EKSPO FAKTORİNG 2016 ANNUAL REPORT

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EKSPO
Faktoring A.Ş.

Securing success and future
requires a strong foundation.
We built Ekspo Faktoring on almost
40 years of industry experience, backed
by our long-established banking tradition
dating back to the 19th century.
By staying close to our roots,
we created a business model
based on expertise and knowledge.
As a company with
strong financial infrastructure,
we have been able to bring innovations
to the sector by using the values we inherited.
Because we know that
the future can only be reached by
passing through the gates of tradition.
By adhering to our values,
“new traditional banking”
understanding and experience,
we will continue to support the economy,
grow, and improve day by day
together with our stakeholders.


GÜRBÜZ TÜMAY
HONORARY CHAIRMAN
MURAT TÜMAY
EKSPO FAKTORİNG A.Ş.
CHAIRMAN OF THE BOARD AND
GENERAL MANAGER

MESSAGE FROM THE CHAIRMAN

Distinguished stakeholders,

With more than 40 years of experience in the banking sector and by keeping our values close to our roots, we consolidated our position in the banking sector in 2016 by sustaining our rapid and healthy growth. Ekspo Faktoring reached its goals via the dynamic policies it established and followed against the changing conjunctures during the year.

2016 was a year that was marked by growing geopolitical risks, as well as successive fluctuations, and concerns for the global economy. While the global economy ended 2016 with a growth of 3.1%, the growth rate was 4.1% in emerging markets, and 1.6% in developed countries.

The global economy witnessed a year full of fluctuations.
The developed countries continued their loose monetary practices to revive their economies during 2016. While the monetary policies of the central banks in developed countries and the FED in particular mobilized the markets, the UK's Brexit decision made in June, the presidential election in the USA, the progress of commodity and oil prices were the main topics of global economy. While the US economy experienced the fastest growth in the last two years, Donald Trump's success as the Republican candidate in the presidential election led to unrest and fluctuations in the global markets. The UK's decision to leave the EU caused discontent for the future of the union and sales in the markets.

The financial discipline in the Turkish economy was maintained.
2016 was a year in which Turkey followed a wait-and-see policy. The signals for increasing interest rates by the FED and domestic terrorist incidents made the foreign capital lose their appetite and disturbed domestic investors. Despite the loss of value in the Turkish Lira, intensified geopolitical risks and an atrocious coup attempt, the Turkish economy saw a growth rate of 2.9% thanks to healthy improvements, particularly in the first half of the year.

Financial discipline continued to be a strength of the Turkish economy in 2016. In the third quarter of the year the most unfortunate incident for our economy, which demonstrated a negative growth rate for the first time since 2009, was the loss of our sovereign rating at investible level. The three greatest credit rating agencies, S&P, Moody's, and Fitch did not rate Turkey at investible level.

Our banking sector is growing and getting stronger.
The Turkish banking sector continued to support the corporates by maintaining its strong performance in 2016. During this period, the total asset of the banking sector increased by 15.84% reaching 2,730,942 million TL, and the credits increased by 16.80% reaching 1,734,342 million TL. By the end of the year, the banking sector's total net profit was 37,532 million TL, shareholders' equity was 300,172 million TL, and the capital adequacy ratio was 15.57%.

The transaction volume of the factoring sector increased by 4.1% reaching 123 billion TL. Out of this turnover, 101 billion TL was domestic, 19.4 billion TL was exports and 2 billion TL was imports. The shareholders' equity of the banking sector increased by 11% reaching 5 billion TL. The profitability rate increased by 73.3% compared to the previous year, thanks to the increasing profit margins and decreasing non-performing loan rates.

The profitability and funding costs in the banking sector were positively affected by the decreasing required reserve ratios by TCMB and the loosening of liquidity terms in the second half of the year. BDDK also made various flexibility arrangements in order to enable financial institutions to provide more loans with the intent of supporting real economy.

We are growing with our solid financial structure and efficient communication skills.
As Ekspo Faktoring, we continued to make a difference in the banking sector in 2016 thanks to our dynamic business model, the customized solutions we offer to our clients and our rich product range. Backed by the strength of our financial statement, we continued to bring resources to our country and played an active role in increasing the competitive capacity of our clients in the global markets.

Our innovative and entrepreneurial character that remains loyal to our roots, has brought us to the present and is also the guarantee of our success in the future.

2016 became the year in which we reached the highest figures for turnover and net profit since our foundation. By the end of the year, our total assets reached 342 million TL and our turnover reached 1.349 million TL. While 82% of our turnover was domestic transactions, 18% was international transactions. We increased our commission income to the highest level since its foundation. Our equity for the year 2016 climbed 14%, from 98 million TL to 111 million TL, reaching the highest level in the history of the company. Our calculations project company assets to reach 500 million TL by the end of 2017.

We continue to reinforce our correspondent relationships.
We continue to play an active role in increasing the competitive capacity of our clients in global markets. In 2016 we mediated to finance the foreign trade in a total amount of 69 million USD, and we achieved many successful financing solutions and projects together with ours clients. We provided funding for exports with an amount of 60 million USD and for imports with an amount of 9 million USD. In 2017, we aim to achieve a growth of 56% in domestic and international transactions.

In 2016 we actively maintained the credit facilities for our clients from Turkish Eximbank, Black Sea Trade and Development Bank, Takasbank A.Ş. In the short term we target to offer a support our clients for cotton import from the USA to Turkey with a long term finance program.

We are driven by both our traditional and innovative characteristics.
The successful results we obtain every year are not just a coincidence. By keeping with our traditional values since our foundation, and adopting a transparency- and-innovation-oriented administrative approach, we have manufactured products and services with high added value and distinguished ourselves in the Turkish financial sector. Through the values we inherited, our long-established corporate structure built on a strong financial infrastructure and our "new traditional banking" understanding, we will continue to serve the corporates uninterruptedly and increase our performance day by day.

We are shaping the future through our faith in innovation and improvement.
We are proud of being recognized as an active and stable Company, not only in Turkey, but also in the global money markets. We continue to increase the qualified and innovative services that we provide with a responsible and transparent approach to our clients and correspondent network. We are aiming to maximize the support we offer to the economy and to also reach an asset value of 500 million TL and a net profit of 20 million TL in 2017.

We also plan to develop Fintech products which gradually increase their global market volume and to achieve the potential of these products. Fintech, named after the abbreviations for finance and technology, promises different products and services in all areas where technology meets with finance.

I believe that the added value we will provide to you, our distinguished stakeholders and clients, will increase further in 2017. We will continue to shape the future through our faith in innovation and improvement, driven by our long-established history and experience. On behalf of all the Ekspo Faktoring family, I would like to take this opportunity to thank all of our distinguished clients, who have played a great role in our success, and all our employees who make a difference through their dedicated work.

Murat Tümay
Ekspo Faktoring A.Ş.
Chairman of the Board and
General Manager

BOARD OF DIRECTORS

MURAT TÜMAY
CHAIRMAN OF THE BOARD AND
GENERAL MANAGER

Murat Tümay was born in Istanbul in 1974. He graduated from Clark University, Department of Economics. He began his career in 1997, when he started working at The Park Avenue Bank N.A, where he worked as an analyst, assistant manager and manager respectively. Between the years 2000 and 2002 he worked as a director at Turkcell İletişim Hizmetleri and İş-Tim Telekomünikasyon Hizmetleri A.Ş., and has been working at Ekspo Faktoring since 2002. His current position is Chairman and General Manager.

ZEYNEP Ş. AKÇAKAYALIOĞLU
DEPUTY CHAIRMAN

Zeynep Şükriye Akçakayalıoğlu was born in Istanbul in 1969. She studied at Lycée Saint Benoit d'Istanbul, and afterwards graduated from the University of West Georgia, Department of Management Systems, in 1991. Between 1991 and 1999 she worked as a director at Arthur Andersen Human Resources Consultancy. She has been performing her duties as a Member of the Board at Royal Yönetim Danışmanlığı A.Ş. since 1999 and at Ekspo Faktoring A.Ş., where she is also a founding partner.

ŞERİF ORHAN ÇOLAK
MEMBER
Şerif Orhan Çolak was born in Istanbul in 1945. He graduated from Neuchatel University, Department of Economics. He began his career in 1971 as a manager in Altın Mekik Tic. ve San. A.Ş. and has worked as a director in many finance institutions, such as the International Industry and Trade Bank, Facto Finans, Banque Internationale de Commerce, İktisat Bankası T.A.Ş., Credit Lyonnais Switzerland and Credit Agricole Switzerland. In 2007 he started working at Istanbul Commerce University as an instructor and has been working at Ekspo Faktoring A.Ş. as a Member of the Board since 2011.

SEDEF GÜVEN GEVREKYAN
MEMBER
Sedef Güven Gevrekyan was born in Ankara in 1970. In 1991 she graduated from Economics Department of Hacettepe University and in 1977 she obtains her MBA from the Middle East Technical University. Her Professional career started at Garanti Bankası A.Ş. She worked as Group Manager of Finansbank A.Ş., as Turkey Representative of Garanti Bank N.V., as Assistant General Manager of Osmanlı Bankası A.Ş. and olso as Turkey Representative of The Economy Bank N.V. In October 2016, she started to work as a Board Member in Ekspo Faktoring A.Ş.

MISSION, VISION, STRATEGIC GOALS

MISSION	Expanding its portfolio with recent financing models which are in demand throughout the global economy. Leading the process in which the Turkish banking sector increases its share of domestic and foreign trade.
	Gaining a competitive edge in the sector with its corporate management insight, innovative products and introducing advantageous financing products to several companies operating in different sectors.
	Applying quality and productivity based practices in client relations management.
	Being a regional pioneer in international commerce.
VISION	Continuing its steady growth and reaching an asset size of 500 million TL by 2017.

STRATEGIC GOALS

Accommodating the ever-changing needs of the corporates with the help of innovative products and services.

Retaining a sustainable level of growth by adopting a service concept based on quality and productivity.

Developing “tailor-made financing models” for corporates operating in various sectors and thus maintaining competitive power.

Financing Turkish corporates in their international trade and helping them to improve their profitability.

Providing its employees with occupational and personal improvement opportunities and becoming a finance house which stands out with the quality of its human resources.

EKSPO FAKTORİNG AT A GLANCE

Ekspo Faktoring, which has had 16 years of experience focusing on inherited values and innovation and offering creative products and services, maintains its activities today as an active and reliable financing partner, in both Turkey and the international finance markets.

A new understanding in the financial sector

Ekspo Faktoring was founded in 2000 with a capital of 1 million TL. Ekspo Faktoring built factoring with a new perspective in Turkey through almost 40 years of experience from its founders in the banking field, driven by the deep-rooted banking tradition. The company maintained its growth, thanks to its human resources consisting of professionals and administrative philosophy focused on experience, visionary approach, strong capital and innovativeness. Ekspo Faktoring, building a business model based on expertise and knowledge sourced from its roots, came to the forefront with the difference it made. Thanks to the values it inherited and its solid financial infrastructure, the Company managed to be among the most powerful financial institutions in Turkey, and maintains its performance by increasing its goals every year.

Highlights in the factoring industry

Ekspo Faktoring managed to accomplish innovative practices which will boost the Company in the competition and attracted attention by breaking new ground in the banking sector. The Company mediated cotton import of about 70 million USD by offering the first structured finance products, and an import. Sharing its financials with the public, being rated by an international rating institution, issuing an annual report, and switching to the system of Society for Worldwide Interbank Financial Telecommunication are many of the firsts carried out by Ekspo Faktoring in the factoring sector in Turkey.

"New traditional banking"

By keeping with our traditional values since our foundation, and adopting a transparency- and-innovation-oriented administrative approach, we have manufactured products and services with high added value and distinguished ourselves in the Turkish financial sector. The company, continuously supports corporates with its customer-oriented, profitable and sustainable growth strategy, and increases its superior performance day by day. Ekspo Faktoring responds to the varying needs of the corporates by easily keeping up with the rapid changes in the finance sector as in all other sectors, and continues to protect traditional banking values. The presence of two generations working together under the same roof side by side is the most important factor in providing this advantage to the Company.

Tailored solutions for needs

Since its foundation, Ekspo Faktoring has created a tremendous impression in the finance sector through its creative products and services tailored to the needs of its clients. The Company predicts the requirements that may arise in the future by taking the dynamics of tomorrow into consideration. It is a real solution partner that has succeeded in offering proper financing, guarantee and cash management options today which will answer the future needs of its clients. Ekspo Faktoring provides significant funds for the financing needs of many companies operating in various sectors, such as construction, textile, transportation and manufacturing in particular, which are the driving forces of the Turkish economy. With its proactive approach, the Company provides a wide range of products including contract financing, project financing, order financing, pre-sale financing, supply chain financing and structured products, and carries out successful business processes and projects together with leading companies in Turkey.

Loyal clients since day one

Ekspo Faktoring follows traditional banking values by focusing on its clients and their satisfaction throughout all business processes, and places great importance on developing long-term relationships based on trust with its clients from day one. The company establishes permanent and long-term relationships with its clients by finding effective and fast solutions according to their expectations and needs, and 68% of its portfolio consists of long-term clients. Thanks to its sensitive portfolio management and proactive approach for the portfolio efficiency, the company has a client retention rate well above the sector average and visits its clients regularly. It also closely follows the operations of the clients as well as the sectors they operate.

World-wide correspondent network

The company offers qualified financing solutions to its clients through its experience and expertise, especially in foreign trade, and is known to be an active and consistent institution in the global money markets. It has a significant competitive advantage with its strong international correspondent relationships. These have been established through its transparent and accountable management understanding, solid financial structure, and validated financial superiority from international credit rating agencies. Ekspo Faktoring has a correspondent network extending from the USA to Japan, and in 2016 it has further strengthened its correspondent relationships with domestic and international banks and financial institutions. Having a financial reach of 500 million USD, the company mediated foreign trade financing of 69 million USD in total in 2016. The company aims to expand by 56% in domestic and international transactions in 2017.

Collaborations boosting the strength of the Company

Ekspo Faktoring, offering privileged services to its clients through various country credits, supports the increase of their competitive power by providing medium- and long-term resources and guarantees to the imports of its clients. Collaborations with strong and long-established banks in the world are maintained. Ekspo Faktoring has strong collaborations with many development banks and export credit agencies. The Company actively provides loan facilities for its clients through Eximbank credits, and will support cotton import from the USA to Turkey in cooperation with Banco Sabadell.

Ekspo Faktoring,
achieving many firsts in the past 16 years,
continuously maintains its support to the corporates
with its "new traditional banking" understanding,
without compromising traditional values.
The Company increased its issued capital,
which was 1 million TL in 2000,
to 60 million TL as of the end of 2016,
and preserves its strong capital structure,
providing a competitive advantage.

60

MILLION TL

ISSUED CAPITAL

2016

Intellectual human resource

Without a doubt, one of the most significant factors making Ekspo Faktoring successful is its intellectual capital. The company's team, which has 150 years of experience in total, provides its clients with innovative and customized solutions tailored to their needs and expectations. This kind of human resource with high ethical standards, potential and level of responsibility is essential to the corporate culture that carries Ekspo Faktoring forward. Aiming for perpetual improvement in accordance with its mission and vision, Ekspo Faktoring remains up-to-date about the finance sector and improves its service infrastructure with its specialists dedicated to perfection, competence and coordination.

Close follow-up of the technology

Ekspo Faktoring is becoming prominent in the banking sector through its operational pace, efficiency and high customer-oriented approach, and considers technological innovations as a priority and a must. The company regularly carries out investments which will improve its qualified, rich and up-to-date technological infrastructure. In the year 2017 the Company plans to make half a million dollar investment to enter Fintech that will enable online lending. In 2012, Ekspo Faktoring switched to using the SWIFT system, a medium of secure information transfer with banks and international finance institutions, and was the first one to do so in its sector. The Company renewed its entire system infrastructure including the server in 2014 and in 2016 it carried out significant investments to increase data security in accordance with the demands of the Risk Centre affiliated with the Banking Association. With these investments, the Company took steps related with logging, creating test environments and central management of technological infrastructure by doubling its virtual platform capacity.

Full support to the Turkish economy

Ekspo Faktoring's target clients are companies which import raw materials, mainly for exports, and companies which operate in construction, tourism, textiles, the metal primary industry, machinery, durable consumer goods, and the energy and food industries. The common trait of these industries is that they focus on exports as well as domestic operations and that they prefer to work on a project, contract and order basis. By getting closely acquainted to clients and regularly visiting them, Ekspo Faktoring analyses their needs multidimensionally and provides the most appropriate financing options. The company is determined to actively partake in the steady rise of the Turkish economy with the help of its effective business processes, which are formed in accordance with its pace and quality principles, and its corporate structure which is open to improvement.

Another year full of achievements

With its innovative strategies, solid shareholders' equity structure and corporate management approach, Ekspo Faktoring demonstrated high performance in 2016. With a total of 60 million USD export turnover and 9 million USD import volume in 2016, 82% of the turnover of the Company consisted of domestic transactions while 18% was international transactions. As of the end of 2016, the size of its assets reached 342 million TL, the turnover reached 1.3 billion TL and the pre-tax profit reached 21 million TL. With a 14% growth, the shareholders' equity of the Company reached 111 million TL, which is the highest level in its history. Ekspo Faktoring has reached the highest level of net profit in its assets since its foundation, and it will continue to lead the development of the country with its experience and competencies.

Ekspo Faktoring, focused on regularly increasing the size of its assets, which was 14 million TL in 2000 when it was founded, increased this figure to 342 million TL as of the end of 2016.
Having a leading position in the banking sector with its solid financial structure and its products and services tailored for its clients, the Company sustained its financial superiorities also in 2016, and demonstrated the highest performance of its history.

342

MILLION TL

SIZE OF ASSETS

2016

MANAGEMENT UNDERSTANDING

Ekspo Faktoring has a deep-rooted and corporate structure based on a solid financial infrastructure, and it maintains its activities with a principle-oriented, transparent and responsible management approach and "new traditional banking" understanding.

GROUNDBREAKING MANAGEMENT
The wide experience of its founders in the sector and the presence of two generations working together side by side are the greatest factors helping Ekspo Faktoring to maintain the "new traditional banking" understanding successfully. The Company managed to bring great innovations into the sector, and thus attracted attention through its practices highlighting transparency and trust. Ekspo Faktoring, being the first company to issue an annual report in the factoring sector, sharing its financial statements, accommodating independent members in the board of directors and being audited by independent auditing institutions, has increased the standards in the sector with this management understanding.

A PROACTIVE STRATEGY
The company is managed with a proactive strategy accommodating itself to the progress in the market, and it acts with financial discipline and accountability by complying with international criteria, legislation in force, specifications, standards and ethical values. The corporate management approach of Ekspo Faktoring, fed by experienced human resources and expertise, is based on a transparent mode of management, effective risk management and internal control mechanisms. Two independent members assigned to the Board of Directors demonstrate the company's dedication to the principles of transparency and accountability.

COMMITTEES ARE AT WORK
It is important that the understanding of corporate management is reflected and equally practiced in every single department of the organization; therefore, the company ceaselessly works to ensure internal communication and corporate culture becomes more solid. Within this scope, the goal is to resolve our shortcomings one by one and maintain a sustainable corporate growth with the help of our committees that have been actively working since our founding. These committees and their duties, which enable more solid and efficient work processes, are as follows:

ASSET-LIABILITY (ALCO) COMMITTEE
This committee gathers weekly under the chairmanship of the General Manager and with the attendance of group managers which undertake activities that could affect the financial statement. The agenda includes the financial statement of the company, activities of departments, risk positions of clients, general economic information, current political and economic developments, current legislation and loans to be made, and also the definition of a weekly strategy.

RISK ASSESSMENT COMMITTEE
This committee gathers weekly, led by the Chairman of the Credit Committee. The committee evaluates the offers regarding corporate clients' requirements and the suggestions of the Marketing Department to approve or reject them within the limits of its authority. Outside these limits, it submits the offers and suggestions to the Board of Directors. The committee may have a non-scheduled gathering if need be.

LIQUIDITY COMMITTEE
This committee gathers weekly under the chairmanship of the General Manager and with the attendance of senior executives. Interest rates applied in the financial markets, weekly positions to be assumed in banks and interest rates used by banks are discussed daily, weekly, quarterly, semi-annually and, if possible, annually. The committee assesses available mobilized bank limits and collaterals maintained with banks, determines the financial institutions to work with and obtains information about their financial structure.

INFORMATION TECHNOLOGIES COMMITTEE
This committee gathers once a year under the leadership of the General Manager and collects information about the latest technology related with new information technology investments that the Company may need. Ekspo Faktoring is audited by an international independent auditing institution to prevent internal and external risks regarding information technology. Taking action according to the results of this audit are among the principal duties of the Information Technology Committee.

HUMAN RESOURCES COMMITTEE
This committee gathers every December under the chairmanship of the Member of the Board in charge. The committee evaluates the vertical (advancement of both the title and the duties and responsibilities) and horizontal (a change in duties and responsibilities with the title remaining the same) progress of all employees and makes final decisions within this scope. The committee also determines what actions are to be taken in order for new employees to undergo training and orientation processes, maximizing the human resources productivity of the Company.

In a healty and consistent way,
Ekspo Faktoring evaluates
the soundness of the credit proposed
with a conservative rating system.
The factoring receivables of the Company
which were 13 million TL in 2000
reached 331 million TL as of the end of 2016.

331

MILLION TL

FACTORING RECEIVABLES

2016

PRODUCTS AND SERVICES

Since its foundation, Ekspo Faktoring has managed to attract attention by distinguishing itself through its creative products and services, and it offers its services at international standards by considering its clients as business partners.

GROUNDBREAKING PRODUCTS AND SERVICES IN FACTORING

Ekspo Faktoring, which is a solution partner offering the most innovative financing, guarantee and cash management options today that will also answer the future needs of its clients, continues its support to the corporates with its solid financial structure and customer-oriented management approach for all business processes.

TRANSPARENT AND PRINCIPLE-ORIENTED ATTITUDE IN FAVOUR OF CLIENT

Ekspo Faktoring is determined to act in a transparent manner while handling all kinds of demands that clients might request; the company regards these processes as an opportunity to better know its clients and also gain experience in risk management. The company provides financing services for both domestic and international transactions, as well as services guarantee and collection. In order to broaden its client portfolio, it has focused on expanding the product portfolio and utilizing more efficient marketing methods.

CLOSE FOLLOW-UP OF THE GLOBAL MARKETS

Ekspo Faktoring observes the conditions in the Turkish market and other markets with which they do business and, by assessing financing opportunities, supports its clients in achieving the highest possible added value.

STRUCTURED FINANCING

For Turkey and also many other developing economies, importing raw materials for export purposes and manufacturing energy and other natural resources bears great importance to both national prosperity and export operations. The high commodity prices of recent years have led to an unprecedented rise in the level of demand, leaving businesses in need of additional bank limits. Structured financing, an essential factor in meeting these demands so far, provides funds by pledging future cash flows and current receivables as collateral. Ekspo Faktoring has been providing structured pre-export financing options since 2012. It has provided 137 million US dollars in structured financing so far through finance institutions, contributing to the supply of raw materials that the industrial businesses need.

COMMODITY FINANCING

Commodity financing is a mechanism which supports medium- or large-scale industrialist clients to receive financing for raw material imports for the purpose of exports or domestic sale. Ekspo Faktoring has a high level of know-how in commodity financing, a major branch of the business since 2010, and mainly focuses on the energy industry and agricultural goods. The company provides these products to its clients with the contribution of the largest banks and export credit agencies in the world.

PRE-SHIPMENT FINANCING

Pre-shipment financing means financing the expenses made until the goods are shipped for export. Ekspo Faktoring has been providing this service since 2008, allowing its clients to have an advance payment amounting 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 considering several parameters, such as the reliability of the relations between the client and the buyer, the duration of embarkation and the credibility of the client, as the amount will be revoked to them in the event that the export amount cannot be collected. This financing enables the client to gain a financial advantage in purchasing the goods or perform debt servicing.

AGRICULTURAL GOODS

Agriculture is a substantial industry for many developed and emerging markets, including Turkey. Ekspo Faktoring provides trade financing for a wide range of agricultural products, such as cotton, sugar, soy beans, cocoa, coffee and tobacco. Besides meeting the daily financing needs of its clients, since 2012 Ekspo Faktoring has been supplying financing and pre-shipment financing services in exchange for commodity lien with the support of its business partners located in America, Europe and the Far East.

By focusing on innovation
through its inherited values,
Ekspo Faktoring has managed to become
an effective and reliable institution both
in Turkey and in international finance markets.
In due course the Company has increased
its shareholders' equity
about 81 times since its foundation.
It is aimed to increase shareholders' equity,
which reached 111 million TL in 2016,
to 125 million TL in 2017.

111

MILLION TL

SHAREHOLDERS' EQUITY

2016

GSM 102

Ekspo Faktoring A.Ş. offer extended payment terms to Turkish importers for their agricultural imports from the US within the scope of the GSM 102 program conducted by the Commodity Credit Corporation (CCC), a subsidiary of the US Department of Agriculture. Within the GSM credit process, the related institution insures the sovereign and the corporate risk status and the loan is provided by the intermediary bank in the US. The loan is extended as follows: A sight letter of credit is opened for the importer and, after shipment, the intermediary bank in the US issues a loan to Ekspo Faktoring, thus paying the exporter in United States. In this transaction, Ekspo Faktoring is the debtor, however, the loan is actually extended to the importer company in Turkey; that is why a credit line is allocated to this company by Ekspo Faktoring. Principal repayment is realized annually or semi-annually. GSM 102 allows a wide range of goods to be credited and the maximum term is two years. When a GSM transaction is in question, the whole import amount (generally over the FOB value, CIF for some types of goods) is credited with no obligation of advance payment. Since 2012, this program facilitates the import of such products as forest 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, goat, horse - including the sperm and the embryo) and breeding poultry.

IMPORT FINANCING

Since 2004, Ekspo Faktoring serves its clients in importing products. Within this scope, the guarantee given by Ekspo Faktoring to the foreign institution against the risk of non-payment on the side of the importer 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 network of correspondents, Ekspo Faktoring is able to meet its clients' export financing needs up to 30 million USD.

EXPORT FINANCING

Cash flow is a significant problem faced by many exporters. Companies need to generate cash in order to finance their growth. Financing is an important issue for exporters who sell goods to developed and emerging markets. Within the scope of export financing, exporters are provided with funds at reasonable charges in exchange for current or future receivables. Apart from this, through comprehensive insurance agreements made by export development agencies or private insurance companies, long-term funding can be provided for machinery or large-scale commodity export transactions made with emerging markets that bear a certain level of risk or countries that experience domestic turbulence, thus preventing the political or credit risks that could be posed. Ekspo Faktoring has provided export financing services since 2002 and has vast experience in this area.

COMMERCIAL FINANCING SOLUTIONS

Commercial financing solutions are represented by a structure in which several products provided by Ekspo Faktoring can be used together in order to meet client needs:

- Purchasing of current or future receivables,
- Guarantees,
- Purchasing of non-revocable commercial receivables,
- Supply chain financing, discount on confirmed letters of credit, post-financing, assignment of receivables agreement, payment guarantee, inventory financing.

With the help of its experienced specialists, Ekspo Faktoring creates unique financing structures and helps clients to reach liquidity. So far, the Company has met its clients' financing needs through structuring and is constantly in search of new and innovative solutions.

PAYMENT GUARANTEES

Payment guarantees are instruments used in minimizing commercial and sovereign risks that could be posed by developing or developed countries with which open account export transactions are made. Usually, these guarantees are 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.

Ekspo Faktoring, loyal to its roots, is continuously building a business model based on expertise and knowledge. The Company has managed to regularly increase its income obtained from factoring transactions in line with the transaction volume since the first activity period. The factoring income which was 42.3 million TL in 2015 reached 56.1 million TL in 2016.

56.1

MILLION TL

FACTORING INCOME

2016

PURCHASING OF COMMERCIAL RECEIVABLES
Ekspo Faktoring has provided this service since 2004. Purchasing of commercial receivables, i.e. factoring, is one of the main branches in which the Company operates. This process involves the purchasing of the commercial rights of the seller covered by a contract and payment of the related amount to the seller in advance. Purchasing of receivables provides opportunities for:

- Retaining a strong financial structure,
- Audit and management of receivables,
- Providing alternative human resources,
- Resolving issues of undercapitalization,
- Facilitating management and operation,
- Maintaining a good relationship between the seller and the client in case of undisclosed transactions.

SUPPLIER FINANCING
Within recent years, supplier financing has been regarded by many foreign and Turkish CFO's as a significant tool that provides working capital and financing opportunities. Large-scale purchasers that use the supplier financing method are generating low-cost alternative financing resources for many primary product and service suppliers, supporting them in terms of cash flow. Through the supplier financing method it has been using since 2009, Ekspo Faktoring provides its clients with the opportunity to make deferred payments.

ECA LOANS
Ekspo Faktoring also provides exclusive services to its clients through ECA loans.

Korean Ex-Im Bank: Korean Ex-Im Bank is a national export credit bank, which was founded in order to encourage the exports of Korean products by providing attractive financing opportunities through banks. Since 2011, Ekspo Faktoring has been providing financing services with a maximum term of six months via its agreement signed with Korean Ex-Im Bank in order to facilitate its clients' import activities from Korea. Within this scope, Ekspo Faktoring finances its clients' imports of construction machines and chemicals.

American Ex-Im Bank: The USA is one of the countries from which Turkey procures and imports high amounts of agricultural raw material. Within the scope of an agreement that Ekspo Faktoring signed with the US Ex-Im Bank in 2011, the bank acts as an intermediary for manufacturers undertaking deferred imports from the US to Turkey, thus providing low-cost funding for imports with term.

Black Sea Trade and Development Bank: In 2013, the Company signed a loan agreement of 5 million USD with a term of 370 days, with the Black Sea Trade and Development Bank for financing international trade. The funds are aimed to finance import activities undertaken by Turkish companies from member states of the Black Sea Trade and Development Bank and to support Turkish companies in their global export activities. The company primarily extends this resource in order to finance Turkish companies in their raw material imports from the Bank's member states. This loan, provided in 2013, was doubled in 2014 to reach 10 million USD.

Turkish Eximbank: Ekspo Faktoring became one of the first factoring companies which was assigned a limit by the Turkish Eximbank in 2015. The company began to work for extending post-shipment export rediscount credits. In order to boost the competitive power of its exporter clients in global markets, the company provides the most cost-efficient export financing options in Turkey. While exporter companies could have terms of up to 180 days in the current system, our term limit increased to 360 days within the context of Eximbank's Short-Term Export Credit Insurance Program.

Takasbank Money Market: Takasbank Money Market: In 2015, a line of 45 million TL was assigned to Ekspo Faktoring by Takasbank A.Ş in order to make transactions in the Takasbank Money Market. Takasbank Money Market is an organized market where intermediary institutions and banks can meet the needs of those who have fund surpluses and/or fund deficits. It was declared by Takasbank A.Ş., numbered 1215 and dated 16.03.2015, that financial leasing, factoring and financing companies can become members of the Takasbank Money Market. The limit determined for Ekspo Faktoring by Takasbank A.Ş. is used actively.

By following traditional banking values and focusing on its clients and their satisfaction throughout all business processes, Ekspo Faktoring continues its activities with a profitable and sustainable growth strategy. The Company, which gained a profit of 13 million TL in 2015, increased its profit to 21 million in 2016 with a significant growth momentum.

21

MILLION TL

PERIOD INCOME

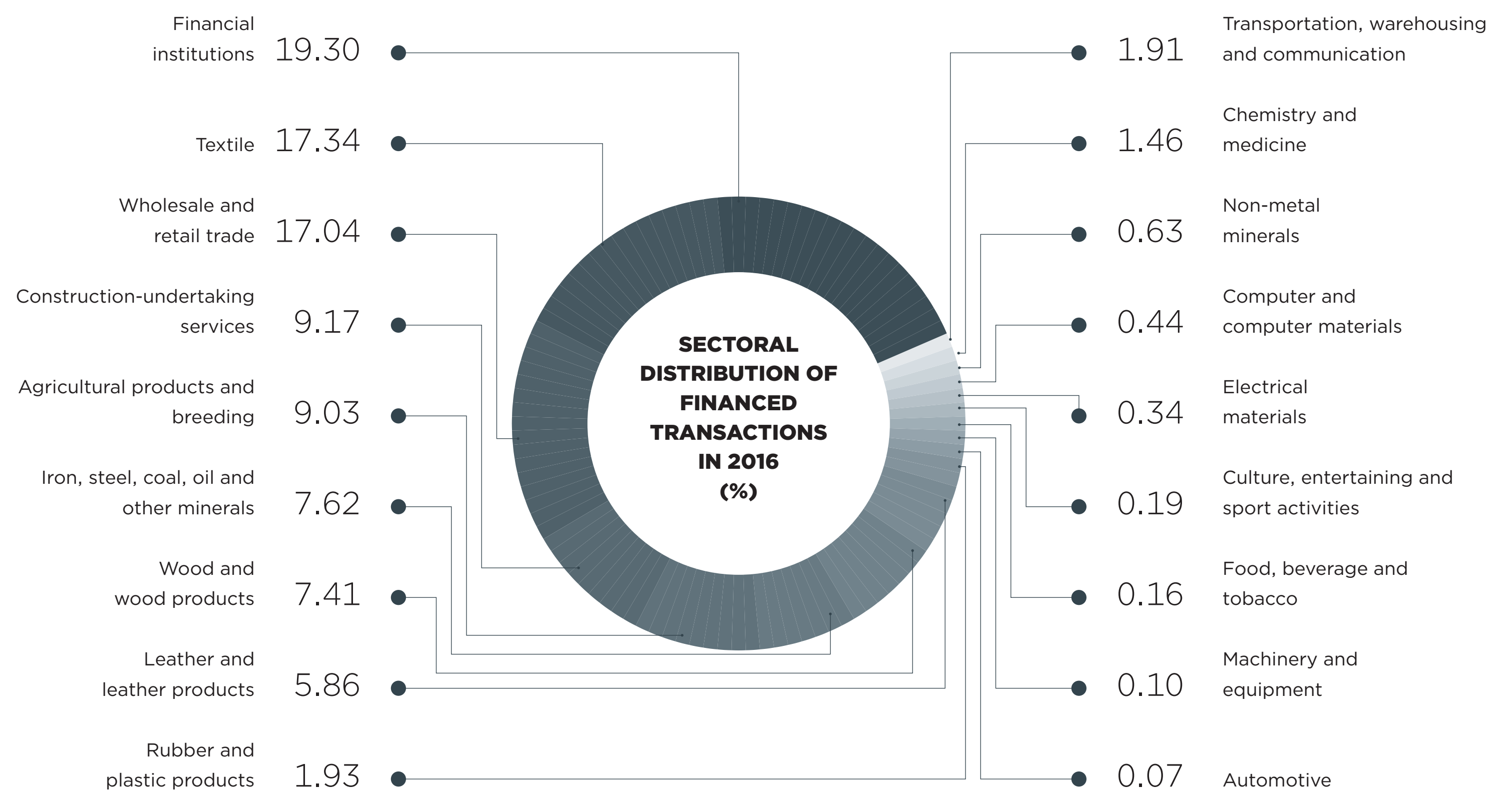
2016

FINANCED TRANSACTIONS

Ekspo Faktoring, continuing to provide innovative foreign trade products developed according to the needs of clients as well as traditional products for imports and exports, provided a support of 69 million USD in total in 2016 for its clients operating in various industries.

Innovative products, trade finances

Ekspo Faktoring has built a robust bridge between the Turkish private sector and the domestic and foreign funding institutions. In accordance with its target-oriented marketing approach, the company develops strategies suited to the corporate targets of numerous companies operating in many segments. Ekspo Faktoring supports its clients with its innovative foreign trade products in accordance with clients' needs as well as traditional products for import and export. The company maintained its financing solutions for its clients from many sectors, including those in wholesale trade, textile, finance, construction and transportation, and provided a total of 69 million USD to Turkish companies in 2016.



Ekspo Faktoring offers innovative foreign trade products as well as traditional products for international trade to its clients operating in various industries such as wholesale trade, textile, finance, construction and transportation.

EXPORT FINANCING FOR AQUACULTURE PRODUCTS

21 million USD (2013-2016)
Aquacultural activities in sea and stream springs and building the required facilities and infrastructure draw great investments presently. Ekspo Faktoring has provided financing support for the export of frozen fish and processed fish products to several European countries.

IMPORT FINANCING FOR AQUACULTURE PRODUCTS

250 thousand USD (2016)
Ekspo Faktoring has provided guarantee and financing support for the import of frozen fish and processed fish products from several European countries.

EXPORT FINANCING FOR TEXTILES AND READY-WEAR PRODUCTS

31 million USD (2013-2016)
Since the late 1980s, textile exports in Turkey have grown immensely, making the sector an essential segment of exports in Turkey. The sector provides great added value to the Turkish economy. Ekspo Faktoring continuously supports ready-wear export activities through long-term financing.

EXPORT FINANCING FOR HOME TEXTILE PRODUCTS

26 million USD (2015-2016)
The field of Turkish home textile products has a share of 5% in the global home textile trade and is among the most significant export sectors in Turkey. Ekspo Faktoring continues to support the field through long-term export financing for the garment and home textile industry.

EXPORT FINANCING FOR STEEL PRODUCTS

3 million USD (2013-2016)
The steel industry, which has a wide product line ranging from construction steel to pipes and profiles, manufactures products with great added value thanks to recent investments. Ekspo Faktoring also provides financing for the steel industry.

EXPORT FINANCING FOR MINING PRODUCTS

2 million USD (2015)
Ekspo Faktoring supports the financing of untreated product installation sales to China by the Turkish mining industry, which primarily manufactures chrome and zinc.

COMMODITY IMPORT FINANCING FOR COTTON

43 million USD (2011-2015)
Cotton is one of the most important raw materials used in Turkish textiles and ready-wear industries, two leading segments of export activities in Turkey. Ekspo Faktoring provides loans to importers under favourable conditions via international development agencies. United States, Turkmenistan, Kazakhistan and lately Brazil are active suppliers for the Turkish market.

EXPORT FINANCING FOR TEXTILE PRODUCTS

7 million USD (2013-2016)
The textiles sector, growing gradually with regard to investment and employment, is also a critical source of tax income for the state owing to export activities. Ekspo Faktoring provides financing support for raw materials used in the textiles sector, predominantly for thread.

COMMODITY IMPORT FINANCING FOR CHEMICALS

14 million USD (2011-2016)
Gold was first produced in Turkey in 2001 and its role in economic development gradually grows larger. Within this scope, Ekspo Faktoring financially supports gold mining organizations through development agencies in purchasing sodium cyanide. In 2014, the Company also financed the import of urea to be used in the chipboard and MDF industry.

COMMODITY IMPORT FINANCING FOR WOOD CHIP AND PULP

6 million USD (2012-2016)
Wood chip is used as the primary raw material in the chipboard and MDF industry, while wood pulp is used for the production of all paper products. Within the scope of the incentive program conducted by international banks, Ekspo Faktoring extended a loan of 6 million USD to be used by Turkish importers.

COMMODITY IMPORT FINANCING FOR PETROLEUM PRODUCTS

31 million USD (2012-2016)
Petroleum products are products other than gasoline, which are derived from crude petroleum processed in refineries. Petroleum coke is a waste that is used by the Turkish heavy industry due to its energy efficiency. Ekspo Faktoring finances the import of this product, which bears great importance for the Turkish industry, by broadening its agreements with international banks.

IMPORT FINANCING FOR CONSTRUCTION MACHINES

42 million USD (2012)
Turkey, which is the fourth largest construction machines market in Europe on a sales basis, is anticipated to become the largest in 2023. Ekspo Faktoring has provided deferred import opportunities for 42 million USD in total for Turkish distributors through international development agencies and banks.

IMPORT FINANCING FOR CONSUMER PRODUCTS

14 million USD (2012-2016)
Ekspo Faktoring also provides pre-shipment guarantee and financing services for importing consumer goods from China. Within this scope, guarantee and financing services were given for ready-made clothes imports at an amount of 4.5 million USD and for technology products imports at an amount of 9.6 million USD.

IMPORT FINANCING FOR WIND TURBINE SPARE PARTS

3 million USD (2013)
Wind power means turning the power of wind into energy. Several measurements demonstrate that Turkey has one of the most productive wind corridors in the world. With the support of its international banking network, Ekspo Faktoring has provided guarantee and financing services to its clients for their spare part import activities from Japan, Europe and the Far East with different payment terms at a total amount of 3 million USD.

COMMODITY FINANCING FOR DAIRY PRODUCTS

3 million USD (2012-2016)
Through its network of correspondents, Ekspo Faktoring provides guarantee and financing services to leading manufacturers of dairy products in Turkey for their animal fat import activities from Europe.

IMPORT FINANCING FOR UNDERTAKING ELECTRICAL AND ELECTROMECHANICAL INSTALLATIONS

1 million USD (2012-2014)
Undertaking electrical and electromechanical system installations in buildings and industrial operations is an area that enables the use of the most recent applications and technology products. Ekspo Faktoring provides financial support for electromechanical systems and spare parts.

IMPORT FINANCING FOR AGRICULTURAL GOODS

1 million USD (2014)
The agricultural sector is greatly important for the Turkish economy in that it meets the food demands of the population, it provides raw materials for industry, creates employment opportunities and contributes to export activities. Ekspo Faktoring provides financial support for the sector, primarily financing seed import activities.

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS (TL THOUSAND)	DECEMBER 2014 (TL)	DECEMBER 2015 (TL)	DECEMBER 2016 (TL)	DECEMBER 2016 (USD)
TOTAL ASSETS	282,245	289,850	341,704	97,097
TOTAL SHAREHOLDERS' EQUITY	89,856	97,880	111,308	31,629
PAID IN CAPITAL	60,000	60,000	60,000	17,049
NET WORKING CAPITAL	87,320	95,716	109,381	31,080
FACTORING RECEIVABLES	276,087	278,900	331,452	94,193
FACTORING PAYABLES	1,249	4,022	5,932	1,686
NET ADVANCES TO CLIENTS	274,838	274,878	325,520	92,507
BANK LOANS	188,216	185,874	221,008	62,801
TOTAL INCOME	44,854	45,827	62,636	19,026
FACTORING INCOME	43,092	42,335	56,186	18,535
GROSS PROFIT	12,270	13,050	21,304	7,028
NET PROFIT	9,789	10,424	17,028	5,617

FINANCIAL DATA (%)	DECEMBER 2014	DECEMBER 2015	DECEMBER 2016
CURRENT RATIO (TIMES)	1.46	1.50	1.50
LIQUIDITY RATIO (TIMES)	1.46	1.49	1.50
NET WORKING CAPITAL/ TOTAL ASSETS RATIO	31	33	32
LIQUID ASSETS/ TOTAL ASSETS RATIO	98	99	99
DEBTS/ASSETS (INDEBTNESS RATIO)	68	66	67
DEBTS/EQUITY (FINANCIAL LEVERAGE RATIO) (TIMES)	2.14	1.95	2.1
FINANCIAL LIABILITIES/ TOTAL ASSETS RATIO	67	64	65
INTEREST COVERAGE RATIO (TIMES)	1.63	1.80	1.9
AVERAGE COLLECTION PERIOD (DAYS)	88	91	85
TOTAL EXPENSES/TURNOVER RATIO	3	3	3
GROSS PROFIT MARGIN	16	15	18
NET PROFIT MARGIN (SALES PROFITABILITY)	4	5	7
RETURN ON EQUITY (EQUITY PROFITABILITY)	14	13	20

While the shareholders' equity of Ekspo Faktoring, managing to continue its stable financial performance in 2016 with profitable and customer-oriented growth target, increased to 111 million TL, the total turnover increased by 20% compared to the previous year and reached 1.349 million TL, which was the highest level in its history.

TOTAL TURNOVER
(TL THOUSAND)

1,348,877	2016
1,123,950	2015
1,104,410	2014

TOTAL INCOME
(TL THOUSAND)

57,672	2016
45,827	2015
44,847	2014

GROSS PROFIT
(TL THOUSAND)

21,304	2016
13,050	2015
12,270	2014

TOTAL ASSETS
(TL THOUSAND)

341,704	2016
289,850	2015
284,002	2014

TOTAL SHAREHOLDERS' EQUITY
(TL THOUSAND)

111,308	2016
97,880	2015
89,856	2014

FACTORING RECEIVABLES
(TL THOUSAND)

331,452	2016
278,900	2015
276,087	2014

2016 RESULTS

The highest turnover of the Company history

Ekspo Faktoring continues to offer its services with an innovative approach and traditional banking understanding in the factoring sector, and demonstrated high performance by achieving successful projects in 2016. The company made significant progress in all financial indicators, and reached the highest turnover in its history. The Company's turnover increased by 20% compared to the previous year reaching 1.349 million TL as of the end of 2016. Ekspo Faktoring raised its issued capital, which was 1 million TL in 2000 to 60 million TL as of the end of 2016 thus reaching a strong equity of 111 million TL, providing a competitive edge in its operations. The Company also increased its commission income in 2016. Ekspo Faktoring provides its services primarily to top 500 companies and multinational companies in Turkey. The Company shapes its relationship with its clients on the basis of mutual trust and profit principle, and maintains its stable improvement by developing unique products according to the financial needs of its clients who are regarded as business partners.

Expert both in domestic and foreign trade

Being in the leading position in the sector for financing activities of export and import, Ekspo Faktoring further extended its product portfolio and service diversity in 2016. With its effective solutions developed on the financing of foreign trade, it became prominent as one of the most important financial partners of companies operating mainly on import and export fields. Ekspo Faktoring, with its experience and expertise in foreign trade as well as domestic trade, provides strategic perspectives and sufficient resources for its clients to reach their goals. In 2016, the Company mediated in funding of foreign trade in a total amount of 69 million USD by generating successful financing solutions for projects of its clients.

Full support to the exporters

Ekspo Faktoring provides significant contributions to the development of export potential of Turkey, helping to find new markets for export and provide competitive advantage to the exporters in the international markets. By offering the funding resources provided by common international correspondent network to exporter clients, the Company supports Turkish exporters with the properly defined strategies and guarantees offered. Turkish companies that aim to sell goods in foreign markets could face many difficulties. The services provided by Ekspo Faktoring constitute a significant financing advantage that leads to gaining a competitive edge. In 2016, the Company provided 60 million USD worth of export financing to many sectors, including textiles, aquaculture products, metal primary industry and cement, and it aims to raise this amount to 102 million USD in the coming period.

Ekspo Faktoring extended its product portfolio and service diversity in 2016 and added new partnerships to its current international partnerships. The Company, attracting attention with its successful projects, showed high performance in all financial indicators.

Strong international collaborations

The senior executives of Ekspo Faktoring visited international finance institutions in 2016 and continued their efforts to establish collaborations that will reinforce the external connections of the Company even more. By adding new partnering banks to its current network in 2016, Ekspo Faktoring will support its clients on cotton import from the USA to Turkey with this deal. Since 2004 Ekspo Faktoring has been a member of Factors Chain International (FCI), which is known as the largest non-bank financing services network in the world, and has established relations with other members so as to improve its network of correspondents and funding resources in 2016. FCI was established in 1968 to support the development of international trade volume and to standardize international financing transactions, and has more than 400 members from 90 countries. The transactions from the organization's members, which are the greatest factoring network in the world, represent about 80% of the international factoring volume.

It will continue to support the economy

Ekspo Faktoring, continuing to increase its financing capability and corporate reputation, further strengthened its position in the sector in 2016. The Company has a competitive advantage with its fast decision-making process and flexible structure enabling the implementation of decisions with a similar pace, and has made a difference with its innovative and sector-leading practices. Ekspo Faktoring's total assets increased by 18% compared to the previous year, reaching 342 million TL in 2016, and reached a position capable of financing about 1% of the sector. The Company will continue to increase its contribution to the financing of the Turkish economy in 2017 as well.

The first Turkish factoring company to be evaluated by Moody’s

Ekspo Faktoring has positioned itself in a privileged point in the sector thanks to its thriving shareholders’ equity and sound, high-quality assets. The company is the first Turkish factoring institution to be evaluated by Moody’s, an international rating organization, and has been subjected to such evaluation since 2006. Rating is an important device of measurement taken into account by creditors and investors. All types of pricing are performed in accordance with rating results. Rating also contributes to the recognition of an organization. Pricing of the funds to be obtained from local money markets are based on this. For this reason, many local finance and non-finance institutions make an effort to undergo rating. Ekspo Faktoring preferred to work with Moody’s since 2006 on the grounds that it is an international organization that evaluates institutions within the framework of high standards of the banking sector. Ekspo Faktoring A.Ş.’s long-term credit rating in foreign and local currency was determined to be B2 as of the end of 2016. The outlook of the rating note was revised as "stable".

FINANCIAL ADVANTAGES

Ekspo Faktoring, reinforcing its leading position in the banking sector with its solid financial structure and its products, preserved its financial superiorities also in 2016 and demonstrated the highest level of performance in the history of the Company.

Global perspective

Ekspo Faktoring is a financial institution which collaborates with the largest banks in the world and is able to have its risks purchased, and it continues to create resources for Turkish companies at reasonable costs based on mutual trust and transparency. For 16 years, the company has been working to improve the relations between global companies and Turkish companies, gradually reinforcing its significance among international players and strengthening its position. Ekspo Faktoring presents a global perspective to its clients for achieving world-class results. With its significant competitive edges, such as a solid capital structure, qualified human resources and solution-oriented business culture, Ekspo Faktoring is the leading company providing innovative products and services within the non-bank finance sector.

A strong business partner in finance

Ekspo Faktoring strengthened its correspondent relationships with domestic and foreign banks and finance organizations in 2016, and maintains its rise through successful strategic partnerships. Now closer to its strategic goals than ever, the Company has expanded its product portfolio and has become one of the most prominent financial partners, preferred by import/export-based companies due to the effective solutions it provides in the area of foreign trade. Ekspo Faktoring has a financing scope of approximately 500 million USD. In 2016, Ekspo Faktoring acted as an intermediary for foreign trade financing in the amount of 69 million USD and is targeting a realised growth of 56% in domestic and international transactions in 2017.

Customized financial solutions

Ekspo Faktoring provides products and services within the scope of international transactions in many areas including irrevocable export financing, revocable export financing, assignment of export letters of credit, the US Department of Agriculture GSM 102 Loan, American Ex-Im Bank, Canadian Ex-Im Bank, Korean Ex-Im Bank and UK Export Finance loans, Black Sea Trade and Development Bank loans, assignment of export receivables with acceptance credit, import financing and direct factoring. The Company also provides products and services within the scope of domestic transactions, including the Assignment of Receivables without Notice, Assignment of Receivables with Notice and Assignment of Receivables via Checks and Bonds, as well as products and services that play a key role in realizing Turkey's export potential. Since 2011, the Company has gained a competitive edge by placing emphasis on supplier finance, and it provides consultancy service in areas such as market, sector analyses and project financing as well as its expertise on domestic and foreign transactions.

Turnover, profitability, shareholders' equity

By the end of 2016, Ekspo Faktoring reached a transaction volume of 1.3 billion TL and the Company's turnover was composed of 82% domestic and 18% international transactions. Ekspo Faktoring gained a pre-tax profit of 21 million TL in 2016, all of which is derived from the company's activities. The Company carries a manageable level of maturity risk, liquidity risk and currency risk. Traditionally Ekspo Faktoring does not pay dividend, indeed the issued capital is, at the very least, increased in parallel with the inflation rate. The company was founded in 2000 with 1 million TL capital and its shareholders' equity reached 111 million TL by the end of 2016. The Company has focused on sustainability since its founding, maintaining its growth ever since.

Leverage

The primary competitive edge of Ekspo Faktoring is its leverage ratio of 1.96. This low rate enabled Ekspo Faktoring to develop strong relationships with correspondents and financing organizations within domestic and international markets. The Company carries out its operations based heavily on its shareholders' equity and has achieved a high level of profitability through effective business processes. In accordance with the regulation of the Banking Regulation and Supervision Agency (BDDK) dated 24.04.2013, a non-bank finance company has to maintain its shareholders' equity/total assets ratio at a minimum level of 3%. This ratio is around 34% for Ekspo Faktoring.

Quality of assets

Ekspo Faktoring's non-performing loan level is well below the sector average. The ratio of non-performing loans for the entire sector was 5% in 2016; however, this rate was 1% for Ekspo Faktoring. 99% of the Company's receivables are revocable. The Company takes care so that a single debtor's debt does not exceed 10% of that client's outstanding risk. This is a clear indication of the Company's high asset quality and the reliability of its rating system. In order to assess its financial receivables in a healthy and consistent manner, Ekspo Faktoring continuously improves its risk evaluation system by making use of methods utilized by the leading rating organizations of the world. The Company adds clients with low risk to its client portfolio, thus keeping the asset quality above the sector average.

Size of assets

By the end of 2016, the asset size reached 342 million TL. The Company provides services to numerous domestic and foreign firms by making use of its expertise, strong funding structure and qualified human resources to offer fast and effective solutions suited to the needs of its clients. Ekspo Faktoring regards its clients as long-term and loyal business partners, customizes its resources obtained from domestic and foreign banks to its clients according to their expectations. Ekspo Faktoring aims for a net lending size of 500 million TL in 2017. The Company's financial advantages have been officially confirmed by international rating organizations. Ekspo Faktoring aims to maintain its profitability and also its support to the corporates by developing fast and cost-effective solutions in 2017 as well.

GLOBAL ECONOMY

In 2016, global economy continued to lose acceleration. The global economy which grew by 3.2% in 2015, completed 2016 with a growth of 3.1% according to the estimation of International Monetary Fund (IMF).

Loss of acceleration in global economy

While the growth rate of emerging markets was 4.1%, it decreased to 1.6% in developed countries in 2016. The monetary policies of the FED in the USA and central banks of other developed countries, the UK's Brexit decision made in June, the presidential elections in the USA and the progress of commodity and oil prices were the major topics of the global economy in 2016. With Donald Trump's success as the Republican candidate in the presidential election, global markets witnessed aggressive fluctuations.

While the changes in economic policies predicted by Trump caused the USD and treasury bond interests to increase, the decisions he made in the very first week in his duty for implementing protective economic policies, led to unrest and fluctuations in the global markets. During this period, bond interests increased by between 50 and 80 basis points in developed countries. While the FED increased policy interest rate by 25 basis point in December, it announced that they plan 3 additional interest increases during 2017.

Attempts to revive economies continued

In the US economy, which began to follow a contractionary monetary policy as of 2014, the rate targeted by FED as 2% was reached with inflation increased to 2.1% in 2016. On the other hand, with the implementation of Trump's protective foreign trade policies, the risks such as the triggering of capital outflow from emerging markets, price increases and thus inflationist pressure are expected. While developed countries were struggling with deflation problem in 2016, many developed countries continued their extraordinary loose monetary practices to revive their economies. The European Central Bank and the Japan Central Bank followed a negative interest policy. Euro Zone inflation increased to 1.8% as of January 2017, while household consumption and companies' levels of debt increased with the impact of these loose monetary practices in Europe. The Japan Central Bank announced that they would maintain the expansionary monetary policy until the inflation reaches 2%.

Euro Zone grew more than the economy of the USA.

After 2008, which was the year that the global crisis started, the Euro Zone economy reached a higher growth rate than the US economy for the first time. While the US economy grew by 1.6%, the rate was 1.7% for the Euro Zone economy. The growth rates in Spain and Ireland were 3.2% and 4% respectively, and the growth in Germany accelerated, reaching 1.9%. One of the most significant incidents in the UK in 2016 was the decision to withdraw from EU, made by the referendum on the 23rd June. While Brexit caused the risks for the global economy to increase significantly and fluctuations and sales in global markets, the Pound Sterling lost value aggressively after the decision. The risk of this withdrawal decision from UK spreading to other EU member countries in following period is a significant risk factor for the future of the union.

The performance of the Chinese economy weakened

The Chinese economy, which is in the process of establishing a balance between the manufacturing sector to the service sector and from investment to consumption, cannot reach double-digit growth rates anymore. The Chinese economy, which has had a significant share in the global growth rate for many years, demonstrated a performance which can be considered as weak for China, with a growth rate of 6.7% in 2016. China's dollar reserves, which reached 3.3 trillion USD by decreasing about 600 billion USD in 2015, continued to drop by the value loss of Yuan in 2016. It is expected that Donald Trump's implementation of protective trade policy by customs tariffs towards emerging markets such as China and Mexico in 2017 will cause deep impacts on Chinese export, and the growth rate will decrease even more, reaching 6.2%.

Emerging markets also decelerated

Emerging markets other than China also continued to be affected by the economic stagnation in developed economies in 2016. Despite India's contribution, whose economic growth performance moved ahead of China and reached 7.5%, the mean growth rate of emerging markets was 4%. The expectation that the FED will continue interest increases made the economies of emerging markets vulnerable against exchange shocks. The fluctuations in the currencies of emerging markets and the pressure on the countries which have high level of debts in foreign currencies highlighted the necessity of budget discipline with structural discipline in 2016 as well.

Recovery in oil and commodity prices

Oil prices, which have fallen by half in the last two years, have increased due to the relatively strong demand in the second half of 2016 and the effect of the production quota of the Organization of Petroleum Exporting Countries (OPEC). Russia's announcement of cutting back oil manufacturing in line with this decision also supported the oil prices. With the OPEC's decision for cutting back oil manufacturing to establish a supply-demand equilibrium, the price per barrel of Brent oil which was 27 USD in the beginning of 2016 reached 55 USD by the end of the year. The demonstration of a relatively stable outlook by the Chinese economy also enabled an overall recovery trend in commodity prices.

Expectations for 2017

In the January 2017 Update of World Economic Outlook Report, IMF stated that global economy which grew by 3.1% in 2016 would gain acceleration in 2017 and 2018 thanks to the emerging markets. On the other hand, it was expressed that it was difficult to estimate due to the uncertainties in the policies of the new US administration and their global reflections, and therefore IMF limited their global projections with 3.4% for 2017 and 3.6% for 2018. IMF revised its 2017 estimation for developed countries upwards by 0.1 point and increased the 2017 growth estimation for China to 6.5% in alignment with incentive expectations. IMF estimates the economies of developed countries will demonstrate a more positive performance in 2017 and 2018 compared to 2016 estimations. In 2017, protective policies that the new administration in the USA may follow, protective statements increasing recently, anti-EU trends gaining momentum in the EU after Brexit and increasing geopolitical risks in the Middle East are considered as the greatest risks against the economic growth.

TURKISH ECONOMY

Despite the global economic conditions and geopolitical risks increasing in the region, and the civil war in Syria in particular, the Turkish economy maintained its growth momentum in 2016 and was less affected by the fluctuations, thanks to the solid basis it has and the budget discipline sustained continuously since 2001.

The Turkish economy displayed a growth of 2.9%

Decreasing tourism incomes and the decreased confidence of consumers and corporates by the failed coup attempt, increasing terrorist incidents and political uncertainties caused by the constitutional amendment and referendum environment were the major factors decelerating Turkey's growth rate. According to data from the Turkish Statistical Institute (TÜİK), the Turkish economy grew by 2.9% in 2016. The Gross Domestic Product per Capita (GSYH) was calculated as 10,807 USD in current prices. Turkey, demonstrating a growth in the first half of 2016, could not achieve the same success in the second half of the year due to political and geopolitical reasons, and dropped for the first time since the third quarter of 2009. According to the data from the TÜİK, the economy decreased by 1.8% in the third quarter of 2016 compared to the same period of the previous year. A recovery was observed in the last quarter thanks to the actions taken by the economy administration. During this period, the exchange rate of USD/TL broke records successively, and the distinct loss in the appetite of foreign investors increased the value loss of TL further and caused negative separation of TL from the currencies of emerging markets.

Current deficit increased

The 12-month cumulative current deficit which was 29.4 billion USD at the end of second quarter, increased to 32.6 billion USD as of the end of year. However, fiscal discipline was maintained in 2016 and budget realizations demonstrated an outlook consistent with the objectives. In 2016, where Turkey's import volume regressed more than export, the foreign trade deficit decreased by 11.7% reaching 56 billion USD. The significant decrease in the number of tourists due to safety concerns was also among the important factors increasing foreign trade deficit. Turkey's central administration budget had a deficit of 29 billion and 258 million TL during January-December period. While budget incomes increased by 14.8% reaching 554 billion and 431 million TL, budget expenses increased by 15.3% reaching 583 billion and 689 million TL. The gross debt stock of the central administration was 759.6 billion TL.

The inflation was above the estimation of the medium-term programme (OVP)

Tax increases, the increasing special consumption tax (ÖTV) before the new year and rigid increases in food prices as well as rapid value loss of TL, all caused high progress of inflation in 2016. While food prices increased in the first half of the year, this trend reversed in the second half, and it was reflected positively in the inflation indicators. Inflation reaching 8.53% in 2016 and went beyond the Medium-Term Programme (OVP) estimation, which was 7.5%. The progress of commodity prices in addition to the value loss of the TL was determinative on the increase producer price index, which demonstrated a fluctuating course during the year, reaching 9.94% at the end of the year. In November, TCMB raised the policy interest rate to 8% increasing it by 50 basis points, and the marginal funding rate to 8.5%, increasing it by 25 basis points, and also put required reserve ratios into use. TCMB, decreasing interest rates at intervals after the drastic interest rate increase in 2014, raised policy interest rates for the first time after that period.

Export and import volumes dropped

While export volume dropped in 2016 with the influences of geopolitical developments, import volume was tightened depending on the weak domestic demand and low progress of energy prices. The Euro/Dollar parity, increases in oil and other raw material prices and regional geopolitical risks caused the losses in exports to continue. Turkey's export and import on annual basis decreased by 0.9% and 4.2% respectively. Export volume narrowed due to the economic crisis in Europe since 2011, and security issues in the Middle East reached remarkable levels together with the political tension with Russia and losses in the tourism sector. Investments also demonstrated a weak progress due to increasing political uncertainties, security issues and the pressure of global conditions on financing costs.

Unemployment continues to increase

The slowdown in economic activities due to the developments in the country had an influence on the increase of unemployment rate in 2016 as well. According to data from the Turkish Statistical Institute, unemployment rate was 11.1% in 2016, and the number of unemployed among individuals who are 15-years-old and above reached 3 million and 290 thousand. Especially in the first months of 2016, the share of the service sector in total employment increased, while the employment rate raised despite the increase in minimum wage and losses in tourism. As of the end of the year, the labour force participation rate was 70.8% for men and 31% for women.

Turkey's credit rating lowered

After Standard & Poor's (S&P), a US-based international credit rating agency, lowered Turkey's credit rating one notch in 2016, Moody's, another US-based international credit rating agency, lowered the rating of Turkey below the level of invest grade in September after a long review process. After Fitch, another US-based international credit rating agency, lowered Turkey's credit to BB+ in January 2017, there was unfortunately no agency left among the three great international credit rating agencies to rate Turkey at the invest grade.

Expectations for 2017

In the Turkey Regular Economic Note published in February 2017, World Bank estimated that the growth rate will recover and reach 2.7% in 2017 thanks to the recovering net export. World Bank, highlighting that a significant interest rate can be seen, reported that the great foreign exchange gap positions may affect company statements negatively. Continuing uncertainties in Turkey's major export markets, and geopolitical risks in foreign trade will create an upward pressure on the current deficit in 2017 as well. In 2017 where increased tendency in food and energy prices and domestic demand conditions will have a significant role, it is estimated that inflation will be at a high level and that TCMB will maintain its cautious stance on monetary policies. It is considered that accelerating structural reforms in the economy, taking steps for increasing employment and for arrangements to improve investment environment will increase potential growth in the long-term.

ECONOMIC DATA

BANKING INDUSTRY TOTAL ASSETS
(TL BILLION)

2.731	2016
2.357	2015
1.994	2014

GDP (CURRENT PRICES)
(TL BILLION)

2,590	2016
1,954	2015
1,764	2014

BANKING SECTOR NET PROFIT
(TL BILLION)

37.5	2016
26.0	2015
25.0	2014

GDP GROWTH RATE (CURRENT PRICES)
(%)

10.8	2016
11.7	2015
11.6	2014

IMPORTS
(USD BILLION)

198.6	2016
207.6	2015
242.2	2014

EXPORTS
(USD BILLION)

142.6	2016
143.9	2015
157.6	2014

Despite the developments in the global economy, and unfavourable incidents in the current geography and in Turkey, the Turkish economy grew by 2.9% in 2016 although the Turkish economy has not been able to catch up to the 4% it reached in 2015. GDP per capita with current prices was 2 trillion 590 billion and 517 million TL in 2016.

CONSUMER PRICE INDEX
(%)

8.53 2016

8.81 2015

8.17 2014

GROWTH RATE OF THE TURKISH ECONOMY
(%)

2.9 2016

4 2015

2.9 2014

CAPITAL INFLOW EXCEPT RESERVES
(USD BILLION)

27.9 2016

25.9 2015

41.8 2014

GDP PER CAPITA
(USD)

10,807 2016

9,261 2015

10,395 2014

UNEMPLOYMENT
(%)

11.1 2016

10.3 2015

9.9 2014

DEVELOPMENT OF THE BANKING SECTOR

In the Turkish banking sector, which has a deep-rooted banking tradition dating back to 19th century, 52 banks are operating as of 2016. By the end of the year, branch number in the sector reached 11,747, and the personnel number reached 201,910.

Deep-rooted banking tradition

The Turkish banking system was founded on a deep-rooted banking tradition dating back to the 19th century. During the last epoch of the Ottoman Empire, the economy was formed under the influence of European countries. Upon the establishment of foreign banks, and later the Ottoman Bank in 1863, money and capital markets in the modern sense began to develop. After the declaration of the Second Constitutionalist Monarchy Period, the number of national banks predicated on domestic capital increased. This era which ended with the War of Independence is quite significant in Turkish history in terms of being a period when experience was gained in banking. In the Turkish Economy Congress, which gathered four months before the signing of the Treaty of Lausanne, the economic targets of the Republic were determined, and many privileges provided to foreign banks were withdrawn by the Treaty of Lausanne. The decisions made in the Congress about the national character of economic development constituted the first steps of the statist approach to economy which was dominant until 1950s. The “golden principle” which involved the balanced budget approach where the primary goal is to prevent the state budget from having any deficit was adopted in public finance.

Development of National Banking

After the proclamation of the Republic, many banks were founded through government promotion in order to encourage national banking. The Central Bank of Turkey came into operation in 1931. After the Great Depression, which caused the collapse of many economies in the world, state intervention came into question. Starting with this period, the power of public banks increased. After World War II, state control in the economy lost significance and a new development policy led by the private sector was adopted. Private sector banking flourished in this period and, with the transition to multi-party democracy, the economy began to expand across borders. However, from 1953 onward, the economic balances were disturbed, and inflation and the foreign trade deficit rose rapidly.

Banking is state-controlled

Within the first half of the 1960s, 15 banks were closed and went into liquidation. The banking system was once again under government control. Until the 1980s, the Turkish economy adopted an isolated outlook once more; interest rates and exchange rates were adjusted by the state without necessarily any relevance to the world markets. From 1980 onward, liberalization was adopted for the financial system and the economy expanded abroad once more. With the rapid economic growth, the financial system was improved and the banking sector began merging with the international banking and financial system. On one hand, many foreign banks at the level of commerce banks, investment banks and their branches came into operation and also established partnerships with Turkish banks, and on the other hand, Turkish banks opened branches and new banks in foreign countries.

Foundation of currency markets

With the decisions made in 1989, money markets and foreign currency markets were established and investors turned to foreign currency. However, the Treasury and the Central Bank fell short in balancing this new trend. Within this competitive environment where the number of banks multiplied and the interest rates were determined by the market itself, also with the influence of globalization, the banking system faced crisis. The banking and finance sector crisis of 1994 spread because the Central Bank did not have sufficient reserves to intervene in a timely and efficient manner, thus posing a threat to the whole banking sector and to the economy. The 1994 crisis had a heavy influence on the banking sector because of the drop in the profit rates caused by the discontinuation of low exchange rate-high interest rate policies that were effective between 1989-1993.

Start of factoring activities

The first factoring activities in Turkey began with transactions carried out by the banks in 1988. In 1990, the first authorized factoring company was founded. Factoring, which is the leading sector in the non-banking financial field with a significant role in varying and developing financial services, has entered into a rapid development process as of the second half of the 2000s. Turkey entered the new millennium in an environment where major economic decisions were being made. In February 2001, another financial crisis unfolded due to the vulnerability of confidence in financial markets. As a result, the money and currency policies projected in the Disinflation Program of 2000 were abandoned and, on 22 February 2001, a flexible exchange rate system was adopted, thus bringing the program to an end.

Effects of crises on banking

The crises of 2000-2001 damaged the financial system of Turkey, especially the banking system, heavily. After the crisis, a financial system reformation was commenced with the “Reorganization Program for the Banking System” supervised by the IMF. Within the scope of the program, the capital structures of the banks with public capital were reinforced, their duty loss receivables were paid, the arrangements allowing new duty losses to occur were annulled and their short-term liabilities were rectified. The fundamental reforms realized after 2001 allowed the banking sector to embrace a strong financial and operational presence through inspections and strict risk management. The sector has a strong capital structure and is in a much stronger position now against crises and is able to compete internationally, and it differentiated itself from banking sectors in other developing and developed countries which are in economic distress. Indeed, Turkey was the only OECD member which accepted no type of public support for the banking sector after the 2008-2009 crisis.

Sustainable growth in the sector

Arrangements for detecting the problems in the system rapidly and solving them quickly and efficiently have become significant for the sustainability of the sector. The presence of a strong economy is only possible through a growing and healthy finance sector. In a country like Turkey where there is resource deficit, having a powerful banking sector is significant for using financial savings in the most economically efficient way. The constitution of such a financial system depends mainly on the level of trust in the system itself, and also macroeconomic stability earned through political stability. As of the end of 2016, there are 52 banks in total including participation and development - investment banks, of which 34 are deposit banks. By the end of the year, the branch number in the sector reached 11,747 and the personnel number reached 201,910. The banking sector managed to achieve a 16.1% improvement in total assets, and continues its development by maintaining its profitability. Despite the drops in rating notes of Turkey, banks continued their foreign borrowing without any problem and the trust in Turkish banking sector was confirmed once more.

OVERVIEW OF THE BANKING SECTOR IN 2016

The Turkish banking sector demonstrated an increase of about 15.8% in total assets by maintaining its performance, despite the uncertainties in the global economy and drops in the rating notes of Turkey in 2016.

The sector preserved its strong outlook

The Turkish banking sector increased the size of assets by 15.8% in 2016 where a great performance was demonstrated compared to 2015, and reached 2,731 billion TL. The share of loans in total assets increased to 63.5% and continued to be a determinative for the active growth of the sector. Although the Central Bank of the Republic of Turkey (TCMB) maintained its cautious stance for monetary policy, dropping required reserve ratios, and taking steps to loosen liquidity terms in the second half of the year affected the profitability and funding costs positively in the banking sector. TCMB, increasing the top limit of interest rate corridor and policy interest rate by 25 and 50 basis points respectively in November, initiated a careful tightening for monetary policy.

Arrangements supporting real economy

The Banking Regulation and Supervision Agency (BDDK) also carried out some arrangements to support the real economy and decreased reserve ratios in individual loans, loosened the restriction of credit card instalments in some sectors, and stretched instalment restriction in consumer loans and vehicle loans. The profit of the sector on annual basis increased by 44% reaching 37.5 billion TL. Return on assets increased to 1.4% and return on equity to 12.50%. While deposits were the main funding resource of the sector, security issuances and foreign loan uses continued. The long-term debt rollover ratio of the sector was 109% in 2016.

Loan amounts increased

The total loan amount in the sector increased by 16.8% in 2016 compared to the previous year, reaching 1,734.3 billion TL. The rate of non-performing loans stayed at a low level, overdue receivables increased by 22.2% compared to the previous year, reaching 58.1 billion TL, and the annual growth rate of these receivables regressed to 22.2%. The transformation rate of loans to non-performing level increased by 3.24% and stock securities portfolio increased by 6.6% on annual basis reaching 351.6 billion TL. While the annual growth rate of deposit and non-deposit resources decelerated, the annual growth rate of shareholders' equity increased. In 2015 the annual growth rate of shareholders' equity was 13% - it increased to 14.5% in 2016, and the share of shareholders' equity in total liabilities reached 11%. The capital adequacy ratio of the banking sector was 15.6%. Therefore, the capital adequacy ratio maintained its progress above legal rate.

Developments in the factoring sector

As of the end of 2016, the factoring sector operating with 360 branches in a total of 62 companies affiliated to the Association of Financial Institutions (FKB), provided employment opportunities to 4716 individuals. The transaction volume of the sector grew by 4.1% compared to the previous year, reaching 123 billion TL. Of this turnover, 101 billion TL was domestic, 19.4 billion TL was export, and 2 billion TL was by import. While factoring receivables increased by 24.2% compared to the same period of the previous year, reaching 31 billion TL, the size of assets reached 33.1 billion TL increasing by 24%. After granting the right to access rediscount loans over Eximbank, to provide financing support to the exporter companies which are a member of the Association of Financial Institutions (FKB), a protocol was signed in 2016 to provide assurance on receivables insured by Eximbank. Within this scope, a financing service was started to be provided to exporters in exchange for the receivables under the cover of insurance policy arranged by Eximbank. FKB also plans to implement "supplier financing" product next year and continues its works for this plan.

Expectations for 2017

The decisions to be taken by the FED and geopolitical developments in 2017 will continue to influence capital flows for emerging markets, including Turkey. The magnitude and speed of value loss in the exchange rates may trigger a serious increase in the interest rates. The risk for upward pressure in interest rates estimated on global basis for 2017 may make it difficult for the banking sector to find cheap resources abroad. Increasing pressure may cause the costs in the sector to increase and the annual increase rate of loans to narrow.

BASIC HIGHLIGHTS OF THE FACTORING SECTOR

(MILLION TL)	DECEMBER 2014	DECEMBER 2015	DECEMBER 2016	INCREASE (%)
INTERNATIONAL TURNOVER	21,122	22,946	20,032	-12.7
DOMESTIC TURNOVER	94,886	94,886	102,664	8.2
TOTAL TURNOVER	116,009	117,833	122,695	4.1
RECEIVABLES IN FOREIGN CURRENCY	2,025	2,617	4,088	56.2
RECEIVABLES IN TL	22,691	22,367	26,947	20.5
TOTAL RECEIVABLES	24,715	24,984	31,036	24.2
LOANS AND BORROWINGS	21,373	21,285	26,899	26.4
SHAREHOLDERS' EQUITY	4,442	4,587	5,082	10.8
TOTAL ASSETS	26,515	26,685	33,080	24.0
PRE-TAX PROFIT	616	387	670	73.3
NON-PERFORMING FACTORING RECEIVABLES (GROSS)	1,262	1,467	1,505	2.6
SPECIAL PROVISIONS	938	1,196	1,283	7.3
NON-PERFORMING FACTORING RECEIVABLES (NET)	324	271	222	-18.1
NON-PERFORMING FACTORING RECEIVABLES (GROSS/SHAREHOLDERS' EQUITY, %)	28,4	32.0	29.6	-7.4
NON-PERFORMING FACTORING RECEIVABLES (NET/SHAREHOLDERS' EQUITY, %)	7,3	5.9	4.4	-26.1
SPECIAL PROVISIONS/ASSETS (%)	3.5	4.5	3.9	-13.4

INTERNAL AUDIT AND FINANCIAL CONTROL

Internal audits are conducted by the Department of Internal Audit and Financial Control of Ekspo Faktoring, ensuring regular, efficient and effective functioning of company activities in accordance with the Regulation for Financial Leasing, Factoring and Financing Companies and also with management policies.

Internal audit for a reliable and transparent management

Internal audit usually includes all precautions and methods accepted and implemented in order to preserve organizational plan and assets of a business, investigate accuracy and reliability of accounting data, increase the efficiency of activities, and encourage commitment to pre-determined management policies. The presence of an efficient internal audit system is significant in terms of ensuring the conformity to pre-determined policies and legal/administrative arrangements, as well as reaching objectives and ensuring the reliability financial reports.

Finance companies that target sustained development and growth in an environment of international competition give priority to audits, financial control and risk management. Sufficient and auditable internal controls are primarily necessary in order to manage risks in accordance with current assets and growth targets, and also to demonstrate a high performance in the long term. The Capital Markets Board (SPK) and the Banking Regulation and Supervision Agency (BDDK) stipulates and encourages audit and risk management activities.

A must for the Company since day one

Since its founding in 2000, Ekspo Faktoring has employed Internal Audit personnel and has had international independent auditing companies perform external audits. The Company is one of the pioneers in the sector thanks to its dedication to the principles of transparency and accountability. The Company makes no compromises as to the principles of transparency and accountability, thus securing its financial data and information through internal and external audits. These audits are performed by experienced specialists. Meanwhile, tax and financial statement audits are performed by two different international independent auditing organizations that are the best in their field. Also, BDDK and the Ministry of Finance are regularly notified as required and two separate Independent Audit Reports are prepared in IFRS and BDDK formats.

Regular, efficient and effective auditing

Internal audits are conducted by the Department of Internal Audit and Financial Control, ensuring regular, efficient and effective functioning of company activities in accordance with the Regulation for Financial Leasing, Factoring and Financing Companies and also with management policies. The integrity and reliability of books and records, and the timeliness of the information in the database fall within the scope of this function. In order to operate flawlessly, within the scope of the management adopted by the Board of Directors and Executive Management, the auditing of the activities that bind each member of the staff on every level is performed by the Internal Audit function. The Department of Internal Audit and Financial Control functions with two key persons, i.e. the Manager of Internal Audit and Financial Control and the Internal Audit and Financial Control Analyst. The result of independent financial, operational and other controls performed by the Department are reported to administrative staff concurrently.

Macro- and micro-economic researches

Internal Audit incorporates the supervision and reporting of transactions performed as per the Code of Obligations, the Turkish Commercial Code, the Tax Procedure Code, related statutory decrees, the Banking Regulation and Supervision Agency (BDDK), the Financial Crimes Investigation Board (MASAK), the Prime Ministry Undersecretariat of Treasury, their announcements and related legislation. On the other hand, Financial Control incorporates the supervision of financial statements prepared in compliance with IFRS (International Financial Reporting Standards) and BDDK, the complete preparation of quarterly Non-Bank Financial Institutions Supervision System reports sent to BDDK, sending these reports and recording them into the database in a timely manner. Other responsibilities of the Department include preparing budget projections through macro- and micro-economic research, reporting these projections and submitting them to the Board of Directors.

Full conformity to laws and regulations

Pursuant to the Law Regarding the Prevention of Laundering of Crime Revenues numbered 5549 and the related regulation number 26751, non-bank finance companies are also counted liable as of 09.01.2008. In order to fulfil the requirements of this regulation, the Company management provides guidance to the Internal Audit Department in taking informative and preventive measures in accordance with MASAK notices. As per the regulation dated 16.09.2008 and numbered 26999, the Manager of Internal Audit and Financial Control was assigned as the Compliance Officer. The Compliance Officer attends the trainings conducted by the Association of Financial Institutions and MASAK, and informs the personnel about their responsibilities and the issues they need to take into consideration.

Proactive approach following the clients

Another duty of the Department of Internal Audit and Financial Control is to supervise the domestic and international transactions of clients and minimize risks and mitigate possible problems. For that purpose, the transactions carried out by the Marketing, Operations, Treasury, Accounting, Risk Assessment and Foreign Transactions departments are audited by the Internal Audit and Financial Control department. The deficiencies identified are eliminated within the day, and weekly and monthly reports are prepared to submit to the Executive Management and the Board of Directors.

Training support for occupational and personal development

The Department of Internal Audit and Financial Control is also responsible for the gathering of the Internal Audit Committee and the implementation of decisions made by the Committee. Additionally, the Department manages the projects demanded by the Executive Management for the purpose of improving the current system and presents them to the staff. The Department also identifies what kind of training is required for the professional and personal development of employees, prepares content for training, selects instructors and conducts training sessions. Also, the Department performs checks on persons and organizations that exist in the banned and suspected persons and organizations lists published by international authorities (UN, OFAC, EU Black List etc.).

RISK MANAGEMENT

Ekspo Faktoring, establishing the first rating system in the sector in 2009 to assess the company, carries out an efficient and proactive risk management. Including the bank-partnered enterprises, the ratio of non-performing loans, which is approximately 5% within the sector in 2016, remained at 1% for Ekspo Faktoring, indicating the success and conservative risk appetite of the Company.

Efficient and proactive control and management

One of the key elements in achieving sustainable success is effective risk management. Particularly within the finance sector, the implementation of an efficient risk management policy is vital to the permanence of an institution. Every finance company that wants to have a healthy risk portfolio and to collect its receivables in full in a timely manner must manage the phases after taking a risk in a systematic way. Strategic goals cannot be accomplished without identifying the risks that the company could face and implementing positive control and management in the face of these risks.

Scientific, numerical and systemic risk assessment techniques

International standards and regulations demand that finance companies use scientific, numeric and systematic risk measurement techniques. However, these measurements and techniques usually allow only for the calculation of statutory requirements rather than providing an up-to-date, tangible assessment. Companies need tangible data, sectoral information, personal experience and market intelligence for measuring the risk of working with a certain firm and the possibility of non-payment of the extended loan. In Turkey especially, since informality is very commonplace and accounting entries cannot be relied on, uncertainty is inevitable. The risk scale of a company cannot be conceived only by regarding technical analyses; likewise, the credit score is not sufficient on its own. For these reasons, risk measurement and evaluation techniques might be used as auxiliary tools; however, the fundamental thing here is to monitor and take measures regarding the Company's portfolio, the changes in the national economy and the world economic conjuncture. To be able to implement such a practice takes the adequate number of employees, organization of risk monitoring as a proper department and assigning enough resources to this end.

Company policy shaped by considering the risks

Credit risk analyses, which play an important role in the Company's decision making processes, are reported regularly to the management. Company policies are formed by taking into account all possible risks. The Credit Department monitors the developments in the sector closely via specialists experienced in corporate and commercial banking, financial analysis, loan allocation and intelligence. The company manages its lending policy in a dynamic and proactive manner by monitoring the possible portfolio risks using various parameters and developing scenarios within the framework of different models. Before taking any risks, issues such as the establishment date and history of the company in question, its sector of operation, the experience level of executives and partners, its resource structure and funding potential are taken into account.

Evaluation as per international standards

Ekspo Faktoring manages all risks within sector and group limitations and takes care that any one Client's risk does not exceed 10% of shareholders' equity. In exceptional cases, the Management can raise this limit to a maximum level of 20%. Ekspo Faktoring implements an effective risk management style in which it tries to diversify the risk, thus preventing it from being concentrated on a specific sector. Furthermore, sensitive measurements are performed when determining the debtor limits of clients and a decisive approach is implemented against exceeding these limits. Ekspo Faktoring gives immense importance to implementing a healthy risk management process compliant with international standards. The Executive Management worked intensively in order to boost the efficiency of risk monitoring activities and develop an effective risk assessment system. The new system, developed with the help of consultancy companies that the Company collaborates with, was adapted from an international example, and consequently, complies with international standards. It was completed at the end of 2008 and by the beginning of 2009, all Ekspo Faktoring clients were analysed through this system. The risk rating model is updated every year as per the changing economical environment.

Regular risk monitoring activities

The Company, placing emphasis on the quality of the assigned loans and consistently monitoring its receivables, effectively uses the check drawing report and risk reports which were brought into the use of non-bank finance companies by the Credit Bureau (KKB) at the end of 2012. These were later perpetuated by the Risk Centre within the Banking Association, as well as inquiries and notifications, such as paid note statement, sued checks, checks banned to be paid, cross check inquiry, and those banned for tenders. Ekspo Faktoring monitors its clients on weekly, bi-weekly and monthly basis, reviewing their collateral portfolio. The Company also uses the combined risk follow up system where combined risks are listed and changes can be reported. The credibility of the companies that apply for limits or wish to raise their current limits are evaluated objectively. Also, outstanding risks are assessed in terms of balance sheets, current intelligence and collateral in the weekly Asset Quality Committee meetings.

A prudent approach

In order to keep its asset quality above the sector average, Ekspo Faktoring acts in a prudent manner while establishing its credit portfolio. For this process, the Company makes use of the experience of the Credit team and their financial analysis methods and techniques. As part of the Credit staff, the financial analysis and intelligence team monitors the latest techniques and regularly attends credit, financial analysis and intelligence trainings provided by professional training institutions in order to keep up-to-date. The Credit Committee, evaluates clients that apply for financing in terms of financial status, sector of operation and also operational risks, market intelligence. The Committee gathers two times a week, evaluates and finalizes client demands in two days at most, and organizes interim meetings in critical situations that require immediate attention. In the meetings, the Company Credit Report, prepared in light of financial analysis and market intelligence, is discussed. At the end of this process, the limit request submitted to the Risk Commission is either approved or declined.

Broad and extensive data bank

The broad data bank of the company is being developed constantly. Ekspo Faktoring does not only rely on this extensive data bank for limit allocation decisions, but also for the development and implementation of marketing strategies in a timely manner. The data bank involves detailed and inclusive information such as client information, payment habits and check drawing performance. Ekspo Faktoring makes use of sector and company data in its data bank while allocating limits. The analyses performed by the Company review the Turkish lira and foreign currency positions of the subject companies, taking into consideration Basel II criteria while evaluating market risks. This intensive effort and concluding reports are submitted to the Executive Management.

CORPORATE MANAGEMENT

Since its foundation, Ekspo Faktoring, considered that institutionalisation is a must in all business processes. In that manner the Company continues its operations with a transparent, ethical management approach and "new traditional banking" understanding.

Corporate governance, transparency and commitment to ethics

Ekspo Faktoring works hard to keep all business processes within a professional framework. The company considers the principles of transparency, fairness, equity, responsibility and accountability to be part of the company culture. By acting with the consciousness and responsibility of being a corporate company at all phases of its activities, Ekspo Faktoring focuses on creating value for all its stakeholders and clients in particular and on protecting its privileged position in the Turkish finance sector. Corporate governance, transparency and ethics are among the factors that will bring the Company's reputation upward. These values, on one hand, boost the consistent profitability and on the other hand, renders its corporate structure sustainable.

Active and efficient committees

Ekspo Faktoring ceaselessly works to adopt corporate management understanding in every single department at the same level of standards, and to further reinforce corporate culture. Within this scope, the goal is to resolve our shortcomings one by one and maintain a sustainable corporate growth with the help of our committees that have been actively working since our founding. The committees that are ensuring business processes are healthy and efficient are Asset-Liability Committee (ALCO), Credit Committee, Liquidity Committee, Information Technologies Committee and Human Resources Committee. (See page 15 for detailed information about committees)

High ratings from international rating agencies

The high international credit rating demonstrates that the Company has come a long way since founding. Ekspo Faktoring, being the first Turkish non-bank finance institution to be evaluated by Moody's, is audited by an international independent audit company. In order to maintain the transparency of the evaluation results, the Company switches to a different independent audit organization every seven years. The financial statements of Ekspo Faktoring are audited quarterly by an independent external audit company. Tax audits are undertaken by a different institution. The company, though not open to public, has two independent members on the Board of Directors.

Open, clear and accurate information

The importance of transparency and consistency gradually rises within the finance sector. Parallel to this, BDDK suggests that all finance companies declare their financial statements regularly via the internet. Ekspo Faktoring has assumed the duty of providing open, clear and accurate information to public, knowing that the sector rests on trust. Since the day it was founded, the Company has shared its financial statements annually over its corporate website. Furthermore, since it deals with bond issuance, the Company publishes all financial statements every three months on the Public Disclosure Platform (KAP) in order to inform investors. The effective organizational structure of Ekspo Faktoring is an important factor that makes it a leading player in the sector. Thanks to this structure, the Company performs its activities in a fast and effective manner and merges its profits with its technology infrastructure, thus maintaining a significant competitive edge. Ekspo Faktoring is determined to achieve corporate targets together with its employees. Therefore, the Company support its personnel through trainings and by investing in advanced systems.

INFORMATION TECHNOLOGIES

Ekspo Faktoring, becoming prominent in the banking sector with its operational speed, efficiency and high customer satisfaction oriented approach, makes regular investments to reinforce its well-equipped, rich and up-to-date technological infrastructure.

Up-to-date and reliable infrastructure system

Understanding the need for information technologies with fast operational speeds and high efficiency, Ekspo Faktoring has a well-equipped, rich and up-to-date system infrastructure. The Company believes in the importance of expertise and procures its information technology needs from an experienced, reliable external source that provides a good service. The major investments of Ekspo Faktoring, considering technological innovations among its priorities, are as below:

- Servers with maximum security to be kept up-to-date all the time,
- A Disaster Recovery Platform which will work with minimum loss during disasters,
- Applications to run update processes of operating systems first in the test platform,
- Comprehensive back-up procedures,
- Logging and reporting from the basic to the maximum level.
- Fintech online lending platform.

Healthy and reliable backup

Ekspo Faktoring opened the Disaster Recovery Centre in Ankara in 2006, and carried out hardware and software development works for this centre in 2007. The Company, having a healthy and reliable back-up system in this way, started to get service from Superonline Data Centre in Ankara in 2006 and switched to the up-to-date version of disaster software. Ekspo Faktoring uses the Facto 2000 software package developed by a specialist company according to relevant requirements of the sector. This package enables the coordination of marketing, client relations and accounting activities. Also, clients can use Ekspo Online in order to place queries and check their accounts.

Another first in the banking sector

In 2012, Ekspo Faktoring switched to using the Society for Worldwide Interbank Financial Telecommunication (SWIFT), an interbank medium of secure information transfer, and became the first one in its sector again to communicate with banks and international finance organizations via this system. Ekspo Faktoring increased its operational speed and efficiency by renewing all system infrastructure including the server in 2014, and carried out new investments to increase data security in accordance with the demands of Risk Centre affiliated with Banking Association in 2016. With these investments, the company took steps related with logging, creating test environments and central management of technological infrastructure by doubling its virtual platform capacity. Also, by renewing its firewall product, it was decided to proceed with a device prioritizing security principles.

Ekspo Faktoring on the web

www.ekspofaktoring.com, which is the online face of Ekspo Faktoring, has a significant role in the transparency and consistent communication with clients. The website introduces its stakeholders to the company in an accessible and transparent manner, and is designed to suit the latest technological developments and upon this foundation. Clients can view their checks in collection, abstracts, risk balances and other relevant information at any time they want. The public announcements of the Company are also presented to the stakeholders via www.ekspofaktoring.com. Ekspo Faktoring, first to implement the check viewing system on its corporate website, reinforces the control mechanism on the side of both the client and the Company by doing do. The Company continually updates its online services and develops new projects in order to better help its clients. Within this scope, in order to provide services to clients and investors without any restraints, the corporate website was completely renovated in 2013.

Fintech

In an effort to become an entrant in the new developing Fintech Sector, Ekspo Faktoring plans to introduce a new online lending platform. The tool is expected to be operational in the last quarter of 2017.

HUMAN RESOURCES

Considering human resource as a great wealth, Ekspo Faktoring provides its employees the opportunity to develop themselves regularly both professionally and personally. The employees with professional experience and expertise above the sector average achieve business processes and make a difference.

Qualified human resource loyal to the company

Ekspo Faktoring's qualified human resource has a professional experience and expertise level well above the sector average. By the end of 2015, Ekspo Faktoring had 31 employees - a team of experienced professionals who tracked current developments step by step and provided "customized" solutions suited for each different need and expectation that clients might have. By making regular investments in human resources in compliance with the sectoral development and healthy growth strategy, Ekspo Faktoring makes its corporate structure and achievements sustainable as a competent finance institution. Ekspo Faktoring always attaches great importance to team spirit and believes that establishing an inclusive corporate culture boosts employee satisfaction. The Company thus has a high rate of employee retention and the average employment duration is seven years.

HR quality above the sector average

The Department of Human Resources, in parallel with its fundamental goals and strategies, takes responsibility for many processes from the orientation of a new employee to occupational training programs. It is prerequisite for employees to feel more empowered, motivated and to have a broader vision so that the company can provide high-quality service. In other words, Ekspo Faktoring emphasizes the importance of a competent human resource. Ekspo Faktoring looks for certain criteria during recruitment, such as having graduated from a university, speaking a foreign language, having past experience in the banking sector and being a specialist in their area, so that the quality of employees maintained above the sector average.

A work environment that encourages improvement

The company supports employees in attending educational programs and sectoral gatherings that could contribute to their professional and personal development, with the aim of promoting a work environment open to improvement. The company has established an educational facility called the Ekspo Faktoring Academy. Within this scope, employees are educated through coordinated training programs extended by 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). Training programs are carried out in many different fields in order to increase the technical and personal capacities of the employees. In 2016, trainings were provided in "Suspicious Transaction Types Met in the EU and the UK and Practices for Customer Diagnosis Principle", "MASAK Liabilities" and "UFRS Practices, Problematic Loans and Bankruptcy and Enforcement Law, Eximbank Short-Term Insurance Programs and Export Financing". We also plan to provide "Financial Analysis", "UFRS", "General Rules for International Factoring - GRIF" and "Time and Stress Management" trainings in 2017.

Broad performance assessment

The Human Resources Commission gathers every January and performs a broad measurement/assessment process, taking into account targets and competencies. Performance assessment is undertaken according to several criteria such as occupational know-how, cooperation skill, client/human relations, representation skills, sense of responsibility, problem solving skills, taking initiative and making decisions, quality and quantity of the work. This process, which brings about encouraging outcomes with regard to motivation and work discipline, ensures that employees' contribution to corporate success is evaluated and also forms a basis for promotions, salaries and incentives.

EKSPO FAKTORİNG A.Ş.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 AND INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors 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 2016, 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 2016, 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.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ
MALİ MÜŞAVİRLİK A.Ş.

Member of DELOITTE TOUCHE TOHMATSU LIMITED

DRT BAĞIMSIZ DENETİM VE SMMM AŞ

İstanbul, 12 April 2017

EKSPO FAKTORİNG ANONİM ŞİRKETİ

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

(CURRENCY: THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

	Notes	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	10	4.447	5.735
Derivative financial assets	21	684	268
Factoring receivables	11	331.452	278.900
Other assets	12	945	764
Investment properties	14	1.095	1.118
Tangible assets	15	1.416	1.651
Intangible assets	16	79	81
Deferred tax assets	9	1.586	1.333
Total assets		**341.704**	**289.850**
Liabilities			
Loans and borrowings	17	221.008	185.874
Derivative financial liabilities	21	508	139
Factoring payables	19	5.932	4.022
Other liabilities	20	1.493	818
Income taxes payable	9	795	431
Reserve for employee severance payments and unused vacation pay liability	22	660	686
Total liabilities		**230.396**	**191.970**
Equity			
Share capital	23	60.000	60.000
Adjustment to share capital	23	279	279
Legal reserves	23	11.466	10.878
Retained earnings		39.563	26.723
Total shareholders' equity		**111.308**	**97.880**
Total sharesholders' equity and liabilities		**341.704**	**289.850**
Commitments and contingencies	25	-	-

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

EKSPO FAKTORİNG ANONİM ŞİRKETİ

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

(CURRENCY: THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

	Notes	1 January- 31 December 2016	1 January- 31 December 2015
Factoring interest income		52.632	40.307
Factoring commission income, net		3.554	2.028
Income from factoring operations		**56.186**	**42.335**
Interest expense on bank borrowings		(23.659)	(20.141)
Interest expense on debt securities issued		-	-
Derivative trading profits, net		156	37
Foreign exchange gains / (losses), net		803	3.180
Interest income other than on factoring interest income	5	26	223
Interest, commission and foreign exchange income, net		**33.512**	**25.634**
Personnel expenses	7	(8.145)	(7.655)
Administrative expenses	8	(2.890)	(2.469)
Provision for impaired factoring receivables, net	11	(1.372)	(2.407)
Depreciation and amortisation expenses	14, 15 ve 16	(302)	(380)
Other income	6	501	327
Profit before income taxes		**21.304**	**13.050**
Income tax expense	9	(4.276)	(2.626)
Profit for the year		**17.028**	**10.424**
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income for the year		**17.028**	**10.424**

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

EKSPO FAKTORİNG ANONİM ŞİRKETİ

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

(CURRENCY: THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

	Notes	Share Capital	Adjustment to Share Capital	Legal Reserves	Retained Earnings	Total Equity
Balances at 1 January 2015		**60.000**	**279**	**10.361**	**19.216**	**89.856**
Total comprehensive income for the year						
Profit for the year		-	-	-	10.424	10.424
Total comprehensive income for the year		**-**	**-**	**-**	**10.424**	**10.424**
Transfer to legal reserves		-	-	517	(517)	-
Dividend paid		-	-	-	(2.400)	(2.400)
Total		**-**	**-**	**517**	**(2.917)**	**(2.400)**
Balances at 31 December 2015	**23**	**60.000**	**279**	**10.878**	**26.723**	**97.880**
Balances at 1 January 2016		**60.000**	**279**	**10.878**	**26.723**	**97.880**
Total comprehensive income for the year						
Profit for the year		-	-	-	17.028	17.028
Total comprehensive income for the year		**-**	**-**	**-**	**17.028**	**17.028**
Transfer to capital		-	-	-	-	-
Transfer to legal reserves		-	-	588	(588)	-
Dividend paid		-	-	-	(3.600)	(3.600)
Total		**-**	**-**	**588**	**(4.188)**	**(3.600)**
Balances at 31 December 2016	**23**	**60.000**	**279**	**11.466**	**39.563**	**111.308**

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

EKSPO FAKTORİNG ANONİM ŞİRKETİ

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

(CURRENCY: THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

	Notes	1 January- 31 December 2016	1 January- 31 December 2015
Cash Flows From Operating Activities:			
Profit for the year		17.028	10.424
Adjustments for:			
Depreciation and amortisation expense	14, 15 ve 16	302	380
Provision for employee severance payments	22	174	103
Other expense/(income) accruals		(895)	(1.324)
Deferred and income taxes	9	4.276	2.626
Interest income		(52.658)	(40.530)
Interest expenses		23.659	20.141
Provision for impaired factoring receivables	11	1.372	2.407
Unrealized foreign currency exchange gain		(595)	(310)
Changes in fair value of derivative financial instruments	21	(47)	153
Changes in factoring receivables and payables		**(7.384)**	**(5.930)**
Factoring Recaivables and Payables		(50.459)	(2.882)
Changes in other assets		(181)	32
Changes in other liabilities		604	(631)
Employee severance paid	22	(129)	(110)
Taxes paid	9	(4.165)	(2.523)
Interest received		51.446	41.202
Proceeds from recoveries of impaired factoring receivables	11	364	435
Net cash provided by / (used in) operating activities		**(9.904)**	**29.593**
Cash Flows From Investing Activities:			
Acquisition of property and equipment	15	(20)	(54)
Acquisition of intangible assets	16	(22)	(46)
Net cash used in investing activities		**(42)**	**(100)**
Cash Flows From Financing Activities:			
Changes in loans and borrowings		(21.781)	(19.489)
Interest paid		33.444	(2.342)
Dividends paid	23	(3.600)	(2.400)
Net cash (used in) / provided from financing activities		**8.063**	**(24.231)**
Effect of changes in foreign exchange rate on cash and cash equivalents		595	310
Net increase / (decrease) in cash and cash equivalents		**(1.288)**	**5.572**
Cash and cash equivalents at 1 January		**5.735**	**163**
Cash and cash equivalents at 31 December	**10**	**4.447**	**5.735**

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

(CURRENCY: THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

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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 also applies the requirements of the Communique on the "Principles and Procedures of Receivables Allowances to be Provided by Financial Leasing, Factoring and Financing Companies"; which is based on the Communique on "The Application of Uniform Charts of Accounts and its Guides Book in Connection to the Establishment and Main Activities of Financial Leasing, Factoring and Financing Companies" published in the Official Gazette No: 28267 on 24 April 2013; published in the Official Gazette No: 26588 on 20 July 2007, respectively.

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.

The statement of balance sheet and comprehensive income of the Company as at and for the year ended 31 December 2016 were authorized for issue by the Board of Directors on 12 April 2017. The General Assembly and certain regulatory bodies have power to amend the statutory financial statements after issue.

(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 by 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 IFRSs 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.

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

(CURRENCY: THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

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:

	2016	**2015**
USD	3,5192	2,9076
EURO	3,7099	3,1776
GBP	4,3189	4,3007
CHF	3,4454	2,9278

3. Significant accounting policies (Continued)

(c) Financial Instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise factoring receivables, other assets, cash and cash equivalents, bank borrowings, debt securities, factoring payables and other liabilities.

A financial instrument is recognized if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Company's obligations specified in the contract expire or are discharged or cancelled.

Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

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 specific allowances for uncollectibility and unearned interest income. Specific allowances are made against the carrying amount of factoring receivables and that are identified as being impaired based on regular reviews of outstanding balances to reduce factoring receivables to their recoverable amounts. When a factoring receivable is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, receivable is written off immediately.

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.

Other

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

(ii) 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.

(iii) Share capital

Ordinary shares

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.

(CURRENCY: THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

3. Significant accounting policies (Continued)

(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.

(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.

3. Significant accounting policies (Continued)

(h) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

All financial assets are tested for impairment on an individual basis. Rest of financial assets are evaluated according to same properties of loan risk in group.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortised cost, the reversal is recognized in the profit or loss to the extent that the impairment loss in respect of a financial asset was not recognized in the previous year.

(ii) Non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment except deferred tax asset (accounting policy n). If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in the statements of profit or loss and other compressive income.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

(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 39. 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 2016	31 December 2015
Net discount rate	3.44%	3.74%
Expected salary / limit increase	7.50%	7.00%

(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.

3. Significant accounting policies (Continued)

(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.

(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.

(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)

New and Revised International Financial Reporting Standards

a) Amendments to IFRSs affecting amounts reported and/or disclosures in the financial statements

None.

b) New and revised IFRSs applied with no material effect on the financial statements

UFRS 14	Regulatory Deferral Accounts [1]
Amendments to IFRS 11	Accounting for Acquisition of Interests in Joint Operations [1]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation [1]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants [1]
Amendments to IAS 27	Equity Method in Separate Financial Statements [1]
Annual Improvements to 2012-2014 Cycle	IFRS 5, IFRS 7, IAS 19, IAS 34 [1]
Amendments to IAS 1	Disclosure Initiative [1]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception [1]

[1] Effective for annual periods beginning on or after 1 January 2016.

IFRS 14 *Regulatory Deferral Accounts*

IFRS 14 Regulatory Deferral Accounts permits an entity, which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

IFRS 14 was issued by the IASB on 30 January 2014 and is applied to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

Amendments to IFRS 11 *Accounting for Acquisition of Interests in Joint Operations*

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

• apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11,
• disclose the information required by IFRS 3 and other IFRSs for business combinations.

Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

Bu değişiklik, maddi duran varlıklar için bir varlığın kullanımı sonucunda oluşan faaliyetlerden elde edilen gelire dayalı amortisman yönteminin kullanılmasının uygun olmadığına açıklık getirirken, aksi ispat edilene kadar hukuken geçerli öngörü olan ve yalnızca maddi olmayan duran bir varlığın gelir ölçümü olarak ifade edildiği nadir durumlarda ya da maddi olmayan duran varlıktan elde edilen gelir ile ekonomik faydaların birbiriyle yakından ilişkili olduğunun kanıtlandığı durumlarda maddi olmayan duran varlıklar için bir varlığın kullanımı sonucunda oluşan faaliyetlerden elde edilen gelire dayalı itfa yönteminin kullanılmasının uygun olmadığı görüşünü de ileri sürmüştür. Bu değişiklik ayrıca bir varlığın kullanılması sonucunda üretilen bir kalemin gelecek dönemlerde satış fiyatında beklenen düşüşlerin bir varlığın, teknolojik ya da ticari bakımdan eskime beklentisini işaret edebileceği ve sonrasında varlığa ilişkin gelecekteki ekonomik faydalarda düşüşün göstergesi olabileceği konusuna değinen açıklamalara da yer verir.

3. Significant accounting policies (Continued)

(o) Application of new and revised international financial reporting standards (IFRSs) (Continued)

New and Revised International Financial Reporting Standards (Continued)

b) New and revised IFRSs applied with no material effect on the financial statements (Continued)

Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*

This amendment include 'bearer plants' within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of IAS 41.

Amendments to IAS 27 *Equity Method in Separate Financial Statements*

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Annual Improvements 2012-2014 Cycle

IFRS 5: Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

IFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

IAS 19: Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

IAS 34: Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

Amendments to IAS 1 *Disclosure Initiative*

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

(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 Revised International Financial Reporting Standards (Continued)

c) New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses [1]
Amendments to IAS 7	Disclosure Inıtiative [1]
IFRS 9	Financial Instruments [2]
IFRS 15	Revenue from Contracts with Customers [2]
Amendments to IFRS 15	Revenue from Contracts with Customers [2]
Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions [2]
IFRS 16	Leases [3]
Amendments to IFRS 4	Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts
IFRIC 22	Foreign Currency Transactions and Advance Consideration [2]
Amendments to IAS 40	Transfers of Investment Property [2]
Annual Improvements to IFRS Standards 2014–2016 Cycle	IFRS 1 [2], IFRS 12 [1], IAS 28 [2]

[1] Effective for annual periods beginning on or after 1 January 2017.
[2] Effective for annual periods beginning on or after 1 January 2018.
[3] Effective for annual periods beginning on or after 1 January 2019.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*

This amendment clarifies the following aspects:

• Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
• The carrying amount of an asset does not limit the estimation of probable future taxable profits.
• Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
• An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Amendments to IAS 7 *Disclosure Inıtiative*

This amendment clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

IFRS 9 *Financial Instruments*

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 is amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 is issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income ("FVTOCI") measurement category for certain simple debt instruments.

3. Significant accounting policies (Continued)

(o) Application of new and revised international financial reporting standards (IFRSs) (Continued)

New and Revised International Financial Reporting Standards (Continued)

c) New and revised IFRSs in issue but not yet effective (Continued)

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

• Identify the contract with the customer,
• Identify the performance obligations in the contract,
• Determine the transaction price,
• Allocate the transaction price to the performance obligations in the contracts,
• Recognise revenue when the entity satisfies a performance obligation.

Amendments to IFRS 15 *Revenue from Contracts with Customers*

This amendment clarifies three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts.

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

This amendment clarifies the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity settled.

IFRS 16 *Leases*

This new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 "Leases" and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

Amendments to IFRS 4 *Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'*

This amendment provides optional approaches for entities that issue insurance contracts within the scope of IFRS 4, and the entities are permitted to stop applying them before the new insurance standard is applied.

IFRIC 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.

3. Significant accounting policies (Continued)

(o) Application of new and revised international financial reporting standards (IFRSs) (Continued)

New and Revised International Financial Reporting Standards (Continued)

c) New and revised IFRSs in issue but not yet effective (Continued)

Amendments to IAS 40 *Transfers of Investment Property*

The amendments to IAS 40 Investment Property:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

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.
- **IFRS 12:** Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
- **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 organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The Company evaluates the effects of these standards, amendments and improvements on the financial statements.

(p) 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.

(q) 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.

(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.

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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 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets	-	684	-	684
	-	**684**	**-**	**684**
Derivative financial liabilities	-	508	-	508
	-	**508**	**-**	**508**

31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets	-	268	-	268
	-	**268**	-	**268**
Derivative financial liabilities	-	139	-	139
	-	**139**	-	**139**

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.

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.

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4. Determination of fair values (Continued)

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

	2016		2015	
	Carrying amount	**Fair Value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and cash equivalents	4,447	4,447	5,735	5,735
Factoring receivables	331,452	331,452	278,900	278,900
Financial liabilities				
Bank borrowings	221,008	221,008	185,874	185,874
Factoring payables	5,932	5,932	4,022	4,022
Other liabilities	1,493	1,493	818	818

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:

	2016	2015
Interest income from securities	-	215
Interest income on bank deposits	26	8
	26	**223**

6. Other income

For the year ended 31 December 2016, other income comprised of mediation income amounting to TL 501 (2015: TL 327).

7. Personnel expenses

For the years ended 31 December, personnel expenses comprised the following:

	1 January-31 December	1 January-31 December
Salary expenses	6,889	6,456
Social security premium employer's share	628	498
Insurance expenses	245	216
Meal expenses	128	135
Transportation expenses	164	179
Unemployment security employer's share	47	42
Others	44	129
	8,145	**7,655**

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8. Administrative expenses

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

	1 January-31 December 2016	1 January- 31 December 2015
Rent expenses	851	771
Legal expenses	449	91
Depreciation and amortization expense	302	380
IT related expenses	261	210
Audit and consultancy expenses	216	159
Provisions for employee termination benefits expense	174	103
Subscription fees	164	142
Travel expenses	153	78
Vehicle expenses	135	127
Taxes and duties other than on income	94	102
Communication expenses	85	92
Presentation expense	67	30
Other	238	564
	3,192	**2,849**

9. Taxation

As at 31 December 2016, corporate income tax is levied at the rate of 20% (2015: 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.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within four month 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.

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9. Taxation (Continued)

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.

	2016		2015	
	Amount	**%**	**Amount**	**%**
Reported profit before income taxes	21,304		13,050	
Taxes on reported profit per statutory tax rate	(4,261)	(20)	(2,610)	(20)
Permanent differences:				
Non-taxable expenses	(15)		(16)	
Income tax expense	**(4,276)**		**(2,626)**	

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

	2016	2015
Current tax expense	4,529	2,494
Deferred tax expense	(253)	132
Income tax expense	**(4,276)**	**(2,626)**

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:

	2016	2015
Taxes on income	4,529	2,494
Less: Corporation taxes paid in advance	(3,734)	(2,063)
Income taxes payable	**795**	**431**

For the years ended 31 December 2016 and 2015, movement of the Company's net deferred tax assets and liabilities is as follows:

	2016	2015
Opening balance	1,333	1,465
Deferred tax income recognized in profit or loss	253	(132)
Closing balance	**1,586**	**1,333**

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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 at 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 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Unearned interest income	7,215	6,235	1,443	1,247
Reserve for employee severance payments	532	487	106	97
Reserve for employee permission payments	128	199	26	40
Prepaid commissions	665	122	133	24
Deferred tax assets	**8,540**	**7,043**	**1,708**	**1,408**
Derivative financial instruments	348	358	70	71
Tangible assets, and intangible assets	176	19	35	4
Prepaid commissions	85	-	17	-
Deferred tax liabilities	**524**	**377**	**122**	**75**
Deferred tax assets / (liabilities), net			**1,586**	**1,333**

For the years ended 31 December 2016 and 2015, all movements in the deferred tax assets and liabilities have been recognised in profit or loss. As at 31 December 2016 and 2015, 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 at 31 December, cash and cash equivalents are as follows:

	2016	**2015**
Demand deposits at banks	4,447	5,735
Total cash and cash equivalents	**4,447**	**5,735**

As at 31 December 2016, there is not any blockage on bank deposits (31 December 2015: None).

(CURRENCY: THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

11. Factoring receivables

At 31 December, factoring receivables comprised the following:

	2016	2015
Domestic factoring receivables	272,884	244,815
Export and import factoring receivables	65,783	40,320
Impaired factoring receivables	4,247	4,401
Factoring receivables, gross	342,946	289,536
Unearned factoring interest income	(7,215)	(6,235)
Allowance for impaired factoring receivables	(4,247)	(4,401)
Factoring receivables	**331,452**	**278,900**

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

	2016	2015
Customer notes and cheques	169,996	158,704
Mortgage	14,177	1,800
Suretyship	2,639,959	1,927,514
Total	**2,824,132**	**2,088,018**

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

	2016	2015
Balance at the beginning of the year	4,401	5,923
Sold loans (*)	(1,526)	(3,929)
Provision for the year	1,736	2,842
Recoveries during the year	(364)	(435)
Balance at the end of the year	**4,247**	**4,401**

(*) The Company has sold non-performing loans amount to 1,526 TL with %100 provision having the value of 1 TRY (31 December 2015: 3,929 TL-0,5 TL)

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

	2016	2015
Overdue 1 to 3 months	354	1,727
Overdue 3 to 6 months	-	50
Overdue 6 to 12 months	1,351	577
Overdue over 1 year	2,542	2,047
	4,247	**4,401**

12. Other assets

As at 31 December, other assets are as follows:

	2016	2015
Prepaid expenses	410	341
Others	535	423
	945	**764**

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13. Assets held for sale

As at 31 December 2016, there is no assets classified as held for sale. (2015: None).

14. Investment properties

Movement of investment properties and related accumulated depreciation during the year ended 31 December 2016 is as follows:

	1 January 2016	Additions	Disposals	31 December 2016
Cost				
Buildings	1,344	-	-	1,344

	1 January 2016	Year Charge	Disposals	31 December 2016
Less: Accumulated Depreciation				
Buildings	226	23	-	249
Net carrying value	**1,118**			**1,095**

Movement of investment properties and related accumulated depreciation during the year ended 31 December 2015 is as follows:

	1 January 2015	Additions	Disposals	31 December 2015
Cost				
Buildings	1,344	-	-	1,344

	1 January 2015	Year Charge	Disposals	31 December 2015
Less: Accumulated Depreciation				
Buildings	203	23	-	226
Net carrying value	**1,141**			**1,118**

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 2016 and 2015. 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)

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 2015
	31 December 2016	Level 1 TL	Level 2 TL	Level 3 TL
Commercial property	1,095	-	-	4,000

	Carrying value			Fair value as at 31 December 2014
	31 December 2015	Level 1 TL	Level 2 TL	Level 3 TL
Commercial property	1,118	-	-	3,800

15. Tangible Assets

Movement of tangible assets and related accumulated depreciation during the year ended 31 December 2016 is as follows:

	1 January 2016	Additions	Disposals	31 December 2016
Cost				
Motor vehicles	1,833	-	-	1,833
Furniture and fixtures	586	20	-	606
Leasehold improvements	345	-	-	345
Others (*)	831	-	-	831
Total cost	**3,595**	**20**	**-**	**3,615**

	1 January 2016	Year charge	Disposals	31 December 2016
Less: Accumulated depreciation				
Motor vehicles	1,201	195	-	1,396
Furniture and fixtures	406	56	-	462
Leasehold improvements	337	4	-	341
Total accumulated depreciation	**1,944**	**255**	**-**	**2,199**
Net carrying value	**1,651**			**1,416**

(*) 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 2015 is as follows:

	1 January 2015	Additions	Disposals	31 December 2015
Cost				
Motor vehicles	1,998	-	(165)	1,833
Furniture and fixtures	532	54	-	586
Leasehold improvements	345	-	-	345
Others (*)	831	-	-	831
Total cost	**3,076**	**54**	**(165)**	**3,595**

	1 January 2015	Year charge	Disposals	31 December 2015
Less: Accumulated depreciation				
Motor vehicles	1,074	292	(165)	1,201
Furniture and fixtures	358	48	-	406
Leasehold improvements	332	5	-	337
Total accumulated depreciation	**1,764**	**345**	**(165)**	**1,944**
Net carrying value	**1,942**			**1,651**

(*) Others comprise paintings and other decorative items which are not depreciated.

As at 31 December 2016, total amount of insurance on tangible assets is TL 3,009 (31 December 2015: TL 2,988) and total amount of insurance premium on tangible assets is TL 31 (31 December 2015: TL 24). As at 31 December 2016 and 2015, there is no pledge on tangible assets.

16. Intangible assets

Movement of intangible assets and related accumulated amortisation during the year ended 31 December 2016 is as follows:

	1 January 2016	Additions	Disposals	31 December 2016
Cost				
Rights	239	22	-	261

	1 January 2016	Current year charge	Disposals	31 December 2016
Less: Accumulated amortisation				
Rights	158	24	-	182
Net carrying value	**81**			**79**

Movement of intangible assets and related accumulated amortisation during the year ended 31 December 2015 is as follows:

	1 January 2015	Additions	Disposals	31 December 2015
Cost				
Rights	193	46	-	239

	1 January 2015	Current year charge	Disposals	31 December 2015
Less: Accumulated amortisation				
Rights	146	12	-	158
Net carrying value	**47**			**81**

As at 31 December 2016 and 2015, the Company does not have any internally generated intangible assets.

(CURRENCY: THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

17. Loans and borrowings

As at 31 December, borrowings are as follows:

		2016		
			TL karşılığı	
	Original Amount	Nominal Interest Rate (%) (*)	Up to 1 year	Up to 1 year
TL	148,209	10.48-13.10	148,209	-
TL (**)	10,492	3.60-3.65	10,492	-
USD	13,778	1.23-4.19	48,823	-
EUR	3,523	0.5-2.95	13,077	-
GBP	93	0.75-3.13	407	-
Total	**176,096**		**221,008**	**-**

		2015		
			TL karşılığı	
	Original Amount	Nominal Interest Rate (%) (*)	Up to 1 year	Up to 1 year
TL	111,655	11.95-14.50	111,656	-
TL (**)	17,966	3.25-4.00	17,966	-
USD	16,464	0.91-3.67	48,372	-
EUR	1,524	0.5-2.95	4,851	-
GBP	703	3.34	3,030	-
Total	**148,312**		**185,874**	**-**

(*) These rates represent the average nominal interest rate range of outstanding borrowings with fixed and floating rates as at 31 December 2016 and 2015.
(**) Includes the balances with reference to foreign currency indexed bank borrowings.

As at 31 December 2016, the Company has cheques and promissory notes amounting to TL 308,831 (31 December 2015: TL 217,118) given as collateral against its outstanding bank borrowings.

18. Debt securities issued

None (31 December 2015: None)

19. Factoring payables

As at 31 December, factoring payables comprised the following:

	2016	2015
Domestic factoring payables	5,932	4,022
Total	**5,932**	**4,022**

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:

	2016	2015
Taxes and duties other than on income tax	456	364
Trade payables to vendors	295	259
Unearned income	665	122
Social security payables	77	73
Total	**1,493**	**818**

(CURRENCY: THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

21. Derivative financial assets and derivative financial 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:

	2016		2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Currency swap purchases and sales	684	508	268	139
	684	**508**	**268**	**139**

As at 31 December 2016 and 2015, the details of derivative transactions are presented in Note 25.

22. Reserve for employee severance payments

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 4,297.21 at 31 December 2016 (2015: TL 3,828.37) 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:

	2016	2015
Balance at the beginning of the year	**487**	**494**
Interest cost	18	10
Service cost	140	74
Paid during the year	(129)	(110)
Actuarial difference	16	19
Balance at the end of the year	**532**	**487**

Provision for employee benefis	**2016**	**2015**
Unused vacation liability	128	199
	128	**199**

Unused Vacation Liability Movement

	2016	2015
Balance at the beginning of the year	199	-
Current charge	(71)	199
	128	**199**

(CURRENCY: THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

23. Capital and reserves

23.1. Paid-in capital

At 31 December 2016, the Company's nominal value of authorized and paid-in share capital amounts to TL 60,000,000 (2015: TL 60,000,000) comprisingregistered 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 at 31 December, the composition of the authorized and paid-in share capital are as follows:

	2016		2015	
	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 based on the general assembly meeting held on 25 February 2016 and extraordinary general assembly meeting held on 25 July 2016 the Company has decided to distribute dividend to shareholders amount to 2,400 TL and 1,200 TL, respectively. As of 31 December 2016 all dividend amounts paid to shareholders.

According to the decision based on the extraordinary general assembly meeting held on 12 January 2017, the Company has decided to distribute dividend to shareholders amount to TL 2,000 and all amounts has been paid.

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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 2016, 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 at 31 December, the breakdown of the factoring receivables by industrial groups is as follows:

	2016	%	2015	%
Financial Services	63,980	19.30	54,974	19.71
Textiles	57.471	17.34	25,039	8.98
Retail and wholesale trade	56,471	17.04	36,217	12.99
Construction	30,368	9.17	12,974	4.65
Agriculture and ranching	29,925	9.03	12,139	4.35
Iron, steel, coal, petroleum, other mines	25,260	7.62	17,528	6.28
Wood and Wooden Products	24,559	7.41	18,313	6.57
Leather industry	19,433	5.86	22,705	8.14
Rubber and plastic goods	6,402	1.93	7,498	2.69
Transportation, storage and communication	6,316	1.91	15,516	5.56
Chemicals and pharmaceuticals	4,846	1.46	6,380	2.29
Non-metal industry	2,101	0.63	5,415	1.94
Computer and computer equipment	1,466	0.44	3,189	1.14
Electrical equipment	1,115	0.34	-	-
Cultural, recreational and sports activities	646	0.19	136	0.05
Food, beverages and tobacco	543	0.16	14,972	5.37
Machinery and equipment	333	0.10	8,028	2.88
Automotive	217	0.07	2,657	0.95
Researching, consulting and advertising	-	-	905	0.32
Tourism	-	-	14,315	5.13
	331,452	**100.00**	**278,900**	**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 at 31 December 2016 and 2015, details of the financial assets exposed to credit risk are as follows:

	2016	2015
Cash at banks	4,447	5,735
Factoring receivables, net	331,452	278,900
Derivative financial assets	684	268

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:

				2016			2015
	USD (%)	GBP (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)
Assets							
Factoring receivables	3,79	3.86	1,20	17,19	5,99	2,43	15,60
Liabilities							
Loans and borrowings	3,24	0,76	0,84	11,60	3,54	2,21	13,01

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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	**2016**	**2015**
Factoring receivables	185,019	156,839
Loans and borrowings	148,209	111,654
Floating rate instruments		
Factoring receivables	146,433	122,061
Loans and borrowings	72,799	74,220

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**
2016		
Floating rate instruments	76	(76)
2015		
Floating rate instruments	106	(106)

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.

Additionally, the Company does not account for any fixed rate financial assets and liabilities as available-for-sale. Therefore a change in interest rates at the reporting date would not directly affect equity.

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 2016	**31 December 2015**
A. Foreign currency monetary assets	79,170	80,251
B. Foreign currency monetary liabilities	(77,034)	(77,761)
C. Derivative financial instruments	176	110
Net foreign currency position (A+B+C)	**2,312**	**2,600**

(CURRENCY: THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

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 2016	USD	Euro	GBP	Total
Foreign currency monetary assets				
Cash and cash equivalents	4,095	53	118	4,266
Factoring receivables	57,873	14,003	3,024	74,900
Other assets	4	-	-	4
Total foreign currency monetary assets	**61,972**	**14,056**	**3,142**	**79,170**
Foreign currency monetary liabilities				
Loans and borrowings	59,315	13,077	407	72,799
Factoring payables	534	995	2,695	4,224
Other payables	5	3	3	11
Total foreign currency monetary liabilities	**59,854**	**14,075**	**3,105**	**77,034**
Net on balance sheet position	**2,118**	**(19)**	**37**	**2,136**
Off balance sheet net notional position	176	-	-	176
Net position	**2,294**	**(19)**	**37**	**2,312**

31 December 2015	USD	Euro	GBP	Total
Foreign currency monetary assets				
Cash and cash equivalents	2,682	2,945	14	5,641
Factoring receivables(*)	64,335	7,208	3,064	74,607
Other assets	3	-	-	3
Total foreign currency monetary assets	**67,020**	**10,153**	**3,078**	**80,251**
Foreign currency monetary liabilities				
Loans and borrowings(**)	65,534	5,655	3,030	74,219
Factoring payables	1,394	2,121	-	3,515
Other payables	-	22	5	27
Total foreign currency monetary liabilities	**66,928**	**7,798**	**3,035**	**77,761**
Net on balance sheet position	**92**	**2,355**	**43**	**2,490**
Off balance sheet net notional position	110	-	-	110
Net position	**202**	**2,355**	**43**	**2,600**

(*)TL 9,117 Amounting Factoring receivables which is foreign currency indexed has been included. (2015:34,287)
(**) TL 10,492 Amounting Loans which is foreign currency indexed has been included (2015:17,966).

(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 2016 and 2015 would have decreased profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, as at 31 December 2016 and 2015 remain constant.

TL	Profit/(Loss) 2016	Profit/(Loss) 2015
USD	229	20
EURO	(2)	236
GBP	4	4
Total	**231**	**260**

(*) 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 2016					
	Carrying Amount	**Contractual cash flows**	**3 months or less**	**3-12 months**	**1-5 years**	**More than 5 years**
Non-derivative financial liabilities	227,235	230,536	167,904	62,632	-	-
Loans and borrowings	221,008	224,309	161,677	62,632	-	-
Factoring payables	5,932	5,932	5,932	-	-	-
Derivative financial liabilities	482	653	180	167	-	-
Inflow	684	1,044	426	618	-	-
Outflow	(508)	(697)	(246)	(451)	-	-

	31 December 2015					
	Carrying Amount	**Contractual cash flows**	**3 months or less**	**3-12 months**	**1-5 years**	**More than 5 years**
Non-derivative financial liabilities	**190,155**	**191,138**	**127,226**	**63,912**	**-**	**-**
Loans and borrowings	185,874	186,857	122,945	63,912	-	-
Factoring payables	4,022	4,022	4,022	-	-	-
Derivative financial liabilities	**129**	**177**	**(165)**	**311**	**31**	**-**
Inflow	268	390	48	311	31	-
Outflow	(139)	(213)	(213)	-	-	-

(CURRENCY: THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

24. Risk management disclosures (Continued)

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	**2016**	**2015**
Given Guarantees and suretyship for the benefit of customer	14,177	1,800
Total	**14,177**	**1,800**

As at 31 December 2016, the Company has given cheques and notes amounting to TL 308,831 (2015: TL 217,118) 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 2016		**31 December 2015**	
	TRY	**FC**	**TRY**	**FC**
Forward purchases	3,862	4,300	8,646	8,434
Forward sales	3,681	4,299	8,438	8,435
	7,543	**8,599**	**17,084**	**16,869**

As at 31 December 2016 and 2015, the details of the Company's items held in custody is as follows:

	2016	**2015**
Customers' Cheques	282,729	231,590
Customers' Notes	93,881	47,359
Mortgages	4,076	3,557
	380,686	**282,506**

(CURRENCY: THOUSANDS OF TURKISH LIRA ("TL") UNLESS OTHERWISE STATED)

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.

Balances with related parties

Transaction with related parties	**1 January-31 December 2016**	**1 January-31 December 2015**
General administrative expenses		
M. Semra Tümay - rental expense	821	742
	821	**742**

27. Events after the reporting period

According to the decision based on the extraordinary general assembly meeting held on 12 January 2017, the Company has decided to distribute dividend to shareholders amount to TL 2,000 and all amounts has been paid.

MANAGEMENT

MURAT TÜMAY
GENERAL MANAGER

ERHAN MERAL
ASSISTANT GENERAL MANAGER,
FINANCIAL AND ADMINISTRATIVE AFFAIRS

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