

TEB FAKTORİNG ANONİM ŞİRKETİ**ANNUAL ACTIVITY REPORT FOR THE PERIOD 01.01.2016 – 31.12.2016****1- GENERAL INFORMATION**

Period of the report	: 01.01.2016 – 31.12.2016
Trade Name	: TEB Faktoring Anonim Şirketi
Trade register no	: 372141
Central Reg. System No	: 0833007688600010
Registered address	: Gayrettepe Mahallesi Yener Sokak No: 1 Kat: 7-8 Gayrettepe Beşiktaş / İstanbul
Branch address	: The addresses of our branches are given below:
- İstanbul European Branch	: Dünya Ticaret Merkezi B1 Blok K:13 Yeşilköy / İstanbul
- İstanbul Anatolian Branch	: Çınardere Mahallesi E5 Yanyolu Caddesi No:85 K:2 Pendik/İstanbul
- Ankara Branch	: Mustafa Kemal Mah. 2120 Cad. No:4/A K:1 Çankaya/ Ankara
- İzmir Branch	: Şair Eşref Paşa Bulvarı No: 23/A Çankaya / İzmir
- Antalya Branch	: Mehmetçik Mahallesi, Aspendos Bulvarı, No:81 Murat Paşa / Antalya
- Bursa Branch	: Doğan Bey Mahallesi Doğan Bey Sokak No:3 Kat:9 Osmangazi / Bursa
- Gaziantep Branch	: Mücahitler Mahallesi Gazi Muhtar Paşa Bulvarı Teymur Plaza No: 48 Kat:7 Şehitkamil / Gaziantep
- Kayseri Branch	: Cumhuriyet Mah. Millet Cad. No:26 Melikgazi/Kayseri
- Konya Branch	: Fevzi Çakmak Mahallesi KOSGEB Caddesi No:1/1 Karatay / Konya
- Adana Branch	: Çınarlı Mahallesi Atatürk Caddesi No:15 Kat: 2 Seyhan / Adana
- Ankara Ostim Branch	: Ostim Mah. 100. Yıl Bulvarı (Sanayi) Ofim İş ve Finans Merkezi No:99/69 Zemin Kat Yenimahalle/Ankara
- Samsun Branch	: Kuzey Yıldız Mah. 100. Yıl Bulvarı No:38/58-59-60-61-66-67-68-69 Canik/ Samsun
- Denizli Branch	: Saraylar Mahallesi İzmir Yolu Bulvarı No:57 Denizli
- İkitelli Branch	: İkitelli Organize Sanayi Bölgesi, Atatürk Bulvarı, Tümsan 1. Kısım Sanayi Sitesi, 3. Blok, No: 1-2 İkitelli Başakşehir / İstanbul
- Eskişehir Branch	: İki Eylül Caddesi Başan Sokak No: 2 Eskişehir
- İmes Branch	: İmes Sanayi Sitesi C Blok 301/3 Yukarı Dudullu, Ümraniye / İstanbul

- Topçular Branch : Rami Kışla Caddesi Koçbay İş Merkezi No: 25/B 7-8 Topçular Eyüp / İstanbul
- Trabzon Branch : Sanayi Mah. Devlet Karayolu Cad. No: 85A Ortahisar/Trabzon
Contact information (Head Office) : Telephone :0 212 370 45 00
Fax :0 216 636 52 52
E-mail address : tebfactoring@teb.com.tr
Web site : www.tebfactoring.com.tr

A- ORGANIZATION, CAPITAL AND PARTNERSHIP STRUCTURE OF THE COMPANY

a) Capital : TRY.30,000,000.-

b) Partnership structure :

NAME, SURNAME AND TITLE OF THE SHAREHOLDER	RESIDENTIAL ADDRESS	NUMBER OF SHARES	CAPITAL AMOUNT (TRY)
1-TÜRK EKONOMİ BANKASI A.Ş.,	TEB Kampüs C ve D Blok, Saray Mahallesi, Sokullu Caddesi, No:7/A- 7B Ümraniye 34768 İstanbul	29,999,993.68	29,999,993.68
2-TEB HOLDİNG A.Ş.,	TEB Kampüs C Blok, Saray Mahallesi, Sokullu Caddesi, No:7/A Ümraniye 34768 İstanbul	1.58	1.58
3-TEB YATIRIM MENKUL DEĞERLER A.Ş.,	TEB Kampüs D Blok, Saray Mahallesi, Sokullu Caddesi, No:7 Ümraniye 34768 İstanbul	1.58	1.58
4- BNPP YATIRIMLAR HOLDİNG A.Ş.,	Gayrettepe Mahallesi, Yener Sokak, No:1 Kat: 10 Beşiktaş 34349 İstanbul	1.58	1.58
5-GALATA YATIRIM HOLDİNG A.Ş.,	Rüzgarlıbahçe Mahallesi Kavak Sokak No: 16 Kat: 5 34805 Kavacık, Beykoz İstanbul	1.58	1.58

c) Changes that Occurred during the Financial Year : None.

B- INFORMATION ON PRIVILEGED SHARES

There are no privileged shares.

C- INFORMATION ON THE MANAGING BODY, TOP LEVEL MANAGERS AND PERSONNEL OF THE COMPANY

- a) Managing Body of the Company: It is the Board of Directors which is formed of 7 (seven) real persons, who are the members of the Board of Directors.

Members of the Board of Directors have been elected for a period of one year during the Ordinary General Assembly which was held on March 29, 2016.

Members of the Board of Directors

Chairman
Deputy Chairman
Board Member
Board Member
Board Member
Board Member
Board Member and General Manager

Name and Surname

Dr. Akın Akbaygil
Ayşe Aşardağ
Gökhan Özdil
Canan Bumin
Xavier Henri Jean Guilmineau
Patrick Pierre Marie Galouzeau de Villepin
Mehmet Çağatay Baydar

- b) Senior Management of the Company

Title

Board Member and General Manager
Chief Advisor to the Board
Assistant General Manager
Assistant General Manager
Assistant General Manager

Name and Surname

Mehmet Çağatay Baydar
Canan Bumin
Selda Demirtaş
Sevil Dinçer
Taylan Bartu

- c) Number of Personnel

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D- INFORMATION ON THE ACTIVITIES OF THE BOARD MEMBERS WHICH ARE WITHIN THE SCOPE OF THE PERMISSION GIVEN TO THEM BY THE GENERAL ASSEMBLY AND ARE RELATED TO TRANSACTIONS CARRIED OUT BY THE RELEVANT BOARD MEMBERS WITH THE COMPANY EITHER IN HIS/HER OWN NAME OR ON BEHALF OF THIRD PERSONS AND THE ACTIVITIES WHICH ARE WITHIN THE SCOPE OF PROHIBITION OF COMPETITION: None.

2- FINANCIAL RIGHTS GRANTED TO THE BOARD OF DIRECTORS AND THE SENIOR MANAGERS

Financial benefits paid to the members of the Board of Directors: None.

Total financial benefits and fees paid to the senior managers: TRY.2,321,167.-.

Information on the total amount of the cost of allowances, travel, accommodation and representation expenses, material means in kind or in cash, insurance and similar guarantees: TRY.97,092.-.

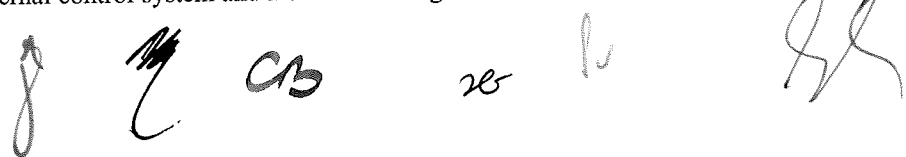
3- RESEARCH AND DEVELOPMENT ACTIVITIES OF THE COMPANY

Research and Development activities carried out: None.

4- ACTIVITIES OF THE COMPANY AND SIGNIFICANT DEVELOPMENTS RELATED TO THE ACTIVITIES OF THE COMPANY

- a) Information on the investments realized by the company during the relevant financial year: None.

- b) Information on the internal control system and internal auditing activities of the company and the opinion of the managing body in this regard:





Internal control mechanisms, which are to be complied with and implemented by the company personnel at every level, have been established in order to ensure that the activities of the company are carried out in compliance with first, the legislation in force and then the policies of TEB Group and the company and in line with the frame work determined by the Board of Directors and further ensure the integrity and reliability of the accounting and reporting systems. Compliance and Internal Control Department which operates as reporting to the Board of Directors through Auditing Committee supervises the efficiency and effectiveness of the internal control system such that the whole body of the company is covered within the framework of the annual supervision plan which has been prepared pursuant to the risk assessments.

TEB Faktoring A.Ş. is subject to periodical audits conducted by its parent company TEB A.Ş.'s General Inspection Hub Turkey. An audit was conducted by the TEB A.Ş. General Inspection Hub for the Finance and Compliance activities of the Company in 2016 and the audit rating of the Company was evaluated as 'Generally Satisfactory'.

- c) Information on the direct or indirect affiliates of the company and its corresponding shares:

<u>Direct affiliates</u>	<u>Percentage of Share</u>
TEB Yatırım Menkul Kıymetler A.Ş.	3.38%
<u>Indirect affiliates</u>	
TEB Portföy Yönetimi A.Ş.	0.98%

- d) Information on the own shares acquired by the company: None.
- e) Explanations on the private auditing and public auditing which have been performed during the accounting period:

Financial statements of our company are subject to a limited quarterly review by the independent audit firm PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., during the periods of March, June and September for the purpose of main shareholder, TEB A.Ş.'s consolidated Banking Regulation and Supervision Board (BRSA) reporting and subject to a complete annual independent audit for the purpose of Company's individual BRSA reporting as of December 31, 2016 and subject to a limited audit in June for IFRS reporting and subject to a complete independent audit as of December period.

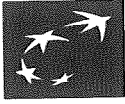
- f) Information on the lawsuits which have been brought against the company and may affect the financial situation and the activities of the company and the potential outcome of the said lawsuits:

As a result of the inspections made by the Ministry of Finance on the books and records of almost all companies which are active in the factoring sector for the year 2008, the Ministry criticized that the provisions allocated for the principal amounts of the non-performing loans are recorded as expense and imposed a fine of TRY.616 thousand on the company on the basis of corporate tax, TRY.217 thousand on the basis of the temporary tax. The parties could not reach a compromise through amicable negotiations and consequently the company opened a lawsuit. The 3rd Tax Court of Istanbul made a judgement favoring the company but the relevant tax office took the matter to the Council of State.

The company has allocated TRY.735 thousand in the financial statements as a provision for the said tax lawsuit. The amount of legal proceedings that had been provisioned was structured within the scope of "Restructuring Law of Certain Receivables No 6736" in 2016. As a result of using the tax remission incentive TRY.154 thousand was paid once off and recorded as expense and TRY.735 thousand litigation provision was cancelled and recorded as revenue in our financial statements.

Apart from the cases stated above, our company has also become a party to more than one lawsuit either as the claimant or the defendant during the relevant period with respect to ordinary factoring activities.

Within this scope the company management has the opinion that there are no ongoing lawsuits or legal proceedings which could have a negative impact on the financial situation or on the results of the activities of the company that have not been stated in the footnotes to the financial statements or for which no provisions have been provided. The Company has also allocated TRY.75 thousand for the ongoing employee suits.



- g) Explanations related to the administrative or juridical sanctions imposed against the company or its Board of Directors by reason of the practices contradicting the provisions of legislation: None.
- h) Information and assessments about whether the targets for the previous periods have been reached, whether the resolutions of the general assembly have been implemented or not, if it has actually failed to achieve the targets or to perform decisions, reasons explaining why the company failed to reach its targets or failed to perform the decisions:

Our company has achieved a turnover of TRY.7,715 million and a net profit of TRY.11.5 million in 2016 and its asset size was realized as TRY.1,705 million.

In the Company Ordinary General Assembly held on March 29, 2016, it was decided that TRY.7,126,422.76 of the distributable profit for the year 2015 and TRY.239,790.20 of the amount of the Retained Earnings Account under the extraordinary reserves account shall be distributed to the shareholders and the mentioned amount decided to be distributed from the date of March 30, 2016, and the distribution was realized on March 30, 2016.

- i) If an extraordinary general assembly meeting has been held during the year, information on the meeting including but not limited to the information on the date of the meeting, decisions taken during the meeting and the transactions effected in relation to the meeting: None.
- j) Information on the amounts of donations made by the company within the year and information on the expenses made within the framework of social responsibility projects in which the company has participated:

Total amount of the donations granted in the year 2016: TRY.1,500.-.

- k) If the company is an affiliate of a group of companies, legal transactions effected with the parent company or an affiliate of the parent company or at the order of the parent company or for the benefit of the parent company or an affiliate of the parent company and all other measures taken in favor of the parent company or an affiliate of the parent company during the previous activity period or actions which the company has refrained from taking for the same purpose:

Within the activity period of the year 2016, there is not any legal transaction made in favor of controlling companies and the subsidiaries of controlling companies upon the request of the direct and indirect controlling companies. All legal transactions made between our company and controlling companies and the subsidiaries of controlling companies were conducted according to market practices, the rules of honesty and diligence of commercial life and the rule of compliance with precedent under appropriate conditions and our company has not made any loss due to such transactions. Therefore no adjustment was necessary.

There is not any loss of our company as there is not any measure taken or refrained from taking in favor of direct and indirect controlling companies and the subsidiaries of direct and indirect controlling companies.

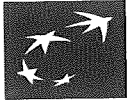
5- FINANCIAL SITUATION

- a) Analysis and evaluation of the managing body regarding the financial situation and the results of activity, the level of realization of the planned activities, the position of the company against the specified strategic targets:

TEB Faktoring A.Ş. which has been active as an affiliate of TEB Group since 1997 has also continued to provide domestic and international factoring services to the business world with success in 2016 as being one of the largest companies of its sector and continued to support corporates and SME's.

Influenced by the recession in the world and in the EU, the Turkish economy has been adversely affected by the political uncertainty created by the two elections in 2015, and the adverse effect continued in 2016. Beyond that, the coup attempt in 2016 caused much more difficult conditions for the economy.

In parallel with these developments, while the factoring sector, which is the intermediary for the financing of trade, grew by 27% in 2014, the growth rate was 3.7% in 2015 and 3.4% in 2016.



2016 was a year in which there were economic and political uncertainties both in the world and in our country, economic recession continued and all such factors influenced our sector negatively. The negative influence of this process increased the bad debts, decrease the credit demand in the market and caused a decrease in the net profit margins considerably due to the severe competition. In spite of such negative conditions our company distributed to its partners, a profit of TRY.7,366 thousand in 2016 and realized a net profit of TRY.11,507 thousand as of the year end by increasing its net profit by 39%. With this net profit, our return on equity (ROE) was realized as 15.41%. According to the data published by the Association of Financial Institutions the return on equity of the sector in 2016 was realized as 13.59%.

The existing unfavorable political, geopolitical and economic conditions impacted mostly loans granted in the finance sector and consequently non-performing loans (NPL) ratio in the sector increased. The slowdown in the economy, the serious increase in the currencies and the acts of terror have adversely affected many sectors, and especially the small-capitalist enterprises' financial debt increased and that led the sector's bounced checks to increase as well due to the debt burden. While the NPL ratio in the factoring sector increased close to 5%, concentrating more on risk management our company's NPL ratio was 2.39%, well below the budget and sector average at the end of 2016.

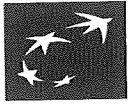
Our services and amount of credit provided to SMEs and corporate customers have increased in line with the vision given to us by the Board of Directors. Parallel to our Group's desire to increase foreign trade transactions, we focused on export transactions with lower risk and achieved a turnover over 22% of the budget without creating any NPL. By the end of 2016, our company realized an export factoring volume of USD.1.7 billion, acting as an intermediary for approximately 1.5% of the export volume of Turkey. In this way in 2016, TEB Faktoring was ranked among the first two companies in Turkey and among the largest companies in the world in terms of export factoring volume according to the figures of the biggest factoring chain in the world, FCI. In 2016, our Company was rewarded as the second best export factoring company with a score of 99.9% in FCI and it is the first and only factoring company to win the 'Best Export Factor' award 5 times in history.

Digitalization, one of the main solutions for maintaining profitability in the market where profit margins are falling, market share is shrinking and competition is increasing, is given great importance by our Company, and in this context many digitalization projects were launched in 2016.

- b) Information on sales, efficiency, capacity to generate revenues, profitability and proportion of debts/equity of the company for the current period in comparison to previous periods and information on other issues that might give an idea about the results of the activities of the company and expectations for the future:

Comparative financial data of our company for the last two years are as follows:

	<u>2016 (Thousand TRY)</u>	<u>2015 (Thousand TRY)</u>
Banks	10,061.-	18,762.-
Factoring receivables	1,680,036.-	1,208,323.-
Equity	76,703.-	72,683.-
Loans received	1,599,608.-	1,140,556.-
Total assets	1,704,802.-	1,240,129.-
Revenues from main activities	106,353.-	108,128.-
Financial expenses	56,812.-	65,910.-
General operating expenses	25,695.-	24,112.-
Provisions	13,639.-	11,536.-
Profit before tax	14,158.-	10,320.-
Tax	2,651.-	2,019.-
Net profit	11,507.-	8,301.-
Return on assets	0.78%	0.64%
Return on equity	15.41%	11.10%
General operating expenses/net		
Operating revenues	51.87%	57.11%



- c) Evaluation of the Managing Body regarding whether the company capital is uncovered or is deeply in debt:

As shall be seen on the balance sheet of our Company dated 31.12.2016, capital is not uncovered and our current assets can cover our current liabilities.

- d) Measures, if any, planned to improve the financial structure of the company:

The financial structure of the Company is sufficiently strong so as to enable the company to carry out its activities.

- e) Information on the policy of distribution of dividends, and the reason if no dividends would be distributed and proposal regarding how the undistributed profit shall be used:

Policies of our company regarding the distribution of dividends, is based on the principle of maximizing the income of our partners taking into consideration the requirement to maintain the existence of the enterprise.

Distribution of dividends by the Company is carried out in line with the provisions of the Turkish Commercial Law and in accordance with the principles and procedures specified in the articles of association, within the due period of time. Each shareholder shall be entitled to have a dividend amount which is proportionate to the distributed profit. No privileges are given regarding the distribution of dividends. The dividend to be distributed shall be determined by the general assembly taking into consideration the liquidity of the company and the investments to be made by the company. It will be proposed to the general assembly to distribute dividends.

6- RISKS AND EVALUATION BY THE BOARD OF DIRECTORS

- a) Information on the risk management policy, if any, that the company shall apply against the risks envisaged:

Generally speaking the companies may incur market risks, credit risks and liquidity risks due to their activities. Risk management program of our company is focused on the minimization of the potential negative effects of the ambiguity in the financial markets on the financial performance of the company.

With regard to the transactions effected within the framework of the factoring contracts signed with the customers, the financial loss incurred by the company as a result of the failure of the debtor(s) to fulfill their obligations under this contract shall be defined as a credit risk. The credit risk of the company (factoring receivables/guarantees) is distributed to various sectors and geographical areas and covers a huge number of customers. The Company tries to make transactions with only those parties that the credibility of the credit and the guaranties may be measured and reduce the credit risk by obtaining sufficient amount of guaranty when possible. Credit risks incurred by the Company and the information about the customers and their performance of repayment of credits are continuously monitored. Credit risk is implemented according to the Credit Delegation Limits and Credit Policy decision taken by the Board of Directors and controlled by Board of Directors and Audit Committee. Our Company also carries out its activities within the framework of the Group Compliance Policy, taking into account the compliance risk.

An appropriate liquidity risk management has been formed to meet the short, middle and long-term funding and liquidity needs of company activities. The Company manages the liquidity risk by following up estimated and actual cash flows regularly and ensuring the continuity of sufficient funds and reserve in the basis of matching the maturity dates of the financial assets and obligations.

- b) If the risk is generated, information on the activities and reports of the committee for early detection and management of risks:

There is a Credit Follow-up and Monitoring Department subordinated to the Credits Group within the body of the Company. The said department issues daily, weekly, monthly, quarterly and annual reports, various works and researches either about the whole credit risk, or credit risks which are problematic or have begun becoming problematic in order to enable an early warning system for the risk to be set up and to remove the risk.

- c) Future oriented risks concerning sales, efficiency, capacity to generate revenues, profitability, rate of debts/equity and similar issues:



Total business volume of the factoring sector grew approximately 3.4% in 2016. Exports and accordingly, export factoring shall maintain its significance in our country, where growth rate is around 2.5% and export is USD.142 billion. Non-payment of the debts even by those companies in the developed countries increases the need of the exporters and specifically SMEs in Turkey, for the guarantees, collection and financing support which they shall receive from the factoring companies. Factoring sector shall contribute to the growth of our economy, protection of the country's capital by providing guarantees and operational capital for SMEs that expand to the other markets in 2017.

TEB Faktoring shall continue to support SMEs and to lead the sector in this field. Due to financing of the trade, the recession in the economy influenced the factoring companies more negatively in the domestic market.

Although the recognition of factoring and the number of companies benefiting from this product had increased rapidly, the improvement, which we see as the main threat for the factoring sector, was unfortunately the increase in the number of bounced checks and the recession in the domestic market. Due to the economic developments in the world, with the influence of the high foreign exchange rates, the companies with foreign exchange deficit in our country where the rate of growth dropped, had difficulties in payment of their debts and as a result of non-management of their cash flows, the number of bounced checks increased. In the light of these developments and the economic recession, improving our credit allocation procedures was brought to our agenda and necessary actions have been taken. Also, parallel to the decrease in profit margins, the savings measures gained more importance for the operating expenses. Our Company, which achieved keeping the general expenses below the inflation rate in 2016, shall show the same sensitivity in 2017 as well.

As per the law no.6361 on "Financial Leasing, Factoring and Financing Companies" regarding establishment of the Central Invoice Record System (MFKS), Association of Financial Institutions has cooperated with Credit Bureau (KKB) and, in 2015, started the application of the system through which the information on the receivables assigned to the factoring companies and the banks are recorded.

Upon inclusion of the banks carrying out factoring transactions within this system, double assignments are prevented and also the operational load on the factoring companies and the banks is reduced.

Consequently, the factoring volumes of the banks, which were not recorded until today, are determined and the real factoring volume of Turkey is reached for the first time. In 2016, the second phase of the MFKS, which allows factoring companies and banks carrying out factoring activities to record in the system all payment instruments and collection information beside the receivables assigned, has been launched. Thus, comprehensive information can be recorded and reported which the whole sector can benefit from and it is ensured to become a significant instrument in risk control.

Furthermore, recording all assigned receivables as collaterals into the Central Invoice Record System will provide a significant secondary database that the financial market in Turkey may profit from; and a healthier growth for companies will be eventual thanks to efficient risk management.

According to the Central Bank decision; the promissory notes drawn on the basis of the export receivables assigned to factoring companies and endorsed by the latter to Turk Eximbank are now eligible for rediscount; and thus the companies have been provided with the possibility to use export rediscount credit facility after the dispatch. Accordingly, export companies will be provided with credit facility at a better price funded by Central Bank. Our company succeeded to be the first company in the sector who utilized a loan within this scope. In addition, the Central Bank has also made it possible to use foreign currency earning services for factoring companies and rediscount credits through the banks for export receivables before shipment.

Moreover, the factoring companies shall be able to offer guarantee service to the customers for many countries, to which they cannot currently offer service, thanks to the agreements concluded with Eximbank, and it shall be enabled for the exporters to export to different countries safely.

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The factoring sector will be the biggest supporter of SMEs in this respect with the service they will spread to 238 countries for SMEs seeking a new market due to the stagnation in European countries where the export have been the highest previously.

Supply Chain Financing, which is another product commonly used in the world, is also included in the agenda of the factoring companies in 2016. A portal designed to be established under the roof of the Association of Financial Institutions will enable SMEs to create financing, especially at lower costs, thanks to a common electronic infrastructure through which financial institutions, buyers and suppliers can operate on the same platform. Our Company started to work with respect on this issue and aims to offer this product as well to its customers in the near future.

The factoring industry is working on projects that digitize on the basis of being able to serve more customers and expand the penetration, and plans to launch them in 2017. Our Company started digitalization projects in 2015 for risk management, increase of productivity and automation, which are among the most important pillars of profitability and some of the projects have already been implemented. In 2017, our Company shall continue to focus on this field.

7- OTHER ISSUES

- a) Explanations about any development that arises with regard to the company after the end of the activity year and has a special importance so as to affect the rights and interests of the partners, creditors and other relevant individuals and entities; None.
- b) Additional information: None.

This report has been issued pursuant to the provisions of the regulation on “The Determination of Minimum Content of the Annual Activity Report of the Companies” issued by the Ministry of Customs and Trade and published in the Official Gazette, No: 28395, dated 28.08.2012 and it has been signed and approved by the Members of the Board of the company whose names are given below:

Chairman

Dr. Akın AKBAYGİL

Vice Chairman

Ayşe AŞARDAĞ

Member and General Manager

Mehmet Çağatay BAYDAR

Member

Canan BUMİN

Member

Xavier Henri Jean
GUILMINEAU

Member

Gökhan ÖZDİL

Member

Patrick Pierre Marie
GALOUZEAU deVILLEPIN