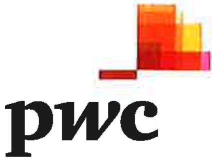
LİDER FAKTORİNG A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

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

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Lider Faktoring A.Ş. (the "Company") and its subsidiary (together the "Group") as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and "Independence Audit by-Law" published by the Public Oversight Accounting and Auditing Standards Authority ("POA"), independent auditing requirements referred to in Article 400 of the Turkish Commercial Code ("TCC"), and Communiqué Series: X No: 22 on "Principles Regarding Independent Auditing Standards in the Capital Markets" (collectively referred to as "Turkish Local Independence Rules"). We have fulfilled our other ethical responsibilities in accordance with IESBA Code and Turkish Local Independence Rules.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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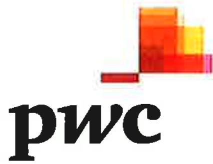

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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***
Impairment of factoring receivables The Group recognised a provision of TL 33,198 thousand for factoring receivables of TL 1,141,159 thousand, which represents a significant portion of the Group's total assets in its consolidated financial statements as at 31 December 2017. Explanations and notes related to the provision for impairment of factoring receivables are presented in Notes 2(c), 3(h) and 10 in the consolidated financial statements. We focused on this area due to the size of the factoring receivables, level of management's judgement and estimations in determining timing of recognition of impairment and the estimation of the size of any such impairment.	During our audit we performed the following procedures to support our conclusions: • We assessed and tested the design and operating effectiveness of the relevant controls over the monitoring and identification with respect to which factoring receivables are impaired and the calculation of impairment provisions. • We have performed a credit review by testing a sample of factoring receivables to form our own assessment as to evaluate whether the loss event had occurred and whether the provision or impairment was recognized in a timely manner. • We tested individually impaired factoring receivables on a sample basis and tested management's calculations and we concluded that management's assumptions to be in line with the historical rates. • Where impairment was calculated on a modelled basis for collectively assessed portfolios, we understood and assessed the methodology and models that have been applied by management. Our testing was varied by portfolio, but typically included evaluation of parameters and assumptions in the models, re-performance of calculations on a sampling basis. Based on the evidence obtained we concluded that identification of impairment events, the principal assumptions used and the impairment provisions are reasonable.

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Key audit matter	*How our audit addressed the key audit matter*
Net present value of acquired distressed loans Destek Varlık Yönetim A.Ş. ("Destek Varlık"), subsidiary of the Gorup, has a total of acquired distressed loans ("distressed loans") amounting to TL 121,807 thousand in the consolidated statement of financial position as at 31 December 2017. Explanations and notes related to the distressed loans are presented in Notes 2(c), 3(i) and 11 in the consolidated financial statements. We focused on this area due to the size of the distressed loans, level of management's judgement and estimations in determining expected collection projections of distressed loans and credit adjusted discount rate which is used in net present value calculation of aforementioned distressed loans. Level of judgements and estimations made by the management have significant impacts on the net present value of distressed loans, therefore distressed loans is considered as key matter for our audit of the consolidated financial statements.	During our audit we performed the following procedures to support our conclusions: • We assessed management's estimation methodologies used in future collection projections and policies on review and update of the estimated collection projections when necessary. • We checked net present value calculation of distressed loans, by testing the estimated future cash flows and assessing whether the credit adjusted discount rates used in net present value calculations reflect initial incurred credit losses and equates the present value of the estimated cash flows with the acqusition price of the distressed loans. • We challenged the assumptions used in estimated collection projections by inquiring management and comparing estimates to external sources' documents. • We tested collections from non-performing loans received throughout the current period on a sampling basis and confirmed existence and accuracy of these collections. Based on the evidence obtained we concluded that identification of impairment events, the principal assumptions used and the net present value of the distressed loans are reasonable.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

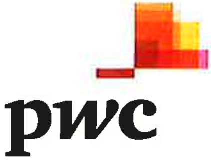
Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group'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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

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

Didem Demer Kaya, SMMM
Partner

Istanbul, 16 March 2018

LİDER FAKTORİNG A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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LİDER FAKTORİNG A.Ş.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	8	8,618	8,434
Factoring receivables	10	1,107,961	900,234
Acquired distressed loans	11	121,807	107,442
Property and equipment, net	12	38,426	33,026
Intangible assets	13	558	162
Deferred tax assets	7	6,398	6,118
Assets held for sale	15	347	372
Other assets and prepaid expenses	14	13,335	15,718
Total assets		**1,297,450**	**1,071,506**
LIABILITIES			
Borrowings	16	868,226	773,760
Debt securities issued	17	284,270	174,534
Factoring payable	10	1,686	1,473
Income taxes payable	7	1,800	1,982
Deferred tax liabilities	7	540	582
Other liabilities	18	3,478	2,799
Provisions for employee benefits	19	4,701	4,006
Total liabilities		**1,164,701**	**959,136**
EQUITY			
Share capital	20	35,874	35,874
Revaluation surplus, net of tax	20	33,447	28,835
Re-measurement of employment termination benefits, net of tax		(991)	(777)
Legal reserves	20	9,773	8,699
Retained earnings		54,646	33,681
Total equity attributable to equity holders of the Company		**132,749**	**106,312**
Non-controlling interests		-	6,058
Total equity		**132,749**	**112,370**
Total liabilities and equity		**1,297,450**	**1,071,506**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	1 January - 31 December 2017	1 January - 31 December 2016 (*)
Interest income			
Interest income on factoring receivables		183,899	143,413
Interest income from banks and reverse repurchases		262	121
Total interest income		**184,161**	**143,534**
Interest expense			
Interest expense on borrowings (-)		(114,556)	(70,359)
Interest expense on debt securities issued (-)		(34,285)	(21,386)
Total interest expense		**(148,841)**	**(91,745)**
Net interest income		**35,320**	**51,789**
Fee and commission income on factoring transactions		8,786	8,215
Fee and commission expense on banking transactions (-)		(2,753)	(1,266)
Fee and commission income, net		**6,033**	**6,949**
Income from acquired distressed loans, net	11	28,688	-
Provision for impairment of factoring receivables (-)	10	(1,551)	(4,969)
Recoveries from impaired factoring receivables	10	2,232	848
Personnel expenses (-)	6	(30,036)	(23,612)
Operating expenses (-)	5	(13,224)	(5,770)
Other operating income/(expenses), net		953	1,434
Profit before income tax		**28,595**	**26,669**
Income tax expense (-)	7	(5,497)	(5,301)
Profit for the year		**23,098**	**21,368**
Attributable to			
Equity holders of the Company	21	23,098	21,638
Non-controlling interest		-	-
Earnings per share			
Earnings per share (TL)	21	0.64	0.60
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss:			
Revaluation of property and equipment, net	12, 13	4,612	5,498
Re-measurement of post-employment benefits obligation, net of tax	19	(214)	(339)
Other comprehensive income		**4,398**	**5,159**
Total comprehensive income		**27,496**	**26,527**
Earnings per share			
Basic earnings per share (TL)		0.75	0.74

(*) Presented on unconsolidated basis (Note 2.d).

LİDER FAKTORİNG A.Ş.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Attributable to equity holders of the Company								
	Share capital	**Inflationary effect on share capital**	**Revaluation funds, net of tax (*)**	**Actuarial gains, net of tax**	**Total reserves**	**Legal reserves**	**Retained earnings**	**Non-controlling interests**	**Total equity**
Balances at 1 January 2016	**30,000**	**5,874**	**23,337**	**(438)**	**-**	**7,541**	**25,450**	**-**	**91,764**
Transfer to legal reserves	-	-	-	-	-	1,158	(1,158)	-	-
Dividend paid	-	-	-	-	-	-	(11,979)	-	(11,979)
Total comprehensive income	-	-	5,498	(339)	-	-	21,368	-	26,527
Other minority shares	-	-	-	-	-	-	-	6,058	6,058
Balances at 31 December 2016	**30,000**	**5,874**	**28,835**	**(777)**	**-**	**8,699**	**33,681**	**6,058**	**112,370**
Balances at 1 January 2017	**30,000**	**5,874**	**28,835**	**(777)**	**-**	**8,699**	**33,681**	**6,058**	**112,370**
Transfer to legal reserves	-	-	-	-	-	1,074	(1,074)	-	-
Dividend paid	-	-	-	-	-	-	-	-	-
Transaction with minority (**)	-	-	-	-	-	-	(532)	-	(532)
Total comprehensive income	-	-	4,612	(214)	-	-	23,098	-	27,496
- *Profit for the year*	-	-	-	-	-	-	*23,098*	-	*23,098*
- *Other comprehensive income*	-	-	*4,612*	*(214)*	-	-	-	-	*4,398*
Other minority shares (**)	-	-	-	-	-	-	(527)	(6,058)	(6,585)
Balances at 31 December 2017	**30,000**	**5,874**	**33,447**	**(991)**	**-**	**9,773**	**54,646**	**-**	**132,749**

(*) Include revaluation funds of buildings (Note 11).
(**) Explained in note 3. (a) and 25 in detail.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	1 January - 31 December 2017	1 January - 31 December 2016 (*)
Net profit for the year		**23,098**	**21,368**
Adjustments for:			
Depreciation and amortization	12, 13	552	245
Provision for employee severance payments	6	828	775
Provision for unused vacation	19	809	6
Net interest income		(35,320)	(51,790)
Income tax expense	7	5,497	5,301
Provision for doubtful receivables	10	1,551	4,969
Bonus provision	19	272	-
Impairment of goodwill		-	104
Income from acquired distressed loans	11	(28,688)	-
Provision for acquired distressed loans	11	29	-
Changes in operating assets and liabilities			
Change in factoring receivables and acquired distressed loans		(197,155)	(391,299)
Interest received		172,038	143,534
Collection from acquired distressed loans	11	34,294	-
Change in other assets		1,918	(2,273)
Change in factoring payables		213	42
Change in other liabilities		275	7,898
Employee severance paid (-)	19	(604)	(410)
Income taxes paid (-)		(6,148)	(6,088)
Change in financial investments		-	59
Purchase of acquired distressed loans	11	(20,000)	-
Net cash used in operating activities (-)		**(46,541)**	**(267,559)**
Investing activities:			
Consideration paid in acquisition of subsidiary	3, 25	(7,118)	(3,220)
Purchase of property and equipment and intangible assets (-)	12, 13	(1,518)	(274)
Net cash used in investing activities (-)		**(8,636)**	**(3,494)**
Financing activities:			
Interest paid (-)		(147,609)	(91,745)
Net cash flow provided from borrowings and debt securities issued		202,971	382,555
Dividends paid (-)		-	(11,979)
Net cash provided from financing activities		**55,362**	**278,831**
Net increase in cash and cash equivalents		**185**	**7,778**
Cash and cash equivalents at 1 January	8	8,433	655
Cash and cash equivalents at 31 December	**8**	**8,618**	**8,433**

(*) Presented on unconsolidated basis (Note 2.d).

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

1 - GENERAL INFORMATION

Lider Faktoring A.Ş. was incorporated on 24 September 1992 in Turkey to provide factoring services to industrial and commercial firms under the name "Şetat Faktoring A.Ş.". The name of Şetat Faktoring A.Ş. was changed to Lider Faktoring Hizmetleri A.Ş. and the change was announced on the Trade Registry Gazette dated 22 July 2002 and numbered 5596. On 1 July 2013, with the Extraordinary General Assembly Meeting, legal name of the Company was changed from Lider Faktoring Hizmetleri A.Ş. to Lider Faktoring A.Ş. (the "Company") The change of the legal name was registered with Turkish Trade Registry Gazette on 10 July 2013.

One of the existing shareholders sold 15% of the Company's shares in an initial public offering held in 2014 and the shares started floating on Istanbul Stock Exchange ("ISE") at 19 June 2014. As of 31 December 2017 the shares are traded in regular market.

The Company provides factoring services and follow-up, collect, finance these receivables within this framework.

The Company operates in accordance with "Finance 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 Regulation and Supervision Agency ("BRSA").

The Company's head office is located at Büyükdere Street 100 Maya Akar Center Floor: 25 Esentepe - Istanbul.

The Company became a controlling shareholder by purchasing shares equal to a TL 4,998 nominal value, which constitutes 49.98% of the TL 10,000 nominal value shares of Destek Varlık Yönetim A.Ş. ("Destek Varlık", "subsidiary") on 29 December 2016. In accordance with the Board of Director's decision of the Company dated 21 July 2017, the Company acquired the remaining %50.02 shares of Destek Varlık with a total amount of TL 7,118 from Merkez Faktoring A.Ş., Erhan Özçelik and Nedim Menda and the transfer of the shares were completed on 9 October 2017 following the required official institutions' approvals. Upon the recent share purchase the Company became %100 shareholder of Destek Varlık.

Destek Varlık was established on 8 May 2013 and the decision regarding establishment was promulgated in Turkish Trade Registry Gazette No. 8319 on 14 May 2013. Destek Varlık, which got its official authorization within the framework of sub-paragraph (4) of Article 6 of the Regulation on Principles for the Establishment and Operations of Asset Management Companies and Article 143 of Banking Law No. 5411 and Banking Regulation and Supervision Agency's decision No. 5616 dated 5 December 2013, started operating on 11 December 2013.

In terms of consolidated financial statements, Lider Faktoring A.Ş. and its consolidated subsidiary, Destek Varlık, were jointly described as the "Group". The Group has 182 employees as at 31 December 2017 (31 December 2016: 190). The Group is controlled by the real persons according to the their share ratio in the equity as presented in Note 20.

The Group's principal activity is to provide services substantially in Turkey.

The financial statements for the year ended 31 December 2017 has been signed on behalf of the Board of Directors by Chief Financial Officer at 16 March 2018.

2 - BASIS OF PREPARATION

The principal accounting policies adapted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRIC") applicable to companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board ("IASB").

The Group which is incorporated in Turkey maintain its books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations. Functional currency of the Group is the Turkish Lira ("TL"), being the currency of economic environment in which the Group operates. The consolidated financial statements have been prepared in accordance with IFRS and presented in TL. For the purpose of fair presentation in accordance with IFRS, certain adjustments and reclassifications have been made to the statutory financial statements.

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

The Group prepared its consolidated financial statements on a going concern basis.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis adjusted for the effects of inflation during the hyperinflationary year ended at 31 December 2005, except for buildings which are measured at fair value.

The methods used to measure fair values are discussed further in Note 4.

(c) Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

2 - BASIS OF PREPARATION (Continued)

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2017 is included in the following notes:

Impairment of factoring receivables

The Group reviews the carrying amounts of factoring receivables at each reporting date to determine whether an objective evidence or observable data that comes to the attention of the Group that whether the Group will not be able to collect all amounts due as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the receivables. Further details regarding to the Group's accounting policies and assumptions regarding to the impairment of factoring receivables are explained in Note 3 (h).

Determination of net present value of acquired distressed loans

The Group uses the following critical assumptions in calculation of net present value of the acquired distressed loans.

The Group estimates future cash flows for its acquired distressed loans for further periods after purchasing loan portfolios by taking into consideration of its market experience, contents of portfolios and market conditions. Other issues due to condition of the market participants are also included in projections. As the Group purchases the acquired distressed loans at a deep discount, it reflects incurred losses in cash flow estimations when computing the effective interest rate. Accordingly, the effective interest rate of the acquired distressed loans become the discount rate that equates the present value of the expected cash flows with the purchase price of the loan. Therefore, the Group estimates the credit adjusted effective interest rates when computing the net present value of acquired distressed loans. The Group has estimated a total of TL 200,150 undiscounted acquired distressed loans for the period between 2017-2023 (31 December 2016: TL 180,625). The discounted carrying values of the related future cash flows equal to TL 121,807 and TL 107,442 as at 31 December 2017 and 31 December 2016, respectively. Further details regarding to the Group's accounting policies and assumptions regarding to the acquired distressed loans are explained in Note 3 (i) and in Note 11.

(d) Comparative information and correction of prior period consolidated financial statements

Consolidated financial statements of the Group presented comparative with prior period to make performance trends judgements possible.

As is explained in detail in Note 1, the Company became a controlling shareholder upon purchasing 49.98% of Destek Varlık's shares on 29 December 2016 and began consolidating Destek Varlık in its consolidated financial statement. The Company consolidated Destek Varlık's statement of financial position as at 31 December 2016 and began consolidating Destek Varlık's comprehensive income, and cash flows statements as at 1 January 2018. Therefore, the statements of comprehensive income and cash flows presented for the period ended at 31 December 2016 were presented on unconsolidated basis.

2 - BASIS OF PREPARATION (Continued)

(e) Accounting in hyperinflationary economies

Turkey was a hyperinflationary economy until 31 December 2005. 2005 was the monitoring year for the inflation in Turkey. Due to the decreasing trend in inflation rate and the sustained positive trends in qualitative factors such as the economic growth for the last three years, financial and economic stabilization, and the decreasing interest rates, Turkey was considered non-hyperinflationary economy under International Accounting Standard ("IAS") No 29 starting from 1 January 2006. Therefore, the application of IAS 29 was ceased in 2006.

(f) Segment reporting

The Group provides services in the factoring and debt management of acquired distressed loans portfolios fields in Turkey as of 31 December 2017 (31 December 2016: The Group provides factoring services).

As of 31 December 2017, segment reporting is prepared based on factoring and debt management of acquired distressed loans services (31 December 2016: As the Group provided only factoring services, segment reporting is not presented). The debt management of acquired distressed loans service's impact on the Group's operating results for the period ending 31 December 2017 is as follows;

31 December 2017	Factoring operations	Distressed debt management	Elimination	Total
Operating segment assets	1,196,617	123,786	(22,953)	1,297,450
Operating segment liabilities	1,065,960	98,951	(210)	1,164,701
Interest income	183,901	260	-	184,161
Interest expenses (-)	(134,601)	(14,240)	-	(148,841)
Fee and commission income/(expenses),net	6,033	-	-	6,033
Income from distressed loans	-	29,421	-	29,421
Provision for factoring receivables under follow-up (-)	(1,551)	-	-	(1,551)
Recoveriries from factoring receivables Under follow-up	2,232	-	-	2,232
Personnel expenses (-)	(24,995)	(5,041)	-	(30,036)
Operating expenses (-)	(6,714)	(6,510)	-	(13,224)
Other operating income/(expenses), net	809	(409)	-	400
Taxation (-)	(4,778)	(719)	-	(5,497)
Net profit	**20,336**	**2,762**	**-**	**23,098**

2 - BASIS OF PREPARATION (Continued)

(g) New and revised International Financial Reporting Standards

i. Standards, amendments and interpretations applicable as at 31 December 2017:

- Amendments to IAS 7, 'Statement of cash flows'; on disclosure initiative effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

- Amendments IAS 12, 'Income Taxes'; effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarify certain other aspects of accounting for deferred tax assets.

- Annual improvements 2014-2016, effective from annual periods beginning on or after 1 January 2017:

    - IFRS 12, 'Disclosure of interests in other entities'; regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. This amendment clarifies that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information.

    - IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

      The aim of the standard is to determine the financial reporting principles on financial assets and financial liabilities. The Group will apply the classification, measurement and impairment requirements by adjusting the opening statement of financial position and opening equity at 1 January 2018.

      According to IFRS 9, each financial asset will be classified as either fair value through profit or loss ("FVTPL"), amortized cost or fair value through other comprehensive income ("FVOCI") in accordance with the business model and the contractual cash flow characteristics. The business model is determined by the Group in terms of the manner in which assets are managed and their performance is reported. As the requirements under IFRS 9 are different than the assessments under the existing IAS 39 rules, the classification and measurement of financial liabilities remain largely unchanged under IAS 39.

      Compared to the classification under IAS39, the combined application of the contractual cash flow characteristics and business models as at 1 January 2018 will not have a material effect on the Group's equity.

2 - BASIS OF PREPARATION (Continued)

ii) Standards, amendments and interpretations effective after 1 January 2017:

As of 1 January 2018, the Group will change the method of provisions for impairment by applying the expected credit loss model under IFRS 9. These financial assets will be divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk will be recorded in the amount of 12-month expected credit losses.

Stage 2:

In the event of a significant increase in credit risk since initial recognition, the financial asset will be transferred to Stage 2. Impairment for credit risk will be determined on the basis of the instrument's lifetime expected credit losses.

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount.

The acquired distressed loans will be named as purchased or originated credit impaired loans and will be measured in accordance within the scope of IFRS 9.

The Group will recognize an adjustment to opening retained earnings at 1 January 2018, to reflect the application of the new requirements at the adoption date. The Group is currently assessing the impact of the new standard on its financial statements.

- IFRS 15, 'Revenue from contracts with customers'; effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

- Amendment to IFRS 15, 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

2 - BASIS OF PREPARATION (Continued)

ii) Standards, amendments and interpretations effective after 1 January 2017 (Continued)

- Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial Instruments'; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will: give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.

- Amendment to IAS 40, 'Investment property' relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

- Amendments to IFRS 2, 'Share based payments' on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

- Annual improvements 2014-2016; effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

    - IFRS 1, 'First time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
    - IAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

- IFRIC 22, 'Foreign currency transactions and advance consideration'; effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

- Amendment to IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

2 - BASIS OF PREPARATION (Continued)

ii) Standards, amendments and interpretations effective after 1 January 2017 (Continued)

- Amendment to IAS 28, 'Investments in associates and joint venture'; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.

- IFRS 16, 'Leases'; effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- IFRIC 23, 'Uncertainty over income tax treatments'; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

- 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.

The new standards, amendments and interpretations which will be effective on or after 1 January 2018 are not expected to have a material impact on the Group's consolidated financial statements except adoption of IFRS 9 as discussed above.

3 - SIGNIFICANT ACCOUNTING POLICIES

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

(a) Consolidation principles

Subsidiary

The consolidated financial statements of the Company include its subsidiary, which it controls directly or indirectly. This control is normally evidenced when the Company owns control power, either directly or indirectly, over company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

This control power is determined based on current and convertible voting rights. The consolidated financial statements of the subsidiaries are consolidated from the beginning of the control power over the subsidiaries to end of that power.

The table below shows the ratio of shares of subsidiaries of the Company as of 31 December 2017 and 2016:

				Net book value	
Legal entity Non-listed in stock exchange:	**Service line**	**Location**	**Share (%) (**)**	**31 December 2017**	**31 December 2016**
Desek Varlık Yönetim A.Ş. (*)	Distressed debt management	Istanbul	100.00	22,743	6,158
Total				**22,743**	**6,158**

(*) Destek Varlık's 4,998,000 shares worth TL 6,158 were transferred to the Company through sale on 29 December 2016. In accordance with Board of Directors' decision dated 15 July 2016 and numbered 28, 4,998,000 nominal shares of Destek Varlık, which had a paid capital of 10,000 all of which belongs to Deniz Yatırım Menkul Değerler A.Ş., are bought from Deniz Yatırım Menkul Değerler A.Ş. at TL 0.001232 per share, amounting TL 6,158. At the Board of Directors meeting dated 21 July 2017, it has been decided to purchase all of the remaining 50% shares of Destek Varlık. with a total of TL 7,118. The transfer of the shares were completed on 9 October 2017 following the necessary approvals from related official institutions.

(**) The Company's share in Destek Varlık's equity equals to % 48.98 as at 31 December 2016.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Changes in a parent's ownership interest after control is obtained, that do not result in a change in control of the subsidiary, are accounted for as equity transactions. Shareholders perform these transactions with other shareholders. Thus, as the Company maintains control, it did not recognize gain or loss in the consolidated comprehensive income statement on purchasing the subsidiary's share. The difference between the net book value of the acquired assets of the subsidiary and the fair value of the paid amount to acquire these assets has been recognized in the consolidated shares in equity statement. Non-controlling interests and profit or loss as a result of sales are shown under equities. As at 31 December 2017, the Group accounted TL 532 due to the aforementioned transaction with other shareholders in its consolidated statement of changes in equity (Note 25).

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Foreign currency transactions

Transactions in foreign currencies are translated to TL at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to TL at the exchange rate at reporting date. Foreign currency differences are recognized in profit or loss.

(c) Financial instruments

The Group's financial instruments are all non-derivative instruments. The Group has the following non-derivative financial assets: receivables from acquired distressed loans, cash and cash equivalents and factoring receivables.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities -recognition and derecognition

The Group recognizes a financial asset or financial liability in the balance sheet only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have expired; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset that is recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Amortized cost measurement

The Amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment for financial assets.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued(

(ii) Non-derivative financial assets - measurement

Cash and cash equivalents

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

Time deposits are measured at Amortized cost using the effective interest method. Demand deposits are measured at cost.

Factoring receivables

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

(iii) Non-derivative financial liabilities - measurement

The Group has the following non-derivative financial liabilities: borrowings, debt securities issued, finance lease payables and factoring payables.

All financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition the financial liabilities are measured at amortized cost using the effective interest method

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Borrowings, debt securities issued and finance lease payables

Borrowings, debt securities issued and finance lease payables are recognized initially at fair value, net of any transaction costs incurred. Subsequent to initial recognition, loans and borrowings, debt securities issued and finance lease payables are measured at Amortized cost with any difference between cost and redemption value being recognized in profit or loss over the period of the loans and borrowings and debt securities issues.

(d) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognized as a deduction from equity.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property and equipment

(i) Recognition and measurement

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

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

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Buildings are measured at fair value and impairment losses recognized after the date of the revaluation if any. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the revaluation surplus included in the equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the other comprehensive income, in which case the increase is recognized in the other comprehensive income. A revaluation deficit is recognized in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the revaluation surplus.

Upon disposal, any revaluation reserve relating to the particular asset being sold is may be transferred to retained earnings. Any gain and loss on disposal of an item of property and equipment is recognized in profit or loss statement.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment using the straight-line method over their estimated useful lives, and is recognized in profit or loss.

The estimated useful lives for the current and comparative periods are 50 years for buildings, 4 - 5 years for furniture and fixtures and 5 years for leasehold improvements.

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

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

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets

Other intangible assets

Intangible assets represent computer software licenses and rights. Intangible assets acquired before 1 January 2006 are measured at cost restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29, less accumulated amortization and impairment losses, if any. Intangible assets acquired after 1 January 2006 are measured at cost, less accumulated amortization and impairment losses, if any. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives for the current and comparative periods are between 3 and 5 years.

(g) Leases

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Group's incremental borrowing rate.

(ii) Leased assets

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

(iii) Lease payments

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(h) Impairment

(i) Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets measured at amortized cost

The Group considers evidence of impairment for these assets at individual asset level. All assets are individually assessed for impairment.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

Factoring receivables and allowances for doubtful receivables

A credit risk provision for impairment in factoring receivables is established if there is objective evidence that the Group will not be able to collect all amounts due as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the receivables.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization; the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

    - adverse changes in the payment status of borrowers; or
    - national or local economic conditions that correlate with defaults on the assets in the group

The Group first assesses whether objective evidence for impairment exists individually for factoring receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence for impairment exists for an individually assessed factoring receivables, whether significant or not, the asset is included in a group of factoring receivables with similar credit risk characteristics and that group of factoring receivables is collectively assessed for impairment. Factoring receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. For restructured receivables, the Group determines as to whether there has been impairment as a result of the restructuring, and if so, a provision for impairment is recorded representing the difference between the recoverable amounts, being the present value of expected cash flows from restructured receivables discounted using the interest rate of the original receivables, and the carrying amount.

Impairment losses are recognized in comprehensive income statement and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Acquired distressed loans and allowances

The Group recorded the portfolios it purchased and the purchase prices for paying single credits under receivables in its consolidated statement of financial position. Then, the Group tracked them after recognizing them based on debts.

Acquired distressed loans, are purchased from different established banks in Turkey and other financial institutions constitute the Group's acquired distressed loans that are tracked. Acquired distressed loans are considered credit-impaired at initial recognition because the credit risk is very high and, in the case of a purchase, they are acquired at a deep discount. For such loans, the Group includes the initial expected credit losses in the estimated cash flows when calculating the credit-adjusted effective interest rate. Accordingly, the effective interest rate of a purchased credit-impaired loan is the discount rate that equates the present value of the expected cash flows which is less than the contractual cash flows specified in the loan agreement, with the purchase price of the loan. Group calculates the net present value of the acquired distressed loans' expected collection projections and records them when risk, benefit, and control transfers arise for barren credits obtained, in accordance with IAS 39. Both positive and negative differences between credit portfolios' calculated collection projections' net present value and their carrying book values are recognized as income or expense under consolidated comprehensive income statement. At each reporting and balance sheet date, the Group reviews its estimations and judgements on determination of credit adjusted effective interest rate and net present value of the receivables from acquired distressed loans.

(ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the asset, and then to reduce the carrying amounts of the other assets.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Employee benefits

(i) Reserve for employee severance payments

In accordance with the existing social legislation in Turkey, the Group is required to make certain lump-sum severance indemnity to each employee who has completed one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In the accompanying consolidated financial statements, the Group has reflected a reserve for employee severance using statistical method and discounted by using the current market yield at the reporting date on government bonds, in accordance with International Accounting Standards ("IAS") 19 - Revised "Employee Benefits".

(ii) Short-term employee benefits

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

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

(k) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e. more likely than not) 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. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

(l) Related parties

For the purpose of accompanying consolidated financial statements, the shareholders, key management personnel and the Board members, and in each case, together with their families and companies controlled by/affiliated with them are considered and referred to as the related parties.

(m) Revenue and cost recognition

(i) Factoring interest and commission income

Factoring revenue consists of factoring interest and commission income collected or accrued on advances given to the customers. Commission income is a certain percentage of the total amount of invoices subject to factoring. Factoring interest and commission income are recognized on the accrual basis using the effective interest method.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Commission expense

Commission charges are recognized on the accrual basis.

(iii) Other income and expenses

Other income and expenses are recognized on the accrual basis.

(iv) Interest income other than on factoring transactions

Such interest income includes interest income from time deposits using the effective interest method and accounted at amortised cost.

(v) Interest expense on bank borrowings and debt securities

Interest expense on borrowings and debt securities are recognized using the effective interest method at amortised cost.

(n) Income tax

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years.

Income tax expense comprises current and deferred taxes. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

The Group is subject to Turkish taxation legislation. Where there are matters causing the final tax outcome to be different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

According to the Article 32 of the Corporate Tax Law No. 5520, announced in the Official Gazette dated 21 June 2006, the corporate tax rate is 20% in Turkey for 2017 and 2016. However, the corporate income tax rate will be applied as 22% for the years 2018, 2019 and 2020 regarding to the "Law on Amendment of Certain Tax Laws and Some Other Laws" numbered 7061 and published in the Official Gazette on 5 December 2017.

(ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, taxable temporary differences arising on the initial recognition of goodwill.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Prepaid corporation taxes and corporation tax liabilities are offset as they relate to income taxes levied by the same tax authority. Similarly, deferred tax assets and liabilities are also offset within the statement of financial position.

Deferred tax assets and liabilities are offset only if certain criteria are met.

The deferred tax is calculated using the enacted tax rates that are valid as of the balance sheet date in accordance with the tax legislation in force. According to the Law, which was approved in the Grand National Assembly on 28 November 2017 and published in the Official Gazette dated 5 December 2017, the rate of Corporate Tax for the years 2018, 2019 and 2020 was increased from 20% to 22%. Therefore, deferred tax assets and liabilities are measured at the tax rate of 22% that are expected to apply to these periods when the assets is realised or the liability is settled, based on the Law that have been enacted. For the periods 2021 and after, the reversals of temporary differences are measured by 20%.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

(o) Assets held for sale

A tangible asset (or a disposal Group of tangible assets) classified as "asset held for sale" is measured at lower of carrying value or fair value less costs to sell. An asset (or a disposal group of assets) is regarded as "asset held for sale" only when the sale is highly probable and the asset (disposal group) is available for immediate sale in the frame of the common conditions for sale of assets.

(p) Events after the reporting period

Events after the reporting period include all events up to the date when the financial statements are authorized for issue, even if those events occur after the public announcement of profit or of other selected information. In accordance with IAS 10, "Subsequent Events", the Group adjusts the amounts recognized in its financial statements to reflect adjusting events after the reporting period. Non-adjusting events are disclosed in the notes to the financial statements, if material.

4 - DETERMINATION OF FAIR VALUES

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists. The Group does not measure its financial assets and liabilities at fair value in its consolidated financial statements.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

A market does not presently exist for factoring receivables which would facilitate obtaining prices for comparative instruments, and if sold or settled prior to their stated maturity dates, these instruments would bear transaction costs in the form of fees or discounts. Fair value has not been computed for these instruments because of the impracticability of determining fair value with sufficient reliability. Furthermore, net carrying values other than long term factoring receivables are considered to be a reasonable estimate of the fair value due to their short-term nature.

Buildings are measured at fair value and impairment losses recognized after the date of the revaluation if any. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

The fair value of other certain financial assets, including cash at banks, factoring receivables, borrowings, debt securities issued and factoring payables are considered to approximate their respective carrying values due to their short-term nature.

The estimated fair value of borrowings and issued debt securities represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Finance lease payables are considered to approximate their respective carrying values since they are originated at a date close to the end of the reporting period.

	31 December 2017		31 December 2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and cash equivalents	8,618	8,618	8,434	8,434
Factoring receivables	1,107,961	1,229,768	900,234	1,007,676
Acquired distressed loans	121,807	121,807	107,442	107,442
Other receivables	13,335	13,335	15,718	15,718
Financial liabilities				
Borrowings	868,226	868,226	773,760	776,484
Debt securities issued	284,270	284,270	174,534	174,530
Factoring payables	1,686	1,686	1,473	1,473

5 - OPERATING EXPENSES

For the periods ended 31 December 2017 and 31 December 2016, administrative expenses comprised the following:

	1 January - 31 December 2017	1 January - 31 December 2016
Legal and court expenses	4,191	399
Rent expenses	2,308	1,582
Outsourced benefits and services	989	651
Consultancy expenses	868	539
Office supplies expenses	783	409
Communication expenses	654	380
Information technologies expenses	652	93
Depreciation and amortization	552	245
Taxes and duties other than on income	480	112
Travelling expenses	389	281
Subscription expenses	296	278
Maintenance and repair expenses	173	206
Advertising expenses	8	7
Others	881	588
	13,224	**5,770**

6 - PERSONNEL EXPENSES

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

	1 January - 31 December 2017	1 January - 31 December 2016
Salary expenses	19,985	13,447
Board of directors salary expenses	7,019	6,901
Social security premium expenses	1,520	1,924
Employee termination indemnity	828	775
Meal expenses	684	565
	30,036	**23,612**

7 - TAXATION

In Turkey, corporate income tax is levied at the rate of 20% (31 December 2016: 20%) on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes. In addition, with the 91st article of The Law numbered 7061 on Amendment of Certain Taxes and Laws and Other Acts which came into effect, being published in the Official Gazette dated 5 December 2017 and numbered 30261, current 20% corporate tax rate, will be applied as 22% for enterprises' corporate income belonging to the taxation periods of 2018, 2019 and 2020. 22% rate will also be valid for aforementioned years' in the provisional tax declaration.

There is also a 15% withholding tax on the dividends paid and is accrued only at the time of such dividend payments. The withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions.

The transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via transfer pricing, dated 18 November 2007 sets the implementation procedures of the law. If a tax payer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arms' length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible items for corporate income tax purposes.

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

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

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

	1 January - 31 December 2017	**1 January - 31 December 2016**
Current period tax expense		
Income tax expense (-)	(5,966)	(6,088)
Deferred tax income	469	787
Total tax expense (-)	**(5,497)**	**(5,301)**

7 - TAXATION (Continued)

The reported tax expense for the periods ended 31 December are different than the amounts computed by applying the statutory tax rate to profit before tax as shown in the following reconciliation:

	1 January - 31 December 2017	1 January - 31 December 2016
Profit before income taxes	**28,595**	**26,669**
Theoretical tax charge at the applicable tax rate 20%	(5,722)	(5,334)
Tax effect of items which are not deductible or assessable for taxation purposes (-)	(45)	(26)
Income exempt from taxation	267	59
Total tax expense (-)	**(5,497)**	**(5,301)**

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

The current tax liabilities as at 31 December 2017 and 2016 comprised the following:

	31 December 2017	31 December 2016
Taxes on income (-)	(5,966)	(6,088)
Less: Corporation taxes paid in advance	4,166	4,106
Current tax liabilities	**(1,800)**	**(1,982)**

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

7 - TAXATION (Continued)

Deferred tax assets and deferred tax liabilities as at 31 December 2017 and 31 December 2016 were attributable to the items detailed in the table below:

	Cumulative temporary differences		Deferred tax assets/ (liabilities)	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Provision for impaired factoring receivables	27,823	25,979	5,564	5,196
Deferred commission income on factoring receivables	1,416	1,131	283	226
Reserve for employment termination benefits	4,429	4,006	886	807m
Deferred commission income	346	275	69	55
Temporary differences on borrowings and issued marketable securities	174	252	35	50
Other	358	95	72	13
Deferred tax asset	**34,546**	**31,738**	**6,909**	**6,347**
Valuation difference between carrying values and tax base of buildings and lands (*)	(3,558)	(2,694)	(356)	(136)
Effects of useful life differences of property and equipment, and intangible assets	(193)	(94)	(39)	(19)
Temporary differences on receivables from acquired distressed loans	(3,281)	(3,281)	(656)	(656)
Deferred tax liability (-)	**(7,032)**	**(6,069)**	**(1,051)**	**(811)**
Net-off (-)			**(511)**	**(229)**
Deferred tax asset			**6,398**	**6,118**
Deferred tax liability			**(540)**	**(582)**

(*) In accordance with the 5th paragraph of Corporate Tax Law and with the amendment on this paragraph which was approved in the Parliament on 28 November 2017 and was published in the Official Gazette on 5 December 2017 50 percent of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity until the end of the fifth year following the sale. The remaining 50 percent of such capital gains are subject to corporate tax. The Group estimates that, it will comply with these requirements and has calculated the deferred tax liability with the 10% effective taxation rate (31 December 2016: 5%).

For the periods ended at 31 December 2017 and 31 December 2016 movements of net deferred tax assets are as follows:

	2017	2016
Opening - 1 January, net	**5,536**	**5,291**
Taxes on income (-)	469	787
Deferred tax expense recognized in other comprehensive income	(147)	(542)
Closing - 31 December	**5,858**	**5,536**

8 - CASH AND CASH EQUIVALENTS

As at 31 December 2017 and 31 December 2016, cash and cash equivalents comprised the following:

	31 December 2017	31 December 2016
Cash at banks	8,598	8,423
- Demand deposits	*7,948*	*984*
- Time deposits	*650*	*7,439*
Cash on hand	20	11
	8,618	**8,434**

As at 31 December 2017 the Group has time deposit (less than 1 month) with the average interest rate 13.25% (31 December 2016: Less than 1 month, with the interest rates between 7.50% - 8.25%). There is no interest accrual on time deposits (31 December 2016: TL 1). Cash and cash equivalents of the Group are shown in cash flow statements by deducting interest accruals.

As at 31 December 2017 and 31 December 2016, there are no blockage on cash and cash equivalents.

9 - FINANCIAL ASSETS

As at 31 December 2017 and 31 December 2016, there is no financial assets held for trading in consolidated financial statements.

10 - FACTORING RECEIVABLES AND FACTORING PAYABLES

Factoring receivables

	31 December 2017	31 December 2016
Factoring receivables	1,107,961	900,234
	1,107,961	**900,234**

(i) Factoring receivables

As at 31 December 2017 and 31 December 2016 factoring receivables comprised the following:

	31 December 2017	31 December 2016
Domestic factoring receivables	1,165,812	944,600
Abroad factoring receivables	-	976
Factoring receivables under follow-up	33,198	34,265
Factoring receivables, gross	**1,199,010**	**979,841**
Unearned income on factoring transactions (-)	(57,851)	(45,728)
Provision for impairment in doubtful receivables (-)	(33,198)	(33,879)
Factoring receivables, net	**1,107,961**	**900,234**

10 - FACTORING RECEIVABLES AND FACTORING PAYABLES (Continued)

As at 31 December 2017 and 31 December 2016, maturity of factoring receivables excluding unearned income and doubtful receivables are as follows:

	31 December 2017	31 December 2016
Up to 1 month	287,338	290,638
1 month to 3 months	450,476	292,246
3 months to 1 year	403,677	342,418
1 year and over	24,321	20,274
	1,165,812	**945,576**

The Group has obtained the following collaterals for its receivables as at 31 December 2017 and 2016:

	31 December 2017	31 December 2016
Customer notes and cheques obtained as collateral	1,264,522	1,005,434

As at 31 December 2017, carrying value of the Group's restructured factoring receivables amounts to TL 13,392 (31 December 2016: TL 774).

As at 31 December 2017 and 31 December 2016, maturity profile of the doubtful factoring receivables and the specific allowance for them are as follows:

	31 December 2017		31 December 2016	
	Doubtful receivables	Specific allowance	Doubtful receivables	Specific allowance
Past due 0-3 months	1,305	(1,305)	2,990	2,990
Past due 3-6 months	2,885	(2,885)	3,639	3,639
Past due 6-12 months	6,857	(6,857)	6,984	6,984
Past due over 1 year	22,151	(22,151)	20,652	20,266
Total	**33,198**	**(33,198)**	**34,265**	**33,879**

Movements in the total provision for impairment in the doubtful factoring receivables for the periods ended 31 December were as follows:

	31 December 2017	31 December 2016
Balance at 1 January	**33,879**	**29,951**
Allowance for the year	1,551	4,969
Recoveries of amounts previously provided for	(2,232)	(848)
Written-off (*)	-	(193)
Balance at year end	**33,198**	**33,879**

(*) These amounts are written-off by getting proof of insolvency.

10 - FACTORING RECEIVABLES AND FACTORING PAYABLES (Continued)

Factoring payables

As at 31 December 2017, factoring payables amounting to TL 1,686 represent the amounts collected on behalf of but not yet paid to the factoring customers at the statement of consolidated financial position date (31 December 2016: TL 1,473).

11 - ACQUIRED DISTRESSED LOANS

As at 31 December 2017 and 31 December 2016, acquired distressed loans of the Group comprised the following:

	31 December 2017	31 December 2016
Receivables from acquired distressed loans (*)	121,807	107,442
Acquired distressed loans	*121,935*	*107,541*
Provisions for acquired distressed loans (-)	*(128)*	*(99)*
	121,807	**107,442**

(*) As explained in detail in Note 2 and Note 3, the acquired distressed loans are accounted at amortization cost calculated with credit adjusted effective interest rate in the consolidated financial statements.

Portfolio	Purchase year	Currency	Cost	31 December 2017 Carrying amount
2014 Portfolio	2014	TL	48,350	29,395
2015 Portfolio	2015	TL	25,300	26,849
2016 Portfolio	2016	TL	43,000	43,560
2017 Portfolio	2017	TL	20,000	22,003
				121,807

Portfolio	Purchase year	Currency	Cost	31 December 2016 Carrying amount
2014 Portfolio	2014	TL	48,350	35,584
2015 Portfolio	2015	TL	25,300	28,664
2016 Portfolio	2016	TL	43,000	43,194
				107,442

As explained in detail in Note 3 (i), acquired distressed loans loans are recognized initially at cost and subsequently measured at amortized cost, using effective interest rate which is the discount rate that equates the present value of the expected cash flows which is less than the contractual cash flows specified in the loan agreement, with the purchase price of the loan in the consolidated financial statements. The Group regularly reviews its estimated cash flow projections according to its credit risk policies and investing strategies in order to ensure that the credit adjusted effective interest rate reflects the Group's cash flow expectations.

11 - ACQUIRED DISTRESSED LOANS (Continued)

Positive and negative differences between credit portfolios' calculated collection projections' net present value and their carrying book values are recognized as income or expense under "consolidated statement of comprehensive income. If any objective evidence that the receivables from acquired distressed loans are impaired after the initial recognition comes to the attention of the Group, provision is recognized in consolidated statement of comprehensive income in related period by the Group. As at 31 December 2017 net present value of the receivables from acquired distressed loans amount to TL 121,807 (31 December 2016: TL 107,542).

The Group uses the following critical assumptions in calculation of net present value of the acquired distressed loans.

The Group estimates future cash flows for its acquired distressed loans for further periods after purchasing loan portfolios by taking into consideration of its market experience, contents of portfolios and market conditions. Other issues due to condition of the market participants are also included in projections. As the Group purchases the acquired distressed loans at a deep discount, it reflects incurred losses in cash flow estimations when computing the effective interest rate. Accordingly, the effective interest rate of the acquired distressed loans become the discount rate that equates the present value of the expected cash flows with the purchase price of the loan. Therefore, the Group estimates the credit adjusted effective interest rates when computing the net present value of acquired distressed loans. The Group has estimated with a total of undiscounted TL 200,150 collections from its acquired distressed loans portfolio for the periods between 2018 and 2024 (31 December 2016: TL 180,625 undiscounted collection from its acquired distressed loans portfolio for the periods between 2017 and 2023).

Movement of allowances for acquired distressed loans are presented below:

	2017	**2016**
Opening - 1 January	**99**	**-**
Transactions with subsidiary	29	99
Closing - 31 December	**128**	**99**

Movement of the acquired distressed loans for the periods ended at 31 December 2017 is presented below:

	2017
Opening - 1 January	**107,442**
Acqusition of distressed loans	20,000
Collection received in the period	(34,294)
Impairment (-)	(29)
Effect of credit adjusted net present value calculation	28,688
Closing - 31 December	**121,807**

12 - PROPERTY AND EQUIPMENT

Movements of property and equipment for 31 December 2017 and 31 December 2016 are as follows:

	Buildings	Furniture and fixtures	Leasehold improvements	Total
Cost				
Balance at 1 January 2016	27,110	1,580	286	28,976
Additions	-	152	7	159
Revaluation (*)	5,535	-	-	5,535
Balance at 31 December 2016	**32,645**	**1,732**	**293**	**34,670**
Balance at 1 January 2017	32,645	1,732	293	34,670
Additions	-	898	15	913
Revaluation	4,830	-	-	4,830
Balance at 31 December 2017	**37,475**	**2,630**	**308**	**40,413**

	Buildings	Furniture and fixtures	Leasehold improvements	Total
Accumulated depreciation				
Balance at 1 January 2016 (-)	-	(1,250)	(215)	(1,465)
Depreciation for the year (-)	-	(148)	(31)	(179)
Balance at 31 December 2016	**-**	**(1,398)**	**(246)**	**(1,644)**
Balance at 1 January 2017	-	(1,398)	(246)	(1,644)
Depreciation for the year	-	(321)	(22)	(343)
Balance at 31 December 2017	-	**(1,719)**	**(268)**	**(1,987)**
Net book value				
31 December 2016	**32,645**	**334**	**47**	**33,026**
31 December 2017	**37,475**	**911**	**40**	**38,426**

(*) The Group's head office building which has a total of TL 27,780 net book value as at 31 December 2016 was sold to İş Finansal Kiralama A.Ş. with a total amount of TL 31,800 and leased back at the same day from İş Finansal Kiralama A.Ş. in accordance with the sale and lease back agreement signed between the Group and İş Finansal Kiralama A.Ş. on 20 December 2017. Terms of the leasing agreement is one year. After one year, ownership of the property will pass to the Group). In accordance with the accounting policies explained in Note 3, net book value of the head office building is subject to has been revaluated according to the transaction price based on the expert report.

Fair value of the Group's buildings are determined with value of equal method in accordance with the independent expert's reports dated December 2016 and January 2017. The expert Company is a Capital Market Board ("CMB") accredited independent Company and has a sufficient capability and experience in valuation of the buildings in related locations.

As at 31 December 2017, total amount of insurance coverage on property and equipment is TL 10,750 (31 December 2016: TL 10,140).

13 - INTANGIBLE ASSETS

i) Goodwill

No goodwill is recognized at consolidated financial statements as at 31 December 2017 (31 December 2016: Information concerning acquired net assets with the Group and calculation of goodwill are presented below).

	31 December 2016
Acquisition cost	6,158
Contingent considerations	-
Net acquisition cost	**6,158**

The acquisition cost does not include costs other than the payments stated above. The fair values of assets and liabilities on their acquisition date are as follows:

	31 December 2016
Cash and cash equivalents	2,938
Doubtful loans and receivables	107,442
Other liabilities	1,151
Property, plant and equipment and intangible assets	31
Assets held for sale	248
Borrowings	(98,321)
Tax liability	(787)
Other liabilities	(590)
Net assets acquired	**12,112**
Net assets acquired by parent	**6,054**
Goodwill (*)	104
Net acquisition cost	**6,158**
Acquired cash and cash equivalents	2,938
Net cash flows	**3,220**

(*) Within the prudence framework, the Group booked goodwill impairment expense amounting to TL 104 as at 31 December 2016 in the consolidated statement of comprehensive income.

13 - INTANGIBLE ASSETS (Continued)

ii) Other intangible assets

Movements of intangible assets for 31 December 2017 and 31 December 2016 are as follows:

	Softwares
Cost	
Balance at 1 January 2016	657
Additions	159
Balance at 31 December 2016	**816**
Balance at 1 January 2017	816
Additions	605
Balance at 31 December 2017	**1,421**
Accumulated amortization	
Balance at 1 January 2016 (-)	(576)
Amortization for the year (-)	(78)
Balance at 31 December 2016	**(654)**
Balance at 1 January 2017	(654)
Amortization for the year	(209)
Balance at 31 December 2017	**(863)**
Net book value	
At 1 January 2016	81
At 31 December 2016	162
At 1 January 2017	162
At 31 December 2017	558

As at 31 December 2017 and 31 December 2016, the Group does not have any intangible assets generated within the Group.

14 - OTHER ASSETS AND PREPAID EXPENSES

As at 31 December 2017 and 31 December 2016, details of other assets and prepaid expenses are stated below.

	31 December 2017	**31 December 2016**
Advances given (*)	12,355	13,574
Prepaid expenses	433	305
Receivables from Tax Authority (**)	416	1,258
Receivables from liquidity provider practice	52	-
Receivables from legal cases	-	533
Other	79	48
	13,335	**15,718**

(*) As at 31 December 2017 TL 12,250 (31 December 2016: TL 12,250) of the advances were given to a construction firm for the construction of the building. Related amount has a fixed asset nature and will be transferred to property, plant and equipment at the maturity date.

(**) Based on the tax inspection on the Company books for the year 2009, the tax authority has issued a payment order with main tracking number of 20121129665090000001 amounting to TL 1,718,894 excluding the late payment interest, relating to the finalized tax base difference which was claimed in the tax inspection (limited) report no. 2012-A-998-14 dated 12 September 2012 issued by Mecidiyeköy Tax Office (Tax authority). The Company, requested the repayment of TL 2,455. The tax authority has repaid the amount in 2013. The lawsuit filed against the said tax/penalty notice is refused at Istanbul 8th Tax Office with the 26 November 2013 File No.2013/2983 K.

Related payment orders of the lawsuit resulted against the Company were paid to the tax office in cash, with a petition dated 20 February 2014 and registration number 11049 amounting to TL 2,803 and on 22 May 2014 amounting to TL 1,258 including the overdue. Payment orders which were dated 12 February 2014 and numbered 20140212665080000001 amounting to TL 1,719 were sued in Istanbul 5 of the Tax Court with file numbered 2014/604 and the one dated 12 February 2014 and numbered 20140212665080000002 amounting to TL 38 were sued in Istanbul 5 of the Tax Court with file numbered 2014/603 and the other one dated 21 March 2014 and numbered 20140321665080000018 amounting to TL 1,226 were sued in Istanbul 5 of the Tax Court with file numbered 2014/604.

The Company, as explained in detail above, requested the repayment of TL 2,803. The tax authority has repaid the amount in 2015.

In this case related to the tax penalty, by the 4th Presidency of the Council of State, the Company's objections related with files numbered 2014/1272 E and 2014/1300 E No were accepted and the decisions of the local court against the Company were broken in favor of the Company with the decisions dated 19 November 2014 and numbered 2014/7089 K and 2014/2090. The court day for the local courts related with abovementioned case is not reported to the Company yet.

The Company, has made a repayment request to the Tax Authority regarding to its total paid tax penalty with a total of TL 2,803 as mentioned in detail above. The repayment request is accepted by the Tax Authority and payment was done in 12 November 2015. Upon the collection the Company has deducted the payment from the other receivables from Tax Authority. The company won the lawsuit it filed at the Istanbul 14th Tax Court, requesting the payment of the overdue interest calculated amounting to TL 785 for the period between the tax administration office's collection date and the payment date, including the default interest to apply from 12 November 2015, upon the tax administration office's return of the amounts collected (TL 2,803) on 12 November 2015, through the payment order numbers 2014011266508/1 and 2, for which the details have been provided above and which have been cancelled by the related court as of 25 May 2016 and accounted the amount of TL 785 accounted under the "Other Receivables" and "Other operating income" (31 December 2015: None).

The company won the lawsuit mentioned above against Tax Authority that is ongoing case in Istanbul 8th Tax Court which is mentioned above with the files numbered 2017/1374 K and 2017/1375 K with the amount of TL 1,258 including the overdue as at 31 December 2017. The related amount were excluded from "Other Receivables" due to received repayment from Mecidiyeköy Tax Authorities as at 10 August 2017.

15 - ASSETS HELD FOR SALE

As at 31 December 2017 and 31 December 2016, assets held for sale comprised the following:

	31 December 2017	31 December 2016
Assets held for sale	347	372
	347	**372**

Movements of assets held for sale for the periods ended 31 December 2017 and 31 December 2016 were as follows:

	1 January 2016	Addition	Disposal	31 December 2016
Real estate properties	372	28	(53)	347
Net book value	**372**	**28**	**(53)**	**347**

	1 January 2015	Addition	Disposal	31 December 2015
Real estate properties	57	315	-	372
Net book value	**57**	**315**	**-**	**372**

16 - BORROWINGS

Details of borrowings of the Group are as followings:

31 December 2017

Unsecured	Original amount	Effective interest rate (%)	Up to 1 year	1 year and over	Total loans and borrowings
Bank loans-TL	829,421	12.19-17.50	796,721	32,700	829,421
Bank loans-US Dollar	3,962	4.25	14,945	-	14,945
Bank loans-Euro	475	3.25	2,146	-	2,146
Lease liabilities	21,714		21,714	-	21,714
Total unsecured borrowings			**835,526**	**32,700**	**868,226**

16 - BORROWINGS (Continued)

31 December 2016

Unsecured	Original amount	Effective interest rate (%)	Up to 1 year	1 year and over	Total loans and borrowings
Bank loans-TL	727,967	10.10-14.50	673,433	54,534	727,967
Bank loans-USD	6,149	3.50-4.35	21,640	-	21,640
Bank loans-Euro	592	3.25-4.05	2,197	-	2,197
Lease liabilities	21,956		21,956	-	21,956
Total unsecured borrowings			**719,226**	**54,534**	**773,760**

Financial lease payables

As explained in detail in Note 11, the group leases its headquarter buildings with a carrying amount of TL 35,475 (31 December 2016: TL 27,780) under finance leases expiring within one year. Under the terms of the leases, the group will acquire the leased assets back at the end of the leasing agreement.

As at 31 December 2017 and 31 December 2016 commitments in relation to finance leases are payable as follows:

	31 December 2017	31 December 2016
With one year	25,390	24,631
Minimum lease payments	**25,390**	**21,956**
Future finance charges (-)	(3,676)	(2,675)
Recognized as a liability	**21,714**	**21,956**

As at 31 December 2017 and 31 December 2016 the present value of finance lease liabilities is as follows:

	31 December 2017	31 December 2016
With one year	21,714	21,714
Minimum lease payments	**21,714**	**21,714**

17 - DEBT SECURITIES ISSUED

As at 31 December 2017 and 2016, debt securities issued comprised the following:

	31 December 2017	31 December 2016
Bonds issued	272,308	174,534
Bills issued	11,962	-
	284,270	**174,534**

The list of bonds and bills issued by the Group are as follows:

ISIN CODE	Issue date	Issued nominal amount (TL)	Maturity date	Sales type	Coupon period payment
Bills issued					
TRSDVYA61901	26 December 2017	12,000	25 August 2019	Qualified investor	Quarterly
Bonds issued					
TRFLDFK11812	21 July 2017	29,000	12 January 2018	Qualified investor	Payment at maturity
TRFLDFK11820	21 July 2017	32,500	26 January 2018	Qualified investor	Payment at maturity
TRFLDFK31810	8 September 2017	40,000	2 March 2018	Qualified investor	Payment at maturity
TRFLDFK31828	15 September 2017	15,000	9 March 2018	Qualified investor	Payment at maturity
TRFLDFK31836	22 September 2017	15,000	16 March 2018	Qualified investor	Payment at maturity
TRFLDFK31844	29 September 2017	20,000	23 March 2018	Qualified investor	Payment at maturity
TRFLDFK41819	26 October 2017	13,000	2 April 2018	Qualified investor	Payment at maturity
TRFLDFK41827	27 October 2017	7,500	13 April 2018	Qualified investor	Payment at maturity
TRFLDFK41835	27 October 2017	15,000	20 April 2018	Qualified investor	Payment at maturity
TRFLDFK51818	20 November 2017	22,000	18 May 2018	Qualified investor	Payment at maturity
TRFLDFK51826	1 December 2017	15,000	25 May 2018	Qualified investor	Payment at maturity
TRFLDFK61817	22 December 2017	40,000	8 June 2018	Qualified investor	Payment at maturity
TRFLDFK71816	29 December 2017	20,000	4 July 2018	Qualified investor	Payment at maturity

The bill issued by the Group has floating coupon rate which is recalculated at the beginning of each coupon period with the reference rates of the government debt securities that were issued by the Turkish Undersecretaries of Treasury. In addition to this bonds issued by the Group have fixed interest rates as at 31 December 2017 and 31 December 2016. All announcements related with the issued bonds are released in the website of the Public Disclosure Platform ("PDP").

For the period ended at 31 December 2017 movement of the debt securities issued is presented below:

	2017
Opening - 1 January	**174,534**
Proceeds from debt securities issued	624,078
Repayments of debt securities issued (-)	(518,932)
Non-cash items in debt securities issued	4,590
Closing - 31 December	**284,270**

18 - OTHER LIABILITIES

As at 31 December 2017 and 31 December 2016, other liabilities comprised the following:

	31 December 2017	31 December 2016
Taxes and duties other than on income	2,532	2,206
Payables to suppliers	806	492
Other payables	140	101
	3,478	**2,799**

There is no ongoing lawsuit against to the Group that would result in cash out flow from the Group's consolidated financial statements. Therefore, the Group has not recognized any provision regarding to the lawsuits.

19 - EMPLOYEE BENEFITS

As at 31 December 2017 and 31 December 2016, employee benefits comprised the following:

	31 December 2017	31 December 2016
Employee termination benefits provision	3,620	3,128
Unused vacation provision	809	878
Bonus provision	272	-
	4,701	**4,006**

Employee termination benefits payments

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay, maximum of full TL 5,001.76 at 1 January 2018 (1 January 2016: full TL 4,426.16) per year of employment at the rate of pay applicable at the date of retirement or termination. The principal assumption used in the calculation of the total liability is that the maximum liability for each year of service will increase in line with inflation semi-annually.

The liability is not funded, as there is no funding requirement.

International Accounting Standard No. 19 ("IAS 19") requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. The reserve has been calculated by estimating the present value of future probable obligation of the Group arising from the retirement of the employees. Accordingly, the following statistical assumptions were used in the calculation of the following liability as at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Discount rate (%)	4.67	4.67
Expected rate of salary/limit increase (%)	7.00	7.00
Turnover rate to estimate the probability of retirement (%)	95	96

19 - EMPLOYEE BENEFITS (Continued)

For the periods ended 31 December, movements in the reserve for employee severance payments are as follows:

	2017	2016
Opening - 1 January	**3,128**	**2,256**
Interest cost	425	365
Service cost	403	410
Paid (-)	(604)	(410)
Actuarial losses	268	424
Transactions with subsidiary	-	83
Closing - 31 December	**3,620**	**3,128**

Unused vacation provision

In accordance with current labor law, the Group makes payments for unused vacations of employees. The liability is calculated by the remaining vacation days multiplied by one day's pay.

For the periods ended 31 December, movements in the vacation pay liability are as follows:

	2017	2016
Opening - 1 January	**878**	**831**
Increase/(reversal) of provision	(69)	47
Closing - 31 December	**809**	**878**

20 - EQUITY

20.1 Paid-in capital

As at 31 December 2017 and 31 December 2016, the nominal value of the Company's authorized and paid-in share capital amounts to TL 30,000 comprising 30,000 registered shares of par value of 0.001 TL. Adjustment to share capital represents the restatement effect of the contributions to share capital equivalent to purchasing power of TL at 31 December 2005.

One of the existing shareholders sold 15% of the Company's shares in an initial public offering held in 2014 and the shares started trading on Borsa Istanbul A.Ş. at 19 June 2014.

20 - EQUITY (Continued)

20.1 Paid-in capital (Continued)

As at 31 December 2017 and 31 December 2016, the composition of the authorized and paid-in share capital as full TL was as follows:

	31 December 2017					31 December 2016	
	Share (%)	**Group A**	**Group B**	**Group C**	**Total**	**Share (%)**	**Total**
Nedim Menda	34.850	10,000	10,445	-	10,455	34.850	10,455
Raşel Elenkave	11.338	15,000	3,386	-	3,401	11.338	3,401
Jak Sucaz	10.200	10,000	3,050	-	3,060	10.200	3,060
Credit Suisse Investments (Nederland) B.V.	9.900	-	-	2,970	2,970	9.900	2,970
Lizet Sucaz	6.238	5,000	1,866	-	1,871	6.238	1,871
Refka B. Adato	6.238	5,000	1,866	-	1,871	6.238	1,871
Judit Menda	6.238	5,000	1,866	-	1,871	6.238	1,871
Publicly Traded	15.000<	-	4,500	-	4,500	15.000	4,500
Nominal share capital	**100.000**	**50,000**	**26,980**	**2,970**	**30,000**	**100.000**	**30,000**
Adjustment to share capital					5,874		5,874
Total paid-in share capital					**35,874**		**35,874**

According to the share agreement of the Company, Group A shareholders have the right to appoint a simple majority of the members of the Board. Group B shareholders have economic rights to dividends/distributions and pre-emptive rights with respect to future share issuances as well as the ordinary rights of a shareholder. Group C shareholders have the rights over some decisions of the Company as explained in Article 13 of the Articles of Association of the Company which is available on the corporate website of the Company.

20.2 Legal reserves

The legal reserves are established by annual appropriations amounting to 5% of income disclosed in the Company's statutory accounts until it reaches 20% of paid-in share capital (first legal reserve). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in capital are to be appropriated to increase legal reserves (second legal reserve). The first legal reserve is restricted and is not available for distribution as dividend unless it exceeds 50% of share capital. In the accompanying consolidated financial statements, the total of legal reserves is TL 9,773 at 31 December 2017 (31 December 2016: TL 8,699).

20.3 Revaluation surplus

The asset revaluation reserve is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity. As of 31 December 2017 revaluation surplus amount is TL 33,447 (31 December 2016: TL 28,835).

20.4 Actuarial differences

Actuarial gains/(losses) arising from changes in discount rates and expected rates of salary/limit increases and other demographic assumptions are recognized in retained earnings.

21 - EARNINGS PER SHARE

For the periods ended 31 December, the calculation of earnings per share was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding as follows:

	31 December 2017	31 December 2016
Weighted average number of shares	30,000	30,000
Profit for the year	23,098	21,368
Basic and diluted profit per share	**0.64**	**0.60**
Weighted average number of shares	30,000	30,000
Comprehensive income for the year	27,496	26,527
Basic and diluted profit per share	**0.75**	**0.74**

22 - FINANCIAL INSTRUMENTS

Overview

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

- credit risk
- liquidity risk
- market risk
- capital risk

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

The Group's risk management policies are established to identify and analyze the risks faced by the Group, 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 Group's activities. The Group, 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.

i) Credit risk

a) Risk management framework

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

22 - FINANCIAL INSTRUMENTS (Continued)

i) Credit risk (Continued)

The Group has procedures in place to ensure that services are provided to customers with an appropriate credit history. The carrying amount of factoring receivables, net of provision for impairment in factoring receivables, and the total of bank deposits, represent the maximum amount exposed to credit risk.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is:

	31 December 2017	31 December 2016
Factoring receivables	1,107,961	900,234
Acquired distressed loans	121,807	107,442
Other receivables	13,335	15,718
Cash and cash equivalents (*)	7,948	8,423
	1,251,051	**1,031,817**

(*) Cash on hand is excluded from cash and cash equivalents.

The Group manages the concentrations risk on factoring and acquired distressed loans on geographical and industry basis as the similar industries have similar characteristics and are affected similarly by changes in economic or other conditions. The industry based concentration risk exposure of the Group is presented below.

The table below summaries the geographic distribution of the Group's assets and liabilities at 31 December 2017 and 31 December 2016:

31 December 2017	Assets	%	Liabilities	%
Turkey	1,297,450	100	1,164,701	100
	1,297,450	**100**	**1,164,701**	**100**

31 December 2016	Assets	%	Liabilities	%
Turkey	1,070,530	99	895,675	93
European countries	976	>1	63,461	7
	1,071,506	**100**	**959,136**	**100**

22 - FINANCIAL INSTRUMENTS (Continued)

i) Credit risk (Continued)

As at 31 December 2017 and 31 December 2016, the breakdown of factoring receivables, excluding unearned income and doubtful receivables, by industrial groups is as follows:

	31 December 2017	(%)	31 December 2016	(%)
Construction	171,120	15	138,929	15
Textile	169,493	15	137,310	15
Trading	168,658	14	105,680	11
Iron and steel	132,209	11	104,603	11
Automotive	87,846	8	75,460	8
Food	81,094	7	71,063	8
Rubber and plastics	72,521	7	50,788	5
Machinery	50,636	4	44,948	5
Paper and printing	49,546	4	47,078	5
Electrics and electronics	37,028	3	30,151	3
Agricultural products	35,055	3	28,470	3
Wood products	35,046	3	35,482	4
Chemicals	23,999	2	29,131	3
Leather products	12,067	1	7,591	1
Tourism	2,908	-	3,711	-
Others	36,586	3	35,181	3
Total	**1,165,812**	**100**	**944,576**	**100**

The group has shown sectoral distribution of factoring receivables due to ultimate debtor.

The Group is subject to credit risk through its distressed debt management operations. Within the scope of distressed dedt management operations, the Gorup purchases distressed loans from different established banks in Turkey. The Group's acquired distressed loans consist of consumer and commercial loans and credit card portfolios purchased between the years 2014 and 2018 from 8 different banks established in Turkey. The credibility of the debtors and recent repayment capability of the debtors of the Group assessed periodically by the Group. Based on the assessments, the Group reviews its cash flow expectations periodically.

b) Security

The Group is mainly subject to credit risk through its factoring operations. The Risk Management and Analysis Department of the Group is responsible to manage the credit risk. The Group requires a certain amount of collateral in respect of its financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers.

As at 31 December 2017 and 31 December 2016, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

The Group obtains collaterals for its factoring receivables. The details of the collaterals received by the Group is disclosed in Note 23. The amount of the risk exposure associated with all financial instruments and maximum risk secured with collaterals disclosed in the table presented below.

22 - FINANCIAL INSTRUMENTS (Continued)

i) Credit risk (Continued)

The table below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Group against those assets.

	31 December 2017			31 December 2016		
	Receivables	**Other receivables**	**Cash and cash equivalents**	**Receivables**	**Other receivables**	**Cash and cash equivalents**
Exposure to maximum credit risk as at reporting date (A+B+C+D+E)	**1,229,768**	**13,335**	**8,618**	**1,007,676**	**15,718**	**8,434**
Maximum risk secured with collaterals	1,107,961	-	-	899,848	-	-
A) Net carrying value of financial assets which are neither impaired nor overdue	1,094,569	13,335	8,618	899,074	15,718	8,434
B) Net carrying value of financial assets that are restructured, otherwise which will be regarded as overdue or impaired	13,392	-	-	774	-	-
C) Net carrying value of financial assets which are overdue but not impaired the net book value	-	-	-			
the portion covered by any guarantee	-	-	-	-	-	-
D) Net carrying value of impaired assets	121,807	-	-	107,828	-	-
- Overdue (gross book value) (*)	155,133	-	-	141,806	-	-
- Impairment (-) (*)	(33,326)	-	-	(33,978)	-	-
- Covered portion of net book value (with letter of guarantee etc)	-	-	-	-	-	-
- Undue (gross book value)	-	-	-	-	-	-
- Impairment (-)	-	-	-	-	-	-
- Covered portion of net book value (with letter of guarantee etc)	-	-	-	-	-	-
E) Off balance sheet items with credit risks	-	-	-	-	-	-

(*) 33,198 TL of the related balances consists of impaired factoring receivables (Note 10).

22 - FINANCIAL INSTRUMENTS (Continued)

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

The Group's approach to managing liquidity is to ensure, as much as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

31 December 2017	Carrying amount	Contractual cash flows	3 months or less	3 to 12 months	1 to 5 years	Over 5 years
Non-derivative financial liabilities	**1,154,182**	**1,188,922**	**853,345**	**280,865**	**54,712**	**-**
Borrowings	868,226	891,236	700,159	148,365	42,712	-
Debt securities issued	284,270	296,000	151,500	132,500	12,000	-
Factoring payables	1,686	1,686	1,686	-	-	-

31 December 2016	Carrying amount	Contractual cash flows	3 months or less	3 to 12 months	1 to 5 years	Over 5 years
Non-derivative financial liabilities	**949,767**	**984,764**	**565,822**	**345,643**	**73,299**	**-**
Borrowings	773,760	802,855	484,349	245,207	73,299	-
Debt securities issued	174,534	180,436	80,000	100,436	-	-
Factoring payables	1,473	1,473	1,473	-	-	-

iii) Market risk

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

a) Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows of fair values of financial instruments because of a change in market interest rates. All the financial instruments have fixed interest rates except for a portion of borrowings and bill issued which have floating interest rates. (Note 16 17).

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or in differing amounts. In the case of floating rate assets and liabilities the Group is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices and different types of interest. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Group's business strategies.

22 - FINANCIAL INSTRUMENTS (Continued)

iii) Market risk (Continiued)

The tables below summarize average effective interest rates by major currencies for monetary financial instruments as at 31 December 2017 and 31 December 2016:

	31 December 2017			31 December 2016		
	USD (%)	Euro (%)	TL (%)	USD (%)	Euro (%)	TL (%)
Assets						
Cash and cash equivalents	-	-	13.25	-	-	8.25
Factoring receivables	12.48	18.79	19.55	10.61	13.03	18.45
Acquired distressed loans	-	-	24.50	-	-	24.64
Liabilities						
Borrowings	4.25	3.25	15.22	3.59	3.56	13.42
Debt securities issued	-	-	16.20	-	-	13.44

Interest rate profile

As at 31 December 2017 and 31 December 2016, the interest rate profiles of the interest-bearing financial instruments were as follows:

Carrying amount	**31 December 2017**	**31 December 2016**
Fixed rate instruments		
Cash and cash equivalents	650	7,439
Factoring receivables	1,107,961	900,234
Acquired distressed loans	121,807	107,442
Borrowings	(588,726)	(557,394)
Debt securities issued	(284,270)	(161,534)
Variable rate instruments		
Loans and borrowings	(279,500)	(216,366)
Debt securities issued	-	(13,000)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss. Additionally, the Group does not account for any fixed rate financial assets and liabilities as available-for-sale. Therefore a change in interest rates at the reporting date would not directly affect equity.

22 - FINANCIAL INSTRUMENTS (Continued)

iii) Market risk (Continiued)

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate assets and liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

A change of 100 basis points in interest rates as at 31 December 2017 and 31 December 2016 would have increased or decreased profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity (*)	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2017				
Variable rate instruments	(703)	703	(703)	703
31 December 2016				
Variable rate instruments	(143)	143	(143)	143

(*) Including profit or loss effects.

The exposure of the Group's borrowing to interest rate changes and the contractual re-pricing dates of the borrowings at the end of the reporting period are as follows:

31 December 2017	Demand and up to 3 months	3 to 12 months	Over 1 Year	Non-interest bearing	Total
Assets					
Cash and cash equivalents	650	-	-	7,968	8,618
Factoring receivables	737,814	403,677	24,321	-	1,165,812
Acquired distressed loans	11,573	30,388	79,846	-	121,807
Total assets	**750,037**	**434,065**	**104,167**	**7,968**	**1,296,237**
Liabilities					
Borrowings (-)	(699,743)	(140,350)	(28,133)	-	(868,226)
Debt securities issued (-)	(148,225)	(124,083)	(11,962)	-	(284,270)
Total liabilities	**(847,968)**	**(264,433)**	**(40,095)**	**-**	**(1,152,496)**
Net re-pricing gap	**(97,931)**	**169,632**	**64,072**	**7,968**	**143,741**

22 - FINANCIAL INSTRUMENTS (Continued)

iii) Market risk (Continiued)

31 December 2016	Demand and up to 3 months	3 to 12 months	Over 1 Year	Non-interest bearing	Total
Assets					
Cash and cash equivalents	7,439	-	-	995	8,434
Factoring receivables	582,884	342,418	20,274	-	945,576
Acquired distressed loans	6,012	17,760	83,670		107,442
Total assets	**596,335**	**360,178**	**103,944**	**995**	**1,061,452**
Liabilities					
Borrowings	(592,860)	(126,366)	(54,534)	-	(773,760)
Debt securities issued	(78,483)	(96,051)	-	-	(174,534)
Total liabilities	**(671,343)**	**(222,417)**	**(54,534)**	**-**	**(948,294)**
Net re-pricing gap	**(75,008)**	**137,761**	**49,410**	**995**	**113,158**

b) Foreign currency risk

The Group is exposed to currency risk through transactions in foreign currencies. As the currency in which the Group presents its consolidated financial statements is TL, the consolidated financial statements are affected by movements in the exchange rates against TL.

As at 31 December 2017 and 31 December 2016, the currency risk exposures are as follows (TL equivalents):

31 December 2017	US Dollar	Euro	Total
Factoring receivables	17,038	2,953	19,991
Other receivables	4	7	11
Loans and borrowings (-)	(14,944)	(2,145)	(17,089)
Other liabilities (-)	(5)	-	(5)
Net balance sheet exposure	**2,093**	**815**	**2,908**

31 December 2016	USD	Euro	Total
Cash and cash equivalents	21	-	21
Factoring receivables	24,525	1,951	26,476
Other receivables	665	-	665
Loans and borrowings (-)	(21,631)	(2,206)	(23,837)
Other liabilities (-)	(19)	-	(19)
Net balance sheet exposure	**3,561**	**(255)**	**3,306**

22 - FINANCIAL INSTRUMENTS (Continued)

iii) Market risk (Continiued)

The following significant exchange rates applied during the years ended 31 December 2017 and 2016:

	Average rate		Reporting date	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
USD	3.6443	3.0174	3.7719	3.1776
Euro	4.1147	3.3372	4.5155	3.7099

Sensitivity analysis

A 10 percent depreciation of the TL against the following currencies at 31 December 2017 and 31 December 2016 would have increased equity and profit or loss by the amounts shown below.

This analysis assumes that all other variables, in particular interest rates, remain constant.

31 December 2017	**Equity**	**Profit or loss**
USD	209	209
Euro	82	81
	291	**290**

31 December 2016	**Equity**	**Profit or loss**
USD	357	357
Euro	(25)	(25)
	332	**332**

A 10 percent strengthening in the TL against the foreign currencies as at 31 December 2017 and 2015 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

22 - FINANCIAL INSTRUMENTS (Continued)

iv) Operational risk

The most comprehensive meaning of operational risk is considered to be any risk which is not classified as market and credit risk. In managing operational risk, increasing the skills of the staff, improving the job technology and job definitions, establishing the necessary internal controls and various insurances are employed as main methods.

	31 December 2017	31 December 2016
Total liabilities	**1,164,701**	**959,136**
Cash and cash equivalents (-)	8,618	8,434
Net debt	**1,156,083**	**950,702**
Total equity	**132,749**	**112,370**
Net debt /equity ratio	**8.71**	**8.46**

Capital management

In accordance with Article 12 of the "Regulation on Establishment and Operation Principles of Financial leasing, Factoring and Financing Companies" published in the Official Gazette dated 24 December 2013, the Group is required to keep minimum 3% standard ratio calculated by dividing equity to total assets. Standard ratio of the Group is 10.2% as of 31 December 2017 (31 December 2016: 10.4%) as calculated in accordance with statutory consolidated financial statements.

23 - COMMITMENTS AND CONTINGENCIES

Commitments and contingent liabilities arising in the ordinary course of business comprised the following items as at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Collaterals received		
Personal guarantees	5,763,407	4,647,282
Cheques and notes received as collateral	2,661,518	1,499,172
	8,424,925	**6,146,454**
Letters of guarantee		
Given to banks	209,349	110,799
	209,349	**110,799**

23 - COMMITMENTS AND CONTINGENCIES (Continued)

The table below indicates the payment instruments received from the factoring customers by the Group due to the factoring transactions:

	31 December 2017	31 December 2016
Customer cheques	1,163,827	950,534
Customer notes	100,695	54,900
	1,264,522	**1,005,434**

24 - RELATED PARTY DISCLOSURES

As at 31 December 2017 and 31 December 2016, related party balances are as follows:

Borrowings	31 December 2017	31 December 2016
Credit Suisse AG London Branch	-	63,461
	-	**63,461**

The following related party transactions are listed for the periods ended 31 December:

Interest expense	31 December 2017	31 December 2016
Credit Suisse AG London Branch	5,426	15,315
	5,426	**15,315**

Benefits paid to management

For the purpose of accompanying consolidated financial statements, the shareholders, key management personnel and the Board members, and in each case, together with their families and companies controlled by/affiliated with them; and investments are considered and referred to as the related parties. Total benefit of key management for the year ended 31 December 2017 was amounting to TL 7,008 (1 January - 31 December 2016: TL 6,901).

25 - DISCLOSURES OF INTERESTS IN OTHER ENTITIES

Balance sheet summary of Destek Varlık as at 30 September 2017 is presented below:

Income/(expense) through purchasing of subsidiary's shares	**30 September 2017**
Condensed balance sheet:	
Current assets	124,973
Non-current assets	977
Total assets	**125,950**
Financial liabilities (-)	(111,383)
Other liabilities (-)	(1,401)
Total liabilities	**(112,784)**
Paid capital	10,000
Re-measurements of employee termination benefits	(27)
Retained earnings	2,112
Net profit for the period (*)	1,081
Net assets	**13,161**
Net assets of subsidiary as at 30 September 2017	13,161
Minority shares as at 30 September 2017 (%)	50.02
Minority shares as at 30 September 2017	6,586
Acquisition amount paid (Note 3 (a))	**7,118**
Goodwill (Note 3 (a))	(532)

(*) Net profit for the period attributable to non-contolloing interest of %50.02 is TL 527.

26 - EVENTS AFTER THE REPORTING PERIOD

i) Debt securities issued to qualified investors;

- On 12 January 2018, the Group has issued a bill which has ISIN Code of "TRFLDFK71824" and nominal value of TL 45,000 to qualified investors. The maturity date of the related bill is 6 July 2018.

- On 19 February 2018, the Group has issued a bill which has ISIN Code of "TRFLDFK81815" and nominal value of TL 25,000 to qualified investors. The maturity date of the related bill is 3 August 2018.

26 - EVENTS AFTER THE REPORTING PERIOD (Continued)

- On 21 February 2018, the Group has issued a bill which has ISIN Code of "TRFLDFK81823" and nominal value of TL 19,850 to qualified investors. The maturity date of the related bill is 17 August 2018.

- On 2 March 2018, the Group has issued a bill which has ISIN Code of "TRFLDFK81831" and nominal value of TL 32,000 to qualified investors. The maturity date of the related bill is 10 August 2018.

- On 2 March 2018, the Group has issued a bill which has ISIN Code of "TRFLDFK91814" and nominal value of TL 25,000 to qualified investors. The maturity date of the related bill is 4 September 2018.

- On 9 March 2018, the Group has issued a bill which has ISIN Code of "TRFLDFK91822" and nominal value of TL 15,000 to qualified investors. The maturity date of the related bill is 4 September 2018.

- On 9 March 2018, the Group has issued a bill which has ISIN Code of "TRFLDFK91830" and nominal value of TL 15,000 to qualified investors. The maturity date of the related bill is 14 September 2018.

ii) In accordance with the agreement signed between the Company and Eryap Mühendislik İnşaat Taah. Tur. San. ve Tic. A.Ş., the Group's buildings which were under construction as at balance sheet date and are registered in Istanbul Province, Sarıyer District, Huzur Street., 3 plot 4 section, 32 Parcel Skyland Istanbul Seyrantepe Project, B Block Office Tower 34th Floor, and are numbered 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489 and 490, were transferred to the Group as at 10 January 2018.

iii) In accordance with the decision taken in the Company's Board of Directors meeting held on 5 February 2018, the company applied CMB in order to increase maximum limit of debt and securities issuance with respect to with CMB legislations and 9th paragraph of Company's main article. CMB has approved the Company's application, with the resolution numbered 8/258, on 22 February 2018, allowing the Company to issue debt securities only for qualified investors with a total limit of TL 225,000 within 3 years.

iv) In accordance with the decision taken in the Company's Board of Directors meeting held on 9 February 2018, the company applied CMB in order to renew the Company's registered capital ceiling for the 5 years period. The application is in progress as of this report's issue date.

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