the projects requested by Senior Management to improve the current system and presents them to the employees. The Department identifies the types of training the employees would need for their professional and personal development, ensuring that relevant content is prepared, trainers are selected and trainings are provided.

RISK MANAGEMENT

As the first company in the sector to establish a rating system in 2009, Ekspo Faktoring has once again maintained a non-performing loan ratio much lower than the sector average in 2018.

PROACTIVE CONTROL OF RISKS

Effective risk management is a key factor in achieving sustainable success in the financial sector. Every finance company that intends to carry a healthy risk portfolio and to fully collect its receivables in a timely manner should systematically manage the processes that follow after taking the risk. Identifying and defining the risks that the company could encounter, and carrying out proactive control and management activities against these risks are key and essential steps to take toward strategic goals.

TECHNICAL ANALYSES IN RISK ASSESSMENT

International standards and regulations require finance companies to use scientific, numerical and systematic risk measurement techniques. However, these measurements and technical methods are usually only used to calculate statutory requirements rather than in making concrete, up-to-date assessments. Companies need more tangible data, industry expertise, personal experience and market intelligence when assessing the risk of working with a specific firm and the possibility of non-performing loans. Given the widespread illicit practices in Turkey in particular and accountability issues in bookkeeping, diligent risk assessment is essential.

Understanding the risk weight of a company based solely on technical analyses is not possible just as assessing a business on its own is not sufficient. Although risk measurement and assessment techniques could be used as aids, following the changes in national economy and the global conjuncture to evaluate a company's credit portfolio in this regard and taking necessary measures are essential. Implementing these practices requires employing sufficient number of experts, organizing the risk monitoring function as a department and allocating adequate resources and time for this purpose.

RISK ASSESSMENTS WITH DIFFERENT PARAMETERS

At Ekspo Faktoring, credit risk analyses, which play a major role in the decision-making processes, are regularly reported to the management while company policies are defined by taking all possible risks into consideration. The Risk Assessment Department monitors the developments in the sector closely with a team of experts, specialized in corporate and commercial banking, financial analysis, loan allocation and intelligence.

The Company manages its lending policy with a dynamic and proactive approach by monitoring the possible portfolio risks using various parameters and developing scenarios according to different models. Before taking any risks, issues such as the establishment date and history of a company, its field of operation, industry experience of executives and partners, equity structure and funding potential are all taken into account.

RATING SYSTEM IN INTERNATIONAL STANDARDS

Ekspo Faktoring manages all risks within sector and group limitations, making sure that a client's risk never exceeds 25% of its equity. As part of effective risk management policies, the Company strives to diversify the risk and avoids concentrating on a specific industry. In specifying limits for buyers of clients, Ekspo Faktoring remains committed to its decision not to exceed 10% of equity, a ratio determined through careful calculations.

Conducting healthy risk assessments in international standards is of utmost importance for Ekspo Faktoring. The Senior Management has worked extensively in order to boost the efficiency of risk monitoring activities and develop an effective risk assessment system. The new system, developed with the assistance of consulting firms, was adapted to a rating application in international standards in late 2008. Since early 2009, all Ekspo Faktoring clients are reviewed using the new client rating system.

CONSTANT, REGULAR MONITORING

Ekspo Faktoring takes utmost care in ensuring the quality of the assigned loans and constantly monitors its receivables. The Company effectively uses the check drawing report and risk reports, which were initially offered to the use of non-bank finance companies by Kredi Kayıt Bürosu (KKB - Credit Bureau) in late 2012 and later continued by the Risk Center of the Banks Association of Turkey. The services utilized also include inquiries and notifications, such as paid bond statements, bounced checks in litigation, cross checks, and blacklisted companies, and other such services. Ekspo Faktoring reviews its clients as well as its collateral portfolio weekly, bimonthly and monthly as part of its risk monitoring activities, and also uses the combined risk follow up system where combined risks are listed and changes can be reported.

The credibility of the companies applying for credit line allocation or raising their current lines are evaluated objectively. Outstanding risks are also assessed in terms of balance sheets, intelligence and collateral in the weekly Asset Quality Committee meetings.

EXPERIENCED, DILIGENT TEAM

Aiming to maintain its asset quality above sector average, Ekspo Faktoring acts prudently and with due diligence in forming its credit portfolio. For this process, the Company benefits from the experience of the Risk Assessment Department, specialized in financial analysis methods and techniques. The Financial Analysis and Intelligence Team within the Risk Assessment Department follows the latest techniques and regularly attends credit, financial analysis and intelligence trainings provided by professional training institutions to stay up-to-date.

The Risk Assessment Committee evaluates clients that apply for financing according to various criteria including financial position, industry, operational risks and market intelligence. The Committee convenes once a week, or more frequently when necessary, to evaluate and finalize client requests in maximum two days, and holds interim meetings in critical situations that require immediate attention. In the meetings, the Company Assessment Report, prepared in the light of criteria as financial analysis and market intelligence, is discussed. At the end of this process, the credit line allocation request presented to the Risk Assessment Committee is either approved or declined.

VAST AND COMPREHENSIVE DATA BANK

Ekspo Faktoring refers to its comprehensive data bank not only for credit line allocation decisions, but also for the development and implementation of marketing strategies. The data bank contains detailed and complementary information such as client information, payment habits and check drawing performance, and is constantly enhanced in terms of content and quality.

Ekspo Faktoring utilizes the sector and company information in its data bank when allocating credit lines. The analyses conducted by the Company review the Turkish lira and foreign currency positions of the subject companies, taking Basel II criteria as basis for evaluating market risks. The reports generated as a result of these intensive and diligent efforts are presented to the Company's Senior Management.

CORPORATE GOVERNANCE

Ekspo Faktoring, with its commitment to transparency and ethical values, continues to drive its reputation further in the sector. These values support and improve the Company's consistent profitability and efficiency while rendering the corporate structure sustainable.

COMMITMENT TO ETHICAL VALUES

Ekspo Faktoring accepts the principles of transparency, fairness, equality, responsibility and accountability as the cornerstones of its corporate culture, and strives to carry out all business processes with a professional management approach. Aiming to maintain its reputable position in the Turkish financial sector and creating value for all its stakeholders, and clients in particular, Ekspo Faktoring acts with the awareness and responsibility of serving as an institutionalized company across all stages of its operations.

Ekspo Faktoring, with its commitment to transparency and ethical values, continues to drive its reputation further in the sector. These values support and improve the Company's consistent profitability and efficiency while rendering the corporate structure sustainable.

CORPORATE GOVERNANCE THROUGH COMMITTEES

Ekspo Faktoring strives to ensure that the corporate governance approach is adopted in the same standards across all departments, and to further reinforce corporate culture. Improving the organization in a sustainable manner is a key objective with committees functioning effectively since the foundation of the Company. The Asset-Liability Committee (ALCO), Risk Assessment Committee, Liquidity Committee, Information Technologies Committee and Human Resources Committee provide valuable contribution to healthy and efficient business processes.

PERIODIC INDEPENDENT AUDITS

Ekspo Faktoring is audited by an international independent audit firm twice a year, with the first half audit conducted in limited scope. In order to sustain the transparency of the audit results, the Company switches to a different independent audit firm every seven years.

Also the financial statements of Ekspo Faktoring are reviewed quarterly by this independent audit firm. Meanwhile, tax audits are conducted by a different firm. Even though the Company is not listed publicly, there are two independent directors serving on the Board of Directors.

TRANSPARENT ORGANIZATION

The BDDK promotes the importance of transparency and consistency in the financial sector, and therefore recommends all finance companies to disclose their financial statements at regular intervals online. Knowing that the financial sector is built on trust, Ekspo Faktoring considers it a duty to disclose open, clear and accurate information to the public. Accordingly, the Company has been disclosing its annual financial statements on its corporate website since the very beginning. Because of the securities issued, the Company also informs the investors by publishing quarterly financial statements on the Public Disclosure Platform (KAP).

Ekspo Faktoring is at the forefront of the sector with its effective organizational structure, which enables the Company to operate quickly and effectively, combining its advantages with its technological infrastructure and maintaining an important competitive edge. The Company aims to achieve corporate targets together with its employees and therefore invests in trainings and advanced systems.

HUMAN RESOURCES

Ekspo Faktoring operates with a human resource of professional experience and expertise above sector average. The Company provides its employees with continuous training opportunities to support their development.

SKILLED AND QUALIFIED WORKFORCE

As of year-end 2018, the qualified human resource at Ekspo Faktoring consists of 34 employees with professional experience and expertise above the sector average. Ekspo Faktoring invests regularly in its human resource in line with its sectoral development and healthy growth strategy, ensuring the sustainability of its corporate structure and achievements.

Ekspo Faktoring always values team spirit and believes that establishing an inclusive corporate culture boosts employee satisfaction. The Company therefore maintains high employee retention and satisfaction rates with average employment duration of eight years.

RECRUITMENT CRITERIA

The Human Resources Department, in line with the primary goals and strategies of Ekspo Faktoring, assumes responsibility for many processes from orientation of new employees to professional training programs. Improving the professional skills, increasing the motivation and expanding the horizons of employees are considered the prerequisites of providing high-quality service for clients.

In the recruitment process, criteria such as having a university degree, speaking a foreign language, having past experience in the banking sector, specializing in one's specific field and the ability to represent the Company are considered to ensure that the quality of employees is maintained above sector average.

A WORK ENVIRONMENT CONDUCIVE TO DEVELOPMENT

The Company supports employees for attending training programs and sectoral events that would contribute to their professional and personal development and promotes a work environment conducive to progress. The regular training programs coordinated by Ekspo Faktoring Academy in partnership with the Association of Financial Institutions, the FCI (Factors Chain International - the largest non-bank financial services network in the world), private consultancy companies and also the ICC (International Chamber of Commerce) in Turkey, offer the employees continued development opportunities.

The training programs are carried out in many different fields in order to increase the technical and personal capacities of the employees while the trainings and seminars are designed according to their needs. Participation in trainings and seminars on new regulations and practices is also encouraged.

PERFORMANCE REVIEWS

The Human Resources Committee convenes annually in December as part of the performance review process, which aims at comprehensive measuring/assessment of targets and skills. Several criteria such as professional know-how, cooperation abilities, client/human relations, skills, representation skills, sense of responsibility, personal development, problem solving skills, taking initiative and making decisions, and quality and quantity of the work are considered in performance reviews. This process, which reveals encouraging outcomes in terms of motivation and work discipline, and ensures that employees' contribution to corporate success is evaluated, also forms an analytical basis for promotions, salaries and incentives.

INFORMATION TECHNOLOGIES

Ekspo Faktoring constantly improves and enhances its well-equipped and up-to-date technological infrastructure to maximize client satisfaction, operational speed and efficiency.

ADVANCED TECHNOLOGICAL INFRASTRUCTURE

Information technologies play a key role in achieving operational speed and efficiency in the companies' activities today. Ekspo Faktoring makes continuous investments to keep its well-equipped, reliable and rich system infrastructure up-to-date. The Company's information technology requirements are procured from experienced and reliable external sources that provide quality service.

The major investments that Ekspo Faktoring makes by considering the latest technological innovations include maximum-security servers maintained up-to-date at all times, a Disaster Recovery Platform for continuity with minimum loss during disasters, applications to run updates of operating systems first on the test platform, comprehensive backup procedures, and logging and reporting on all levels from basic to highest.

RELIABLE BACKUP SYSTEM

Ekspo Faktoring launched its Disaster Recovery Center in Ankara in 2006 and completed the hardware and software development activities for this Center in 2007. The Company, which therefore has a healthy and reliable backup system, started to procure services from Superonline Data Center, also based in Ankara, in 2016, and switched to the latest version of disaster recovery software.

Ekspo Faktoring uses Facto 2000, a software package developed by a company specialized in financial software according to the latest requirements of the sector. This package enables running marketing, client relations and accounting activities in coordination. Clients can also access Ekspo Online via the corporate website to submit queries about various transactions and check the status of their accounts.

ANOTHER FIRST IN THE SECTOR

In 2012, Ekspo Faktoring started using the SWIFT system, an interbank medium of secure information transfer, becoming the first company in the factoring sector to communicate with banks and international finance organizations via this system. The Company renewed all of its system infrastructures including the servers in 2014 with the aim of increasing operational speed and efficiency, and made new investments to further strengthen data security as required by the Risk Center of the Banks Association of Turkey in 2016.

With these investments, Ekspo Faktoring took steps for logging, creating test environments and centralized management of technological infrastructure by doubling its virtual platform capacity. The firewall product was renewed while a device that prioritizes security protocols was preferred.

REMOTE ACCESS TO CLIENTS

Ekspo Faktoring is represented online by www.ekspofaktoring.com, the corporate website that plays a major role in transparent and consistent communication with clients. The website operates on an infrastructure designed with the latest technology, and offers clients the opportunity to instantly view their checks in collection, account statements, risk balances and other relevant information. The site also provides its business partners access to the Company on a transparent platform where public disclosures are shared.

Ekspo Faktoring was the first factoring company to implement the check viewing system on its corporate website, reinforcing the control mechanism for both the clients and the Company. While continually updating online services, the Company also works seamlessly to develop new projects to serve its clients in even higher standards. With the corporate website fully revamped in 2013, Ekspo Faktoring now provides services for clients and investors more easily and effectively.

A NEW APP: FINMOBILE

Ekspo Faktoring aims to offer its clients different products and services in every field where technology and finance intersect. The Company is once again preparing to introduce another first in Turkey. FinMobile, the mobile app in development since 2017, completed the testing phase in 2018. FinMobile will be a pioneering app in the factoring sector and help to bring a number of other innovations to life.

EKSPO FAKTORİNG A.Ş.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 AND INDEPENDENT AUDITOR'S REPORT

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Ekspo Faktoring A.Ş.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Ekspo Faktoring A.Ş. ("the Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. 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.

Key audit matters	How the matter was addressed in the audit
Key impact of recognition of impairment on financial assets and related important disclosures Recognition, Classification, Measurement, and Accounting of Impairment on Factoring Receivables Company's factoring receivables are comprised of import and export receivables (net) amount to 267,796 Thousand TL and expected loss amount to 9,062 Thousand TL. Details on receivables are disclosed in note 11. The company may not determine and account expected credit loss on factoring receivables correctly and timely. Due to the factoring receivables being the major balance sheet item and the main business activity of the Company, results of the risks mentioned above may have a significant effect on balance sheet and profit loss statement.	**Audit procedures applied for the determined risk;** We assessed design and implementation of the significant controls over the expected credit loss. We selected our samples based on audit methodology and our experience and we tested classification of factoring receivables and expected credit loss.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

Auditor's 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 auditor's 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 ISAs 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 ISAs, 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's 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 to 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 auditor’s 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.

The engagement partner on the audit resulting in this independent auditor’s report is Müjde Aslan.

DRT Bağımsız Denetim ve SMMM A.Ş.

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

İstanbul, 6 May 2019

INDEX

EKSPO FAKTORİNG ANONİM ŞİRKETİ

Statement of Financial Position
as at 31 December 2018

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

	Notes	Current Period 31 December 2018	Prior Period 31 December 2017
ASSETS			
Cash and cash equivalents	10	15,101	4,140
Derivative financial assets	21	800	1,374
Factoring receivables	11	267,796	432,976
Other assets	12	1,182	1,407
Investment properties	14	1,043	1,069
Tangible assets	15	1,250	1,262
Intangible assets	16	263	54
Deferred tax assets	9	2,320	3,032
TOTAL ASSETS		**289,755**	**445,314**
LIABILITIES			
Borrowings	17	124,183	285,466
Debt securities issued	18	-	18,740
Derivative financial liabilities	21	573	567
Factoring payables	19	8,261	8,717
Other liabilities	20	1,878	1,656
Income taxes payable	9	1,602	1,692
Reserve for employee severance payments and unused vacation pay liability	22	1,058	781
TOTAL LIABILITIES		**137,555**	**317,619**
EQUITY			
Share capital	23	60,000	60,000
Adjustment to share capital	23	279	279
Legal reserves	23	13,725	12,482
Retained earnings		78,196	54,934
TOTAL SHAREHOLDERS' EQUITY		152,200	127,695
TOTAL SHARESHOLDERS' EQUITY AND LIABILITIES		**289,755**	**445,314**

EKSPO FAKTORİNG ANONİM ŞİRKETİ

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2018

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

	Notes	Current Period 1 January- 31 December 2018	Prior Period 1 January- 31 December 2017
Factoring interest income		81,584	58,366
Factoring commission income, net		4,710	5,837
Income from factoring operations		**86,294**	**64,203**
Interest expense on bank borrowings		(30,534)	(26,227)
Interest expense on debt securities issued		(1,260)	(195)
Derivative trading profits, net		(580)	630
Foreign exchange gains / (losses), net		4,522	1,838
Interest income other than on factoring interest income	5	1,290	54
Interest, commission and foreign exchange income, net		**59,732**	**40,303**
Personnel expenses	7	(11,981)	(9,685)
Administrative expenses	8	(3,714)	(3,434)
Provision for impaired factoring receivables, net	11	(6,256)	(814)
Depreciation and amortisation expenses	14,15,16	(128)	(306)
Profit before income taxes		**37,653**	**26,064**
Income tax expense	9	(8,348)	(5,177)
Profit for the year		**29,305**	**20,887**
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income for the year		**29,305**	**20,887**

EKSPO FAKTORİNG ANONİM ŞİRKETİ

Statement of Changes in Equity
for the Year Ended 31 December 2018

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

	Notes	Share Capital	Adjustment to Share Capital	Legal Reserves	Retained Earnings	Total Equity
PRIOR PERIOD						
Balances as of 1 January 2017 (Opening Balance)		**60,000**	**279**	**11,466**	**39,563**	**111,308**
Profit for the year		-	-	-	20,887	**20,887**
Transfer to legal reserves		-	-	1.016	(1.016)	-
Dividend paid		-	-	-	(4.500)	**(4.500)**
Balances as of 31 December 2017 (Closing Balance)	**23**	**60,000**	**279**	**12,482**	**54,934**	**127,695**
CURRENT PERIOD						
Balances at 1 January 2018 (Opening Balance)		**60,000**	**279**	**12,482**	**54,934**	**127,695**
Profit for the year		-	-	-	29.305	**29,305**
Transfer to legal reserves		-	-	1.243	(1.243)	-
Dividend paid		-	-	-	(4.800)	**(4.800)**
Balances at 31 December 2018 (Closing Balance)	**23**	**60,000**	**279**	**13,725**	**78,196**	**152,200**

EKSPO FAKTORİNG ANONİM ŞİRKETİ

Statement of Cash Flows
for the Year Ended 31 December 2018

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

		Current Period	**Prior Period**
	Notes	**1 January 31 December 2018**	**1 January 31 December 2017**
A.Cash Flows From Operating Activities:			
Profit for the year		**29,305**	**20,887**
Adjustments for:			
Depreciation and amortisation expense	14, 15, 16	128	306
Provision for employee severance payments	22	180	198
Other expense/(income) accruals		22	4,612
Deferred and income taxes	9	8,348	5,177
Interest income		(82,874)	(58,420)
Interest expenses		30,534	26.227
Provision for impaired factoring receivables (net of collections)	11	6,256	814
Unrealized foreign currency exchange gain/loss		(482)	(216)
Unrealized derivative income / loss	21	580	(630)
		(8,003)	**(1,045)**
Changes in factoring receivables and payables			
Factoring Receivables and Payables		158,376	(96,962)
Changes in other assets		937	(6.804)
Changes in other liabilities		(1,864)	(2,974)
Employee severance paid	22	(59)	(104)
Taxes paid	9	(7,726)	(5,726)
Interest received		82,874	58,420
Proceeds from recoveries of impaired factoring receivables	11	92	431
Net cash provided by / (used in) operating activities		**224,627**	**(54,764)**
B. Cash Flows From Investing Activities:			
Acquisition of property and equipment	15	(87)	(75)
Acquisition of intangible assets	16	(234)	-
Net cash used in investing activities		**(321)**	**(75)**
C. Cash Flows From Financing Activities:			
Debt issued		(18,740)	18,740
Interest paid		(30,534)	(22,984)
Changes in loans and borrowings		(161,283)	63,060
Dividends paid	23	(4,800)	(4,500)
Net cash (used in) / provided from financing activities		**(215,357)**	**54,316**
Effect of changes in foreign exchange rate on cash and cash equivalents		2.012	216
Net increase / (decrease) in cash and cash equivalents (A+B+C)		**10,961**	**(307)**
D. Cash and cash equivalents at the beginning of the period		4,140	4,447
Cash and cash equivalents at the end of the period(A+B+C+D)	10	**15,101**	**4,140**

1. REPORTING ENTITY

Ekspo Faktoring Anonim Şirketi ("the Company") was incorporated in Turkey to provide factoring services to industrial and commercial firms and registered to Turkish Trade Registry on 2 June 2000.

The Company operates in both domestic and international markets and factors its without recourse type transactions via its correspondent factoring companies abroad. The Company provides domestic, import and export factoring services to industrial and commercial enterprises in Turkey.

The Company operates based on Capital Market Boards Law and Financial Leasing, Factoring and Financing Companies Law published in the Official Gazette No: 28496 on 13 December 2012 and the Establishment and Main Activities of Financial Leasing, Factoring and Financing Companies" published in the Official Gazette No: 28267 on 24 April 2013.

The Company operates mainly factoring transactions in one geographical area (Turkey).

The Company's head office is located at Maslak Mah. Maslak Meydan Sok. No: 5/B Spring Giz Plaza B Blok Sarıyer-İstanbul/ Türkiye.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board.

The Company maintains its books of account and prepares its statutory financial statements in Turkish Lira ("TL") in accordance with the Turkish Accounting Standards as promulgated by the Banking Regulation and Supervision Agency ("BRSA") and also the Turkish Commercial Code.

(b) Basis of measurement

The financial statements are based on the statutory records, with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS. They are prepared on the historical cost basis, except for derivatives which are measured at fair value, adjusted for the effects of inflation during the hyperinflationary period lasted till 31 December 2005.

(c) Functional and presentation currency

The financial statements are presented in TL, which is the Company's functional currency. All financial information presented in thousand TL is rounded to the nearest digit.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

(d) Use of estimates and judgements (Continued)

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

- Note 4 Determination of fair values
- Note 9 Taxation
- Note 11 Factoring receivables, provision for impairment of doubtful receivables
- Note 14 Investment property
- Note 15 Tangible assets
- Note 16 Intangible assets

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Accounting in hyperinflationary economies

International Accounting Standard ("IAS") 29, which deals with the effects of inflation in the financial statements, requires that financial statements prepared in the currency of a hyperinflationary economy to be stated in terms of the measuring unit current at the reporting date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%.

The cumulative three-year inflation rate in Turkey has been 35.61% at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by Turkish Statistical Institute. This, together with the sustained positive trend in the quantitative factors such as financial and economical stabilisation, decrease in the interest rates and the appreciation of TL against the US Dollars ("USD"), have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006. Therefore, IAS 29 has not been applied to the financial statements of the Company as at and for the year ended 31 December 2006 and thereafter.

(b) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted to TL at the exchange rates ruling at reporting date with the resulting exchange differences recognized in the profit or loss as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the comprehensive profit or loss as realized during the course of the year.

Foreign exchange rates used by the Company as at 31 December are as follows:

	31 December 2018	31 December 2017
USD	5,2609	3,7719
EURO	6,0280	4,5155
GBP	6,6528	5,0803
CHF	5,3352	3,8548

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial Instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

The Company classifies its financial assets as (a) Business model used for managing financial assets, (b) financial assets subsequently measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss based on the characteristics of contractual cash flows. The Company reclassifies all financial assets effected from the change in the business model it uses for the management of financial assets. The reclassification of financial assets is applied prospectively from the reclassification date. In such cases, no adjustment is made to gains, losses (including any gains or losses of impairment) or interest previously recognized in the financial statements.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset; the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial Instruments

Financial assets (Continued)

(i) Amortised cost and effective interest method

Interest income on financial assets carried at amortized cost is calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. This income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset:
(a) Credit-impaired financial assets when purchased or generated. For such financial assets, the Company applies the effective interest rate on the amortized cost of a financial asset based on the loan from the date of the recognition in the financial statements.
(b) Non-financial assets that are impaired at the time of acquisition or generation but subsequently become a financial asset that has been impaired. For such financial assets, the Company applies the effective interest rate to the amortized cost of the asset in the subsequent reporting periods.
Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI.
Interest income is recognised in profit or loss and is included in the "finance income – interest income" line item.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI (see (i) to (ii) above) are measured at FVTPL. Specifically:

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria (see (i) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Company has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, time and demand deposits at banks having original maturity less than 3 months and readily to be used by the Company or not blocked for any other purpose.

Time deposits are measured at amortised cost using the effective interest method, less any impairment losses.
Accounting for financial income and expense is discussed in note 3 (m).

Factoring receivables

Factoring receivables are measured at amortised cost less expected credit loss and unearned interest income.

The Company measures the loss allowance for factoring receivables at an amount equal to lifetime ECL. The expected credit losses on factoring receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has recognised a loss allowance of 100% against all receivables over 90 days past due because historical experience has indicated that these receivables are generally not recoverable.

Borrowings

Bank borrowings are recognized initially at fair value, net of any transaction costs incurred. Subsequent to initial recognition, bank borrowings are stated at amortised cost with any difference between cost and redemption value being recognized in the statement of comprehensive income over the period of the borrowings.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial Instruments (Continued)

Other

Other assets and liabilities are measured at cost due to their short term nature.

Derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in the profit or loss when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value. Fair values are based on available quoted market prices and discounted cash flow model if needed. Fair value of unquoted foreign exchange contracts are presented by the rate of the first term of the contract compared by the rest of the relevant currency market interest rates calculated on the table, minus the maturity rate as determined by comparing the statement of financial position. If fair value of derivative financial instruments is positive, it is accounted as assets; if the fair value is negative, it is accounted as liabilities.

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates, as estimated based on the available quoted market rates prevailing at the reporting date.

Share capital

Incremental costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity.

Share capital increases pro-rata to existing shareholders is accounted for at par value as approved at the annual meeting of shareholders.

(d) Investment property

Investment property is accounted using the cost model, less accumulated depreciation, and impairment losses. Depreciation is recognized in the statement of comprehensive income on a straight-line basis over 50 years.

(e) Assets held for sale

Assets that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell. A non-current asset is not depreciated (or amortised) while it is classified as held for sale.

(f) Tangible assets

(i) Recognition and measurement

Items of tangible assets acquired before 1 January 2006 are measured at cost restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29 less accumulated depreciation and impairment losses, if any. Tangible assets acquired after 31 December 2005 are measured at cost, less accumulated depreciation and impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of tangible assets have different useful lives, they are accounted for as separate items (major components) of tangible assets.

Any gain and loss on disposal of an item of tangible assets (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised net in other income and other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of tangible assets is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of tangible assets are recognized in the statement of comprehensive income as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible assets.

The estimated useful lives for the current and comparative periods are as follows:

Furniture and fixtures	5 years
Motor vehicles	5 years

Leasehold improvements are amortised over the periods of the respective leases on a straight-line basis.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Intangible assets

Intangible assets represent computer software licenses and rights. Intangible assets acquired before 1 January 2006 are measured at cost restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29, less accumulated amortisation, and impairment losses, if any. Intangible assets acquired after 31 December 2005 are measured at cost, less accumulated amortisation, and impairment losses, if any. Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives for the current and comparative periods are 5 years.

(h) Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Specifically, IFRS 9 requires the Company to recognise a loss allowance for expected credit losses on:

1. Cash Equivalents;
2. Factoring Receivables;

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

(i) Employee benefits

(i) Reserve for employee severance payments

In accordance with the existing social legislation in Turkey, the Company is required to make certain lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognized in the accompanying financial statements as accrued in accordance with IAS 19. The reserve has been calculated by estimating the present value of the future obligation of the Company that may arise from the retirement of the employees through statistical methodology.

The assumptions used in the calculation are as follows:

	31 December 2018	31 December 2017
Net discount rate	5.45 %	4.69 %
Expected salary / limit increase	10.00 %	6.50 %

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Employee benefits (Continued)

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided and accounted under other comprehensive income.

A provision is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(k) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position 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 to realize the asset and settle the liability simultaneously.

(l) Related parties

The shareholders of the Company and other companies that are controlled by them or related with them and key management personnel of the Company are considered and referred to as the related parties.

(m) Revenue and cost recognition

(i) Factoring interest and commission income

Factoring interest and commission income are recognized in profit or loss on an accrual basis using the effective interest method. Commission income is a certain percentage of the total amount of invoices subject to spot factoring transactions.

(ii) Factoring commission expense

Factoring commission charges are recognised as expense in profit or loss on accrual basis.

(iii) Other income and expenses

Other income and expenses are recognized in profit or loss on the accrual basis.

(iv) Financial income / expenses

Financial income includes foreign exchange gains and interest income from time deposits calculated using the effective interest method.

Financial expenses include interest expense on borrowings using the effective interest method, foreign exchange losses and other financial expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Income tax

Taxes on income comprise current and deferred taxes. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities and assets are recognized when it is probable that the future economic benefits resulting from the reversal of taxable temporary differences will flow to or from the Company. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Currently enacted tax rates are used to determine deferred taxes on income.

(o) Application of New and Revised International Financial Reporting Standards (IFRSs)

New and amended IFRS Standards that are effective for the current year

Impact of initial application of IFRS 9 Financial Instruments

(a) Classification and measurement of financial assets

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives. As a result of the first-time adoption of IFRS 9, the cumulative effect due to the first time adoption of IFRS 9 by the Company is recognised in retained earnings as of 1 January 2018 and the comparatives haven't been restated accordingly.

Additionally, the Company adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 and to the comparative period.
IFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

Details of these new requirements as well as their impact on the Company's financial statements are described below.The Company has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Application of New and Revised International Financial Reporting Standards (IFRSs) (Continued)

New and amended IFRS Standards that are effective for the current year (Continued)

Impact of initial application of IFRS 9 Financial Instruments (Continued)

(a) Classification and measurement of financial assets (Continued)

The date of initial application (i.e. the date on which the Company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL)

Despite the aforegoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Company may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Company has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Application of New and Revised International Financial Reporting Standards (IFRSs) (Continued)

New and amended IFRS Standards that are effective for the current year (Continued)

Impact of initial application of IFRS 9 Financial Instruments (Continued)

(a) Classification and measurement of financial assets (Continued)

The directors of the Company reviewed and assessed the Company's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Company's financial assets as regards their classification and measurement:

- the Company's investment in corporate bonds that were classified as available-for-sale financial assets under IAS 39 have been classified as financial assets at FVTOCI because they are held within a business model whose objective is both to collect contractual cash flows and to sell the bonds, and they have contractual cash flows that are solely payments of principal and interest on principal outstanding. The change in the fair value on these redeemable notes continues to accumulate in the investment revaluation reserve until they are derecognised or reclassified;
- the Company's investments in equity instruments (neither held for trading nor a contingent consideration arising from a business combination) that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date under IAS 39 have been designated as at FVTOCI. The change in fair value on these equity instruments continues to be accumulated in the investment revaluation reserve;
- there is no change in the measurement of the Company's investments in equity instruments that are held for trading; those instruments were and continue to be measured at FVTPL;

financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Specifically, IFRS 9 requires the Company to recognise a loss allowance for expected credit losses on:

(1) Cash Equivalents;
(2) Factoring Receivables;

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Application of New and Revised International Financial Reporting Standards (IFRSs) (Continued)

New and amended IFRS Standards that are effective for the current year (Continued)

Impact of initial application of IFRS 9 Financial Instruments (Continued)

(b) Impairment of financial assets (Continued)

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss. The application of IFRS 9 has had no impact on the classification and measurement of the Company's financial liabilities.

(d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Company's risk management activities have also been introduced. The company has not applied hedge accounting.

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Application of New and Revised International Financial Reporting Standards (IFRSs) (Continued)

New and amended IFRS Standards that are effective for the current year (Continued)

Impact of application of IFRS 15 Revenue from Contracts with Customers

Impact on the Financial Statements

In the current year, the Company has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

Annual Improvements to IFRS Standards 2014–2016 Cycle
- IFRS 1: Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- IAS 28: Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Annual improvements to IFRS Standards 2014-2016 cycle have no impact on the Company's financial statements.

IFRS Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses foreign currency transactions or parts of transactions where:
- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.
- The Interpretations Committee came to the following conclusion:
- 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.

IFRS Interpretation 22 has no impact on the Company's financial statements.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, The Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 16	Leases
IFRS 17	Insurance Contracts
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
IFRIC 23	Uncertainty over Income Tax Treatments
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale of Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement [1]
Annual Improvements to IFRS Standards 2015–2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs [1]

[1] *Effective from periods on or after 1 January 2019..*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Yeni ve Revize Edilmiş Türkiye Muhasebe Standartları

Application of New and Revised International Financial Reporting Standards (IFRSs) (Continued)

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

IFRS 16 Leases

<u>General impact of application of IFRS 16 Leases</u>

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Company will be 1 January 2019. The company carries out analysis in order to determine the effects of transition to IFRS 16 and evaluates standard's impact.

Annual Improvements to IFRS Standards 2015–2017 Cycle

Annual Improvements to IFRS Standards 2015–2017 Cycle include amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements in when a party that participates in, but does not have joint control of, IAS 12 Income Taxes; income tax consequences of dividends in profit or loss, and IAS 23 Borrowing Costs in capitalized borrowing costs.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position).

The directors of the Company assess the possible impacts of the application of the amendments on the Company's financial statements.

(p) Statement of cash flows

The Company prepares cash flow statements to inform the users of the financial statements about the changes in its net assets, its financial structure and its ability to affect the amount and timing of its cash flows with respect to changing external conditions.

In the statement of cash flows, cash flows of the period are reported with a classification based on operating, investing and financing activities. Cash flows from operating activities represent cash flows from activities within the scope of business. Cash flows relating to investment activities represent cash flows used and generated from investment activities (fixed investments and financial investments). Cash flows relating to financing activities represent the sources of financing the Company used and the repayments of these sources.

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Events after the reporting period

Events after the reporting period include all events up to the date when the financial statements are authorized for issue. In accordance with IAS 10, "Events After the Reporting Period", the Company adjusts the amounts recognized in its financial statements to reflect adjusting events after the reporting period. Non adjusting events are disclosed in the notes to the financial statements.

(r) Segment reporting of financial information

Since the Company does not have segments whose financial performances are reviewed by operating decision makers, no segment reporting information is provided in the notes.

4. DETERMINATION OF FAIR VALUES

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined 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 asset or liability that are not based on observable market data (unobservable inputs).

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets	-	800	**-**	**800**
	-	**800**	**-**	**800**
Derivative financial liabilities	-	573	**-**	**573**
	-	**573**	**-**	**573**

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets	-	1,374	-	1,374
	-	**1,374**	**-**	**1,374**
Derivative financial liabilities	-	567	-	**567**
	-	**567**	**-**	**567**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

4. DETERMINATION OF FAIR VALUES (CONTINUED)

Fair value hierarchy (Continued)

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined using available market information by the Company, and where it exists, appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances. Management has estimated that the fair value of certain financial position instruments is not materially different than their recorded values due to their short nature. These statement of financial position instruments include cash and cash equivalents, factoring receivables, factoring payables, loans and borrowings, other assets and other liabilities.

As at 31 December, the carrying amounts and fair values of financial instruments are as follows:

		2018		2017
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
Cash and cash equivalents	15,101	15,101	4,140	4,140
Factoring receivables	267,796	267,796	432,976	432,976
Financial liabilities				
Bank borrowings	124,183	124,183	285,466	285,466
Debt issued	-	-	18,740	18,740
Factoring payables	8,261	8,261	8,717	8,717
Other liabilities	1,878	1,878	1,656	1,656

Fair value is estimated to approximate carrying value.

5. INTEREST INCOME OTHER THAN FACTORING OPERATIONS

As at and for the years ended 31 December, interest income other than factoring operations are as follows:

	2018	**2017**
Interest income on bank deposits	1,263	48
Interest income from securities	27	6
	1,290	**54**

6. OTHER INCOME

For the year ended 31 December 2018, other income comprises mediation income amounting to TL 0 (2017: TL 0).

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

7. PERSONNEL EXPENSES

For the year ended 31 December 2018, other income comprises mediation income amounting to TL 0 (2017: TL 0).

	1 January – 31 December 2018	1 January – 31 December 2017
Salary expenses	9,273	7,240
Bonus payment	905	842
Social security premium employer's share	767	712
Insurance expenses	476	431
Transportation expenses	185	169
Meal expenses	151	137
Unemployment security employer's share	62	53
Others	162	101
	11,981	**9,685**

8. ADMINISTRATIVE EXPENSES

For the year ended 31 December, administrative expenses comprised the following:

	1 January – 31 December 2018	1 January – 31 December 2017
Rent expenses	1,365	1,018
IT related expenses	349	306
Legal expenses	331	331
Vehicle expenses	189	145
Provisions for employee termination benefits expense	180	196
Audit and consultancy expenses	162	290
Subscription fees	158	183
Taxes and duties other than on income	117	103
Presentation expense	106	91
Communication expenses	53	62
Travel expenses	-	139
Other	704	622
	3,714	**3,486**

9. TAXATION

As at 31 December 2017, corporate income tax is levied at the rate of 22% (2017: 20%) on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes. There is also a withholding tax levied at a certain rate on the dividends paid and is accrued only at the time of such payments. Some of the deduction rates included in the 15th and 30th Articles of the Law no. 5520 on the Corporate Tax, was redefined according to the Cabinet Decision numbered 2006/10731, which was announced at Trade Registry Gazette of 23 July 2006-26237. In this context, withholding tax rate on dividend payments which are made to the companies except those which are settled in Turkey or generate income in Turkey via a business or a regular agent was increased to 15% from 10%.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for up to five years. Losses cannot be carried back.

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

9. TAXATION (CONTINUED)

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within three months and twenty five days following the close of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on Disguised Profit Distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

The statement of profit or loss and comprehensive income for the years ended 31 December is different than the amounts computed by applying the statutory tax rate to profits before income taxes.

	2018		2017	
	Amount	**%**	**Amount**	**%**
Reported profit before income taxes	37,653		26,064	
Taxes on reported profit per statutory tax rate	(8,284)	(22)	(5,213)	(20)
Permanent differences:				
Non-taxable expenses/deductions	(64)		36	
Income Tax Expense	**(8,348)**		**(5,177)**	

The income tax expense for the years ended 31 December comprised the following items:

	2018	2017
Current tax expense	7,636	6,623
Deferred tax expense / (income)	712	(1,446)
Income tax expense	**8,348**	**(5,177)**

In accordance with the related regulation for prepaid taxes on income, advance payments during the year are being deducted from the final tax liability computed over current year operations. Accordingly, the income tax expense is not equal to the final tax liability appearing on the statement of financial position.

The taxes payable on income at 31 December comprised the following:

	2018	2017
Taxes on income	7,636	6,623
Less: Corporation taxes paid in advance	(6,034)	(4,931)
Income taxes payable	**1,602**	**1,692**

For the years ended 31 December 2018 and 2017, movement of the Company's net deferred tax assets and liabilities is as follows:

	2018	2017
Opening balance	3,032	1,586
Deferred tax income recognized in profit or loss	(712)	1,446
Closing balance	**2,320**	**3,032**

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

9. TAXATION (CONTINUED)

Deferred income tax is provided, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for the initial recognition of assets and liabilities which effect neither accounting nor taxable profit.

As of 31 December, details of deferred tax assets and deferred tax liabilities calculated by the prevailing tax rate are as follows:

	Temporary differences		Deferred tax assets/(liabilities)	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Unearned interest income	10,132	13,720	2,229	3,018
Reserve for employee severance payments	745	624	149	125
Reserve for employee permission payments	313	157	63	31
Prepaid commissions	581	419	128	93
Deferred tax assets	**11,771**	**14,920**	**2,569**	**3,267**
Tangible assets, and intangible assets	555	288	111	58
Derivative financial instruments	227	807	50	177
Prepaid commissions	398	-	88	-
Deferred tax liabilities	**1,180**	**1,095**	**249**	**235**
Deferred tax assets (net)	**10,591**	**13,825**	**2,320**	**3,032**

For the years ended 31 December 2018 and 2017, all movements in the deferred tax assets and liabilities have been recognised in profit or loss. As at 31 December 2018 and 2017, there are no unrecognised deferred tax assets and liabilities. Future profit projections and potential tax planning strategies have been taken into consideration during assessment of recoverability of deferred tax assets.

10. CASH AND CASH EQUIVALENTS

As of 31 December, cash and cash equivalents are as follows:

	2018	**2017**
Demand deposits at banks	15,101	4,140
Total cash and cash equivalents	**15,101**	**4,140**

As at 31 December 2018, there is not any blockage on bank deposits (31 December 2017: None).

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

11. FACTORING RECEIVABLES

At 31 December, factoring receivables comprised the following:

	2018	2017
Domestic factoring receivables	232,536	392,468
Export and import factoring receivables	45,392	54,228
Total gross carrying amount at default	9,062	3,233
Factoring receivables, gross	286,990	449,929
Unearned factoring interest income	(10,132)	(13,720)
Lifetime expected credit loss	(9,062)	(3,233)
Net factoring receivables	**267,796**	**432,976**

The Company has obtained the following collaterals for its receivables at 31 December are as follows:

	2018	2017
Customer notes and cheques	153,073	256,217
Mortgage	25,015	19,092
Suretyship	4,693,035	3,974,022
Total	**4,871,123**	**4,249,331**

Movements in the allowance for impaired factoring receivables during the year ended 31 December are as follows:

	2018	2017
Balance at the beginning of the year	3,233	4,247
Sold loans (*)	(427)	(1,828)
Provision for the year	6,348	1,245
Recoveries during the year	(92)	(431)
Balance at the end of the year	**9,062**	**3,233**

(*) *The Company has sold non-performing loans amounting to TL 427 with 100% provision at the price of TRY 0.5 (31 December 2017: TL 1,828 -TL 1).*

As of 31 December, the ageing analysis of the impaired factoring receivables are as follows:

	2018	2017
Overdue 1 to 3 months	4,807	1,245
Overdue 3 to 6 months	1,541	-
Overdue 3 to 12 months	-	-
Overdue over 1 year	2,714	1,988
	9,062	**3,233**

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

12. OTHER ASSETS

As of 31 December, other assets are as follows:

	2018	2017
Prepaid expenses	595	540
Others	587	867
	1,182	**1,407**

13. ASSETS HELD FOR SALE

As at 31 December 2018, there are no assets classified as held for sale. (2017: None).

14. INVESTMENT PROPERTIES

Movement of investment properties and related accumulated depreciation during the year ended 31 December 2018 is as follows:

	1 January 2018	Additions	Disposals	31 December 2018
Cost				
Buildings	1,344	-	-	1,344
	1 January 2018	**Year Charge**	**Disposals**	**31 December 2018**
Less: Accumulated Depreciation				
Buildings	275	26	-	301
Net carrying value	**1,069**			**1,043**

Movement of investment properties and related accumulated depreciation during the year ended 31 December 2017 is as follows:

	1 January 2017	Additions	Disposals	31 December 2017
Cost				
Buildings	1,344	-	-	1,344
	1 January 2017	**Year Charge**	**Disposals**	**31 December 2017**
Less: Accumulated Depreciation				
Buildings	249	26	-	275
Net carrying value	**1,095**			**1,069**

Investment properties include a flat owned by the Company which is property held either to earn rental income or for capital appreciation or for both. The investment properties are amortized with straight-line method over its estimated useful life of 50 years.

Fair value measurement of the Company's investment properties

The fair value of the investment property of the Company is determined by an independent real estate appraisal company as of 31 December 2018 and 2017. The appraisal company has the appropriate qualification and experience for the valuation of property. The expertise report was prepared in accordance with International Valuation Standards and by considering the market prices of the similar properties around the same locations with the related properties.

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

14. INVESTMENT PROPERTIES (CONTINUED)

Fair value measurement of the Company's investment properties (Continued)

Details of the Company's investment properties and information about the fair value hierarchy as at 31 December are as follows:

	Carrying value			Fair value as at 31 December 2018
	31 December	Level 1	Level 2	Level 3
	2018	TL	TL	TL
Commercial property	1,043	-	-	1,043

	Carrying value			Fair value as at 31 December 2017
	31 December	Level 1	Level 2	Level 3
	2017	TL	TL	TL
Commercial property	1,069	-	-	1,069

15. TANGIBLE ASSETS

Movement of tangible assets and related accumulated depreciation during the year ended 31 December 2018 is as follows:

	1 January 2018	Additions	Disposals	31 December 2018
Cost				
Motor vehicles	1,833	-	(140)	1,693
Furniture and fixtures	628	87	(39)	676
Leasehold improvements	345	-	-	345
Others (*)	850	-	-	850
Total cost	**3,656**	**87**	**(179)**	**3,564**

	1 January 2018	Year charge	Disposals	31 December 2018
Less: Accumulated depreciation				
Motor vehicles	1,557	13	(140)	1,430
Furniture and fixtures	518	64	(39)	543
Leasehold improvements	341	-	-	341
Total accumulated depreciation	**2,416**	**77**	**179**	**2,314**
Net carrying value	**1,262**			**1,250**

(*) Other item included tables which are not subject to depreciation.

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

15. TANGIBLE ASSETS (CONTINUED)

Movement of tangible assets and related accumulated depreciation during the year ended 31 December 2017 is as follows:

	1 January 2017	Additions	Disposals	31 December 2017
Cost				
Motor vehicles	1,833	-	-	1,833
Furniture and fixtures	606	56	(34)	628
Leasehold improvements	345	-	-	345
Others (*)	831	19	-	850
Total cost	**3,615**	**75**	**(34)**	**3,656**

	1 January 2017	Year charge	Disposals	31 December 2017
Less: Accumulated depreciation				
Motor vehicles	1,396	195	(34)	1,557
Furniture and fixtures	462	56	-	518
Leasehold improvements	341	4	-	341
Total accumulated depreciation	**2,199**	**255**	**(34)**	**2,416**
Net carrying value	**1,416**			**1,262**

(*) Other item included tables which are not subject to depreciation.

As at 31 December 2018, total amount of insurance on tangible assets is TL 3,131 (31 December 2017: TL 3,108) and total amount of insurance premium on tangible assets is TL 45 (31 December 2017: TL 39). As at 31 December 2018 and 2017, there is no pledge on tangible assets. (31 December 2017:None)

16. INTANGIBLE ASSETS

Movement of intangible assets and related accumulated amortisation during the year ended 31 December 2018 is as follows:

	1 January 2018	Additions	Disposals	31 December 2018
Cost				
Rights	261	234	-	495

	1 January 2018	Current year charge	Disposals	31 December 2018
Less: Accumulated amortisation				
Rights	207	25	-	232
Net carrying value	**54**			**263**

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

16. INTANGIBLE ASSETS (CONTINUED)

Movement of intangible assets and related accumulated amortisation during the year ended 31 December 2017 is as follows:

	1 January 2017	Additions	Disposals	31 December 2017
Cost				
Rights	261	-	-	261

	1 January 2017	Current year charge	Disposals	31 December 2017
Less: Accumulated amortisation				
Rights	182	25	-	207
Net carrying value	**79**			**54**

As at 31 December 2018 and 2017, the Company does not have any internally generated intangible assets.

17. BORROWINGS

As of 31 December, borrowings are as follows:

	2018			
			TL amount	
	Original Amount	Nominal Interest Rate (%) (*)	Up to 1 year	1 year and over
TL	56,554	15,50-22,90	56,554	-
Avro	177	1,5-3,65	1,069	-
USD	12,650	2,70-6,35	66,553	-
GBP	1	-	7	-
Total			**124,183**	-

	2017			
			TL amount	
	Original Amount	Nominal Interest Rate (%) (*)	Up to 1 year	1 year and over
TL	230,203	13,24 – 16,25	230,203	-
TL (**)	3,601	5	3,601	-
Avro	2,244	0,5- 2,95	10,140	-
USD	10,837	1,63 – 5,26	41,519	-
GBP	-	-	3	-
Total			**285,466**	-

(*) *These rates represent the average nominal interest rate range of outstanding borrowings with fixed and floating rates as at 31 December 2018 and 2017.*

(**) *Includes the balances with reference to foreign currency indexed bank borrowings.*

As of 31 December 2018, the Company has cheques and promissory notes amounting to TL 256,825 (31 December 2017:TL 412,168) given as collateral against its outstanding bank borrowings.

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

18. DEBT SECURITIES ISSUED

As of 31 December 2018, there are no debt securities issued and debt securities issued as of 31 December 2017 are as follows;

			31 Aralık 2017		
	Currency	**Maturity**	**Interest Rate**	**Notional Amount**	**Book Value**
Bond (*)	TL	5 June 2018	15,24%	20,000	18,740
				20,000	**18,740**

(*) The company issued debt with nominal amount to TL 20,000 and interest rate 15.24 % with maturity 5 June 2018. Debt book value is TL 18,740.

19. FACTORING PAYABLES

As at 31 December, factoring payables comprised the following:

	2018	**2017**
Domestic factoring payables	8,261	8,717
Total	**8,261**	**8,717**

Factoring payables represent the amounts collected on behalf of but not yet paid to the factoring customers at the reporting date.

20. OTHER LIABILITIES

As at 31 December, other liabilities comprised the following:

	2018	**2017**
Taxes and duties other than on income tax	744	698
Trade payables to vendors	401	383
Unearned income	581	419
Social security payables	99	84
Other	53	72
Total	**1,878**	**1,656**

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

21. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

The Company uses currency swap derivative instruments. "Currency swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. The Company uses these derivative financial instruments, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency risk.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Company's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative instruments held as at 31 December, which represent the carrying values are as follows:

		2018		**2017**
	Assets	**Liabilities**	**Assets**	**Liabilities**
Currency swap purchases and sales	800	573	1.374	567
	800	**573**	**1.374**	**567**

As of 31 December 2018 and 2017, the details of derivative transactions are presented in Note 25.

22. PROVISION FOR EMPLOYEE SEVERANCE INDEMNITY

In accordance with existing social legislation in Turkey, the Company is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay, maximum of TL 5,001.76 at 31 December 2018 (2017: TL 4,732.48) per year of employment at the rate of pay applicable at the date of retirement or termination. The principal assumption used in the calculation of the total liability is that the maximum liability for each year of service will increase in line with inflation semi-annually.

For the years ended 31 December, movements in the provision for employee severance indemnity were as follows:

	2018	**2017**
Balance at the beginning of the year	**624**	**532**
Interest cost	28	18
Service cost	152	180
Paid during the year	(59)	(104)
Actuarial difference	-	(2)
Balance at the end of the year	**745**	**624**

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

22. PROVISION FOR EMPLOYEE SEVERANCE INDEMNITY (CONTINUED)

Provision for employee benefis	**2018**	**2017**
Unused vacation liability	313	157
	313	**157**

Unused Vacation Liability Movement

	2018	**2017**
Balance at the beginning of the year	157	128
Current charge (benefit)	156	29
	313	**157**

23. CAPITAL AND RESERVES

23.1 Paid-in capital

At 31 December 2018 the Company's nominal value of authorized and paid-in share capital amounts to TL 60,000,000 (2017: TL 60,000,000) comprising registered shares of par value of TL 1 each. Adjustment to share capital represents the restatement effect of the cash contributions to share capital equivalent to purchasing power of TL as of 31 December 2005.

As of 31 December, the composition of the authorized and paid-in share capital are as follows:

		2018		**2017**
	Share (%)	**TL**	**Share (%)**	**TL**
M. Semra Tümay	49.00	29,400	49.00	29,400
Murat Tümay	25.50	15,300	25.50	15,300
Zeynep Ş. Akçakayalıoğlu	25.50	15,300	25.50	15,300
Share capital	100.00	60,000	100.00	60,000
Adjustment to share capital		279		279
Total share capital		**60,279**		**60,279**

23.2 Legal Reserves

The legal reserves are established by annual appropriations amounting to 5% of income disclosed in the Company's statutory accounts until it reaches 20% of paid-in share capital (first legal reserve). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in capital is to be appropriated to increase legal reserves (second legal reserve). The first legal reserve is restricted and is not available for distribution as dividend unless it exceeds 50% of share capital.

23.3 Dividends

According to the decisions made at the extraordinary general assembly meeting held on 25 April 2018 and 8 June 2018 the Company has decided to distribute dividend to shareholders amount to TL 1.200 and TL 2,400, respectively. As of 31 December 2018 all dividend amounts paid to shareholders.(2017:TL 4,500)

According to the decision based on the extraordinary general assembly meeting held on 8 January 2018, the Company has decided to distribute dividend to shareholders amount to TL 2,400 and all amounts has been paid.

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

24. RISK MANAGEMENT DISCLOSURES

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Credit risk

The Company is subject to credit risk through its factoring operations. The Company requires a certain amount of collateral in respect of its financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Company does not enter into factoring transactions with the firms which do not meet the predetermined criteria for credit approval. Credit evaluations are performed on all customers by the Credit Risk Committee based on their authorisation limits. The Credit Risk Committee meets every week regularly and performs credit evaluations. The Company has early warning controls with respect to the monitoring of on-going credit risks and the Company regularly performs scoring of the creditworthiness of the customers. A special software program has been developed to monitor the credit risk of the Company.

At 31 December 2018, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

As of 31 December, the breakdown of the factoring receivables by industrial groups is as follows:

	31 Aralık 2018	%	31 Aralık 2017	%
Financial Services	51,798	19%	103,195	24%
Construction	43,830	16%	57,757	13%
Retail and wholesale trade	37,231	14%	47,543	11%
Textiles	34,816	13%	29,769	7%
Transportation, storage and communication	20,794	8%	19,560	5%
Wood and Wooden Products	16,659	6%	20,038	5%
Leather industry	15,900	6%	32,617	8%
Agriculture and ranching	15,204	6%	29,046	7%
Iron, steel, coal, petroleum, other mines	11,831	4%	39,311	9%
Rubber and plastic goods	8,730	3%	2,422	1%
Non-metal industry	3,855	1%	5,898	1%
Food, beverages and tobacco	2,096	1%	4,620	1%
Electrical equipment	1,509	1%	10,651	2%
Tourism	1,393	1%	15,829	4%
Cultural, recreational and sports activities	1,081	0%	2,543	1%
Researching, consulting and advertising	623	0%	801	0%
Machinery and equipment	323	0%	5,034	1%
Chemicals and pharmaceuticals	123	0%	3,292	1%
Computer and computer equipment	-	0%	1,086	0%
Other	-	0%	1,964	0%
	267,796	**100.00**	**432,976**	**100.00**

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

24. RISK MANAGEMENT DISCLOSURES (CONTINUED)

Credit risk (Continued)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

As of 31 December 2018 and 2017, details of the financial assets exposed to credit risk are as follows:

	2018	**2017**
Cash at banks	15,101	4,140
Factoring receivables, net	267,796	432,976
Derivative financial assets	800	1,374

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Company's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Company's business strategies.

The table below summarize average effective interest rates by major currencies for monetary financial instruments at 31 December:

				31 December 2018				**31 December 2017**
	USD (%)	**Avro (%)**	**GBP (%)**	**TL (%)**	**USD (%)**	**Avro (%)**	**GBP (%)**	**TL (%)**
Assets								
Factoring receivables	5.90	6.14	6.22	34.10	6.21	2.30	4.21	19.69
Liabilities								
Borrowings	4.90	2.6	-	16.97	4.17	0.68	-	15.56
Debt issued	-	-	-	-	-	-	-	15.24

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

24. RISK MANAGEMENT DISCLOSURES (CONTINUED)

Market risk (Continued)

Interest rate profile

At 31 December, the interest rate profile of the interest-bearing financial instruments is as follows:

	Carrying Amount	
Fixed rate instruments	**2018**	**2017**
Factoring receivables	91,596	123,310
Loans and borrowings	56,554	230,204
Floating rate instruments		
Factoring receivables	176,200	309,666
Loans and borrowings	67,629	55,262
Debt Issued	-	18,740

Cash flow sensitivity analysis for variable rate instrument

A change of 100 basis points in interest rates at 31 December would have increased profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or (loss)	
	100 bp increase	**100 bp decrease**
2018		
Floating rate instruments	324	(324)
2017		
Floating rate instruments	159	(159)

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Foreign currency risk

The Company is exposed to currency risk through transactions (such as factoring operations and borrowings) in foreign currencies. As the currency in which the Company presents its financial statements is TL, the financial statements are affected by movements in the exchange rates against TL. The Company uses currency swap contracts to manage its exposure to foreign currency risk, which will be realized in a short period of time.

As at 31 December , the foreign currency position of the Company is as follows (TL equivalents):

	31 December 2018	**31 December 2017**
A. Foreign currency monetary assets	77,144	60,129
B. Foreign currency monetary liabilities	(76,075)	(62,898)
C. Derivative financial instruments	227	807
Net foreign currency position (A+B+C)	**1,296**	**(1,962)**

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

24. RISK MANAGEMENT DISCLOSURES (CONTINUED)

Market risk (Continued)

Foreign currency risk (Continued)

As at 31 December, TL equivalents of the currency risk exposures of the Company are as follows:

31 December 2018	**USD**	**Avro**	**GBP**	**Total**
Foreign currency monetary assets				
Cash and cash equivalents	4,626	14	10	4,650
Factoring receivables	66,925	2,493	3,071	72,489
Other assets	5	-	-	5
Total foreign currency monetary assets	**71,556**	**2,507**	**3,081**	**77,144**
Foreign currency monetary liabilities				
Loans and borrowings	67,620	2	7	67,629
Factoring payables	2,495	2,455	3,023	7,973
Other payables	465	5	3	473
Total foreign currency monetary liabilities	**70,580**	**2,462**	**3,033**	**76,075**
Net on balance sheet position	**976**	**45**	**48**	**1,069**
Off balance sheet net notional position	227	-	-	227
Net position	**1,203**	**45**	**48**	**1,296**

31 December 2017	**USD**	**Avro**	**GBP**	**Toplam**
Foreign currency monetary assets				
Cash and cash equivalents	2,959	1,029	55	4,043
Factoring receivables(*)	43,182	11,083	1,812	56,077
Other assets	4	-	5	9
Total foreign currency monetary assets	**46,145**	**12,112**	**1,872**	**60,129**
Foreign currency monetary liabilities				
Loans and borrowings(**)	45,120	10,140	3	55,263
Factoring payables	2,920	2,666	1,821	7,407
Other payables	76	150	2	228
Total foreign currency monetary liabilities	**48,116**	**12,956**	**1,826**	**62,898**
Net on balance sheet position	**(1,971)**	**(844)**	**46**	**(2,769)**
Off balance sheet net notional position	807	-	-	807
Net position	**(1,164)**	**(844)**	**46**	**(1,962)**

(*) TL 1,957 Amounting Factoring Receivables which is foreign currency indexed has been included.)

(**) TL 3,601 amounting borrowing which is foreign currency indexed has been included.

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

24. RISK MANAGEMENT DISCLOSURES (CONTINUED)

Market risk (Continued)

Foreign currency sensitivity analysis

Depreciation of TL by 10% against the other currencies as at 31 December 2018 and 2017 would have decreased profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, as at 31 December 2018 and 2017 remain constant.

TL	**Profit/(Loss) 2018**	**Profit/(Loss) 2017**
USD	120	(116)
Avro	4	(84)
GBP	5	4
Total	**129**	**(196)**

/(*) Equity effect includes profit or loss effect.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company has access to funding sources from banks. The Company continuously assesses liquidity risk by identifying and monitoring changes in funding required in meeting business goals and targets set in terms of the overall Company strategy. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractural maturities of financial liabilities of the Company:

31 December 2018

	Carrying Amount	**Contractual cash flows**	**3 months or less**	**3-12 months**	**1-5 years**	**More than 5 years**
Non-derivative financial liabilities	**133,426**	**138,286**	**84,483**	**53,803**	**-**	**-**
Loans and borrowings	124,183	129,043	75,240	53,803	-	-
Debt issued	-	-	-	-	-	-
Factoring payables	8,261	8,261	8,261	-	-	-
Other liabilities	401	401	401	-	-	-

	Carrying Amount	**Contractual cash flows**	**3 months or less**	**3-12 months**	**1-5 years**	**More than 5 years**
Derivative financial liabilities	**227**	**(464)**	**(464)**	**-**	**-**	**-**
Inflow	800	2.164	2.164	-	-	-
Outflow	(573)	(2.630)	(2.630)	-	-	-

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

24. RISK MANAGEMENT DISCLOSURES (CONTINUED)

Liquidity risk (Continued)

31 December 2017	Carrying Amount	Contractual cash flows	3 months or less	3-12 months	1-5 years	More than 5 years
Non-derivative financial liabilities	**313,306**	**316,288**	**189,900**	**126,388**	**-**	**-**
Loans and borrowings	285,466	287,188	180,800	106,388	-	-
Debt issued	18,740	20,000	-	20,000		
Factoring payables	8,717	8,717	8,717	-	-	-
Other liabilities	383	383	383	-	-	-

	Carrying Amount	Contractual cash flows	3 months or less	3-12 months	1-5 years	More than 5 years
Derivative financial liabilities	**807**	**824**	**236**	**588**	**-**	**-**
Inflow	1,374	44,589	28,578	16,011	-	-
Outflow	(567)	(43.765)	(28.342)	(15.423)	-	-

Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to meet local regulatory requirements. The Board of Directors monitors the return on capital, which includes the capital and reserves explained in note 23. The management has evaluated the risk of relatable capital associated with capital cost during these review. There is no change in the capital management policy of the Company in the current year.

25. COMMITMENTS AND CONTINGENCIES

Commitments and contingent liabilities arising in the ordinary course of business comprised the following items at 31 December:

Letters of guarantee	2018	2017
Given Guarantees and suretyship for the benefit of customer	25,015	19,092
Total	**25,015**	**19,092**

As at 31 December 2018, the Company has given cheques and notes amounting to TL 256,825 (2017: TL 412,168) as collateral against its outstanding bank borrowings.

As at 31 December, commitments for purchase and sale of currencies under swap contracts are as follows:

	31 December 2018		31 December 2017	
	TRY	**FC**	**TRY**	**FC**
Forward purchases	2,164	2,631	21,906	22,683
Forward sales	1,925	2,630	22,925	20,840
	4,089	**5,261**	**44,831**	**43,523**

(Currency: Thousands of Turkish Lira ("TL") unless otherwise stated)

25. COMMITMENTS AND CONTINGENCIES (CONTINUED)

As at 31 December 2018 and 2017, the details of the Company's items held in custody is as follows:

	2018	**2017**
Customers' Cheques	272,611	388,226
Customers' Notes	173,003	200,811
Mortgages	5,467	4,559
	451,081	**593,596**

26. RELATED PARTY DISCLOSURES

For the purpose of accompanying financial statements, the shareholders, key management personnel and the Board members, and in each case, together with their families and companies controlled by/affiliated with them; and their investments are considered and referred to as the related parties. A number of transactions are entered into with the related parties in the normal course of business. These transactions were carried out on an arms-length basis during the normal course of business.

	1 January- 31 December 2018	**1 January- 31 December 2017**
General administrative expenses		
M. Semra Tümay - rental expense	1,330	986
	1,330	**986**

Top management fees and rights:

As of 31 December 2018 the company paid amount to TL 7,399 to Board of Directors and top management (31 December 2017: 5,815 TL).

27. EVENTS AFTER THE REPORTING PERIOD

None.

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