LİDER FAKTORİNG A.Ş.

Consolidated Financial Statements as at and for the Year Ended 31 December 2018 With Independent Auditor’s Report Thereon

29 March 2019

This report includes 4 pages of independent auditors’ report and 57 pages of consolidated financial statements together with their explanatory notes.

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INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Lider Faktoring Anonim Şirketi

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Lider Faktoring Anonim Şirketi and its subsidiary (together will be referred as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with Standards on Auditing ("IASs"). 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 are independent in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Turkey and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a Turkish corporation and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity

Key Audit Matters

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

The impairment of factoring receivables

See Note 2.4 for the details of the accounting policies used for the impairment of factoring receivables and for the important accounting estimates and assumptions used.

Key audit matter	How the matter is addressed in our audit
As at 31 December 2018, factoring receivables comprise 81% of the Group's total assets. The Company recognizes its factoring receivables in accordance with IFRS 9, the assessment of impairment of receivables is basically based on the objective and subjective criteria which management judgement is applied. As at 1 January 2018, due to the adoption of IFRS 9, in determining the impairment of factoring receivables the Company has begun to apply "expected credit loss model" rather than the "incurred loss model". The new model contains significant assumptions and estimates. The significant assumptions and estimates of the Company's management are as follows: - significant increase in credit risk; - design and implementation of expected credit loss model. The determination of the impairment of factoring receivables measured at amortised cost depends on the credit default status, the model based on the change in the credit risk at the first recognition date and the classification of the factoring receivables measured at amortised cost according to the model. Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets. The Company calculates expected credit losses on a collective basis. The collective basis expected credit loss calculation is based on complex processes which are modelled by using current and past data sets and expectations. Impairment on factoring receivables measured at amortised cost was considered to be a key audit matter, due to the significance of the estimates, assumptions, the level of judgements and its complex structure as explained above.	Our procedures for testing the impairment of factoring receivables included below: We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures with the involvement of information risk management specialists. We evaluated the adequacy of the subjective and objective criteria that are defined in the Company's impairment accounting policy compared with IFRS 9. We evaluated the Company's business model and methodology and the evaluation of the calculations were carried out with the control testing and detailed analysis by the involvement of specialists. We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information and testing their classification. In this context, the current status of the loan customers have been evaluated by including prospective information and macroeconomic variables. We tested the accuracy and completeness of the data in the calculation models for the loans which are assessed on collective basis. The expected credit loss calculation was tested through recalculation. The models used for the calculation of the risk parameters were examined and the risk parameters for the selected sample portfolios were recalculated. We evaluated the qualitative assessments which are used in determining the significant increase in credit risk. Additionally, we also evaluated the adequacy of the unconsolidated financial statement disclosures related to impairment provisions.

Purchased or originated credit impaired assets

Refer to Note 2.4 for details of accounting policies and significant accounting estimates used for valuation of purchased or originated credit impaired assets.

Key audit matter	How the matter is addressed in our audit
As at 31 December 2018, the purchased or originated credit impaired assets comprise 12% of the Group's total assets. The expected future cash flows of purchased or originated credit impaired assets and discount rate that equates the present value of the expected cash flows with the purchase price of the loan is basically based on the objective and subjective criteria where management judgement is used. Determination of net present value of purchased or originated credit impaired assets was considered to be a key audit matter, due to the significance of the estimates, assumptions and the level of judgements as explained above.	Our procedures for testing the determination of net present value of purchased or originated credit impaired assets included below: We tested the design and operating effectiveness of the controls on expected future cash flows of purchased or originated credit impaired assets. In addition to management inquiry procedures, we gathered supportive audit evidence for future cash flows of purchased or originated credit impaired assets. We performed collection test for purchased or originated credit impaired assets by sampling method. We tested the accuracy and completeness of the collections. The net present value amounts in the financial statements have been tested using the discount rates determined at initial recognition by the recalculation method.

Other matters

The consolidated financial statements of the Group as at and for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 16 March 2018.

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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 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 auditors' 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.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Orhan Akova, SMMM
Partner

29 March 2019
İstanbul, Turkey

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LİDER FAKTORİNG A.Ş.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

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

	Notes	Audited 31 December 2018	Audited 31 December 2017[(*)]
ASSETS			
Cash and cash equivalents	9	23,084	8,618
Factoring receivables	10	774,521	1,107,961
Purchased or originated credit impaired assets	11	120,243	121,807
Property and equipment, net	12	68,667	38,426
Intangible assets	13	772	558
Deferred tax assets	8	5,308	6,398
Assets held for sale	15	818	347
Current tax assets	8	427	-
Other assets and prepaid expenses	14	1,861	13,335
Total assets		**995,701**	**1,297,450**
LIABILITIES			
Borrowings	16	735,274	868,226
Debt securities issued	17	92,382	284,270
Factoring payables	10	2,726	1,686
Income taxes payable	8	23	1,800
Deferred tax liabilities	8	-	540
Other liabilities	18	3,485	3,478
Provisions for employee benefits	19	6,242	4,701
Total liabilities		**840,132**	**1,164,701**
EQUITY			
Share capital	20	50,874	35,874
Revaluation surplus, net of tax	20	47,101	33,447
Re-measurement of employment termination benefits, net of tax		(1,592)	(991)
Legal reserves	20	10,949	9,773
Retained earnings		48,237	54,646
Total equity		**155,569**	**132,749**
Total liabilities and equity		**995,701**	**1,297,450**

(*) In accordance with the transition requirements of IFRS 9, the prior period financial statements and notes are not restated.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	Audited 1 January - 31 December 2018	Audited 1 January - 31 December 2017(*)
Interest income			
Interest income on factoring receivables		289,145	183,899
Interest income from banks and reverse repurchases		2,895	262
Total interest income		**292,040**	**184,161**
Interest expense			
Interest expense on borrowings (-)		(200,119)	(114,556)
Interest expense on debt securities issued (-)		(55,156)	(34,285)
Total interest expense		**(255,275)**	**(148,841)**
Net interest income		**36,765**	**35,320**
Fee and commission income on factoring transactions		9,537	8,786
Fee and commission expense on banking transactions (-)		(4,594)	(2,753)
Fee and commission income, net		**4,943**	**6,033**
Income from purchased or originated credit impaired assets, net	11	45,871	28,688
Provision for impairment of factoring receivables (-)	10	(5,406)	(1,551)
Recoveries from impaired factoring receivables	10	1,229	2,232
Personnel expenses (-)	7	(34,479)	(30,036)
Operating expenses (-)	6	(19,575)	(13,224)
Other operating income/(expenses), net		(4,145)	953
Profit before income tax		**25,203**	**28,595**
Income tax expense (-)	8	(5,392)	(5,497)
Profit for the period		**19,811**	**23,098**
Attributable to			
Equity holders of the Company	21	19,811	23,098
Earnings per share			
Earnings per share (TL)	21	0.44	0.51
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss:			
Revaluation of property and equipment, net	12	13,654	4,612
Re-measurement of post-employment benefits obligation, net of tax	19	(601)	(214)
Other comprehensive income		**13,053**	**4,398**
Total comprehensive income		**32,864**	**27,496**

(*) In accordance with the transition requirements of IFRS 9, the prior period financial statements and notes are not restated.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(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 surplus, net of tax**	**Actuarial gains, net of tax**	**Legal reserves**	**Retained earnings**	**Non-controlling interests**	**Total equity**
Balances at 1 January 2017	**30,000**	**5,874**	**28,835**	**(776)**	**8,698**	**33,681**	**6,058**	**112,370**
Transfer to legal reserves	-	-	-	-	1,074	(1,074)	-	-
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**
Balances at 1 January 2018	**30,000**	**5,874**	**33,447**	**(991)**	**9,773**	**54,646**	**-**	**132,749**
Adjustments to change in accounting policies (Note 3)	-	-	-	-	-	(444)	-	(444)
Transfer to legal reserves	-	-	-	-	1,176	(1,176)	-	-
Capital increase	15,000	-	-	-	-	(15,000)	-	-
Total comprehensive income	-	-	13,654	(601)	-	19,811	-	32,864
- Profit for the year	-	-	-	-	-	*19,811*	-	*19,811*
- Other comprehensive income	-	-	*13,654*	*(601)*	-	-	-	*13,053*
Dividends paid	-	-	-	-	-	(9,600)	-	(9,600)
Balances at 31 December 2018	**45,000**	**5,874**	**47,101**	**(1,592)**	**10,949**	**48,237**	**-**	**155,569**

(*) In accordance with the transition requirements of IFRS 9, the prior period financial statements and notes are not restated.

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

LİDER FAKTORİNG A.Ş.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	Audited 1 January - 31 December 2018	Audited 1 January - 31 December 2017(*)
Net profit for the period		**19,811**	**23,098**
Adjustments for:			
Depreciation and amortization	12, 13	738	552
Provision for employee severance payments	7	1,021	828
Provision/reversal for unused vacation	19	24	(69)
Net interest income		(36,765)	(35,320)
Income tax expense	8	5,392	5,497
Provision for doubtful receivables	10	5,406	1,551
Bonus provision	19	300	272
Income from purchased or originated credit impaired assets	11	(45,871)	(28,688)
Provision for purchased or originated credit impaired assets	11	6,866	29
Changes in operating assets and liabilities			
Change in factoring receivables and purchased or originated credit impaired assets		39,862	(197,155)
Interest received		288,194	172,038
Collection from purchased or originated credit impaired assets	11	47,897	34,294
Change in other assets		(812)	1,918
Change in factoring payables		1,040	213
Change in other liabilities		(1,944)	1,170
Employee severance paid (-)	19	(283)	(621)
Income taxes paid (-)		(8,308)	(6,148)
Purchase of purchased or originated credit impaired assets	11	(7,350)	(20,000)
Net cash used in operating activities (-)		**315,218**	**(46,541)**
Investing activities:			
Consideration paid in acquisition of subsidiary		-	(7,118)
Purchase of property and equipment and intangible assets (-)	12, 13	(3,772)	(1,518)
Proceed from sale of property and equipment		40	-
Net cash used in investing activities (-)		**(3,732)**	**(8,636)**
Financing activities:			
Interest paid (-)		(248,852)	(147,609)
Net cash flow provided from borrowings and debt securities issued		(39,223)	202,971
Dividends paid		(9,600)	-
Net cash provided from financing activities		**(297,675)**	**55,362**
Net increase in cash and cash equivalents		**13,811**	**185**
Cash and cash equivalents at 1 January	9	8,618	8,433
Cash and cash equivalents at 31 December	**9**	**22,429**	**8,618**

(*) In accordance with the transition requirements of IFRS 9, the prior period financial statements and notes are not restated.

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 at 31 December 2018 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 Directors' decision of the Company dated 21 July 2017, the Company acquired the remaining %50.02 shares of Destek Varlık 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 2018 (31 December 2017: 182). The Group is controlled by the real persons according to the share ratio in the equity as presented in Note 20.

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

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").

The Company and its subsidiary which are 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.

The Group has started to apply IFRS 9 as at 1 January 2018. The Group has not restated the comparative information for the financial instruments under IFRS 9 for 2017 and the cumulative effect of the first application of the standard has been presented in retained earnings in the current period's equity as at 1 January 2018.

IFRS 15 and other amendments to IAS / IFRS as at 1 January 2018 have no material effect on the Group's accounting policies, financial position or performance.

The adoption process continues regarding IFRS 16 Leases ("IFRS 16") which will be in effect starting from 1 January 2019.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position 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 5.

(c) Use of estimates and judgements

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.

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 2018 is included in the following notes:

2 - BASIS OF PREPARATION (Continued)

Impairment of factoring receivables

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's Expected Credit Loss ("ECL") calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Determination of net present value of purchased or originated credit impaired assets

The Group uses the following critical assumptions in calculation of net present value of the purchased or originated credit impaired assets.

The Group estimates future cash flows for its purchased or originated credit impaired assets 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 purchased or originated credit impaired assets 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 purchased or originated credit impaired assets 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 purchased or originated credit impaired assets. The Group has estimated a total of TL 195,006 undiscounted purchased or originated credit impaired assets for the period between 2019-2025 (31 December 2017: TL 200,150). The discounted carrying values of the related future cash flows equal to TL 120,243 and TL 121,807 as at 31 December 2018 and 31 December 2017, respectively. Further details regarding to the Group's accounting policies and assumptions regarding to the purchased or originated credit impaired assets 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 have been prepared comparatively with the prior period. In order to maintain consistency with current year consolidated financial statements, comparative information is reclassed and significant changes are disclosed if necessary, except for the adoption of IFRS 9 as detailed below.

The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9 and the total difference arising from the adoption of IFRS 9 has been recognized directly in prior periods' profit or loss as at 1 January 2018 in the current period's statement of changes in shareholders' equity.

(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.

2 - BASIS OF PREPARATION (Continued)

(f) Segment reporting

The Group provides services in the factoring and debt management of purchased or originated credit impaired assets portfolios fields in Turkey as at 31 December 2018.

As at 31 December 2018, segment reporting is prepared based on factoring and debt management of purchased or originated credit impaired assets services. The debt management of purchased or originated credit impaired assets service’s impact on the Group’s operating results for the period ending 31 December 2018 is represented in Note 4.

(g) Standards and interpretations issued but not yet effective

Standards issued but not yet effective and not early adopted

New standards, interpretations and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Group has not early adopted are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 Investment Properties. IFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

IFRIC 23 - Uncertainty over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company’s tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. IFRIC 23 is effective from 1 January 2019, with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

Amendments to IFRS 9 - Prepayment features with negative compensation

On 12 October 2017, IASB has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortized cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include ‘reasonable additional compensation’ for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

2 - BASIS OF PREPARATION (Continued)

(g) Standards and interpretations issued but not yet effective (Continued)

Standards issued but not yet effective and not early adopted (Continued)

Amendments to IAS 28 - Long-term interests in Associates and Joint Ventures

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 28.

The revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

IFRS 4 has been amended by IASB to reduce the impact of the differing effective dates of the new insurance contracts standard and IFRS 9. These amendments to IFRS 4 provide two optional solutions for insurers to reduce concerns about implementations: i) when applying IFRS 9 by insurers to its financial assets, an insurer will be permitted to reclassify the difference between profit or loss and other comprehensive income and the amounts recognized in profit or loss under IFRS 9 and those that would have been reported under IAS 39; or ii) an optional temporary exemption from applying IFRS 9 for companies whose activities are predominantly connected with insurance before 1 January 2021. These companies will be permitted to continue to apply existing requirements for financial instruments in IAS 39. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 4.

2 - BASIS OF PREPARATION (Continued)

(g) Standards and interpretations issued but not yet effective (Continued)

Standards issued but not yet effective and not early adopted (Continued)

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

IASB issued "Annual Improvements to IFRSs / 2015-2017 Cycle" for applicable standards. The amendments are effective as at 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

Amendments to IAS 19 - Plan amendment, curtailment or settlement

On 7 February 2018, IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 19.

2 - BASIS OF PREPARATION (Continued)

(g) Standards and interpretations issued but not yet effective (Continued)

Standards issued but not yet effective and not early adopted (Continued)

IFRS 17 - Insurance contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17.

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018 the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 1 and IAS 8.

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations that seek to clarify this matter. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 3.

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 subsidiary of the Company as at 31 December 2018 and 31 December 2017:

Legal entity Non-listed in stock exchange:	Service line	Location	Share (%)	Net book value 31 December 2018	 31 December 2017
Destek Varlık Yönetim A.Ş.	Purchased or originated credit impaired assets management	Istanbul	100	22,743	22,743
Total				**22,743**	**22,743**

Accounting policies of subsidiary has 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 statement of profit or loss and other comprehensive income 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 statement of changes in equity. Non-controlling interests and profit or loss as a result of sales are recognized in statement of changes in equity.

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 the statement of profit or loss.

(c) Financial instruments

First time adoption of IFRS 9 "Financial instruments" standard

The Group has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application at 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Group have not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in equity as at 1 January 2018.

The following table summarizes the impact of transition to IFRS 9, net of tax, on the retained earnings as at 1 January 2018:

	Impact of adopting IFRS 9 before tax	Tax impact of adopting IFRS 9	Total impact of adopting IFRS 9
Retained earnings			
Recognition of expected credit losses under IFRS 9	(550)	106	(444)
Impact at 1 January 2018			**(444)**

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at fair value through profit or loss (with the condition of not impacting accounting mismatch significantly).

The Group measures its financial assets at amortized cost. The financial assets at amortized cost consist of factoring receivables, purchased or originated credit impaired assets, and cash and cash equivalents. The classification is based on the characteristics of the contractual cash flows of the entity and the business model used by the entity for the management of the financial assets. The Group classifies its financial assets at the time of purchase.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

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

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (Continued)

Classification and measurement (Continued)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

	Classification according to IAS 39	Carrying amount according to IAS 39	IFRS 9 classification effect	IFRS 9 valuation effect	Carrying amount according to IFRS 9	Reclassification according to IFRS 9
		31 December 2017			1 January 2018	
Financial assets						
Cash and cash equivalents	Loans and receivables	8,618	-	-	8,618	Amortized cost
Factoring receivables	Loans and receivables	1,107,961	-	(528)	1,107,433	Amortized cost
purchased or originated credit impaired assets	Loans and receivables	121,807	-	(22)	121,785	Amortized cost
Total financial assets		**1,238,386**		**(550)**	**1,237,836**	

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise of factoring receivables, purchased or originated credit impaired assets, and cash and cash equivalents.

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) Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. In this context, it has been necessary to evaluate how the economic factors that will be determined by weighting according to the probabilities of realization affect the ECLs. The new impairment model is applied to financial assets at fair value through other comprehensive income or measured at amortized cost (other than investments in equity instruments) and contract assets. The financial assets at amortized cost consist of factoring receivables, purchased or originated credit impaired assets, and cash and cash equivalents.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment of financial assets (Continued)

Calculation of expected credit losses

Expected credit losses is calculated based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Probability of Default (PD): PD refers to the likelihood that a loan will default, which is usually set at 12 months, given certain characteristics:

- 12-month PD: as the estimated probability of default occurring within the next 12 months.
- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

Factoring receivables are grouped based on internal risk assessment. The grouping of factoring receivables include customer financial information and other qualitative factors. Probability of default calculation has been carried out based on past information, current conditions and forward looking macroeconomic parameters.

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

LGD calculations are performed using historical data which best reflects current conditions. LGD summarizes all cash flows from customers subsequent to default. It covers all costs and collections that occur during the collection cycle, including collections from collaterals. It also includes the "time value of money" calculated by means of deducting costs and additional losses from the present value of collections.

Exposure at Default (EAD): For factoring receivables, it corresponds to the amount of factoring receivable granted as of the reporting date. The Group does not have non-cash factoring receivables and commitments.

Under IFRS 9, loss allowances are measured on either of the following bases:

• 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

• Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if there is a qualitative indicator like restructuring. The Group does not use 30 days past due criteria. The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held).
- The borrower is past due more than 1 day.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment of financial assets (Continued)

Calculation of expected credit losses (Continued)

Stage 1: 12-month expected credit loss represents the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date and calculated as the portion of lifetime expected credit losses. 12-month expected credit loss is calculated based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate.

Stage 2: When there is a significant increase in credit risk since origination, lifetime expected credit losses is calculated. Including multiple scenario usage, probability of default and loss given default rates are estimated through the life of the instrument. Estimated cash shortfalls are discounted by using the original effective interest rate.

Stage 3: Lifetime expected credit losses are recognized for the impaired factoring receivables. The methodology is similar to stage 2 and the probability of default and loss given default are taken into account as 100%.

Purchased or originated credit impaired assets: Purchased or originated credit impaired assets are financial assets that are credit impaired on initial recognition. The Group recognizes the cumulative changes in lifetime ECLs since initial recognition, based on a probability of weighting of the scenarios, discounted by the credit-adjusted EIR.

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Group has included macroeconomic variables in its ECL calculation by taken into account non-performing loan forecasts for the following 2 years.

Impact of the new impairment model

As at 1 January 2018, the effect of impairment allowance under IFRS 9 is as follows:

Loss allowance as at 31 December 2017 under IAS 39	**33,326**
Additional impairment recognized at 1 January 2018 on:	
- Factoring receivables	528
- Purchased or originated credit impaired assets	22
Loss allowance as at 1 January 2018 under IFRS 9	**33,876**

(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 restated cost 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 statement of profit or loss and other comprehensive income. A revaluation deficit is recognized in statement of 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 statement of profit or loss.

(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

Property and equipment are depreciated over the estimated useful lives of the related assets from the date of acquisition or the date of installation, on a straight-line basis.

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 includes computer software licenses and rights. Intangible assets are recognized at acquisition cost and amortized by the straight-line method over their estimated useful lives after their acquisition date. Intangible assets are amortized on a straight-line basis over their estimated useful lives for a period between 3-5 years from the date of acquisition.

(g) Leases

(i) Determining whether an arrangement contains a lease

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

At initial recognition 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 financial leasing contract which transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. At initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is 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.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Purchased or originated credit impaired assets 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.

Purchased or originated credit impaired assets, purchased from different established banks in Turkey and other financial institutions constitute the Group's purchased or originated credit impaired assets that are tracked. Purchased or originated credit impaired assets 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. The Group calculates the net present value of the purchased or originated credit impaired assets' expected collection projections and records them when risk, benefit and control transfers arise for barren credits obtained, in accordance with IFRS 9. Positive differences between credit portfolios' calculated collection projections' net present value and their carrying values are recognized as "Income from purchased or originated credit impaired assets" and negative differences are recorded under "Other operating income / (expenses)". At each reporting date, the Group reviews its estimations and judgements on determination of credit adjusted effective interest rate and net present value of the receivables from purchased or originated credit impaired assets.

Impairment of 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 statement of 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)

(i) 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 provision for employee severance indemnity has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees.

(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.

(j) 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.

(k) 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.

(l) 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)

(l) Revenue and cost recognition (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.

(m) 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.

(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)

(m) Income tax (Continued)

(ii) Deferred tax (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.

The carrying amount of deferred income tax assets is reviewed at each reporting 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.

(n) 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.

3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) 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, "Events after the reporting period", 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.

(p) Accounting policies applied before 1 January 2018

The Group's financial instruments are all non-derivative instruments. The Group has the following non-derivative financial assets: receivables from purchased or originated credit impaired assets, 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 statement of financial position 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)

(q) Accounting policies applied before 1 January 2018 (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.

4 – SEGMENT INFORMATION

The Group provides services in the factoring and debt management of purchased or originated credit impaired assets portfolios fields in Turkey as at 31 December 2018 and 31 December 2017.

31 December 2018	Factoring operations	Purchased or originated credit impaired assets management	Elimination	Total
Operating segment assets	907,155	123,108	(34,562)	995,701
Operating segment liabilities	754,189	97,762	(11,819)	840,132
Interest income	291,863	177	-	292,040
Interest expenses (-)	(235,804)	(21,324)	1,853	(255,275)
Fee and commission income/(expenses),net	5,114	(171)	-	4,943
Income from purchased or originated credit impaired assets	-	45,871	-	45,871
Provision for factoring receivables (-)	(5,406)	-	-	(5,406)
Recoveries from factoring receivables	1,229	-	-	1,229
Personnel expenses (-)	(27,644)	(6,835)	-	(34,479)
Operating expenses (-)	(8,911)	(10,664)	-	(19,575)
Other operating income/(expenses), net	4,262	(6,554)	(1,853)	(4,145)
Taxation (-)	(5,441)	49	-	(5,392)

31 December 2017	Factoring operations	Purchased or originated credit impaired assets 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 purchased or originated credit impaired assets	-	29,421	-	29,421
Provision for factoring receivables (-)	(1,551)	-	-	(1,551)
Recoveries from factoring receivables	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)

5 - 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 2018		31 December 2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and cash equivalents	23,084	23,084	8,618	8,618
Factoring receivables	774,521	774,521	1,107,961	1,107,961
Purchased or originated credit impaired assets	120,243	120,243	121,807	121,807
Other receivables	1,861	1,861	13,335	13,335
Financial liabilities				
Borrowings	735,274	732,498	868,226	868,226
Debt securities issued	92,382	92,382	284,270	284,270
Factoring payables	2,726	2,726	1,686	1,686

5 - DETERMINATION OF FAIR VALUES (Continued)

Classification relevant to fair value information

The table below analyses financial instruments carried at fair value, by the levels in the fair value hierarchy, The different levels have been defined as follows:

Level 1: Registered (unadjusted) prices of identical assets or liabilities in active markets;

Level 2: Data which can be observed by directly (through prices) or indirectly (derived from prices) and which excludes the registered prices described in Level 1;

Level 3: Data that is not based on observable market data related to assets and liabilities (non-observable data).

As at 31 December 2018 and 31 December 2017, Group has no financial liabilities measured at fair value.

As at 31 December 2018, the classification of fair value measurements of financial assets and liabilities measured at fair value is as follows (31 December 2017: None):

31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Reverse repo receivables	-	15,341	-	15,341
Total	**-**	**15,341**	**-**	**15,341**

6 - OPERATING EXPENSES

For the years ended 31 December 2018 and 31 December 2017, operating expenses comprised the following:

	1 January - 31 December 2018	1 January - 31 December 2017
Legal and court expenses	7,202	4,191
Rent expenses	3,140	2,308
Consultancy expenses	1,451	868
Outsourced benefits and services	1,204	989
Communication expenses	1,171	654
Subscription expenses	819	296
Depreciation and amortization	738	552
Office supplies expenses	728	783
Travelling expenses	532	389
Taxes and duties other than on income	526	480
Information technologies expenses	307	652
Maintenance and repair expenses	268	173
Advertising expenses	8	8
Others	1,481	881
	19,575	**13,224**

7 - PERSONNEL EXPENSES

For the years ended 31 December 2018 and 31 December 2017, personnel expenses comprised the following:

	1 January - 31 December 2018	1 January - 31 December 2017
Salary expenses	20,268	19,985
Benefits paid to key management	9,739	7,019
Social security premium expenses	2,268	1,520
Meal expenses	1,183	684
Employee termination indemnity	1,021	828
	34,479	**30,036**

8 - TAXATION

According to the provisional Article 10 of the Law No. 7061 of 5 December 2017, numbered 30261, "Amendments to Certain Tax Laws and Some Other Laws" and the Law No. 5520 on Corporate Income Tax Law, it is foreseen that the corporation tax that should be paid over the profits of the tax years 2018, 2019 and 2020 will be calculated as 22% and the tax will be continued with 20%. During this period, the Council of Ministers was given the authority to reduce the rate of 22% to 20%. 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.

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.

8 - TAXATION (Continued)

The income tax expense for the years ended 31 December 2018 and 31 December 2017 comprised the following items:

	1 January - 31 December 2018	1 January - 31 December 2017
Current period tax expense		
Income tax expense (-)	(6,104)	(5,966)
Deferred tax income	712	469
Total tax expense (-)	**(5,392)**	**(5,497)**

The reported tax expense for the years ended 31 December 2018 and 31 December 2017 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 2018	1 January - 31 December 2017
Profit before income taxes	**25,203**	**28,595**
Theoretical tax charge at the applicable tax rate 22% (2017: 20%)	(5,545)	(5,722)
Tax effect of items which are not deductible or assessable for taxation purposes (-)	(66)	(45)
Income exempt from taxation	219	270
Total tax expense (-)	**(5,392)**	**(5,497)**

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 assets/liabilities as at 31 December 2018 and 31 December 2017 comprised the following:

	31 December 2018	31 December 2017
Taxes on income (-)	6,104	5,966
Less: Corporation taxes paid in advance	(6,508)	(4,166)
Current tax assets/(liabilities)	**(404)**	**1,800**

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.

8 - TAXATION (Continued)

Deferred tax assets and deferred tax liabilities as at 31 December 2018 and 31 December 2017 were attributable to the items detailed in the table below:

	Cumulative temporary differences		Deferred tax temporary differences	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Provision for impaired factoring receivables	26,102	27,823	5,232	5,564
Deferred commission income on factoring receivables	1,893	1,416	416	283
Reserve for employment termination benefits	6,242	4,429	1,259	886
Deferred commission income	247	346	54	69
Temporary differences on borrowings and issued marketable securities	-	174	-	35
Other	55	358	12	72
Deferred tax asset	**34,539**	**34,546**	**6,973**	**6,909**
Valuation difference between carrying values and tax base of buildings and lands (*)	(15,876)	(3,558)	(1,588)	(356)
Effects of useful life differences of property and equipment, and intangible assets	(252)	(193)	(56)	(39)
Temporary differences on receivables from purchased or originated credit impaired assets	(84)	(3,281)	(18)	(656)
Temporary differences on borrowings and issued marketable securities	(15)	-	(3)	-
Deferred tax liability (-)	**(16,227)**	**(7,032)**	**(1,665)**	**(1,051)**
Net-off (-)			**(1,665)**	**(511)**
Deferred tax asset			**5,308**	**6,398**
Deferred tax liability			**-**	**(540)**

(*) 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 2017: 10%).

The Group and its subsidiary calculate deferred tax assets and liabilities considering the effects of the temporary differences arising from the different valuations between the IFRS and the tax financial statements of the balance sheet items. As 22% corporation tax came into force with the "Law on the Amendment of Certain Tax Laws and Other Certain Other Laws" numbered 7061, 22% is used for the temporary differences which are likely to be recovered in 2018, 2019 and 2020, and 20% is used for the part which are likely to be recovered over three years in the calculation of deferred tax while preparing the 31 December 2018 financial statements (31 December 2017: 20%).

8 - TAXATION (Continued)

For the years ended 31 December 2018 and 31 December 2017, movements of deferred tax assets are as follows:

	31 December 2018	31 December 2017
Opening - 1 January	**6,398**	**6,118**
IFRS 9 opening adjustment	105	-
Taxes on income (-)	98	437
Deferred tax expense recognized in the other comprehensive income	(1,293)	(38)
The effect of change in the tax rate on temporary differences in buildings	-	(119)
Closing - 31 December	**5,308**	**6,398**

For the years ended 31 December 2018 and 31 December 2017, movements of deferred tax liabilities are as follows:

	31 December 2018	31 December 2017
Opening - 1 January	**(540)**	**(582)**
Taxes on income (-)	614	32
Deferred tax expense recognized in the other comprehensive income	(74)	10
Closing - 31 December	**-**	**(540)**

9 - CASH AND CASH EQUIVALENTS

As at 31 December 2018 and 31 December 2017, cash and cash equivalents comprised the following:

	31 December 2018	31 December 2017
Cash at banks	7,725	8,598
- Demand deposits	*7,555*	*7,948*
- Time deposits	*170*	*650*
Cash on hand	18	20
Reverse repo receivables	15,341	-
	23,084	**8,618**

As at 31 December 2018 the Group has time deposits (less than 1 month) with the average interest rate 20% (31 December 2017: Less than 1 month, with the interest rate 13.25%). There is no interest accrual on time deposits (31 December 2017: None).

As at 31 December 2018, there is 655 TL blockage on cash and cash equivalents (31 December 2017: None).

10 - FACTORING RECEIVABLES AND FACTORING PAYABLES

(i) Factoring receivables

As at 31 December 2018 and 31 December 2017 factoring receivables comprised the following:

	31 December 2018	31 December 2017
Domestic factoring receivables	833,855	1,165,812
Factoring receivables under follow-up	28,469	33,198
Factoring receivables, gross	**862,324**	**1,199,010**
Unearned income on factoring transactions (-)	(58,801)	(57,851)
Expected credit loss (-)	(29,002)	(33,198)
Factoring receivables, net	**774,521**	**1,107,961**

10 - FACTORING RECEIVABLES AND FACTORING PAYABLES (Continued)

As at 31 December 2018 and 31 December 2017, maturity of factoring receivables excluding unearned income and doubtful receivables are as follows:

	31 December 2018	31 December 2017
Up to 1 month	230,215	287,338
1 month to 3 months	348,662	450,476
3 months to 1 year	246,296	403,677
1 year and over	8,682	24,321
	833,855	**1,165,812**

The Group has obtained the following collaterals for its receivables as at 31 December 2018 and 31 December 2017:

	31 December 2018	31 December 2017
Customer notes and cheques obtained as collateral	888,837	1,264,522

As at 31 December 2018, carrying value of the Group's restructured factoring receivables amounts to TL 13,111 (31 December 2017: TL 13,392).

As at 31 December 2018, maturity profile of the doubtful factoring receivables and the expected credit loss allowance for them is as follows:

	31 December 2018		
	Stage 1	Stage 2	Stage 3
Expected credit loss allowance	(363)	(237)	(28,402)
	(363)	**(237)**	**(28,402)**

10 - FACTORING RECEIVABLES AND FACTORING PAYABLES (Continued)

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

	31 December 2017	
	Doubtful receivables	**Specific allowance**
Past due 0-3 months	1,305	(1,305)
Past due 3-6 months	2,885	(2,885)
Past due 6-12 months	6,857	(6,857)
Past due over 1 year	22,151	(22,151)
Total	**33,198**	**(33,198)**

Movements in the total provision for impairment in the doubtful factoring receivables for the years ended 31 December 2018 and 31 December 2017 were as follows:

	31 December 2018	**31 December 2017**
Balance at 1 January	**33,198**	**33,879**
Impact of adopting IFRS 9 at 1 January 2018	528	-
Allowance for the year	5,406	1,551
Recoveries of amounts previously provided for	(1,229)	(2,232)
Written-off (*)	(8,901)	-
Balance at 31 December	**29,002**	**33,198**

(*) Company has transferred its non-performing loans amounting to TL 8,901 with revenue sharing agreement to Sümer Varlık A.Ş. on 7 December 2018.

(ii) Factoring payables

As at 31 December 2018, factoring payables amounting to TL 2,726 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 2017: TL 1,686).

11 - PURCHASED OR ORIGINATED CREDIT IMPAIRED ASSETS

As at 31 December 2018 and 31 December 2017, purchased or originated credit impaired assets of the Group comprised the following:

	31 December 2018	**31 December 2017**
Receivables from purchased or originated credit impaired assets (*)	120,243	121,807
Purchased or originated credit impaired assets	*127,654*	*121,935*
Expected credit loss allowance	*(7,411)*	*(128)*
	120,243	**121,807**

(*) As explained in detail in Note 2 and Note 3, the purchased or originated credit impaired assets are accounted at amortized cost calculated with credit adjusted effective interest rate in the consolidated financial statements.

11 - PURCHASED OR ORIGINATED CREDIT IMPAIRED ASSETS (Continued)

Portfolio	Purchase year	Currency	Cost	31 December 2018 Carrying amount
2014 Portfolio	2014	TL	48,350	22,287
2015 Portfolio	2015	TL	25,300	23,421
2016 Portfolio	2016	TL	43,000	37,705
2017 Portfolio	2017	TL	20,000	27,243
2018 Portfolio	2018	TL	7,350	9,587
				120,243

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

As explained in detail in Note 3 (i), purchased or originated credit impaired assets 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.

Positive differences between credit portfolios' calculated collection projections' net present value and their carrying book values are recognized as "Income from purchased or originated credit impaired assets" and negative differences are recorded under "Other operating income/(expenses)". If any objective evidence that the receivables from purchased or originated credit impaired assets 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 2018 net present value of the receivables from purchased or originated credit impaired assets amount to TL 120,243 (31 December 2017: TL 121,807).

11 - PURCHASED OR ORIGINATED CREDIT IMPAIRED ASSETS (Continued)

The Group uses the following critical assumptions in calculation of net present value of the purchased or originated credit impaired assets.

The Group estimates future cash flows for its purchased or originated credit impaired assets 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 purchased or originated credit impaired assets 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 purchased or originated credit impaired assets 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 purchased or originated credit impaired assets. The Group has estimated with a total of undiscounted TL 195,006 collections from its purchased or originated credit impaired assets portfolio for the periods between 2019 and 2025 (31 December 2017: TL 200,150 undiscounted collection from its purchased or originated credit impaired assets portfolio for the periods between 2018 and 2025).

Movement of allowances for purchased or originated credit impaired assets are presented below:

	31 December 2018	31 December 2017
Opening - 1 January	**128**	**99**
Adjustment to the first application of IFRS 9 (*)	417	-
Provision	-	29
Expected credit loss	6,866	-
Closing - 31 December	**7,411**	**128**

(*) The Group has initially applied IFRS 9 at 1 January 2018 under the transition method chosen, comparative balances are not restated.

Movement of the purchased or originated credit impaired assets for the years ended as at 31 December 2018 and 31 December 2017 is presented below:

	31 December 2018	31 December 2017
Opening - 1 January	**121,807**	**107,442**
Adjustment to the first application of IFRS 9 (*)	(22)	-
Acquisition of distressed loans	7,350	20,000
Collection received in the period	(47,897)	(34,294)
Provision (-)	(6,866)	(29)
Income from valuation in current period	17,710	-
Effect of credit adjusted net present value calculation	28,161	28,688
Closing - 31 December	**120,243**	**121,807**

(*) The Group has initially applied IFRS 9 at 1 January 2018 under the transition method chosen, comparative balances are not restated.

12 - PROPERTY AND EQUIPMENT

Movements of property and equipment for 31 December 2018 and 31 December 2017 are as follows:

	Buildings	Furniture and fixtures	Leasehold improvements	Total
Cost				
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**
Balance at 1 January 2018	37,475	2,630	308	40,413
Additions	2,411	803	2	3,216
Transfers(*)	12,250	-	-	12,250
Revaluation (**)	15,171	-	-	15,171
Disposals	-	(10)	(30)	(40)
Balance at 31 December 2018	**67,307**	**3,423**	**280**	**71,010**
Accumulated depreciation				
Balance at 1 January 2017 (-)	-	(1,398)	(246)	(1,644)
Depreciation for the period (-)	-	(321)	(22)	(343)
Balance at 31 December 2017	**-**	**(1,719)**	**(268)**	**(1,987)**
Balance at 1 January 2018	-	(1,719)	(268)	(1,987)
Depreciation for the period	-	(375)	(21)	(396)
Disposals	-	10	30	40
Balance at 31 December 2018	**-**	**(2,084)**	**(259)**	**(2,343)**
Net book value				
1 January 2017	**32,645**	**334**	**47**	**33,026**
31 December 2017	**37,475**	**911**	**40**	**38,426**
1 January 2018	**37,475**	**911**	**40**	**38,426**
31 December 2018	**67,307**	**1,339**	**21**	**68,667**

(*) Related amount comprise of the advances given to a construction firm for the construction of the building to which is the Group plans to move. Related amount has a fixed asset nature and has been transferred to property and equipment at the delivery date.

(**) Fair value of the Group's buildings are determined with market approach in accordance with the independent expert's reports dated January 2018 and December 2018. The expert company is a Capital Market Board ("CMB") accredited independent company and has sufficient capability and experience in valuation of the buildings in related locations. The Group's head office building which has a total of TL 27,780 net book value as at 31 December 2017 was sold to İş Finansal Kiralama A.Ş. with a total amount of TL 35,475 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 the same day on 20 December 2017. Terms of the leasing agreement is one year. After one year, as the lease back agreement ends the ownership of the property will be passed back to the Group. The Group's head office building which has a total of TL 35,475 net book value as at 31 December 2018 was sold to İş Finansal Kiralama A.Ş. with a total amount of TL 41,229 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 the same day on 14 December 2018. Terms of the leasing agreement is one year. After one year, as the lease back agreement ends the ownership of the property will be passed back to the Group. Net book value of the head office building is subject to revaluation according to the transaction price based on the expert report.

As at 31 December 2018, total amount of insurance coverage on property and equipment is TL 12,500 (31 December 2017: TL 10,750).

13 - INTANGIBLE ASSETS

For the year ended 31 December 2018 and 31 December 2017, movements of intangible assets are as follows:

	Softwares
Cost	
Balance at 1 January 2017	816
Additions	605
Balance at 31 December 2017	**1,421**
Balance at 1 January 2018	1,421
Additions	556
Balance at 31 December 2018	**1,977**
Accumulated amortization	
Balance at 1 January 2017 (-)	(654)
Amortization for the period (-)	(209)
Balance at 31 December 2017	**(863)**
Balance at 1 January 2018	(863)
Amortization for the period	(342)
Balance at 31 December 2018	**(1,205)**
Net book value	
At 1 January 2017	**162**
At 31 December 2017	**558**
At 1 January 2018	**558**
At 31 December 2018	**772**

14 - OTHER ASSETS AND PREPAID EXPENSES

As at 31 December 2018 and 31 December 2017, details of other assets and prepaid expenses are stated below.

	31 December 2018	31 December 2017
Prepaid expenses	874	433
Advances given (*)	518	12,355
Receivables from litigation and court costs(**)	391	416
Receivables from liquidity provider practice	-	52
Other	78	79
	1,861	**13,335**

(*) As at 31 December 2017 amounting to 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 has been transferred to property and equipment at the delivery date as at 31 December 2018.

(**) The related amount consists of the guarantees given for the lawsuits filed by the Group and various expense amounts.

15 - ASSETS HELD FOR SALE

As at 31 December 2018 and 31 December 2017, assets held for sale comprised the following:

	31 December 2018	31 December 2017
Assets held for sale	818	347
	818	**347**

As at 31 December 2018 and 31 December 2017, movements of assets held for sale were as follows:

	1 January 2018	Addition	Disposal	31 December 2018
Real estate properties	347	623	(152)	818
Net book value	**347**	**623**	**(152)**	**818**

	1 January 2017	Addition	Disposal	31 December 2017
Real estate properties	372	28	(53)	347
Net book value	**372**	**28**	**(53)**	**347**

16 - BORROWINGS

As at 31 December 2018 and 31 December 2017, details of borrowings of the Group are as follows:

31 December 2018

Unsecured	Original amount	Effective interest rate (%)	Up to 1 year	1 year and over	Total loans and borrowings
Bank loans-TL	709,385	21.70-39.75	691,790	17,595	709,385
Bank loans-US Dollar	704	8.50	3,704	-	3,704
Bank loans-Euro	31	6.5	184	-	184
Lease liabilities	22,001		22,001	-	22,001
Total unsecured borrowings			**717,679**	**17,595**	**735,274**

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**

Financial lease payables

The group leases its headquarter buildings 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 2018 and 31 December 2017, commitments in relation to finance leases are payable as follows:

	31 December 2018	31 December 2017
Within one year	28,227	25,390
Minimum lease payments	**28,227**	**25,390**
Future finance charges (-)	(6,226)	(3,676)
Recognized as a liability	**22,001**	**21,714**

As at 31 December 2018 and 31 December 2017, the present value of finance lease liabilities is as follows:

	31 December 2018	31 December 2017
Within one year	22,001	21,714
Minimum lease payments	**22,001**	**21,714**

17 - DEBT SECURITIES ISSUED

As at 31 December 2018 and 31 December 2017, debt securities issued comprised the following:

	31 December 2018	31 December 2017
Bonds issued	65,147	272,308
Bills issued	27,235	11,962
	92,382	**284,270**

As at 31 December 2018, details 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
Bonds issued					
TRFLDFK31919	23 March 2018	30,000	22 March 2019	Qualified investor	Quarterly
TRFLDFK41918	6 April 2018	21,000	5 April 2019	Qualified investor	Quarterly
TRFLDFK41926	6 July 2018	10,000	26 April 2019	Qualified investor	Quarterly
TRFDVYA31910	26 December 2018	9,000	26 March 2019	Qualified investor	Payment at maturity
TRFDVYA81915	10 August 2018	5,000	9 August 2019	Qualified investor	Quarterly
Bills issued					
TRSDVYA22011	28 August 2018	15,000	25 February 2020	Qualified investor	Quarterly
TRSDVYA61910	26 December 2017	12,000	25 June 2019	Qualified investor	Quarterly

As at 31 December 2017, details 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
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
Bills issued					
TRSDVYA22011	28 August 2018	15,000	25 February 2020	Qualified investor	Quarterly

The bill and bonds issued by the Group have floating and fixed coupon rates. Floating coupon rates are 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. All announcements related with the issued bonds are released in the website of the Public Disclosure Platform ("PDP").

17 - DEBT SECURITIES ISSUED (Continued)

For the years ended at 31 December 2018 and 31 December 2017, movements of the debt securities issued are presented below:

	31 December 2018	31 December 2017
Opening - 1 January	**284,270**	**174,534**
Proceeds from debt securities issued	495,107	624,078
Repayments of debt securities issued (-)	(690,535)	(518,932)
Accruals on debt securities issued	3,540	4,590
Closing - 31 December	**92,382**	**284,270**

18 - OTHER LIABILITIES

As at 31 December 2018 and 31 December 2017, other liabilities comprised the following:

	31 December 2018	31 December 2017
Taxes and duties other than on income	2,255	2,532
Payables to suppliers	1,136	806
Other payables	94	140
	3,485	**3,478**

19 - EMPLOYEE BENEFITS

As at 31 December 2018 and 31 December 2017, employee benefits comprised the following:

	31 December 2018	31 December 2017
Employee termination benefits provision	5,109	3,620
Unused vacation provision	833	809
Bonus provision	300	272
	6,242	**4,701**

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 6,017.60 at 1 January 2018 (31 December 2017: full TL 5,001.76) 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.

19 - EMPLOYEE BENEFITS (Continued)

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 2018 and 31 December 2017:

	31 December 2018	31 December 2017
Discount rate (%)	5.02	4.67
Expected rate of salary/limit increase (%)	9.50	7.00
Turnover rate to estimate the probability of retirement (%)	94.53	95.00

For the years ended 31 December 2018 and 31 December 2017, movements in the reserve for employee severance payments are as follows:

	31 December 2018	31 December 2017
Opening - 1 January	**3,620**	**3,128**
Interest cost	442	425
Service cost	579	403
Paid (-)	(283)	(621)
Actuarial losses	751	285
Closing - 31 December	**5,109**	**3,620**

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 years ended 31 December 2018 and 31 December 2017, movements in the vacation pay liability are as follows:

	31 December 2018	31 December 2017
Opening - 1 January	**809**	**878**
Increase/(reversal) of provision	24	(69)
Closing - 31 December	**833**	**809**

20 - EQUITY

20.1 Paid-in capital

As at 31 December 2018, the nominal value of the Company’s authorized and paid-in share capital amounts to TL 45,000 (31 December 2017: 30,000) comprising 45,000 (31 December 2017: 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.

At the Board of Directors meeting, which took place on 19th of October 2018, it was decided that within the scope of 6th Paragraph of the Article Six of the Capital Market’s Board of Turkey ("CMB")’s “Registered Capital System Declaration no: (II-18.1) “within the current capital base amounted as TL 100,000, by the means of increasing the issued capital by 50%, amounting to TL 15,000 from 30,000 TL to 45,000, increased capital by 15,000 would be met from extraordinary reserves in the financial statements and it is decided to distribute the shares with a nominal value of TL 15,000 to be issued to the shareholders of the Central Registry Agency (MKK) in the amount of 50% of the issued share capital of the issued share capital, which is followed up by the Central Registry Agency (MKK). Capital increase was registered on 30 November 2018.

As at 31 December 2018 and 31 December 2017, the composition of the authorized and paid-in share capital as full TL was as follows:

	31 December 2018					31 December 2017	
	Share (%)	Group A	Group B	Group C	Total	Share (%)	Total
Nedim Menda	33.563	10,000	10,638,125	4,455,000	15,103,125	34.850	10,455,000
Jak Sucaz	21.388	10,000	9,614,375	-	9,624,375	10.200	3,060,000
Raşel Elenkave	11.338	15,000	5,086,875	-	5,101,875	11.338	3,401,250
Lizet Sucaz	6.238	5,000	2,801,875	-	2,806,875	6.238	1,871,250
Refka B. Adato	6.238	5,000	2,801,875	-	2,806,875	6.238	1,871,250
Judit Menda	6.238	5,000	2,801,875	-	2,806,875	6.238	1,871,250
Credit Suisse Investments (Nederland) B.V.	-	-	-	-	-	9.900	2,970,000
Publicly traded	15.000	-	6,750,000	-	6,750,000	15.000	4,500,000
Total	**100.000**	**50,000**	**40,495,000**	**4,455,000**	**45,000,000**	**100.000**	**30,000,000**

According to the article of association 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 - EQUITY (Continued)

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 10,949 at 31 December 2018 (31 December 2017: TL 9,773).

It was decided in the Company's General Assembly dated 26 June 2018 that first dividends of 4,045 TL and second dividends of 5,555 TL for a total of 9,600 TL to be paid in cash to shareholders on 9 July 2018.

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 at 31 December 2018 revaluation surplus amount is TL 47,101 (31 December 2017: TL 33,447).

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 under equity in the statement of financial position amounting to TL (1,592) as at 31 December 2018 (31 December 2017: TL (991)).

21 - EARNINGS PER SHARE

For the years ended 31 December 2018 and 31 December 2017, 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 2018	31 December 2017
Weighted average number of shares	45,000	45,000
Profit for the period	19,811	23,098
Basic and diluted earnings per share	**0.44**	**0.51**

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, purchased or originated credit impaired assets 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 2018	31 December 2017
Factoring receivables	774,521	1,107,961
Purchased or originated credit impaired assets	120,243	121,807
Other receivables	1,861	13,335
Cash and cash equivalents (*)	23,066	8,598
	919,691	**1,251,701**

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

The Group manages the concentrations risk on factoring and purchased or originated credit impaired assets on geographical and industry basis as the similar industries have similar characteristics and are affected similarly by changes in economic or other conditions.

The table below summaries the geographic distribution of the Group's assets and liabilities as at 31 December 2018 and 31 December 2017:

31 December 2018	Assets	%	Liabilities	%
Turkey	995,701	100	840,132	100
	995,701	**100**	**840,132**	**100**

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

22 - FINANCIAL INSTRUMENTS (Continued)

i) Credit risk (Continued)

As at 31 December 2018 and 31 December 2017, the breakdown of factoring receivables, excluding unearned income and doubtful receivables, by industrial groups is as follows:

	31 December 2018	(%)	31 December 2017	(%)
Construction	110,367	13	171,120	15
Trading	108,276	13	168,658	14
Iron and steel	103,970	12	132,209	11
Textile	100,234	12	169,493	15
Food	72,236	9	81,094	7
Automotive	54,608	7	87,846	8
Machinery	49,804	6	50,636	4
Paper and printing	48,171	6	49,546	4
Rubber and plastics	41,166	5	72,521	7
Wood products	31,703	4	35,046	3
Electrics and electronics	26,953	3	37,028	3
Chemicals	20,472	2	23,999	2
Agricultural products	20,343	2	35,055	3
Leather products	9,569	1	12,067	1
Tourism	3,009	-	2,908	-
Others	32,974	5	36,586	3
Total	**833,855**	**100**	**1,165,812**	**100**

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

The Group is subject to credit risk through its purchased or originated credit impaired assets management operations. Within the scope of purchased or originated credit impaired assets management operations, the Group purchases purchased or originated credit impaired assets from different established banks in Turkey. The Group's purchased or originated credit impaired assets 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 are assessed periodically by the Group. Based on the assessments, the Group reviews its cash flow expectations periodically.

b) Collaterals

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 2018 and 31 December 2017, 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 2018			31 December 2017		
	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)	**894,764**	**1,861**	**23,066**	**1,229,768**	**13,335**	**8,618**
Maximum risk secured with collaterals	774,521	-	-	1,107,961	-	-
A) Net carrying value of financial assets which are neither impaired nor overdue	761,410	1,861	23,066	1,094,569	13,335	8,618
B) Net carrying value of financial assets that are restructured, otherwise which will be regarded as overdue or impaired	13,111	-	-	13,392	-	-
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	120,243	-	-	121,807	-	-
- Overdue (gross book value) (*)	156,656	-	-	155,133	-	-
- Impairment (-) (*)	(36,413)	-	-	(33,326)	-	-
- 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	-	-	-	-	-	-

(*) 29,002 TL of the related balances consists of expected credit losses (Note 11).

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 2018	Carrying amount	Contractual cash flows	3 months or less	3 to 12 months	1 to 5 years	Over 5 years
Non-derivative financial liabilities	**830,382**	**860,346**	**639,351**	**176,059**	**44,936**	**-**
Borrowings	735,274	760,484	607,490	123,971	29,023	-
Debt securities issued	92,382	97,136	29,135	52,088	15,913	-
Factoring payables	2,726	2,726	2,726	-	-	-

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	-	-	-

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 2018 and 31 December 2017:

	31 December 2018			31 December 2017		
	USD (%)	Euro (%)	TL (%)	USD (%)	Euro (%)	TL (%)
Assets						
Cash and cash equivalents	-	-	20.00	-	-	13.25
Factoring receivables	14.51	20.76	38.42	12.48	18.79	19.55
Purchased or originated credit impaired assets	-	-	28.50	-	-	24.50
Liabilities						
Borrowings	8.50	6.50	28.80	4.25	3.25	15.22
Debt securities issued	-	-	25.60	-	-	16.20
Financial lease payables	-	-	28.30	-	-	16.70

Interest rate profile

As at 31 December 2018 and 31 December 2017, the interest rate profiles of the interest-bearing financial instruments were as follows:

Carrying amount	31 December 2018	31 December 2017
Fixed rate instruments		
Cash and cash equivalents	170	650
Factoring receivables	775,054	1,107,961
Purchased or originated credit impaired assets	120,243	121,807
Borrowings	(510,764)	(588,726)
Debt securities issued	(9,040)	(284,270)
Variable rate instruments		
Loans and borrowings	(224,510)	(279,500)
Debt securities issued	(83,342)	-

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 2018 and 31 December 2017 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 2018				
Variable rate instruments	(699)	699	(699)	699
31 December 2017				
Variable rate instruments	(703)	703	(703)	703

(*) 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 2018	Demand and up to 3 months	3 to 12 months	Over 1 Year	Non-interest bearing	Total
Assets					
Cash and cash equivalents	15,511	-	-	7,573	23,084
Factoring receivables	578,877	246,296	8,682	-	833,855
Purchased or originated credit impaired assets	4,076	39,782	76,385	-	120,243
Total assets	**598,464**	**286,078**	**85,067**	**7,573**	**977,182**
Liabilities					
Borrowings (-)	(606,080)	(107,394)	(21,800)	-	(735,274)
Debt securities issued (-)	(28,488)	(51,786)	(12,108)	-	(92,382)
Total liabilities	**(634,568)**	**(159,180)**	**(33,908)**	**-**	**(827,656)**
Net re-pricing gap	**(51,445)**	**126,898**	**51,159**	**7,573**	**134,185**

22 - FINANCIAL INSTRUMENTS (Continued)

iii) Market risk (Continiued)

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
Purchased or originated credit impaired assets	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**

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 2018 and 31 December 2017, the currency risk exposures are as follows (TL equivalents):

31 December 2018	USD	Euro	Total
Factoring receivables	5,749	182	5,931
Other receivables	7	9	16
Loans and borrowings (-)	(3,704)	(184)	(3,888)
Net balance sheet exposure	**2,052**	**7**	**2,059**

31 December 2017	USD	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**

22 - FINANCIAL INSTRUMENTS (Continued)

iii) Market risk (Continiued)

Exchange rates applied as at 31 December 2018 and 31 December 2017:

	31 December 2018	31 December 2017
USD	5.2609	3.7719
Euro	6.0280	4.5155

Sensitivity analysis

A 10 percent depreciation of the TL against the following currencies at 31 December 2018 and 31 December 2017 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 2018	Equity	Profit or loss
USD	205	205
Euro	1	1
	206	**206**

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

A 10 percent strengthening in the TL against the foreign currencies as at 31 December 2018 and 31 December 2017 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 2018	31 December 2017
Total liabilities	**840,132**	**1,164,701**
Cash and cash equivalents (-)	23,084	8,618
Net debt	**817,048**	**1,156,083**
Total equity	**155,569**	**132,749**
Net debt /equity ratio	**5.25**	**8.71**

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 15.6% as at 31 December 2018 (31 December 2017: 10.2%) 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 2018 and 31 December 2017:

Collaterals received

	31 December 2018	31 December 2017
Personal guarantees	6,869,754	5,763,407
Cheques and notes received as collateral	3,729,900	2,661,518
	10,599,654	**8,424,925**

Letters of guarantee

	31 December 2018	31 December 2017
Given to banks	167,554	209,349
	167,554	**209,349**

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 2018	31 December 2017
Customer cheques	816,071	1,163,827
Customer notes	72,766	100,695
	888,837	**1,264,522**

24 - RELATED PARTY DISCLOSURES

Interest expense

For the years ended 31 December 2018 and 31 December 2017, related party transactions are as follows:

	31 December 2018	31 December 2017
Credit Suisse AG London Branch	-	5,426
	-	**5,426**

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 2018 was amounting to TL 9,739 (31 December 2017: TL 7,008).

25 - DISCLOSURES OF INTERESTS IN OTHER ENTITIES

Condensed statement of financial position of Destek Varlık as at 31 December 2018 is presented below:

	31 December 2018
Condensed statement of financial position:	
Current assets	122,132
Non-current assets	976
Total assets	**123,108**
Financial liabilities (-)	(96,386)
Other liabilities (-)	(1,376)
Total liabilities	**(97,762)**
Paid-in capital	20,000
Re-measurements of employee termination benefits	(56)
Retained earnings	4,853
Net profit for the period	549
Net assets	**25,346**

26 - EVENTS AFTER THE REPORTING PERIOD

i) On 29 January 2019, the Group has issued a bill which has ISIN Code of "TRFDVYA51918" and nominal value of TL 6,000 to qualified investors. The maturity date of the related bill is 17 May 2019.

ii) On 1 February 2019, the Group has issued a bill which has ISIN Code of "TRFLDFK31927" and nominal value of TL 8,300 to qualified investors. The maturity date of the related bill is 29 March 2019.

iii) On 22 March 2019, the bill, which the Group has issued to qualified investors on 23 March 2018 with ISIN Code of "TRFLDFK31919" and nominal value of TL 30,000 has expired.

iv) On 29 March 2019, the bill, which the Group has issued to qualified investors on 1 February 2019 with ISIN Code of "TRFLDFK31927" and nominal value of TL 8,300 has expired.

v) On 29 March 2019, the Group has issued a bill which has ISIN Code of "TRFLDFK61916" and nominal value of TL 10,500 to qualified investors. The maturity date of the related bill is 28 June 2019.