

**CONVENIENCE TRANSLATION INTO
ENGLISH OF FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2**

VAKIF FAKTORİNG A.Ş.

**FINANCIAL STATEMENTS TOGETHER
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2020**



**CONVENIENCE TRANSLATION INTO ENGLISH
OF THE INDEPENDENT AUDITOR'S REPORT
ORIGINALLY PREPARED AND ISSUED IN TURKISH, SEE NOTE 2**

To the General Assembly of Vakıf Faktoring A.Ş.

A. Audit of Financial Statements

1. Opinion

We have audited the accompanying financial statements of Vakıf Faktoring A.Ş. (“the Company”), which comprise the statement of financial position as of 31 December 2020 and the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements and a summary of significant accounting policies and financial statement notes

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with Banking Regulation and Supervision Agency (“BRSA”) Accounting and Financial Reporting Legislation which includes “Communiqué on Uniform Chart of Accounts and Prospectus to be implemented by Financial Leasing, Factoring and Financing Companies” published in the Official Gazette numbered 28861 dated 24 December 2013 and “Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies”, communiqués, and circulars and, announcements made by BRSA and requirements of Turkish Financial Reporting Standards for the matters not regulated by the aforementioned legislations.

2. Basis for Opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the “SIA”) that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the “POA”). Our responsibilities under these standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report. We hereby declare that we are independent of the Company in accordance with the Ethical Rules for Independent Auditors (the “Ethical Rules”) and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Key Audit Matters

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



| Key audit matter | How Our Audit Addressed the Key Audit Matter |
|--|---|
| <p>Impairment of factoring receivables</p> <p>The Company’s total factoring receivables are amounting to TL 5.751.739 thousand including the doubtful factoring receivables in the statement of financial position as of 31 December 2020. Explanations and notes related to the provision for impairment of factoring receivables are provided in accordance with the requirements of “BRSA Accounting and Reporting Legislation” are presented in Note 2.1.6, 2.4.5 and 15 in the accompanying financial statements as of 31 December 2020.</p> <p>We focused on this area during our audit; considering the size of factoring receivables and the provision for impairment of factoring receivables, and the importance of the classification of the factoring receivables in accordance with the related legislation and appropriately determination of the provision for impairment factoring receivables considering their classifications Timely and correctly identification of loss event and level of judgements and estimations made by the management have significant impacts on the amount of impairment provisions for factoring receivables. Therefore, this area is considered as key audit matter</p> | <p>Within our audit procedures, we assessed and tested the design and operating effectiveness of the relevant important controls applied by the Company with respect to identification of loss event and and calculation of impairment provision in line with the framework of the relevant legislation.</p> <p>Within our audit procedures, we tested a select sample of factoring receivables with the objective of identifying whether the loss event occurred and whether the provision for impairment was recognized in a timely manner and within the framework of the provisions of the relevant legislation. Furthermore, we tested the appropriateness of specific provision calculation provided for impaired factoring receivables in accordance with the BRSA Accounting and Reporting Legislation.</p> |



4. Responsibilities of Management and those charged with Governance for the Financial Statements

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

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

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

5. Auditor's Responsibilities for the Audit of the Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is 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 independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements 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 independent audit conducted in accordance with SIA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in 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..
- Assess the 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 independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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



B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2020 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.

Additional Paragraph for Convenience Translation:

The effects of differences between accounting principles and standards explained in detail in Note 2 and accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

A handwritten signature in blue ink, appearing to read "Zeynep Uras", is written over a light blue circular stamp.

Zeynep Uras, SMMM
Partner

İstanbul, 17 February 2021

**CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL
STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2**

VAKIF FAKTORİNG A.Ş.

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CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

VAKIF FAKTORİNG A.Ş.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2020 AND 2019

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

| | ASSETS | Note | Audited Current Period 31 December 2020 | | | Audited Prior Period 31 December 2019 | | |
|--------------|--|-----------|---|-----------------|------------------|---|----------------|------------------|
| | | | TL | FC | TOTAL | TL | FC | TOTAL |
| I. | CASH, CASH EQUIVALENTS AND BALANCES AT CENTRAL BANK | 3 | 75,439 | 3,755 | 79,194 | 634 | 4,152 | 4,786 |
| II. | FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Net) | | - | - | - | - | - | - |
| III. | DERIVATIVE FINANCIAL ASSETS | 11 | 2,013 | - | 2,013 | - | - | - |
| IV. | FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Net) | 4 | 6,897 | - | 6,897 | 4,782 | - | 4,782 |
| V. | FINANCIAL ASSETS AT AMORTISED COST (Net) | 5 | 5,424,511 | 270,645 | 5,695,156 | 2,447,556 | 369,208 | 2,816,764 |
| 5.1 | Factoring Receivables | 5 | 5,418,769 | 270,645 | 5,689,414 | 2,441,888 | 369,208 | 2,811,096 |
| 5.1.1 | Discounted Factoring Receivables (Net) | | 1,438,676 | 55,778 | 1,494,454 | 893,328 | 114,265 | 1,007,593 |
| 5.1.2 | Other Factoring Receivables | | 3,980,093 | 214,867 | 4,194,960 | 1,548,560 | 254,943 | 1,803,503 |
| 5.2 | Financial Loans | | - | - | - | - | - | - |
| 5.2.1 | Consumer loans | | - | - | - | - | - | - |
| 5.2.2 | Credit Cards | | - | - | - | - | - | - |
| 5.2.3 | Installment Commercial Loans | | - | - | - | - | - | - |
| 5.3 | Leasing Transactions (Net) | | - | - | - | - | - | - |
| 5.3.1 | Finance lease receivables | | - | - | - | - | - | - |
| 5.3.2 | Operating Lease Receivables | | - | - | - | - | - | - |
| 5.3.3 | Unearned Income (-) | | - | - | - | - | - | - |
| 5.4 | Other Financial Assets Measured at Amortised Cost | | - | - | - | - | - | - |
| 5.5 | Non Performing Receivables | 5 | 52,248 | 10,077 | 62,325 | 54,734 | 7,440 | 62,174 |
| 5.6 | Allowance For Expected Credit Losses / Specific Provisions (-) | 5 | (46,506) | (10,077) | (56,583) | (49,066) | (7,440) | (56,506) |
| VI. | INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES | | - | - | - | - | - | - |
| 6.1 | Investments in Associates (Net) | | - | - | - | - | - | - |
| 6.2 | Investments in Subsidiaries (Net) | | - | - | - | - | - | - |
| 6.3 | Jointly Controlled Partnerships (Joint Ventures) (Net) | | - | - | - | - | - | - |
| VII. | TANGIBLE ASSETS (Net) | 6 | 2,399 | - | 2,399 | 2,501 | - | 2,501 |
| VIII. | INTANGIBLE ASSETS (Net) | 7 | 1,195 | - | 1,195 | 131 | - | 131 |
| IX. | INVESTMENT PROPERTY (Net) | | - | - | - | - | - | - |
| X. | CURRENT TAX ASSETS | | - | - | - | - | - | - |
| XI. | DEFERRED TAX ASSET | 8 | - | - | - | 298 | - | 298 |
| XII. | OTHER ASSETS | 10 | 3,763 | 76 | 3,839 | 1,896 | 50 | 1,946 |
| | SUBTOTAL | | 5,516,217 | 274,476 | 5,790,693 | 2,457,798 | 373,410 | 2,831,208 |
| XIII. | ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net) | 9 | - | - | - | - | - | - |
| 13.1 | Held for Sale | | - | - | - | - | - | - |
| 13.2 | Non-Current Assets From Discontinued Operations | | - | - | - | - | - | - |
| | TOTAL ASSETS | | 5,516,217 | 274,476 | 5,790,693 | 2,457,798 | 373,410 | 2,831,208 |

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

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

VAKIF FAKTORİNG A.Ş.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2020 AND 2019

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

| | LIABILITIES | Note | Audited Current Period 31 December 2020 | | | Audited Prior Period 31 December 2019 | | |
|--------------|--|------|---|---------|-----------|---|---------|-----------|
| | | | TP | YP | TOPLAM | TP | YP | TOPLAM |
| I. | LOANS RECEIVED | 12 | 4,028,285 | 494,057 | 4,522,342 | 1,474,116 | 600,434 | 2,074,550 |
| II. | FACTORING PAYABLES | | 672 | - | 672 | 1,823 | 549 | 2,372 |
| III. | LEASE PAYABLES | | 2,119 | - | 2,119 | 2,206 | - | 2,206 |
| IV. | MARKETABLE SECURITIES (Net) | 13 | 761,121 | - | 761,121 | 349,147 | - | 349,147 |
| V. | FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS | | - | - | - | - | - | - |
| VI. | DERIVATIVE FINANCIAL LIABILITIES | | - | - | - | - | - | - |
| VII. | PROVISIONS | | 5,424 | 15,642 | 21,066 | 5,126 | 12,658 | 17,784 |
| 7.1 | Provision for Restructuring | | - | - | - | - | - | - |
| 7.2 | Reserves For Employee Benefits | 15 | 1,424 | - | 1,424 | 1,126 | - | 1,126 |
| 7.3 | General Loan Loss Provisions | 15 | 4,000 | 15,642 | 19,642 | 4,000 | 12,658 | 16,658 |
| 7.4 | Other provisions | | - | - | - | - | - | - |
| VIII. | CURRENT TAX LIABILITIES | 14 | 9,284 | - | 9,284 | 11,564 | - | 11,564 |
| IX. | DEFERRED TAX LIABILITY | 14 | 269 | - | 269 | - | - | - |
| X. | SUBORDINATED DEBT | | - | - | - | - | - | - |
| XI. | OTHER LIABILITIES | 14 | 524 | 105 | 629 | 411 | 99 | 510 |
| | SUBTOTAL | | 4,807,698 | 509,804 | 5,317,502 | 1,844,393 | 613,740 | 2,458,133 |
| XII. | LIABILITIES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net) | | - | - | - | - | - | - |
| 12.1 | Held For Sale | | - | - | - | - | - | - |
| 12.2 | Related to Discontinued Operations | | - | - | - | - | - | - |
| XIII. | EQUITY | 16 | 473,191 | - | 473,191 | 373,075 | - | 373,075 |
| 13.1 | Issued capital | 16 | 250,000 | - | 250,000 | 170,000 | - | 170,000 |
| 13.2 | Capital Reserves | 16 | - | - | - | - | - | - |
| 13.2.1 | Equity Share Premiums | | - | - | - | - | - | - |
| 13.2.2 | Share Cancellation Profits | | - | - | - | - | - | - |
| 13.2.3 | Other Capital Reserves | | - | - | - | - | - | - |
| 13.3 | Other Accumulated Comprehensive Income That Will Not Be Reclassified In Profit Or Loss | | 4,398 | - | 4,398 | 2,388 | - | 2,388 |
| 13.4 | Other Accumulated Comprehensive Income That Will Be Reclassified In Profit Or Loss | | - | - | - | - | - | - |
| 13.5 | Profit Reserves | | 120,687 | - | 120,687 | 69,570 | - | 69,570 |
| 13.5.1 | Legal Reserves | | 18,286 | - | 18,286 | 11,730 | - | 11,730 |
| 13.5.2 | Statutory Reserves | | - | - | - | - | - | - |
| 13.5.3 | Extraordinary Reserves | | 102,401 | - | 102,401 | 57,840 | - | 57,840 |
| 13.5.4 | Other Profit Reserves | | - | - | - | - | - | - |
| 13.6 | Profit or Loss | | 98,106 | - | 98,106 | 131,117 | - | 131,117 |
| 13.6.1 | Prior Years' Profit or Loss | | - | - | - | - | - | - |
| 13.6.2 | Current Period Net Profit Or Loss | | 98,106 | - | 98,106 | 131,117 | - | 131,117 |
| | Total equity and liabilities | | 5,280,889 | 509,804 | 5,790,693 | 2,217,468 | 613,740 | 2,831,208 |

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

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

VAKIF FAKTORİNG A.Ş.

OFF BALANCE SHEET ITEMS AS OF 31 DECEMBER 2020 AND 2019

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

| | OFF BALANCE SHEET ITEMS | Note | Audited Current Period 31 December 2020 | | | Audited Prior Period 31 December 2019 | | |
|-------------|---|-----------|--|------------------|------------------|--|------------------|------------------|
| | | | TP | YP | TOPLAM | TP | YP | TOPLAM |
| I. | RECOURSE FACTORING TRANSACTIONS | | 1,000 | 474,188 | 475,188 | 324,144 | 142,897 | 467,041 |
| II. | NON-RECOURSE FACTORING TRANSACTIONS | | 52,152 | 889,517 | 941,669 | 24,619 | 422,753 | 447,372 |
| III. | GUARANTEES RECEIVED | | - | - | - | - | - | - |
| IV. | GUARANTEES GIVEN | | 852,035 | - | 852,035 | 386,382 | - | 386,382 |
| V. | COMMITMENTS | 23 | - | - | - | - | - | - |
| 5.1 | Irrevocable Commitments | | - | - | - | - | - | - |
| 52 | Revocable Commitments | | - | - | - | - | - | - |
| 5.2.1 | Lease Commitments | | - | - | - | - | - | - |
| 5.2.1.1 | Financial Lease Commitments | | - | - | - | - | - | - |
| 5.2.1.2 | Operational Lease Commitments | | - | - | - | - | - | - |
| 5.2.2 | Other Revocable Commitments | | - | - | - | - | - | - |
| VI. | DERIVATIVE FINANCIAL INSTRUMENTS | 23 | 55,058 | 49,181 | 104,239 | - | - | - |
| 6.1 | Hedging Derivative Financial Instruments | | - | - | - | - | - | - |
| 6.1.1 | Transactions for Fair Value Hedge | | - | - | - | - | - | - |
| 6.1.2 | Transactions for Cash Flow Hedge | | - | - | - | - | - | - |
| 6.1.3 | Transactions for Foreign Net Investment Hedge | | - | - | - | - | - | - |
| 6.2 | Trading Transactions | | 55,058 | 49,181 | 104,239 | - | - | - |
| 6.2.1 | Forward Buy/Sell Transactions | | - | - | - | - | - | - |
| 6.2.2 | Swap Buy/Sell Transactions | | 55,058 | 49,181 | 104,239 | - | - | - |
| 6.2.3 | Options Buy/Sell Transactions | | - | - | - | - | - | - |
| 6.2.4 | Futures Buy/Sell Transactions | | - | - | - | - | - | - |
| 6.2.5 | Other | | - | - | - | - | - | - |
| VII. | ITEMS HELD IN CUSTODY | | 5,166,820 | 1,167,957 | 6,334,777 | 4,292,725 | 923,313 | 5,216,038 |
| | TOTAL OFF BALANCE SHEET COMMITMENTS | | 6,127,065 | 2,580,843 | 8,707,908 | 5,027,870 | 1,488,963 | 6,516,833 |

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

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

VAKIF FAKTORİNG A.Ş.

STATEMENT OF PROFIT OR LOSS FOR THE PERIOD ENDED 31 DECEMBER 2020 AND 2019

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

| INCOME AND EXPENSE ITEMS | | Note | Audited Current Period 1 January - 31 December 2020 | Audited Prior Period 1 January - 31 December 2019 |
|--------------------------|---|-----------|--|--|
| I. | OPERATING INCOME | | 358,094 | 527,551 |
| | FACTORING INCOME | | 358,094 | 527,551 |
| 1.1 | Interest received from Factoring Receivables | | 352,762 | 520,669 |
| 1.1.1 | Discounted | | 120,091 | 159,593 |
| 1.1.2 | Other | | 232,671 | 361,076 |
| 1.2 | Fees and Commissions Received from Factoring Receivables | | 5,332 | 6,882 |
| 1.2.1 | Discounted | | 1,225 | 2,231 |
| 1.2.2 | Other | | 4,107 | 4,651 |
| | FINANCE LOAN INCOME | | - | - |
| 1.3 | Interest Received from Finance Loans | | - | - |
| 1.4 | Fees and Commissions Received from Finance Loans | | - | - |
| | LEASE INCOME | | - | - |
| 1.5 | Financial Lease Income | | - | - |
| 1.6 | Operating Lease Income | | - | - |
| 1.7 | Fees and Commissions Received from Lease Transactions | | - | - |
| II. | FINANCING EXPENSES (-) | | (221,254) | (337,706) |
| 2.1 | Interest on Funds Borrowed | | (177,963) | (267,318) |
| 2.2 | Interest on Factoring Payables | | - | - |
| 2.3 | Financial Lease Expenses | | (264) | (395) |
| 2.4 | Interest on Securities Issued | | (30,929) | (61,423) |
| 2.5 | Other Interest Expenses | | - | - |
| 2.6 | Fees and Commissions Given | | (12,098) | (8,570) |
| III. | GROSS PROFIT/LOSS (I+II) | | 136,840 | 189,845 |
| IV. | OPERATING EXPENSE (-) | 19 | (18,270) | (17,066) |
| 4.1 | Personnel Expenses | | (12,864) | (11,937) |
| 4.2 | Provision Expense for Employment Termination Benefits | | (179) | (205) |
| 4.3 | Research and Development Expenses | | - | - |
| 4.4 | General Administration Expenses | | (5,227) | (4,924) |
| 4.5 | Other | | - | - |
| V. | GROSS OPERATING PROFIT/LOSS (III+IV) | | 118,570 | 172,779 |
| VI. | OTHER OPERATING INCOME | 20 | 338,693 | 119,520 |
| 6.1 | Interest Received from Banks | | 3,121 | 723 |
| 6.2 | Interest Received from Marketable Securities Portfolio | | - | - |
| 6.3 | Dividend Income | | - | - |
| 6.4 | Capital Market Transactions Profit | | - | - |
| 6.5 | Interest From Derivative Financial Transactions | | 2,013 | 3,772 |
| 6.6 | Foreign Exchange Gains | | 329,539 | 114,201 |
| 6.7 | Other | | 4,020 | 824 |
| VII. | PROVISIONS | | (1,300) | (8,922) |
| 7.1 | Specific Provisions | | (1,300) | (8,895) |
| 7.2 | Expected Loss Provisions | | - | - |
| 7.3 | General Provisions | | - | - |
| 7.4 | Other | | - | (27) |
| VIII. | OTHER OPERATING EXPENSES (-) | 20 | (330,138) | (114,318) |
| 8.1 | Impairment of Marketable Securities | | - | - |
| 8.2 | Impairment of Property and Equipment | | - | - |
| 8.3 | Capital Market Transactions Loss | | - | - |
| 8.4 | Loss from Derivative Financial Transaction | | - | (1,702) |
| 8.5 | Foreign Exchange Loss | | (330,019) | (112,616) |
| 8.6 | Other | | (119) | - |
| IX. | NET OPERATING INCOME/EXPENSE (V+...+VIII) | | 125,825 | 169,059 |
| X. | SURPLUS WRITTEN AS GAIN AFTER MERGER | | - | - |
| XI. | INCOME/(LOSS) FROM INVESTMENTS CONSOLIDATED BASED ON EQUITY METHOD | | - | - |
| XII. | NET MONETARY POSITION GAIN/LOSS | | - | - |
| XIII. | PROFIT/LOSS BEFORE TAX FROM CONTINUING OPERATIONS (IX+X+XI+XII) | | 125,825 | 169,059 |
| XIV. | TAXATION ON INCOME FROM CONTINUING OPERATIONS(±) (±) | 21 | (27,719) | (37,942) |
| 14.1 | Current Tax Provision | | (27,258) | (36,817) |
| 14.2 | Deferred Tax Expense Effect (+) | | (461) | (1,125) |
| 14.3 | Deferred Tax Income Effect (-) | | - | - |
| XV. | NET PROFIT/LOSS FROM CONTINUING OPERATIONS (XIII+XIV) | | 98,106 | 131,117 |
| XVI. | INCOME FROM DISCONTINUING OPERATIONS | | - | - |
| 16.1 | Income from Assets Held for Resale | | - | - |
| 16.2 | Income from Investment and Associates, Subsidiaries and Joint Ventures | | - | - |
| 16.3 | Other income | | - | - |
| XVII. | EXPENSES FROM DISCONTINUING OPERATIONS (-) | | - | - |
| 17.1 | Expenses from Assets Held for Resale | | - | - |
| 17.2 | Income from Investment and Associates, Subsidiaries and Joint Ventures | | - | - |
| 17.3 | Other Expenses | | - | - |
| XVIII. | PROFIT/LOSS BEFORE TAX FROM DISCONTINUING OPERATIONS (XVI-XVII) | | - | - |
| XIX. | TAXATION ON INCOME FROM DISCONTINUING OPERATIONS (±) | | - | - |
| 19.1 | Current Tax Provision | | - | - |
| 19.2 | Deferred Tax Expense Effect (+) | | - | - |
| 19.3 | Deferred Tax Income Effect (-) | | - | - |
| XX. | NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XVIII±XIX) | | - | - |
| XXI. | NET PROFIT/LOSSES (XV+XX) | | 98,106 | 131,117 |
| | Earnings Per Share (Full TL) | 25 | 0,3924 | 0,5245 |

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL
STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2**

VAKIF FAKTORİNG A.Ş.

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 31 DECEMBER 2020 AND 2019**

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

| | | Audited Current Period 31 December 2020 | Audited Prior Period 31 December 2019 |
|-------------|---|--|--|
| I. | CURRENT PROFIT/LOSS | 98,106 | 131,117 |
| II. | OTHER COMPREHENSIVE INCOME | 2,010 | 579 |
| 2.1 | Items not to be reclassified under profit and loss | 2,010 | 579 |
| 2.1.1 | Revaluation differences of property and equipment | - | - |
| 2.1.2 | Revaluation differences of intangible assets | - | - |
| 2.1.3 | Defined benefit plans remeasurement gains / losses | - | - |
| 2.1.4 | Other comprehensive income items not to be reclassified under profit and loss | 2,115 | 610 |
| 2.1.5 | Taxes on other comprehensive income not to be reclassified under profit or loss | (105) | (31) |
| 2.2 | Items to be reclassified under profit and loss | - | - |
| 2.2.1 | Foreign exchange differences from foreign currency transactions | - | - |
| 2.2.2 | Income/expenses on revaluation or reclassification of available for sale financial assets | - | - |
| 2.2.3 | Income/loss on cash flow hedge derivative financial assets | - | - |
| 2.2.4 | Income/loss from foreign investment hedge derivative financial assets | - | - |
| 2.2.5 | Other comprehensive income items to be reclassified under profit and loss | - | - |
| 2.2.6 | Taxes on other comprehensive income to be reclassified under profit or loss | - | - |
| III. | TOTAL COMPREHENSIVE INCOME (I+II) | 100,116 | 131,696 |

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

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

VAKIF FAKTORİNG A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2020 AND 2019

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

| STATEMENT OF CHANGES IN EQUITY | Paid in Capital | Capital Reserves | Share Cancellation Profits | Other Reserves | Accumulated other comprehensive income or losses not to be reclassified under profit or loss statement | | | Accumulated other comprehensive income or losses to be reclassified under profit or loss statement | | | Profit Reserves | Prior Period Net Income / (Loss) | Net Profit / Loss | Total Equity |
|--|-----------------|------------------|----------------------------|----------------|--|----|-------|--|---|---|-----------------|----------------------------------|-------------------|--------------|
| | | | | | 1 | 2 | 3 | 4 | 5 | 6 | | | | |
| Current Period (01.01.2020 - 31.12.2020) (Audited) | | | | | | | | | | | | | | |
| I. Period Opening Balance(31.12.2019) | 170,000 | - | - | - | - | 51 | 2,337 | - | - | - | 69,570 | - | 131,117 | 373,075 |
| II. Changes in Accounting Policies according to TAS 8 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.1 Effects of Correction | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.2 Effects of the Changes in Accounting Policies | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| III. Adjusted Balance (I-II) | 170,000 | - | - | - | - | 51 | 2,337 | - | - | - | 69,570 | - | 131,117 | 373,075 |
| IV. Total Comprehensive Income | - | - | - | - | - | - | 2,010 | - | - | - | - | - | 98,106 | 100,116 |
| V. Increase in Paid in Capital | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| VI. Capital Increase From Internal Resources | 80,000 | - | - | - | - | - | - | - | - | - | 51,117 | - | (131,117) | - |
| VII. Inflation Adjustments to Paid in Capital | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| VIII. Convertible Bonds | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IX. Subordinated Loans | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| X. Other Changes | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| XI. Profit Distribution | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 12.1 Dividend Distribution | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 12.2 Transfers to Reserves | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 12.3 Diğer | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Period End Balance (31.12.2020) | 250,000 | - | - | - | - | 51 | 4,347 | - | - | - | 120,687 | - | 98,106 | 473,191 |

- (1) The accumulated revaluation increases/losses on property and equipment,
- (2) The accumulated remeasurement gains/losses on defined benefit plans,
- (3) Other (Accumulated other comprehensive income or losses not to be reclassified under profit or loss statement),
- (4) Foreign currency translation differences
- (5) The accumulated revaluation increases/losses on available for sale asset,
- (6) Other (Cash flow hedge gains/losses, accumulated other comprehensive income or losses to be reclassified under profit or loss statement)

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

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

VAKIF FAKTORİNG A.Ş.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2020 AND 2019

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

| STATEMENT OF CHANGES IN EQUITY | | | | | Accumulated other comprehensive income or losses not to be reclassified under profit or loss statement | | | Accumulated other comprehensive income or losses to be reclassified under profit or loss statement | | | Profit Reserves | Prior Period Net Income / (Loss) | Net Profit / Loss | Total Equity |
|---|-----------------|------------------|---------------|----------------------------|--|----|-------|--|---|---|-----------------|----------------------------------|-------------------|--------------|
| | Paid in Capital | Capital Reserves | Share Premium | Share Cancellation Profits | 1 | 2 | 3 | 4 | 5 | 6 | | | | |
| Current Period (01.01.2019 - 31.12.2019) (Audited) | | | | | | | | | | | | | | |
| I. Period Opening Balance (31.12.2018) | 70,000 | - | - | - | - | 51 | 1,758 | - | - | - | 74,642 | - | 94,928 | 241,379 |
| II. Changes in Accounting Policies according to TAS 8 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.1 Effects of Correction | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.2 Effects of the Changes in Accounting Policies | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| III. Adjusted Balance (I+II) | 70,000 | - | - | - | - | 51 | 1,758 | - | - | - | 74,642 | - | 94,928 | 241,379 |
| IV. Total Comprehensive Income | - | - | - | - | - | - | 579 | - | - | - | - | - | 131,117 | 131,696 |
| V. Increase in Paid in Capital | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| VI. Capital Increase From Internal Resources | 100,000 | - | - | - | - | - | - | - | - | - | (5,072) | - | (94,928) | - |
| VII. Inflation Adjustments to Paid in Capital | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| VIII. Convertible Bonds | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IX. Subordinated Loans | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| X. Other Changes | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| XI. Profit Distribution | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 12.1 Dividend Distribution | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 12.2 Transfers to Reserves | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 12.3 Other | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Period End Balance (31.12.2019) | 170,000 | - | - | - | - | 51 | 2,337 | - | - | - | 69,570 | - | 131,117 | 373,075 |

- (1) The accumulated revaluation increases/losses on property and equipment,
- (2) The accumulated remeasurement gains/losses on defined benefit plans,
- (3) Other (Accumulated other comprehensive income or losses not to be reclassified under profit or loss statement),
- (4) Foreign currency translation differences
- (5) The accumulated revaluation increases/losses on available for sale asset,
- (6) Other (Cash flow hedge gains/losses, accumulated other comprehensive income or losses to be reclassified under profit or loss statement),

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

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

VAKIF FAKTORİNG A.Ş.

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2020 AND 2019

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

| | Notes | Audited 31 December 2020 | Audited 31 December 2019 |
|---|-------|-----------------------------|-----------------------------|
| A. CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| 1.1 Operating Profit before Changes in Operating Assets and Liabilities | | 106,384 | 69,580 |
| 1.1.1 Interest Received/Factoring Income | | 339,470 | 501,149 |
| 1.1.2 Interest Paid/Leasing Expense | | (177,893) | (373,038) |
| 1.1.3 Dividend Received | | - | - |
| 1.1.4 Fees and Commissions Received | | 5,332 | 6,883 |
| 1.1.5 Other Income | | 3,421 | 706 |
| 1.1.6 Collections from Previously Written-off Doubtful Receivables | | (3,861) | (131) |
| 1.1.7 Payments to Personnel and Service Suppliers | | (26,274) | (24,444) |
| 1.1.8 Taxes Paid | | (30,283) | (40,526) |
| 1.1.9 Other | | (3,528) | (1,019) |
| 1.2 Changes in Operating Assets and Liabilities | | (446,698) | 45,832 |
| 1.2.1 Net (Increase) Decrease in Factoring Receivables | | (2,862,018) | (171,998) |
| 1.2.2 Net (Increase) Decrease in Finance Loans | | - | - |
| 1.2.3 Net (Increase) Decrease in Lease Receivables | | - | - |
| 1.2.4 Net (Increase) Decrease in Other Assets | | (5,386) | 4,895 |
| 1.2.5 Net Increase (Decrease) in Factoring Payables | | (1,699) | 1,468 |
| 1.2.6 Net Increase (Decrease) in Lease Payables | | (87) | 2,206 |
| 1.2.7 Net Increase (Decrease) in Funds Borrowed | | 2,416,529 | 214,057 |
| 1.2.8 Net Increase (Decrease) in Due Payables | | - | - |
| 1.2.9 Net Increase (Decrease) in Other Liabilities | | 5,963 | (4,796) |
| I. Net Cash Used in Operating Activities | | (340,314) | 115,412 |
| B. CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| 2.1 Acquisition of Investments, Associates and Subsidiaries | | - | - |
| 2.2 Disposal of Investments, Associates and Subsidiaries | | - | - |
| 2.3 Purchases of Property and Equipment | | (2,577) | (1,640) |
| 2.4 Disposals of Property and Equipment | | 154 | - |
| 2.5 Financial Assets Reflected in Revenue | | - | - |
| Disposals of Fair Value Differences of Other Comprehensive | | - | - |
| 2.6 Financial Assets Reflected in Revenue | | - | - |
| 2.7 Purchase of investment securities held to maturity | | - | - |
| 2.8 Sale of investment securities held to maturity | | - | - |
| 2.9 Other | | - | - |
| II. Net Cash (Used in)/Provided from Investing Activities | | (2,423) | (1,640) |
| C. CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| 3.1 Cash Obtained from Funds Borrowed and Securities Issued | | 748,467 | 1,090,913 |
| 3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued | | (341,270) | (1,243,366) |
| 3.3 Issued Capital Instruments | | - | - |
| 3.4 Dividends Paid | | - | - |
| 3.5 Payments for Finance Leases | | - | - |
| 3.6 Other | | - | - |
| III. Net Cash Provided from Financing Activities | | 407,197 | (152,453) |
| IV. Effect of change in foreign exchange rate on cash and cash equivalents | | 9,911 | 6,772 |
| V. Net Increase in Cash and Cash Equivalents | | 74,371 | (31,909) |
| VI. Cash and Cash Equivalents at Beginning of the Period | 2 | 4,786 | 36,695 |
| VII. Cash and Cash Equivalents at End of the Period | 2 | 79,157 | 4,786 |

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

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

VAKIF FAKTORİNG A.Ş.

STATEMENT OF PROFIT DISTRIBUTION FOR THE PERIOD ENDED 31 DECEMBER 2020 AND 2019

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

| | Current Period 31 December 2020 (*) | Prior Period 31 December 2019 (*) |
|---|--|--------------------------------------|
| I. DISTRIBUTION OF CURRENT PERIOD PROFIT | | |
| 1.1 CURRENT PERIOD PROFIT | 125,825 | 169,059 |
| 1.2 TAXES AND DUTIES PAYABLE (-) | (27,719) | (37,942) |
| 1.2.1 Corporate Tax (Income Tax) | (27,258) | (36,817) |
| 1.2.2 Withholding Tax | (461) | (1,125) |
| 1.2.3 Other taxes and duties (**) | - | - |
| A. NET PERIOD PROFIT (1.1-1.2) | 98,106 | 131,117 |
| 1.3 PRIORS YEAR LOSSES (-) | - | - |
| 1.4 FIRST LEGAL RESERVES (-) | - | - |
| 1.5 OTHER STATUTORY RESERVES (-) | - | - |
| B. DISTRIBUTABLE NET PERIOD PROFIT [(A)-(1.3+1.4+1.5)] | 98,106 | 131,117 |
| 1.6 FIRST DIVIDEND TO SHAREHOLDERS (-) | - | - |
| 1.6.1 To Owners of Ordinary Shares | - | - |
| 1.6.2 To Owners of Preferred Stocks | - | - |
| 1.6.3 Participation in Redeemed Shares | - | - |
| 1.6.4 To Profit Sharing Bonds | - | - |
| 1.6.5 To Owners of the profit /loss Sharing Certificates | - | - |
| 1.7 DIVIDEND TO PERSONNEL (-) | - | - |
| 1.8 DIVIDEND TO BOARD OF DIRECTORS (-) | - | - |
| 1.9 SECOND DIVIDEND TO SHAREHOLDERS (-) | - | - |
| 1.9.1 To Owners of Ordinary Shares | - | - |
| 1.9.2 To Owners of Preferred Stocks | - | - |
| 1.9.3 Participation in Redeemed Shares | - | - |
| 1.9.4 To Profit Sharing Bonds | - | - |
| 1.9.5 To Owners of the profit /loss Sharing Certificates | - | - |
| 1.10 SECOND LEGAL RESERVE (-) | - | - |
| 1.11 STATUS RESERVES (-) | - | - |
| 1.12 EXTRAORDINARY RESERVES | - | - |
| 1.13 OTHER RESERVES | - | - |
| 1.14 SPECIAL FUNDS | - | - |
| II. DISTRIBUTION FROM RESERVES | - | - |
| 2.1 DISTRIBUTED RESERVES | - | - |
| 2.2 SECOND LEGAL RESERVES (-) | - | - |
| 2.3 SHARE TO SHAREHOLDERS (-) | - | - |
| 2.3.1 To Owners of Ordinary Shares | - | - |
| 2.3.2 To Owners of Preferred Stocks | - | - |
| 2.3.3 Participation in Redeemed Shares | - | - |
| 2.3.4 Kâra İştirakli Tahvillere | - | - |
| 2.3.5 To Owners of the profit /loss Sharing Certificates | - | - |
| 2.4 SHARE TO PERSONNEL (-) | - | - |
| 2.5 SHARE TO BOARD OF DIRECTORS (-) | - | - |
| III. EARNINGS PER SHARE | - | - |
| 3.1 TO OWNERS OF STOCKS | 0,3924 | 0,5245 |
| 3.2 TO OWNERS OF STOCKS (%) | 39.24 | 52.45 |
| 3.3 TO OWNERS OF PREFERRED STOCKS | - | - |
| 3.4 TO OWNERS OF PREFERRED STOCKS (%) | - | - |
| IV. DIVIDEND PER SHARE | - | - |
| 4.1 TO OWNERS OF STOCKS | - | - |
| 4.2 TO OWNERS OF STOCKS (%) | - | - |
| 4.3 TO OWNERS OF PREFERRED STOCKS | - | - |
| 4.4 TO OWNERS OF PREFERRED STOCKS (%) | - | - |

(*) As of the date of finalization of the financial statements 31 December 2020 the General Assembly has not been held yet..

(**) Since it is considered by the Banking Regulation and Supervision Agency that the income amounts related to the deferred tax assets can not be classified as cash or internal source and therefore the portion of the period income resulting from these assets should not be subject to profit distribution and capital increase. As of 31 December 2020, the Company does not have deferred tax income arising from deferred tax assets (31 Aralık 2019: None).

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

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

VAKIF FAKTORİNG A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2020

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

1 - ORGANIZATION AND NATURE OF OPERATIONS

Vakıf Faktoring A.Ş. (previously Vakıf Finans Factoring Hizmetleri A.Ş.) (‘The Company’), was incorporated on 28 January 1998 to provide factoring services to industrial and commercial firms. The Company provides factoring services, that is a financial product which ensure ‘guarantee’, ‘finance’ and ‘collection’ services by way of assignment to a company called ‘factor’ of the trade receivables arising from sale of goods and/or services by firms to within the country.

At the General Meeting held on 31 March 2015, the Company title “Vakıf Finans Factoring Hizmetleri A.Ş.” was decided to change as “Vakıf Faktoring A.Ş.” and the new title was registered to Turkish Trade Registry on 13 April 2015.

The Company serves both domestic and international factoring services. The Company operates in accordance with ‘Financial Lease, Factoring and Financing Companies Law’ published on the Official Gazette no. 28496 dated 13 December 2012 and ‘Regulation on Principles for Establishment and Operations of Finance Lease, Factoring and Financing Companies’ of Banking Regulating and Supervision Agency (BRSA).

Covid-19 (Coronavirus), which first appeared in China and spread rapidly around the world in a short period, was initially detected in Turkey in March. On the 12th of March, 2020, the World Health Organization declared the Covid-19 outbreak a global pandemic. In order to slow down the spread of the pandemic, which has had economic and social consequences globally, Turkey, like many other countries, took various measures such as restricting travel, quarantining, and increasing remote work. Various regulations were also introduced to reduce the economic effects of the pandemic. The company management continues to take measures to eliminate and mitigate the possible effects of the pandemic on the Company's activities. In addition, the Company Management monitors the effects of the pandemic on local and global markets and evaluates the possible effects of these developments on the sector in which the company operates.

As of 31 December 2020 and 31 December 2019, the compositions of the authorized and paid-in share capital are as follows:

| | Share | | Share | |
|-------------------------------------|----------------|------------------------|----------------|------------------------|
| | 2020 | 31 December (%) | 2019 | 31 December (%) |
| Türkiye Vakıflar Bankası T.A.O. | 195,982 | 78.39 | 133,268 | 78.39 |
| Türkiye Sigorta A.Ş. ^(*) | 34,263 | 13.71 | 23,299 | 13.70 |
| Vakıf Finansal Kiralama A.Ş. | 9,487 | 3.79 | 6,451 | 3.79 |
| Vakıfbank Per. Öz. Sos. Güv. Vakfı | 6,362 | 2.54 | 4,326 | 2.54 |
| Vakıf Pazarlama Sanayi ve Tic. A.Ş. | 3,906 | 1.56 | 2,656 | 1.56 |
| Share Capital | 250,000 | 100 | 170,000 | 100 |

(*) Güneş Sigorta A.Ş., which owns 13.71% of the company's capital, Ziraat Sigorta A.Ş. and Halk Sigorta A.Ş. with all its assets and liabilities, Güneş Sigorta A.Ş. The "Announcement Text", the amendment text of the articles of association and the issuance document regarding the merger of the Capital Markets Board ("CMB") It was approved by its decision dated 16 July 2020 and numbered 44/908. After the merger operations, Güneş Sigorta A.Ş. was named after Türkiye Sigorta A.Ş. title.

The Company has 49 employees as of 31 December 2020 (31 December 2019: 49).

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

VAKIF FAKTORİNG A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2020

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

1 - ORGANIZATION AND NATURE OF OPERATIONS (Continued)

The Company is registered in Turkey and located in the address below:

Şerifali Mahallesi, Bayraktar Bulvarı, No:62, Ümraniye/İSTANBUL.

The Company carries its operations mainly in one geographical region (Turkey). The Company has branches in Ankara and Izmir which are opened in 2017.

Approval of Financial Statements

Prepared financial statements as of 31 December 2020 dated and ended account term, the financial statements were approved by the Board on February 21, 2021. The General Assembly has authority to amend the financial statements.

2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

2.1 Basis of Preparation

2.1.1 Basis of Preparation of Financial Statements

The Company prepared the accompanying financial statements in thousands of Turkish Lira (“TL”) according to the ‘Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies’ and the ‘Communiqué on Uniform Chart of Accounts and Prospectus to be implemented by Financial Leasing, Factoring and Financing’ published in the Official Gazette dated 24 December 2013 and numbered 28861 by Banking Regulation and Supervision Agency and circulars and interpretations published by Banking Regulation and Supervision Authority (together referred as BRSA Accounting and Reporting Legislation) and in case where a specific regulation is not made by BRSA, preparations made according to the Turkish Financial Reporting Standards (“TFRS”) regulations included in; “BRSA Accounting and Financial Reporting Regulations”.

The financial statements have been prepared on the historical cost basis except for the derivative financial instruments, which are measured at fair value.

Preparation of financial statements requires the amounts of the reported assets and liabilities or disclosed conditional assets and liabilities and income and estimation and assumption which affects the expense amounts which are reported in the relevant period. These estimations are based on the management’s best opinion and knowledge and real consequences may be different than these estimations.

2.1.2 Additional paragraph for convenience translation into English

The differences between accounting principles, as described in the preceding paragraphs and accounting principles generally accepted in countries in which these financial statements are to be distributed and Turkish Financial Reporting Standards (“TFRS”) have not been quantified in these financial statements. Accordingly, these financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and TFRS.

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

VAKIF FAKTORİNG A.Ş.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2020

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

2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of Preparation (Continued)

2.1.3 Reporting Currency

Financial statements of the Company have been presented using the currency (functional currency) of the economic environment in which the Company operates. The financial position and the results of operations of the Company have been presented in Turkish Lira (“TL”) which is also the functional currency of the Company.

Financial statements are prepared on the historical cost basis as per thousand Turkish Lira (“TL”) basis except for financial assets and liabilities recognized at fair value.

2.1.4 Restatement of Financial Statements in Hyperinflationary Economies

The financial statements of the Company have been adjusted for the effects of inflation in accordance with TAS 29, “Financial Reporting in Hyperinflationary Economies” until 31 December 2004. In a circular issued on 28 April 2005, BRSA declared that hyperinflationary period is over and inflation accounting has ceased as of 1 January 2005.

2.1.5 Offsetting

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

2.1.6 Going concern

The Company prepared its financial statements considering the going concern principal.

2.1.7 Critical Accounting evaluations, estimates and assumptions

Preparation of the financial statements should be in accordance with BRSA’s Accounting and Financial Reporting Standards along with estimates and judgments regarding the reported amount of assets and liabilities or contingent assets and liabilities and reported amount of income and expenses of the related period. Such estimates and judgments are based on the Company’s best estimates regarding current events and transactions, however, the 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 year in which the estimate is revised and in any future years affected.

Significant interpretations, estimations and assumptions that may have an effect on the financial statements and effects on any possible change on carrying values of subsequent periods’ assets and liabilities are as follows:

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2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis of Preparation (Continued)

Allowance for impairment losses on factoring receivables

Within the scope of the "Regulation on the Amendment of the Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies" published in the Official Gazette dated May 2, 2018 and numbered 30409, companies have been granted the right to allocate anticipated loan loss provision within the scope of TFRS 9, provided that they notify the BRSA. and the effective date of the regulation has been arranged as 30 September 2018. In this context, the company has not preferred to apply the expected credit loss provision calculation model within the scope of TFRS 9 defined in Article 6/A of the relevant regulation for its receivables from factoring transactions; as in previous periods.

For factoring receivables as of 31 December 2020; Special and general provision has been allocated in accordance with Article 6 of the "Regulation on Accounting Practices and Financial Tables of Financial Leasing, Factoring and Financing Companies" published in the Official Gazette dated 24 December 2013 and numbered 28861 by the BRSA.

Allowance for impairment losses on factoring receivables (Continued)

According to the BRSA's letter, dated 19 March 2020 and numbered 24049440-010.03, implementations of the Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies, article 6, due to the disruptions in economic and commercial activities as a result of the Covid-19 pandemic are indicated below.

The implementation of the 90-day period specified in the first paragraph of Article 6; (a) and the sixth paragraph of the same article as 180 days until 31 December 2020, the terms specified in the subparagraph (a) of the factoring companies in the second sentence of the guaranteed factoring transactions are 270 and 300 days , (b), a regulation has been made for the implementation of the periods specified in paragraph (b) as 300 days and 1 year. These regulations made according to the decision of the BRSA dated 8 December 2020 and numbered 9312 will be valid until 30 June 2021.

In addition, the company did not change the provision policy for factoring receivables. As of the 1st of January 2020, the company recognizes canceled provisions due to collections from non-performing receivables under other operating income account.

Recognition of deferred tax assets

Deferred tax assets can be recorded as much as the said tax benefit is probable. Amount of taxable profits and possible tax benefits in the future is based on medium term business plan and expectations prepared by the Company. The business plan is based on rational expectations of the Company under current circumstances.

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2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.2 Changes In Accounting Policies

2.2.1 Comparatives knowledge and restatement of prior period financial statements

The financial statements of the Company are prepared in comparison with the previous period in order to allow the determination of financial status and performance trends. As of December 31, 2020, the company has prepared the changes in the financial position table, off-balance sheet, profit or loss statement, cash flow statement and equity statement in comparison with its financial statements dated December 31, 2019.

2.2.2 Changes in accounting policies

Changes in accounting policies are applied retrospectively and the prior period financial statements are restated accordingly. There are no major changes in the accounting policies of the Company in the current period

2.2.3 Change in accounting estimates and errors

The effect of a change in an accounting estimate is recognized prospectively in the period of the change, if the change affects that period only; or the period of the change and future periods, if the change affects both. There has not been any significant change in the accounting estimates of the Company in the current year. Material prior year errors are corrected retrospectively by restating the comparative amounts for the prior periods.

2.3 Amendments in standards and interpretations

2.3.1 New and revised standards and comments

a. Standards, amendments and interpretations applicable as of 31 December 2020:

Explanations on the effects of the new TAS/IFRS on the financial statements:

- a) Title of TAS/IFRS,
- b) The accounting policy change is made in accordance with the relevant transitional provisions,
- c) An explanation of the change in accounting policy,
- d) Explanation of transitional provisions, if any,
- e) The effects of transitional provisions, if any, on future periods,
- f) As far as possible, the correction amounts related to the current and presented previous periods:
 - i. submitted for each item of financial statements affected and
 - ii. if TAS 33, “Earnings Per Share”; is valid for the company, the amount of ordinary shares and diluted earnings per share should be recalculated.
- g) correction amounts for the periods before the submission period if possible and,
- h) if retrospective application is not possible for any period or periods, the events that cause this situation should be explained and the date of the change in accounting policy and how it is applied should be explained.

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2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.3 Amendments in standards and interpretations (Continued)

a. Standards, amendments and interpretations applicable as of 31 December 2020: (Continued)

- Amendments to IAS 1 and IAS 8 on the definition of material; effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, ‘Presentation of financial statements’, and IAS 8, ‘Accounting policies, changes in accounting estimates and errors’, and consequential amendments to other IFRSs:
 - i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting,
 - ii) clarify the explanation of the definition of material and
 - iii) incorporate some of the guidance in IAS 1 about immaterial information.
- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
- **Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform;** effective from Annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.
- **Amendments to IFRS 16 'Leases - COVID 19 Lease Concessions';** It is valid for annual reporting periods starting on 1 June 2020 or after this date. Due to the COVID-19 outbreak, some privileges were provided to tenants in rent payments. These concessions can take various forms, including suspension or postponement of lease payments. On May 28, 2020, with the amendment to the IFRS 16 Lease standard, the IASB introduced an optional facilitating practice for tenants not to assess whether the privileges granted due to COVID-19 in lease payments are a change in the lease agreement. accounts for such lease privileges in accordance with the prevailing provisions in the absence of a change in the lease agreement. This ease of implementation often causes the lease concession to be accounted for as a variable lease payment during periods when an event or condition occurs that triggers a reduction in lease payments.

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2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.3 Amendments in standards and interpretations (Continued)

b. Standards, amendments and interpretations that are issued but not effective as at 31 December 2020:

- **IFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
- **Amendment to TAS 1, "Presentation of financial statements" regarding the classification of liabilities;** Valid for annual reporting periods starting on or after January 1, 2022. These narrow amendments to TAS 1, "Presentation of financial statements", explain that liabilities are classified as current or non-current, depending on the rights existing at the end of the reporting period. The amendment also clarifies what the TAS 1 standard means to “settle” an obligation.
- **Narrow amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements in IFRS 1, IFRS 9, IAS 41, IFRS 16;** Valid for Annual periods starting on or after January 1, 2022.
 - IFRS 3, “Business combinations”; - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - **Amendments to IAS 16 “ Tangible assets”;** It prohibits a company from deducting the income from the sale of manufactured products from the amount of the tangible fixed asset until the asset is ready for use. Instead, the company will reflect such sales revenue and related cost in profit or loss.
 - **Amendments to IAS 37 ‘Provisions, contingent liabilities and contingent assets’** This amendment specifies the costs involved in deciding whether a company will lose from a contract.

Annual amendments, IFRS 1, first time implement of “International Financial Reporting Standards” IAS 9 ‘Financial Instruments’, IAS 41 ‘Agricultural Activities’ and makes minor changes to the illustrative examples of IFRS 16.

- **Amendments in IFRS 9, TFRS 9, TAS 39, TFRS 7, TFRS 4 and TFRS 16 - Benchmark interest rate reform Phase 2;** Continuing during actual cooking periods on or after January 1, 2021 Consider this Phase 2 change when reforms implement them, including repeating an interest rate alternative.
- **TFRS 17 and TFRS 4: Amendments in "Insurance Contracts", postponement of the application of TFRS 9;** Valid for annual reporting periods starting on or after January 1, 2021. These changes postpone the application date of TFRS 17 to January 1, 2023 for two years and the fixed date of the temporary exemption in TFRS 4 for the application date of TFRS 9 Financial Instruments standard has been postponed to January 1, 2023.

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2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies

Valuation principles and accounting policies followed in the preparation of these financial statements are summarized below.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits at banks and highly liquid investments with maturity periods of less than three months and that are not subject to significant change in value (Note3).

Financial Instruments

Financial assets and liabilities if there is a legal party to these financial instruments of the Company is located in the Company’s balance sheet.

Financial assets

As a result of the purchase or sale of financial assets that are subject to a contract with the condition of delivery of the investment instruments in accordance with the period determined by the relevant market, the related assets are recorded or removed from the records. Financial assets are classified as “financial assets at fair value through profit or loss”, “financial assets whose amortized cost is measured”, financial assets at fair value through profit or loss” and “loans”. These financial assets are included or excluded according to the third part of IFRS 9 Financial Instruments, related to the classification and measurement of financial instruments published in the Official Gazette dated 19 December 2017 and numbered 29953 by Public Oversight Accounting and Auditing Standards Authority (POA).

The Company includes financial assets only when the Company is a legal party to those financial instruments. In the initial recognition of a financial asset, the business model determined by the Company management and the contractual cash flows of the financial asset are considered.

(i) Financial assets at fair value through other comprehensive income

Financial assets at fair value through profit or loss are measured at fair value on the basis of fair value and discounted cash flows reflected in the financial statements as at the balance sheet date.

The Group has investment securities representing the share of capital in which there is no control power or significant efficiency. In case the marketable securities are traded in the organized markets and / or the fair value can be determined reliably, they are recognized at their fair value, if they are not traded in the organized markets and the fair value cannot be determined reliably, is reflected in the financial statements.

In financial statements, an irrevocable preference can be made to present subsequent changes in the fair value of an investment in an equity instrument that is not held for commercial purposes in other comprehensive income. If this preference is made, dividends obtained from investments recognized as profit or loss in the financial statements.

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2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Financial leasing transactions

"IFRS 16 Leases" Standard determines the principles regarding the recognition, measurement, presentation and disclosure of leases. The aim of the standard is to ensure that the tenants and lessors present these transactions in a truthful manner and provide the information appropriate to the need. This information constitutes the basis for the evaluation of the effect of leases on the financial position, financial performance and cash flows of the financial statement users.

(i) The lessor position

In financial leasing, the asset subject to lease is monitored in the financial statements as a receivable equal to the net lease investment. Financing income related to financial leasing is determined to bring a fixed periodic return to the net investment within the scope of financial leasing, and the portion of the interest income that is not accrued in the relevant period is followed in the unearned interest income account. Lease payments received are deducted from the gross lease investment amount, reducing the principal and unearned finance income.

(ii) The lease position

In accordance with the "IFRS 16 - Leases" standard, the Company calculates the "right of use" amount based on the present value of the lease payments of the fixed asset subject to lease at the beginning of the lease and includes it in "tangible fixed assets". In the calculation of assets entitled to use, the unpaid lease payment amounts have been discounted with the alternative borrowing interest rate, taking into account the remaining term in the lease contract with the property owner, and the net present value has been determined.

The Company has accounted the total of the lease obligations to be paid until the end of the lease contract as "Liabilities from Leasing Transactions" in the balance sheet liabilities, instead of directly expensing the leases subject to IFRS 16 Leases standard or taking them into prepaid expenses. Changes that will affect the lease obligation are re-measured and reflected in the balance sheet accounts.

Based on the lease contract term, interest and depreciation are calculated monthly over the net present value and accounted in the income statement.

Factoring and other receivables

Factoring receivables and payables are recognized net of any transaction costs through the initial costs. In subsequent periods of the initial recognition, the factoring receivables are shown through amortizing the difference between the initial cost and the present value of repayment amounts which is calculated by using effective interest method, in the income statement.

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2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Provisions for impairment

Tahsili ileride şüpheli olabilecek faktoring alacakları ve diğer alacaklar için karşılık ayrılmakta ve gider yazılmak suretiyle cari dönem karından düşülmektedir. Takipteki alacaklar karşılığı, mevcut faktoring alacakları ile ilgili ileride çıkabilecek muhtemel zararları karşılamak amacıyla, Şirket’in kredi portföyü, kalite ve risk açısından değerlendirilerek, ekonomik koşulları ve diğer etkenleri ve ilgili mevzuatı da göz önüne alarak ayırdığı tutardır.

For the doubtful factoring receivables and other receivables provision is recognized and deducted as expense from current period income. The factoring receivables provision for the impairment is established based on a credit review of the receivables portfolio as whole including all the non-performing factoring receivables in the portfolio of the Company. The Company has set this provision in accordance with the Communiqué of BRSA named “The Procedures Regarding the Provisions to Be Provided for the Loans of Leasing, Factoring and Consumer Finance Companies” (“Provisions Communiqué”) which was published in the Official Gazette dated 24 December 2013 and numbered 28861. According to the Provisions Communiqué, specific provisions are set in following proportions: minimum 20% for collateralized factoring receivables which related collections are not received after 90 to 180 days past due, minimum 50% for collateralized factoring receivables which related collections are not received after 180 to 365 days past due and 100% for collateralized factoring receivables which related collections are not received after 1 year past due.

According to the provisions of the relevant Regulation, after taking into account the collaterals of factoring receivables delayed more than 90 days but not exceeding 180 days, factoring receivables delayed more than 180 days from the due date but not more than 1 year, after taking into account the collaterals. 100% of factoring receivables that are delayed at least 50% and more than 1 year from the due date, after taking into account their collaterals, should be set aside for a special provision.

Factoring receivables that are overdue less than 1 year are classified as Loans to be Liquidated under NPLs, and factoring receivables with overdue for more than 1 year are classified as Loss-Type Receivables.

According to the BRSA's letter dated 19 March 2020 and numbered 24049440-010.03, due to the disruptions in economic and commercial activities as a result of the COVID-19 epidemic, the Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies.

The implementation of the 90-day period specified in the first paragraph of Article 6 (a) and the sixth paragraph of the same article as 180 days until 31 December 2020, the terms specified in the subparagraph (a) of the factoring companies in the second sentence of the guaranteed factoring transactions are 270 and 300 days. , (b), a regulation has been made for the implementation of the periods specified in paragraph (b) as 300 days and 1 year. These regulations made according to the decision of the BRSA dated 8 December 2020 and numbered 9312 will be valid until 30 June 2021.

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2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

However, the Company has not changed its policy of allocating provisions for its factoring receivables. In addition, as of January 1, 2020, the Company recognizes provisions canceled due to collections from non-performing receivables under other operating income.

Funds Borrowed

Funds borrowed are recognized at initial cost net off transaction costs. In subsequent periods, borrowings are recognized at amortized cost calculated as the present value of repayments by using effective interest rate method and the difference between the initial costs are recognized in the profit and loss.

Property and equipment

Property and equipments acquired before 1 January 2005 are measured at cost restated for the effects of inflation at 31 December 2004 less accumulated depreciation. Property and equipments acquired after 31 December 2004 are measured at cost less accumulated depreciation.

To change any part of property and equipment, expenses in the future economic benefits of the asset are capitalized enhancing qualities. All other costs are recognized in the income statement on an accrual basis.

Property and equipments are depreciated over the estimated useful lives by using the straight-line method.

| Defination | Year |
|------------------------|-------------|
| Furniture and fixtures | 5 |
| Motor vehicles | 5 |
| Leasehold | 5 |

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

Intangible Assets

Intangible assets consist of computer software expenses and they are amortized from inflation adjusted costs until 31 December 2004 in five years. Maintenance expenses for computer software are recognized in financial statements as expense. Furthermore, the expenses which will increase the useful life and benefit of the current computer programmes must be capitalized by means of adding to the cost of softwares.

| Definition | Year |
|----------------------------|-------------|
| Computer software licenses | 3-5 |

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2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Impairment in assets

Financial Assets

Financial assets other than financial assets at fair value through profit or loss are subject to an assessment at each balance sheet date to determine whether there is any indication of impairment. If after the recognition of financial assets one or more events occur and if there is objective evidence that there is impairment on future cash flows of the financial asset or group of assets, the financial asset is impaired and impairment loss is recognized.

The Company recognizes specific provision for factoring receivables in accordance with the Communiqué No: 28861 on the “Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies” and “Communiqué Uniform Chart of Accounts to be implemented by Financial Leasing, Factoring and Consumer Financing Companies and its Explanation” published in the same date and number issued at 24 December 2013 by BRSA.

The impairment loss is deducted from the carrying value of the other financial assets valued at amortized cost.

With the exception of available-for sale equity instruments, impairment losses recognized after the date of the impairment if events occurred with a reversal can be related objectively. The cancellation of financial assets measured at amortized cost is recognized in the income statement.

Increase occurring after the impairment of the fair value of available for sale equity instruments are recognized directly in equity..

Non-Financial Assets

The carrying amounts of the Company’s non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated.

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 income statement.

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 assessment of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the impairment 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. Impairment is canceled only to the extent that the net of amortization and depreciation do not exceed the book value of the asset

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2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Capital and Dividends

Ordinary shares are classified as equity. Ordinary dividends on ordinary shares are recognized in the period in which they are declared. Capital increase from current shareholders are recognized over the nominal values which are registered and approved at the annual general meeting. In Turkey, companies can increase their capital by distributing shares from retained earnings to existing shareholders. When earnings per share are calculated, these bonus shares are considered as issued shares. Accordingly, weighted number of share average used in earnings per share calculation is obtained by applying bonus shares as retroactive. There is no difference between principal and proportional earnings for any period.

Employee benefits

Severance provisions are accounted at present value of the contingent liabilities arising from the retirement of Company’s employees and calculated according to Turkish Labor Law. Severance provisions are calculated based on an accrual basis after completion of one year service by each employee and recognized in the financial statements. Obligations related to employee termination and vacation rights are accounted for in accordance with “Turkish Accounting Standard for Employee Rights” (“TAS 19”) and are classified under “reserve for employee benefits” account in the balance sheet.

Severance payment obligation recognized in the balance sheet is arise due to the possible obligation that may rise in the future due to retirement of employees and it is calculated at present value and recognized in the financial statements..

According to the TAS 19 that is revised by Public Oversight Accounting and Auditing Standards Authority (POA) with the Communiqué published in Official Gazette on 12 March 2013 numbered 28585, in the calculation of the employment termination benefit liabilities of the Company, the recognition method of the actuarial gains and losses derived from the changes in actuarial assumptions or the differences between actuarial assumptions and realizations in the income statement has been eliminated which is effective for the annual periods beginning on or after 1 January 2013. Beginning of 1 January 2013, the Company has recognized the actuarial gains and losses that occur in related reporting periods in the “Statement of Comprehensive Income” and present any accumulated profit/loss under Equity as “Benefit Plan Recalculation Gains/Losses” in the Statement of Financial Position.

Provisions, contingent asset and liabilities

In accordance with TAS 37, “Provisions, Contingent Assets and Liabilities”, a provision is recognized when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the specific criteria are not met, the Company discloses the related issues in the accompanying notes. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability if the time value of the money is significant to the provision. To determine the discount rate the interest rate in related markets and risks associated with the liability are considered. Contingent assets are disclosed in the notes and not recognized unless it is realized

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2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Derivative financial instruments

Company’s activities, expose the company to financial risks, risks that caused by changes in currency and interest rates. The Company uses derivatives (mainly currency swaps) to manage the financial risks associated with exchange rate fluctuations related to the future economic and credit conditions of the company.

Derivatives, calculated at fair value at the date of settlement. For the next reporting periods, derivatives are recalculated at fair value again. The company does not specify derivatives as a form of hedging and accordingly the change in the value of these derivatives in terms of the fair values has been correlated.

Income and expense recognition

Factoring income

Factoring revenue consists of factoring interest and commission income collected or accrued on advances given to the customers. A certain percentage of the total amount of invoices subject to factoring transaction is composed of factoring commission income. Factoring interest and commission income is recognized on accrual basis.

Other income and expenses

Other income and expenses are recognized on an accrual basis.

Finance expenses

Other finance expenses are recognized on an accrual basis using effective interest method.

Taxes calculated on the basis of the company’s earnings

Income taxes, include the current (corporate) tax and deferred tax.

Corporate tax

Corporation tax liability which is arising from results of operations of the Company in the financial statements is calculated on Company’s operating results adjusted by the Tax Procedure Law not acceptable expenses and exceptions.

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2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Deferred tax

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

According to TAS 12, “Income Taxes”; deferred tax assets and liabilities are recognized in the accompanying financial statements, using the balance sheet method, on all taxable temporary differences to the extent that they are expected to increase or decrease on the income tax payable in the period when they will reverse. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized

Valuation of assets on the statement of income as a result of these differences and deferred tax income or expense in the income statement on the relevant valuation of the asset is accounted for in equity as a result of differences; the related deferred tax effect is also recognized in equity.

The Company calculates the deferred tax asset on the deductible temporary differences, excluding general provisions and deferred tax liability, on all taxable temporary differences as long as it is possible to obtain financial profit that can be deducted in the future periods according to the tax legislation.

As of December 31, 2020 the company takes in consideration the periods when deferred tax assets accrue or the deferred tax liabilities are implemented in deferred tax calculation and uses tax rate 20%. (December 31, 2019: 22%).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the deferred tax and liabilities are realized simultaneously.

Related parties

In accordance with TAS 24, “Related Party Disclosures” shareholders, key management and board members, in each case together with companies controlled by or affiliated with them, and associated companies or considered and referred to as related parties. Related party transactions consist of the transfer of the assets and liabilities between related parties by a price or free of charge.

For the purpose of the accompanying financial statements, shareholders of the Company the companies controlled by associated with them, key management and the Board members of the Company are referred to as ‘related parties’

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

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

2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies(Continued)

Subsequent events

It refers to the events that occur in favor or against the company between the reporting period and the date of authorization for the publication of the balance sheet. IAS 10, "Turkey on the incident Accounting Standard after the Balance Sheet Date", in the case under the provisions of the balance sheet date, the question of new evidence, or the related events regarding that such events has occurred after the balance sheet date and require restating these events, financial statements, company financial statements in new situation corrects properly. If the events in question do not require correction of the financial statements, the Company explains the related issues in the related footnotes.

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 and the repayments of these sources. Due to nature of the transaction short term borrowings are shown under cash flows from operating activities starting from 1 January 2014.

As of 31 December 2020 and 31 December 2019, the cash and cash equivalents are as follows:

| | 31 December 2020 | 31 December 2019 |
|-------------------|-------------------------|-------------------------|
| Casht | 5 | 6 |
| <i>Banks</i> | | |
| - Time deposits | 78,431 | 3,259 |
| - Demand deposits | 721 | 1,521 |
| | 79,157 | 4,786 |

The bank account consists of time and demand deposits. As of 31 December 2020, 37 TL interest is accrued. (31 December 2019: None).

Segment reporting

An operating segment includes the performance of the Company's business activities, including revenues and expenses incurred from transactions with other operating segments, which are capable of generating revenue and expenditure. Furthermore, operating segment is subject to evaluation from the Board of Directors (which acts as the decision making instrument of the company) and should produce measurable performance results and distinguished financial information.

Since the Company operates in a single business and in a single area, Turkey, there is no segment reporting in the financial statements..

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2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Effects of foreign currency’s rates

Income and expenses deriving from transactions in foreign currencies have been translated into TL at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TL at the exchange rates prevailing at the balance sheet date. Exchange gains or losses arising from conversion of foreign currency items have been included in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to TL at the exchange rate the date that the fair value was determined.

The foreign exchange rates used by the Company as of 31 December 2020 and 31 December 2019 are as follows:

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

Information on leasing activities

Leases by which the risks and rewards belongs to lessor are classified as operating leases. Payments made under operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term.

Earnings per share

Earnings per share is calculated by dividing the profit or loss by the weighted average number of ordinary shares outstanding during the period.

3 - CASH AND CASH EQUIVALENTS

| | 31 December 2020 | | 31 December 2019 | |
|-----------------------|-------------------------|--------------|-------------------------|--------------|
| | TL | FC | TL | FC |
| Cash | 5 | - | 6 | - |
| Banks | | | | |
| - <i>Time deposit</i> | 74,761 | 3,670 | - | 3,259 |
| - <i>Demand</i> | 636 | 85 | 628 | 893 |
| Interest rediscount | 37 | - | - | - |
| | 75,439 | 3,755 | 634 | 4,152 |

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4 - FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (NET)

| | <u>31 December 2020</u> | | <u>31 December 2019</u> | |
|---------------------------------|-------------------------|-----------------------|-------------------------|-----------------------|
| | <u>Amount</u> | <u>Effective Rate</u> | <u>Amount</u> | <u>Effective Rate</u> |
| <i>Not publicly traded</i> | | | | |
| Vakıf Enerji ve Madencilik A.Ş. | 6,897 | %18.58 | 4,782 | %18.58 |
| Total | 6,897 | | 4,782 | |

Vakıf Energy and Mining Inc. (Vakıf Enerji,) based on the valuation report prepared by a valuation company with CMB license, as of 31 December 2020 the value of the company is determined as TL 37,128 and the value of the Company's share in the capital is calculated as TL 6,897.

5 - FACTORING RECEIVABLES

As of 31 December 2020 and 31 December 2019, factoring receivables are as follows:

| | <u>31 December 2020</u> | | <u>31 December 2019</u> | |
|---|-------------------------|----------------|-------------------------|----------------|
| | <u>TL</u> | <u>FC</u> | <u>TL</u> | <u>FC</u> |
| <i>Factoring Receivables Discounted</i> | | | | |
| Domestic factoring receivables | 1,486,084 | - | 920,208 | - |
| Export factoring receivables | 1,186 | 56,075 | - | 114,761 |
| Unearned factoring income | (48,594) | (297) | (26,880) | (496) |
| | 1,438,676 | 55,778 | 893,328 | 114,265 |
| <i>Other Factoring Receivables</i> | | | | |
| Domestic factoring receivables | 3,796,988 | - | 1,548,560 | - |
| Foreign factoring receivables | 183,105 | 214,867 | - | 254,943 |
| | 3,980,093 | 214,867 | 1,548,560 | 254,943 |
| Factoring receivables,net | 5,418,769 | 270,645 | 2,441,888 | 369,208 |

As of 31 December 2020, forward term checks and notes received by the Company against its factoring receivables amounting to TL948,033 are followed under the custodian securities (31 December 2019: TL 592,884).

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5 - FACTORING RECEIVABLES (Continued)

As of 31 December 2020 and 31 December 2019, the breakdown of total factoring receivables by industrial groups is as follows:

| | 31 December 2020 | (%) | 31 December 2019 | (%) |
|--|-------------------------|------------|-------------------------|---------------|
| Motor vehicles manufacturing and sales | 2,048,092 | 36.00 | 197,796 | 7.04 |
| Machinery and equipment | 700,883 | 12.32 | 454,315 | 16.16 |
| Energy | 653,191 | 11.48 | 563,544 | 20.05 |
| Construction | 483,185 | 8.49 | 386,701 | 13.76 |
| Information | 436,444 | 7.67 | 231,878 | 8.25 |
| Transportation | 389,766 | 6.85 | 230,848 | 8.21 |
| Textile | 333,382 | 5.86 | 134,077 | 4.77 |
| Food | 126,034 | 2.22 | 114,920 | 4.09 |
| Iron and steel | 24,241 | 0.43 | - | 0.00 |
| Other (*) | 494,196 | 8.69 | 497,017 | 17.68 |
| Total | 5,689,414 | 100 | 2,811,096 | 100.00 |

(*) It includes refactoring transactions which add up to 417,300 TL.

As of 31 December 2020 and 31 December 2019, maturity distribution of net factoring receivables are as follows:

| | 31 December 2020 | 31 December 2019 |
|------------------|-------------------------|-------------------------|
| Until 1 month | 993,862 | 416,606 |
| 1 – 3 month | 2,565,381 | 811,978 |
| 3 – 12 month | 2,039,999 | 1,452,635 |
| 1 year and above | 90,172 | 129,877 |
| Total | 5,689,414 | 2,811,096 |

As of 31 December 2020 and 31 December 2019, the breakdown of doubtful receivables and provisions are as follows:

| | 31 December 2020 | | 31 December 2019 | |
|----------------------------------|-------------------------|-----------|-------------------------|-----------|
| | TL | FC | TL | FC |
| Liquidated Loans | 6,455 | - | 16,824 | - |
| Uncollectible Receivables | 45,793 | 10,077 | 37,910 | 7,440 |
| Specific Provisions | (46,506) | (10,077) | (49,066) | (7,440) |
| Doubtful receivables, net | 5,742 | - | 5,668 | - |

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5 - FACTORING RECEIVABLES (Continued)

As of 31 December 2020 and 31 December 2019, the aging analysis of the impaired factoring receivables and specific provisions are as follows:

| | <u>31 December 2020</u> | | <u>31 December 2019</u> | |
|---------------------|---|------------------|---|------------------|
| | Total doubtful faktoring receivables | Provision | Total doubtful faktoring receivables | Provision |
| Overdue 3-6 months | 3,847 | 563 | 448 | 448 |
| Overdue 6-12 months | 2,608 | 1,443 | 16,376 | 12,002 |
| Overdue over 1 year | 55,870 | 54,577 | 45,350 | 44,056 |
| Total | 62,325 | 56,583 | 62,174 | 56,506 |

Movements in specific provision for factoring receivables within the period are as follows:

| | 31 December 2020 | 31 December 2019 |
|--|-------------------------|-------------------------|
| Balance at 1 January | 56,506 | 43,464 |
| Provision for the period | 1,301 | 8,895 |
| Transfer from general provision to special provision during the period | - | 4,000 |
| Recoveries during the period (-) | (3,861) | (131) |
| Exchange rate effect | 2,637 | 278 |
| Balance at the end of the period | 56,583 | 56,506 |

As of 31 December 2020 and 31 December 2019, the breakdown of collateral taken against factoring receivables of the Company is as follows:

| | 31 December 2020 | 31 December 2019 |
|----------------------------|-------------------------|-------------------------|
| Cheques and notes received | 139,994 | 83,465 |
| Total | 139,994 | 83,465 |

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6 - PROPERTY AND EQUIPMENT

Movements of property and equipment during the period ended 31 December 2020 and 31 December 2019 are as follows:

| | 1 January 2020 | Additions | Disposal | 31 December 2020 |
|--|-----------------------|----------------------------------|-----------------|-------------------------|
| Cost | | | | |
| Machinery and equipment | 973 | 190 | - | 1,163 |
| Vehicles | 120 | - | - | 120 |
| Furniture and fixtures | 371 | 38 | - | 409 |
| Vehicles with the right of use ^(*) | 758 | 990 | - | 1,748 |
| Buildings with the right of use ^(*) | 2,181 | 92 | (154) | 2,119 |
| Leasehold improvements | - | - | - | - |
| | 4,403 | 1,310 | (154) | 5,559 |
| | | | | |
| | 1 January 2020 | Current year depreciation | Disposal | 31 December 2020 |
| Accumulated depreciation | | | | |
| Machinery and equipment | (691) | (180) | - | (871) |
| Vehicles | (49) | (29) | - | (78) |
| Vehicles with the right of use ^(*) | (333) | (432) | - | (765) |
| Buildings with the right of use ^(*) | (541) | (649) | 43 | (1,147) |
| Furniture and fixtures | (288) | (11) | - | (299) |
| Leasehold improvements | - | - | - | - |
| | (1,902) | (1,301) | 43 | (3,160) |
| Net Carrying Value | 2,501 | 9 | (111) | 2,399 |

^(*) Includes lease agreements made within the scope of IFRS 16.

| | 1 January 2019 | Additions | Disposals | 31 December 2019 |
|--|-----------------------|----------------------------------|------------------|-------------------------|
| Cost | | | | |
| Machinery and equipment | 889 | 84 | - | 973 |
| Vehicles | 120 | - | - | 120 |
| Furniture and fixtures | 291 | 80 | - | 371 |
| Vehicles with the right of use ^(*) | - | 758 | - | 758 |
| Buildings with the right of use ^(*) | - | 2,181 | - | 2,181 |
| Leasehold improvements | 944 | - | (944) | - |
| | 2,244 | 3,103 | (944) | 4,403 |
| | | | | |
| | 1 January 2019 | Current year depreciation | Disposals | 31 December 2019 |
| Accumulated depreciation | | | | |
| Makine ve teçhizat | (437) | (254) | - | (691) |
| Vehicles | - | (49) | - | (49) |
| Vehicles with the right of use ^(*) | - | (333) | - | (333) |
| Buildings with the right of use ^(*) | - | (541) | - | (541) |
| Furniture and fixtures | (124) | (164) | - | (288) |
| Leasehold improvements | (944) | - | 944 | - |
| | (1,505) | (1,341) | 944 | (1,902) |
| Net defter değeri | 739 | 1,762 | - | 2,501 |

^(*) Includes lease agreements made within the scope of IFRS 16.

As of 31 December 2020 and 31 December 2019, there are no property and equipment acquired through financial lease

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7 - INTANGIBLE ASSETS

Movements of intangible assets during the year ended 31 December 2020 and 31 December 2019 are as follows:

| | 1 January 2020 | Additions | Disposals | 31 December 2020 |
|-------------------|-----------------------|------------------|------------------|-------------------------|
| Cost | | | | |
| Computer Software | 1,116 | 1,268 | - | 2,384 |
| | 1,116 | 1,268 | - | 2,384 |

| | 1 January 2020 | Current year depreciation | Disposals | 31 December 2020 |
|---------------------------------|-----------------------|----------------------------------|------------------|-------------------------|
| Accumulated amortisation | | | | |
| Computer software | (985) | (204) | - | (1,189) |
| | (985) | (204) | - | (1,189) |
| Net carrying value | 131 | 1,064 | - | 1,195 |

| | 1 January 2019 | Additions | Disposals | 31 December 2019 |
|-------------------|-----------------------|------------------|------------------|-------------------------|
| Cost | | | | |
| Computer Software | 1,062 | 54 | - | 1,116 |
| | 1,062 | 54 | - | 1,116 |

| | 1 January 2019 | Current year depreciation | Disposals | 31 December 2019 |
|---------------------------------|-----------------------|----------------------------------|------------------|-------------------------|
| Accumulated amortisation | | | | |
| Computer software | (809) | (176) | - | (985) |
| | (809) | (176) | - | (985) |
| Net carrying value | 253 | (122) | - | 131 |

As of 31 December 2020 and 31 December 2019, the Company does not have any internally generated intangible assets.

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8 - DEFERRED TAX ASSETS AND LIABILITIES

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 and liabilities are recognized at the tax rates that are expected to be applied at the reversal of taxable temporary differences.

In Turkey, according to the Corporate Tax Law’s article 5 that has been published at the Official Gazette numbered 5520 dated 21 June 2006, corporation tax rate is 20%. “Law on Amendments on Certain Taxes and Laws and Other Acts” which came into effect, being published in the Official Gazette dated 5 December 2017 and numbered 7061, current 20% corporate tax rate, will be applied as 22% for the taxation periods of 2018 to 2020. In addition, the Company applies the tax rate as 20% in the calculation of deferred tax assets and liabilities as of 31 December 2020, due to the expiry of the said period (31 December 2020: 22%).

Deferred tax assets and liabilities calculated over the accumulated temporary differences that are subject to deferred tax as of December 31, 2020 and December 31, 2019 were prepared using the relevant tax rates in the periods in which assets or liabilities are expected to be realized .

As of 31 December 2020 and 31 December 2019, temporary differences and deferred tax assets and liabilities that are computed using the prevailing corporate tax rates are as follows:

| | <u>Temporary Differences</u> | | <u>Deferred tax assets/ (liabilities)</u> | |
|---|------------------------------|-------------|---|-------------------------|
| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| Provision for severance payment | 1,128 | 949 | 226 | 209 |
| Allowance provision | 296 | 177 | 59 | 39 |
| Other | 57 | 786 | 11 | 174 |
| Total deferred tax assets | | | 296 | 422 |
| Fund for increased value of securities representing the capital share | 2,115 | 2,461 | 105 | 124 |
| Derivative financial assets for trading | 2,013 | - | 403 | - |
| Other | 285 | - | 57 | - |
| Total deferred tax liability | | | 565 | 124 |
| Deferred tax assets, net | | | (269) | 298 |
| | | | 31 December 2020 | 31 December 2019 |
| Opening Balance | | | 298 | 1,454 |
| Deferred tax (expense)/income | | | (461) | (1,125) |
| Classified under Shareholders’ Equity | | | (106) | (31) |
| | | | (269) | 298 |

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9 - INFORMATION ON ASSETS HELD FOR SALE AND ASSETS RELATED TO THE DISCOUNTED OPERATIONS

The Company does not have any financial assets for sale as of December 31, 2020. (31 December 2019: None).

10 - OTHER ASSETS

As of 31 December 2020 and 31 December 2019, the details of other assets are as follows:

| | <u>31 December 2020</u> | | <u>31 December 2019</u> | |
|----------------------------|-------------------------|-----------|-------------------------|-----------|
| | TL | FC | TL | FC |
| Prepaid expenses | 1,661 | 68 | 1,178 | 50 |
| Litigation and court costs | 650 | - | 650 | - |
| Tax office receivables | 147 | - | 58 | - |
| Other assets | 1,305 | 8 | 10 | - |
| | 3,763 | 76 | 1,896 | 50 |

11 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivative Financial Assets

| | <u>31 December 2020</u> | | <u>31 December 2019</u> | |
|------|-------------------------|----------|-------------------------|----------|
| | TL | FC | TL | FC |
| Swap | 2,013 | - | - | - |
| | 2,013 | - | - | - |

12 - FUNDS BORROWED

As of 31 December 2020 and 31 December 2019, details of funds borrowed are as follows:

| | <u>31 December 2020</u> | | <u>31 December 2019</u> | |
|----------------|-------------------------|----------------|-------------------------|----------------|
| | TL | FC | TL | FC |
| Funds Borrowed | 4,028,285 | 494,057 | 1,474,116 | 600,434 |
| | 4,028,285 | 494,057 | 1,474,116 | 600,434 |

| | 31 December 2020 | 31 December 2019 |
|--|-------------------------|-------------------------|
| Short-term borrowings | | |
| Short-term secured bank loans | 742,568 | 290,335 |
| Short-term unsecured bank loans | 3,610,855 | 1,614,866 |
| Short-term portion of long-term unsecured bank loans | 134,881 | 158,781 |
| Long-term borrowings | | |
| Long-term unsecured bank loans | 34,038 | 10,568 |
| | 4,522,342 | 2,074,550 |

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13 - SECURITIES ISSUED

As of 31 December 2020 and 31 December 2019, details of securities issued are as follows:

| | 31 December 2020^(*) | 31 December 2019^(**) |
|-------|---------------------------------------|--|
| Bonds | 761,121 | 349,147 |
| | 761,121 | 349,147 |

(*) With a nominal value of 60,300 TL, 90 days maturity issued by the company on October 27, 2020, ISIN code 'TRFVFAS12123' with amortization date of 25 January 2021, a nominal value of 66,270 TL issued on 3 November 2020, 62 days maturity, "TRFVFAS12131" with redemption date of 4 January 2021, with a nominal value of 229,000 TL issued on 13 November 2020, 80 days maturity, redemption date of 1 February 2021 with ISIN code "TRFVFAS22114", a nominal value of 118,700 TL issued on 25 November 2020, 90 days maturity, with redemption date of 23 February 2021 with "TRFVFAS22122" ISIN code, 173,250 issued on 4 December 2020. 173,250 TL nominal value, 90 days maturity, redemption date of March 4, 2021 with ISIN code "TRFVFAS32113", was issued on December 23, 2020, with a nominal value of 129,780 TL, maturity of 90 days, redemption date of March 23, 2021 with the code 'TRFVFAS32121' ISIN, respectively 14.90%, 15.25%, 16.00%, 16.25%, 17%, 30, 18.30% annual simple interest bonds are traded on the Borsa Istanbul Debt Securities Market Outright Purchases and Sales Market.

The issuance of financing bills with a nominal value of TL 200,370 with a maturity of 120 days was realized on April 30, 2020, through the sales method to qualified investors. Bills maturity start date was April 30, 2020 and was redeemed on August 28, 2020.

The issuance of financing bills with a 90-day maturity and a nominal value of 140,900 TL was made on April 3, 2020, by sale to qualified investors. Bills maturity start date was April 3, 2020 and was redeemed on July 2, 2020.

(**) Issued by the company on 20 December 2019, with a nominal value of 174,960 TL, 90 days maturity, amortization dated 19 March 2020 with 'TRFVFAS32014' ISIN code, issued on 27 December 2019 with a nominal value of 182,770 TL, 98 days maturity, "TRFVFAS42013" with redemption date of 3 April 2020, 10.50% and 10.50% annually, respectively. simple interest bonds are traded on the Borsa Istanbul Debt Securities Market Outright Purchases and Sales Market. The issuance of financial bonds with a nominal value of TL 180,520 and a term of 140 days has been disclosed on 8 February 2019 with the method of sales to the qualified investors. The bonds' maturity start date is 8 February 2019 and the maturity end date is 28 June 2019.

The issuance of financial bonds with a nominal value of TL 129,663 and a term of 99 days has been disclosed on 25 April 2019 with the method of sales to the qualified investors. The bonds' maturity start date is 25 April 2019 and the maturity end date is 2 August 2019.

The issuance of financial bonds with a nominal value of TL 191,400 and a term of 84 days has been disclosed on 31 May 2019 with the method of sales to the qualified investors. The bonds' maturity start date is 31 May 2019 and the maturity end date is 23 August 2019.

The issuance of financial bonds with a nominal value of TL 100,000 and a term of 96 days has been disclosed on 28 June 2019 with the method of sales to the qualified investors. The bonds' maturity start date is 28 June 2019 and the maturity end date is 2 October 2019.

The issuance of financial bonds with a nominal value of TL 121,600 and a term of 80 days has been disclosed on 23 August 2019 with the method of sales to the qualified investors. The bonds' maturity start date is 23 August 2019 and the maturity end date is 11 November 2019.

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14 - TAXES AND DUTIES PAYABLES

As of 31 December 2020 and 31 December 2019, the current period tax assets are as follows:

| | 31 December 2020 | 31 December 2019 |
|--|-------------------------|-------------------------|
| Corporate tax provision | 27,258 | 36,817 |
| Prepaid taxes (-) | (21,270) | (27,804) |
| Current period income tax assets, net (-) | 5,988 | 9,013 |

As of 31 December 2020 and 31 December 2019, details of taxes and duties payables are as follows

| | 31 December 2020 | 31 December 2019 |
|--|-------------------------|-------------------------|
| Corporate tax payable | 5,988 | 9,013 |
| Banking and insurance transactions tax | 2,895 | 1,796 |
| Withholding tax payable | 215 | 296 |
| Premiums payable | 157 | 436 |
| Other | 29 | 23 |
| | 9,284 | 11,564 |

As of 31 December 2020 and 31 December 2019, details of the other payables are as follows:

| Other Payables | 31 December 2020 | | 31 December 2019 | |
|---------------------------------------|-------------------------|------------|-------------------------|-----------|
| | TL | FC | TL | FC |
| Other Purchase Payables | 504 | - | 411 | - |
| Commissions Payable to Correspondents | 20 | 105 | - | 99 |
| | 524 | 105 | 411 | 99 |

15 - PROVISIONS

As of 31 December 2020 and 31 December 2019, details of provisions are as follows:

| | 31 December 2020 | 31 December 2019 |
|---|-------------------------|-------------------------|
| Allowance of general provision for factoring receivables(*) | 19,642 | 16,658 |
| Provisions for employee severance payments | 1,128 | 949 |
| Provisions for unused vacation | 296 | 177 |
| | 21,066 | 17,784 |

(*) The related amount represents the provision for factoring receivables that are not delayed in the collection of principal, interest or both as of the reporting date and that have a delay of less than 90 days.

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15 - PROVISIONS (Continued)

Provisions for severance payment

According to the Turkish Labor Law, the Company is required to pay severance to its employees who have completed one year of employment and who break off with the Company or retired, who have completed 25 service years (20 women) and earned retirement (58 for women and 60 for men) who are obliged to do military service or pass away. After the legislative amendment on 23 May 2002, some transition process substances relating to the previous service period before retirement were issued.

As of 31 December 2019, the severance pay ceiling is revised semi-annually and the Company's provision for severance pay is calculated as TL 6,730.15 full TL on the basis of (As of 31 December 2018, severance pay provision is calculated on 1 January 2019: 6,017.60 full TL) severance pay ceiling which is valid as of 1 January 2020.

The provision for employee severance payments is not subject to a funding requirement

The provision for employee severance payments is calculated by using the following assumptions..

| | 31 December 2020 | 31 December 2019 |
|--|-------------------------|-------------------------|
| Net discount rate | 12.80% | 4.24% |
| Expected salary/ limit increase | 9.50% | 8.20% |
| Entitlement ratio of the estimated severance pay | 93.75% | 97.92% |

The basic assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate shows the real rate after adjusting for the effects of inflation. The Company's provision for severance pay, severance pay ceiling is adjusted every six months, which is effective as 1 January 2021 full TL 7,638.96 (1 January, 2020: Full TL 6,730.15) in the calculation.

Movements in reserve for employee severance payments are as follows:

| | 31 December 2020 | 31 December 2019 |
|-----------------------------|-------------------------|-------------------------|
| Balance at 1 January | 948 | 744 |
| Current service cost | 132 | 116 |
| Interest cost | 144 | 116 |
| Payment during the period | (146) | (10) |
| Actuarial (loss) / profit | 50 | (18) |
| | 1,128 | 948 |

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15 - PROVISIONS (Continued)

Provisions for unused vacation

In accordance with the existing labor law in Turkey, the Company is required to pay to the employee, whose employment is terminated due to any reasons, or to its inheritors, the wage of the deserved and unused vacation days over the prevailing wage at the date the contract is terminated. Vacation pay liability is the total undiscounted liability of the deserved and unused vacation days of all employees.

Movements in provision for unused vacation are as follows:

| | 31 December 2020 | 31 December 2019 |
|---|-------------------------|-------------------------|
| Balance at 1 January | 177 | 416 |
| Increase / (decrease) during the period | 119 | (239) |
| | 296 | 177 |

16 - SHAREHOLDERS' EQUITY

Paid in capital

The Company's paid in capital is amounting to full TL 250,000,000 comprised of 250,000,000 shares with each has a nominal value of TL 1 (full TL). Out of 250,000,000 shares forming the Company's capital, 167,500,000 shares amounting TL 167,500,000 represents Group (A), and 82,500,000 shares amounting TL 82,500,000 represents Group (B).

The Company's shareholder structure is as follows:

| | 31 December 2020 | | 31 December 2019 | |
|--------------------------------|-------------------------|--------------|-------------------------|---------------|
| | Amount | Share | Amount | Share |
| T. Vakıflar Bankası T.A.O. | 195,982 | 78.39 | 133,268 | 78.39 |
| Türkiye Sigorta A.Ş. | 34,263 | 13.71 | 23,299 | 13.71 |
| Vakıf Finansal Kiralama A.Ş. | 9,487 | 3.79 | 6,451 | 3.79 |
| Vakıf Per. Öz. Sos. Güv. Vakfı | 6,362 | 2.54 | 4,326 | 2.54 |
| Vakıf Pazarlama ve Tic. A.Ş. | 3,906 | 1.56 | 2,656 | 1.56 |
| Paid in capital | 250,000 | 100 | 170,000 | 100.00 |

| Shareholders | Group | 31 December 2020 | | 31 December 2019 | |
|---------------------------------|-------|-------------------------|----------------------|-------------------------|---------------|
| | | Number Of Shares | Amount (Full) | Number Of Shares | Amount |
| Türkiye Vakıflar Bankası T.A.O. | A | 131,308,036 | 131,308,036 | 89,239,464 | 89,239,464 |
| | B | 64,674,107 | 64,674,107 | 43,978,393 | 43,978,393 |
| Türkiye Sigorta A.Ş. | A | 22,956,475 | 22,956,475 | 15,610,403 | 15,610,403 |
| | B | 11,306,918 | 11,306,918 | 7,688,704 | 7,688,704 |
| Vakıf Finansal Kiralama A.Ş. | A | 6,356,029 | 6,356,029 | 4,322,100 | 4,322,100 |
| | B | 3,130,578 | 3,130,578 | 2,128,793 | 2,128,793 |
| Vakıf Per. Öz. Sos. Güv. Vakfı | A | 4,262,275 | 4,262,275 | 2,898,347 | 2,898,347 |
| | B | 2,099,332 | 2,099,332 | 1,427,546 | 1,427,546 |
| Vakıf Pazarlama ve Tic. A.Ş. | A | 2,617,185 | 2,617,185 | 1,779,686 | 1,779,686 |
| | B | 1,289,065 | 1,289,065 | 876,564 | 876,564 |

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16 – SHAREHOLDERS’ EQUITY (Continued)

Capital Reserves

As of 31 December 2020, the Company does not have any capital reserves. (31 December 2019: None).

Profit reserves

As of 31 December 2020, profit reserves consist of legal reserves amounting to TL 18,286 and (31 December 2019: TL 11,730), and extraordinary reserves amounting to TL 102,401 (31 December 2019: TL 57,840).

Profit distribution

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below:

The legal reserves consist of first and second reserves, in accordance with the Turkish Commercial Code. The first legal reserve appropriated out of the statutory profit at the rate of 5% until the total reserve reaches a maximum of 20% of the Company’s paid-in capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company’s paid-in capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital but may be used to absorb losses in the event that the general reserve is exhausted.

In accordance with the decision of the General Assembly dated 23 June 2020, it has been decided to transfer the remaining net profit amounting TL 169,059, which is the net profit of the Company in 2019, to the general reserve after deducting tax and legal liabilities of TL 31,942, deducting the legal reserve amounting TL 6,556 which is a net profit of TL 124,561, for the purpose of capital increase for the next periods and for the purpose of distribution of bonus shares through capital increase of the amount that is to be added to the capital. In addition, in accordance with the permission letter of T.C. Ministry of Trade General Directorate of Domestic Trade, the Company’s capital reserve has increased from TL 170,000 to TL 250,000, which is in the 6th entry about capital reserves of the Company’s contract.

In accordance with the decision of the General Assembly dated 23 June 2020.

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

17 - OPERATING INCOME

For the years ended 31 December 2020 and 31 December 2019, details of operating income are as follows:

| | 2020 | 2019 |
|---|----------------|----------------|
| Interest income on factoring receivable | | |
| - Discounted | 120,091 | 159,593 |
| - Other | 232,671 | 361,076 |
| | 352,762 | 520,669 |
| | 2020 | 2019 |
| Fees and commissions on factoring receivables | | |
| - Discounted | 1,225 | 2,231 |
| -Other | 4,107 | 4,651 |
| | 5,332 | 6,882 |
| Operating Income | 358,094 | 527,551 |

18 - FINANCING EXPENSE

For the accounting periods ended at 31 December 2020 and 31 December 2019, details of financing expenses are as follows:

| | 2020 | 2019 |
|---------------------------------------|----------------|----------------|
| Interest expense on borrowings | 177,963 | 267,318 |
| Interest expense on securities issued | 30,929 | 61,423 |
| Fees and commissions | 12,098 | 8,570 |
| Interest expense on rent proceedings | 264 | 395 |
| | 221,254 | 337,706 |

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19 - OPERATING EXPENSES

For the accounting periods ended at 31 December 2020 and 31 December 2019, details of operating expenses are as follows

| | 2020 | 2019 |
|--|---------------|---------------|
| Personnel expenses | 12,864 | 11,937 |
| Amortization expenses | 1,504 | 1,517 |
| Taxes | 744 | 777 |
| Cleaning expenses | 400 | 301 |
| Consulting expenses | 367 | 365 |
| Litigation expenses | 319 | 312 |
| IT expenses | 285 | 181 |
| Commercial expenses | 261 | 50 |
| Provision for severance payment expenses | 179 | 205 |
| Rental expenses | 113 | 30 |
| Other | 1,234 | 1,391 |
| | 18,270 | 17,066 |

For the accounting periods ended at 31 December 2020 and 31 December 2019, details of personnel expenses included in operating expenses are as follows:

| | 2020 | 2019 |
|--|---------------|---------------|
| Wages and salaries | 7,544 | 6,950 |
| Bonuses and premiums | 2,096 | 2,321 |
| Social security premium employer’s share | 1,862 | 1,353 |
| Employee insurance expenses | 595 | 471 |
| Personnel food expenses | 335 | 273 |
| Other | 432 | 569 |
| | 12,864 | 11,937 |

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

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20 - OTHER OPERATING INCOME/EXPENSE

For the accounting periods ended at 31 December 2020 and 31 December 2019, details of other income are as follows:

| | 2020 | 2019 |
|--|--------------|--------------|
| Interest received from banks | 3,121 | 723 |
| Gain from derivative transactions, net | 2,013 | 2,070 |
| Foreign exchange gains/losses, net | (480) | 1,585 |
| Other, net | 3,901 | 824 |
| | 8,555 | 5,202 |

21 - TAX PROVISION FROM CONTINUING OPERATIONS

In Turkey, it announced in the Official Gazette dated 21 June 2006 5520 Tax Law, the corporate tax rate is 20% according to Article 32. However, with the “Law Amending Some Tax Laws and Some Other Laws” published in the Official Gazette dated 5 December 2017, this ratio will be applied as 22% for 3 years between 2018-2020.

Some of the deduction rates included in the 15th and 30th articles of the Law no. 5520 on the Corporate Tax have been redefined according to the cabinet decision numbered 2006/10731, which was announced at Official Gazette dated 23 July 2006 and numbered 26237. In this respect, withholding tax rate on dividend payments, which are made to the companies except those are settled in Turkey or generate income in Turkey via a business or a regular agent, was increased to 15% from 10%. When applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account.

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 sets details about implementation. New amendments to transfer pricing are in accordance with the principles of ‘transfer pricing manual’ of OECD.

If the tax payers have transactions like service taking or product and goods buying or selling with related parties which are not in accordance with the counterpart principle it will be adjudge that disguised profit distribution via transfer pricing. This kind of disguised profit distribution via transfer pricing will not be deducted from the corporate tax. The companies are obligated to fill the transfer pricing form attached to the annual corporate tax declaration. On this form, all the related party transactions, amounts and the related Transfer Pricing methods are disclosed

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies declare Corporate tax to the Tax Authority within 25th day of the fourth month of the following closing date of the related financial year. Tax returns are open for five years from the beginning of the year that follows the date of filling during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, on may issue re-assessments based on their findings.

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

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21 - TAX PROVISION FROM CONTINUING OPERATIONS (Continued)

The reported income tax expense for the years ended 31 December 2020 and 31 December 2019 are different than the amounts computed by applying the statutory tax rate to profits before income taxes as shown in the following reconciliation:

| | 31 December 2020 | 31 December 2019 |
|---|-------------------------|-------------------------|
| Profit before tax | 125,825 | 169,059 |
| Computed theoretical tax with rate of 22% | (27,682) | (37,193) |
| - Other | (37) | (749) |
| Current Tax Expense | (27,719) | (37,942) |

For the accounting periods ended at 31 December 2020 and 31 December 2019, tax expense in the income statement is summarized below:

| | 2020 | 2019 |
|--|-----------------|-----------------|
| Current period corporate tax provision expense | (27,258) | (36,817) |
| Deferred tax income/(expense) | (461) | (1,125) |
| | (27,719) | (37,942) |

As of 31 December 2020 and 31 December 2019, corporate tax provision and prepaid taxes are as follows:

| | 31 December 2020 | 31 December 2019 |
|--|-------------------------|-------------------------|
| Corporate tax provision | 27,258 | 36,817 |
| Prepaid taxes (Note 8) | (21,270) | (27,804) |
| Prepaid tax/corporation tax payable | 5,988 | 9,013 |

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22 - RELATED PARTY DISCLOSURES

As of 31 December 2020 and 31 December 2019, balances with related parties are as follows:

| | 31 December 2020 | 31 December 2019 |
|---|-------------------------|-------------------------|
| Bank deposits | | |
| T. Vakıflar Bankası T.A.O. | 25,809 | 4,230 |
| | 25,809 | 4,230 |
| Derivative financial assets held for trading | | |
| T. Vakıflar Bankası T.A.O. | 2,013 | 2,070 |
| | 2,013 | 2,070 |
| Prepaid expenses | | |
| Türkiye Sigorta A.Ş. | 538 | 406 |
| Vakıf Yatırım Menkul Değerler | 648 | 512 |
| | 1,186 | 918 |
| | 31 December 2020 | 31 December 2019 |
| Borrowings | | |
| T. Vakıflar Bankası T.A.O. | 2,685,973 | 588,631 |
| | 2,685,973 | 588,631 |
| | 31 December 2020 | 31 December 2019 |
| Securities issued | | |
| Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. | 2,432 | 734 |
| TVB Vakıf Emeklilik ve Hayat A.Ş. | - | 27,313 |
| | 2,432 | 28,047 |
| Payables to related parties | | |
| Türkiye Sigorta A.Ş. | 408 | 307 |
| Diğer | 55 | 12 |
| | 463 | 319 |

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

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22 - RELATED PARTY DISCLOSURES (Continued)

Income and expenses resulting from transactions with related parties for the years ended 31 December 2020 and 31 December 2019 are as follows:

| | 31 December 2020 | 31 December 2019 |
|---|-------------------------|-------------------------|
| Interest income from related party | | |
| T. Vakıflar Bankası T.A.O. | 219 | 701 |
| | 219 | 701 |
| T. Vakıflar Bankası T.A.O. | | |
| Interest Expense | 72,520 | 104,113 |
| Other Financial Expenses | 1,469 | 482 |
| Letter of Guarantee Expenses | 30 | 40 |
| | 74,019 | 104,635 |
| | 31 December 2020 | 31 December 2019 |
| Vakıf Finansal Kiralama | | |
| Fixed asset rental income | 18 | 16 |
| | 18 | 16 |
| | 31 December 2020 | 31 December 2019 |
| T. Vakıflar Bankası T.A.O. | | |
| Derivative financial transactions income realised throughout the year | - | 3,773 |
| | - | 3,773 |
| Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. | | |
| Interest expense on securities issued | 49 | 79 |
| | 49 | 79 |

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22 - RELATED PARTY DISCLOSURES (Continued)

| | 31 December 2020 | 31 December 2019 |
|--|-------------------------|-------------------------|
| Vakıf Yatırım Menkul Değerler | | |
| Commission on securities issued | 1,629 | 1,541 |
| | 1,629 | 1,541 |
| TVB Vakıf Emeklilik ve Hayat A.Ş. | | |
| Commission on securities issued | - | 3,680 |
| | - | 3,680 |
| Other expenses to related parties | | |
| Türkiye Sigorta A.Ş. | 403 | 337 |
| Vakıf Finansal Kiralama | 18 | 16 |
| | 421 | 353 |

Total salaries and benefits to top management:

As of 31 December 2020 ,the Company’s total salaries and fees that provided to the top management and the Board of Directors are TL 1,604 (31 December 2019: 1,989 TL).

23 - COMMITMENTS AND CONTINGENCIES

Guarantees

None (31 December 2019: None).

Collaterals

As of 31 December 2020 and 31 December 2019, collaterals are comprised of notes given to the following institutions:

| | 31 December 2020 | 31 December 2019 |
|---|-------------------------|-------------------------|
| Letters of guarantee given to Takasbank | 850,000 | 385,000 |
| Collaterals given to courts | 2,035 | 1,382 |
| | 852,035 | 386,382 |

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23 - COMMITMENTS AND CONTINGENCIES (Continued)

Irrevocable Commitments

None (31 December 2019: None).

Held in custody securities

The Company has obtained securities held in custody for its factoring receivables at 31 December 2020 and 31 December 2019 as detailed below:

| | 31 December 2020 | | 31 December 2019 | |
|-----------------|-------------------------|------------------|-------------------------|----------------|
| | TL | FC | TL | FC |
| Customer checks | 1,089,512 | 142,756 | 592,886 | 103,813 |
| Customer notes | 4,077,308 | 1,025,201 | 3,699,839 | 819,500 |
| | 5,166,820 | 1,167,957 | 4,292,725 | 923,313 |

Derivative Transactions

As of 31 December 2020 and 31 December 2019, details of commitments are related with derivative transactions as follows

| | 31 December 2020 | | 31 December 2019 | |
|----------------------------|-------------------------|---------------|-------------------------|-----------|
| | TL | FC | TL | FC |
| Swap buy/sell transactions | 55,058 | 49,181 | - | - |
| | 55,058 | 49,181 | - | - |

24 - FINANCIAL RISK MANAGEMENT

The Company’s activities expose it to a variety of financial risks:

- Credit Risk
- Liquidity Risk
- Market 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.

The Company’s Board of Director’s have overall responsibility for the establishment and oversight of the Company’s risk management framework.

The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company’s activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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24 - FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk

The main activity of the Company is to focus on the sectors with high knowledge, and to perform factoring transactions within the limits of the credit and risk monitoring regulation for the companies operating in these sectors.

Policies related to credit risk are detailed in Loans and Risk Monitoring Regulation and the practices in the Company are carried out within the framework of this regulation. The Credit Committee regularly reviews the Company's credit risk strategy and major credit risk policies. With this strategy, it is aimed to reflect the degree of tolerance of the Company regarding credit risk and the maximize profit expected to be received against various credit risks.

On the other hand, the Company makes sure that the distribution of the portfolio is balanced. The Company also established a risk management legal and monitoring department. With the intelligence program developed by the Company, efforts are made in order to minimize the credit risk and control of credit risk in credit limitation of both customer and assignee receivables and in factoring financing. All these intelligence studies are under the supervision and supervision of the Company's senior management (at the level of General Manager and Assistant General Managers). All operations of the Company are performed by the Central Operation Unit. There is no authorization to make transactions at the contact office level.

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24 - FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk

Details of the financial assets exposed to credit risk as of 31 December 2020 and 31 December 2019 are as follows:

| 31 December 2020 | Factoring Receivables | | Receivable under Follow up | | Banks | Other |
|---|-----------------------|-------------------|----------------------------|-------------------|---------------|-------|
| | Related Party | Non-related Party | Related Party | Non-related Party | | |
| Exposure to maximum credit risk as of reporting date (A+B+C+D+E) | - | 5,689,414 | - | 5,742 | 79,194 | - |
| - Exposure to maximum credit risk as of reporting date | - | - | - | - | - | - |
| A. Net carrying value of financial assets which are neither impaired or overdue | - | 5,689,414 | - | - | 79,194 | - |
| - Secured portion by any guarantee | - | - | - | - | - | - |
| B. Net carrying value of financial assets that are restructured/renegotiated, otherwise which will be regarded as overdue or impaired | - | - | - | - | - | - |
| - Secured portion by any guarantee | - | - | - | - | - | - |
| C. Net carrying value of financial assets which are overdue but not or impaired | - | - | - | - | - | - |
| - Secured portion by any guarantee | - | - | - | - | - | - |
| D. Net carrying value of impaired assets | - | - | - | 5,742 | - | - |
| - Overdue (gross book value) | - | - | - | 62,325 | - | - |
| - Impairment (-) | - | - | - | (56,583) | - | - |
| - Secured portion of net book value (*) | - | - | - | - | - | - |
| - Not due (gross book value) | - | - | - | - | - | - |
| - Impairment (-) | - | - | - | - | - | - |
| - Secured portion of net book value (with letter of guarantee etc.) | - | - | - | - | - | - |
| E. Off balance sheet items with credit risks - | - | - | - | - | - | - |

(*) Includes the Company’s mortgages and guarantees acquired the provision of the factoring receivables in the process of prosecuting.

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24 - FINANCIAL RISK MANAGEMENT (Continued)

| 31 December 2019 | Factoring Receivables | | Receivable under Follow up | | Banks | Other |
|---|-----------------------|-------------------|----------------------------|-------------------|--------------|-------|
| | Related Party | Non-related Party | Related Party | Non-related Party | | |
| Exposure to maximum credit risk as of reporting date (A+B+C+D+E) | - | 2,811,096 | - | 5,668 | 4,786 | - |
| - Exposure to maximum credit risk as of reporting date | - | - | - | - | - | - |
| A. Net carrying value of financial assets which are neither impaired or overdue | - | 2,811,096 | - | - | 4,786 | - |
| - Secured portion by any guarantee | - | - | - | - | - | - |
| B. Net carrying value of financial assets that are restructured/renegotiated, otherwise which will be regarded as overdue or impaired | - | - | - | - | - | - |
| - Secured portion by any guarantee | - | - | - | - | - | - |
| C. Net carrying value of financial assets which are overdue but not or impaired | - | - | - | - | - | - |
| - Secured portion by any guarantee | - | - | - | - | - | - |
| D. Net carrying value of impaired assets | - | - | - | 5,668 | - | - |
| - Overdue (gross book value) | - | - | - | 62,174 | - | - |
| - Impairment (-) | - | - | - | (56,506) | - | - |
| - Secured portion of net book value (*) | - | - | - | - | - | - |
| - Not due (gross book value) | - | - | - | - | - | - |
| - Impairment (-) | - | - | - | - | - | - |
| - Secured portion of net book value (with letter of guarantee etc.) | - | - | - | - | - | - |
| E. Off balance sheet items with credit risks | - | - | - | - | - | - |

(*) Includes the Company’s mortgages and guarantees acquired the provision of the factoring receivables in the process of prosecuting.

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

24 - FINANCIAL RISK MANAGEMENT (Continued)

Liquidity Risk

Liquidity risk is the possibility that the Company will not be able to meet its net financing needs. As a precaution against this risk, the Company's management diversifies its financing resources and the assets are managed with the liquidity priority to maintain a healthy balance of cash and cash equivalents. Company evaluates its liquidity risks consistently in order to meet its aims to monitor and to determine the change in its funds.

The following table, based on the remaining period until the maturity date of the contract as of the reporting dates, the Company's financial liabilities by relevant maturity groupings by providing the analysis. The amounts disclosed in the table are the contractual undiscounted cash flows:

| Expected maturities | 31 December 2020 | | | | | |
|---|------------------|------------------------|--------------------|------------------|-----------------|-------------------|
| | Carrying Amount | Contractual Cash Flows | Less than 3 months | 3-12 months | 1-5 years | More than 5 years |
| Non derivative financial liabilities | 5,284,092 | (5,284,092) | (4,304,097) | (945,958) | (34,037) | - |
| Fund borrowed | 4,522,342 | (4,522,342) | (3,542,347) | (945,958) | (34,037) | - |
| Securities Issued | 761,121 | (761,121) | (761,121) | - | - | - |
| Miscellaneous payables | 629 | (629) | (629) | - | - | - |

| Expected maturities | 31 December 2019 | | | | | |
|---|------------------|------------------------|--------------------|------------------|-----------------|-------------------|
| | Carrying amount | Contractual Cash Flows | Less than 3 months | 3-12 months | 1-5 years | More than 5 years |
| Non derivative financial liabilities | 2,424,207 | (2,424,207) | (1,484,129) | (929,510) | (10,568) | - |
| Fund borrowed | 2,074,550 | (2,074,550) | (1,312,486) | (751,496) | (10,568) | - |
| Securities Issued | 349,147 | (349,147) | (171,133) | (178,014) | - | - |
| Miscellaneous payables | 510 | (510) | (510) | - | - | - |

Market Risk

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

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24 - FINANCIAL RISK MANAGEMENT (Continued)

Interest Rate Sensitivity Analysis

As of 31 December 2020 and 31 December 2019 the interest sensitive financial instruments of the Company are as follows:

| | 31 December 2020 | 31 December 2019 |
|------------------------------|-------------------------|-------------------------|
| Fixed Rate | | |
| <i>Financial Assets</i> | | |
| Cash and cash equivalents | 78,431 | 3,259 |
| Factoring receivables | 4,829,811 | 2,095,800 |
| <i>Financial Liabilities</i> | | |
| Funds borrowed | 3,307,304 | 1,679,693 |
| Securities issued | 761,121 | 349,147 |
| Floating Rate | | |
| <i>Financial Assets</i> | | |
| Factoring receivables | 859,603 | 715,296 |
| <i>Financial Liabilities</i> | | |
| Funds borrowed | 1,215,038 | 394,857 |

As of 31 December 2020, the floating rate financial statements have a negligible effect on the pre-tax net loss for the period when the interest rate on renewal dates is 100 basis points higher / lower or all other variables are fixed

Foreign Currency Risk

The Company is exposed to currency risk through transactions (such as factoring operations and borrowings) in foreign currencies. The Company monitors the balance of foreign exchange assets and foreign exchange liabilities on a daily basis to minimize the exchange rate risk. In order not to be exposed to foreign exchange risk, the active and passive foreign exchange positions are carried out in a manner that does not give a short position in terms of foreign currency, and in order to balance the foreign exchange liabilities and foreign currency liabilities, it performs swap transactions if deemed necessary.

As of 31 December 2020 and 31 December 2019, the foreign currency position of the Company arising from its foreign currency based assets and liabilities (foreign currency indexed factoring receivables and loans included) is as follows:

| | 31 December 2020 | 31 December 2019 |
|------------------------------|-------------------------|-------------------------|
| | (TL Amount) | (TL Amount) |
| Foreign Currency Assets (*) | 559,192 | 617,660 |
| Foreign Currency Liabilities | (509,804) | (613,740) |
| | 49,388 | 3,920 |

(*) Factoring Receivables denominated in foreign currencies and TL 284,716 are included in the Factoring Receivables (31 December 2019: TL 249,250.)

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

24 - FINANCIAL RISK MANAGEMENT (Continued)

Table below summarizes the Company's foreign currency position risk in detailed as of 31 December 2020 and 31 December 2019. The amounts of foreign currency assets and liabilities held by the Company according to their foreign currency types are as follows:

| 31 December 2020 | USD | Euro | Other | Total |
|--|----------------|----------------|--------------|----------------|
| Assets | | | | |
| Banks | 3,726 | 23 | 6 | 3,755 |
| Factoring receivables (*) | 335,855 | 219,507 | - | 555,362 |
| Other assets | 8 | 67 | - | 75 |
| Total Assets | 339,589 | 219,597 | 6 | 559,192 |
| Liabilities | | | | |
| Funds borrowed (**) | 275,340 | 218,717 | - | 494,057 |
| Miscellaneous liabilities | 15,642 | - | - | 15,642 |
| Other liabilities | 24 | 80 | 1 | 105 |
| Total Liabilities | 291,006 | 218,797 | 1 | 509,804 |
| Net foreign currency position due to derivative financial instruments | (49,181) | - | - | (49,181) |
| Asset Net position | (598) | 800 | 5 | 207 |

(*) Foreign currency and foreign currency indexed factoring receivables are TL 284,716 and it has been included in factoring receivables. (31 December 2019: TL 249,250)

(**) There is no foreign currency indexed loans in funds borrowed.

| 31 December 2019 | USD | Euro | Other | Total |
|--|----------------|----------------|--------------|----------------|
| Assets | | | | |
| Banks | 827 | 3,324 | 1 | 4,152 |
| Factoring receivables (*) | 294,826 | 318,236 | 396 | 613,458 |
| Other assets | - | 50 | - | 50 |
| Total Assets | 295,653 | 321,610 | 397 | 617,660 |
| Liabilities | | | | |
| Funds borrowed (**) | 282,018 | 318,165 | 251 | 600,434 |
| Miscellaneous liabilities | 13,195 | 12 | - | 13,207 |
| Other liabilities | 19 | 81 | - | 100 |
| Total Liabilities | 295,232 | 318,258 | 251 | 613,741 |
| Net foreign currency position due to derivative financial instruments | - | - | - | - |
| Asset Net position | 421 | 3,352 | 146 | 3,919 |

(*) Foreign currency indexed factoring receivables are TL 249,250 and it has been included in factoring receivables.

(**) There is no foreign currency indexed loans in funds borrowed

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

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

24 - FINANCIAL RISK MANAGEMENT (Continued)

Foreign Currency Sensitivity Analysis

As of 31 December 2020, a 10 percent weakening of the TL against the foreign currencies would have increased profit before tax by TL 21 (31 December 2019 TL 392) This analysis assumes that all other variables, in particular interest rates; remain constant at 31 December 2020.

| | <u>31 December 2020</u> | | <u>31 December 2019</u> | |
|--------------|--------------------------|---------------|--------------------------|---------------|
| | <u>Net Profit/(Loss)</u> | <u>Equity</u> | <u>Net Profit/(Loss)</u> | <u>Equity</u> |
| USD | (60) | (60) | 42 | 42 |
| Euro | 80 | 80 | 335 | 335 |
| Other | 1 | 1 | 15 | 15 |
| Total | 21 | 21 | 392 | 392 |

Fair Values of Financial Instruments

| <u>31 December 2020</u> | <u>Financial Asset at the Amortized Cost</u> | <u>Loans and Receivables</u> | <u>Financial Asset at the Amortized Cost</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
|------------------------------|--|------------------------------|--|------------------------|-------------------|
| Financial Assets | | | | | |
| Banks | 79,194 | - | - | 79,194 | 79,194 |
| Factoring Receivables | - | 5,689,414 | - | 5,689,414 | 5,689,414 |
| Financial Liabilities | | | | | |
| Funds Borrowed | - | - | 4,522,342 | 4,522,342 | 4,522,342 |
| Miscellaneous Payables | - | - | 629 | 629 | 629 |
| Securities issued | - | - | 761,121 | 761,121 | 761,121 |

| <u>31 December 2019</u> | <u>Financial Asset at the Amortized Cost</u> | <u>Loans and Receivables</u> | <u>Financial Asset at the Amortized Cost</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
|------------------------------|--|------------------------------|--|------------------------|-------------------|
| Financial Assets | | | | | |
| Banks | 4,786 | - | - | 4,786 | 4,786 |
| Factoring Receivables | - | 2,811,096 | - | 2,811,096 | 2,811,096 |
| Financial Liabilities | | | | | |
| Funds Borrowed | - | - | 2,074,550 | 2,074,550 | 2,074,550 |
| Miscellaneous Payables | - | - | 510 | 510 | 510 |
| Securities issued | - | - | 349,147 | 349,147 | 349,147 |

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 2

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24 - FINANCIAL RISK MANAGEMENT (Continued)

Directors of companies believe that financial liabilities’ book values are near the fair value because of its short term, except to financial assets and funds borrowed.

Banks, factoring receivables and short-term bank loans denominated in TL, which are measured at amortized cost discounted effective interest rate approximately due to the short-term nature and negligible possible gross amount.

The fair value of financial assets and financial liabilities are determined as follows:

- First level: Financial assets and liabilities in active markets for identical assets and liabilities are valued using stock market prices..
- Second level: Financial assets and liabilities, the related asset or liability, either directly or indirectly, other than quoted prices included within Level 1 observable market prices used for valuation purposes.
- Third level: Financial assets and liabilities, determining fair value of the asset or liability, are not based on observable market data used in the valuation.

The fair values of financial assets and liabilities are categorized as follows:

| | Fair value level as of the reporting date | | | |
|---|--|---------|---------|--------------|
| | 31 December 2020 | Level 1 | Level 2 | Level 3 |
| Financial Assets | 8,910 | - | - | 8,910 |
| Financial assets at fair value through other comprehensive income (*) | 6,897 | - | - | 6,897 |
| Derivative financial assets held for trading purpose | 2,013 | - | - | 2,013 |

| | Fair value level as of the reporting date | | | |
|---|--|---------|---------|--------------|
| | 31 December 2019 | Level 1 | Level 2 | Level 3 |
| Financial Assets | 4,782 | - | - | 4,782 |
| Financial assets at fair value through other comprehensive income (*) | 4,782 | - | - | 4,782 |
| Derivative financial assets held for trading purpose | - | - | - | - |

- (*) Gerçeğe uygun değer farkı diğer kapsamlı gelire sermaye payı temsil eden menkul değerlerin değeri bağımsız bir değerlendirme şirketi tarafından yapılan çalışmaya göre belirlenmiştir.

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25 - EARNINGS PER SHARE

The weighted average number of shares of the Group and earnings per share for the period ended 31 December 2020 and 31 December 2019 are as follows::

| | 31 December 2020 | 31 December 2019 |
|---|-------------------------|-------------------------|
| Weighted average number of outstanding shares | 250,000 | 250,000 |
| Net profit for the period (TL) | 98,106 | 131,117 |
| Basic earnings per share (full TL) | 0.3924 | 0.5245 |

There are no diluted shares of the Company. Also, in Turkey, companies can increase their capital by distributing shares to existing shareholders from retained earnings shares ("Bonus Shares"). When earnings per shares are calculated, these bonus shares are considered as issued shares. Therefore, the weighted average number of shares used in earnings per share calculation is obtained by applying the retrospective application of the issuance of shares. There is no difference between main and proportional earnings per share for any period.

26 - SUBSEQUENT EVENTS

The bond issued by the company on January 4, 2021 with a nominal value of 128,180, maturity of 88 days, redemption date of April 2, 2021, with the ISIN code "TRFVFAS42112" with a simple interest rate of 18.75% per annum is traded on the Borsa Istanbul Debt Securities Market Outright Purchases and Sales Market.

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