LİDER FAKTORİNG A.Ş.
AND ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 AND INDEPENDENT AUDITOR'S REPORT

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Lider Faktoring A.Ş.
Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Lider Faktoring A.Ş. ("the Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.
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 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (*IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

The impairment of factoring receivables

See Note 3 for the details of the accounting policies used for the impairment of factoring receivables and for the important accounting estimates and assumptions used.

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Key Audit Matter	How the matter was addressed in the audit
As at 31 December 2020, factoring receivables comprise 78% 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. The expected credit loss model model contains significant assumptions and estimates. The significant assumptions and estimates of the Company's management are as follows: - significant increase in credit risk; - 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. In addition, the impairment of factoring receivables includes estimates for the effects of the Covid-19 outbreak. Impairment on factoring receivables measured at amortised cost was considered 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 implementation 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 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 factoring receivables reviews for selected samples which include a detailed examination of factoring files and related information and testing their classification. In this context, the status of the factoring 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 factoring receivables that 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, by considering the effects of the Covid-19 outbreak and the risk parameters for the selected sample portfolios were recalculated. We evaluated the qualitative assessments that are used in determining the significant increase in credit risk. In addition, the adequacy of the explanations in Note 3 and Note 10 has been evaluated within the scope of the relevant accounting policies. .

Purchased or originated credit impaired assets

Refer to Note 3 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 was addressed in the audit
As at 31 December 2020, 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 management judgement and the impairment of purchased or originated credit impaired assets include estimates and assumptions about the effects of the Covid-19 outbreak. 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 implementation of the controls on expected future cash flows of purchased or originated credit impaired assets by considering the effects of the Covid-19 outbreak. 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. In addition, the adequacy of the explanations in Note 3 and Note 11 has been evaluated within the scope of the relevant accounting policies.

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 IFRSs, 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.

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

DRT BAĞIMSIZ DENETİM VE SMMM A.Ş.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

İstanbul, 18 June 2021

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LİDER FAKTORİNG A.Ş. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

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

	Notes	Audited 31 December 2020	Audited 31 December 2019
ASSETS			
Cash and cash equivalents	9	19.767	10.777
Factoring receivables	10	737.249	934.141
Credit impaired assets	11	112.986	115.472
Current tax assets	8	1.411	32
Deferred tax assets	8	4.814	5.274
Property and equipment, net	12	59.662	60.224
Intangible assets	13	658	384
Other assets and prepaid expenses	14	1.039	1.101
Assets held for sale	15	6.862	6.892
Total assets		**944.448**	**1.134.297**
LIABILITIES			
Borrowings	16	753.611	851.993
Debt securities issued	17	-	98.781
Factoring payable	10	1.927	1.799
Income taxes payable	8	-	1.706
Other liabilities	18	3.684	3.469
Provisions for employee benefits	19	8.874	7.155
Total liabilities		**768.096**	**964.903**
EQUITY			
Share capital	20	95.874	50.874
Revaluation surplus, net of tax	20	40.035	40.035
Re-measurement of employment termination benefits, net of tax		(1.485)	(1.440)
Legal reserves	20	13.551	12.303
Retained earnings		28.377	67.622
Total equity		**176.352**	**169.394**
Total liabilities and equity		**944.448**	**1.134.297**

LİDER FAKTORİNG A.Ş. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Notes	Audited 1 January - 31 December 2020	Audited 1 January - 31 December 2019
Interest income			
Interest income on factoring receivables		135.329	195.857
Interest income from banks and reverse repurchases		1.643	2.024
Total interest income		**136.972**	**197.881**
Interest expenses			
Interest expenses on borrowings (-)		(107.084)	(146.478)
Interest expenses on debt securities issued (-)		(14.213)	(12.658)
Total interest expense		**(121.297)**	**(159.136)**
Net interest income		**15.675**	**38.745**
Fee and commission income on factoring transactions		8.289	8.921
Fee and commission expenses on banking transactions (-)		(2.886)	(3.056)
Fee and commission income, net		**5.403**	**5.865**
Income from credit impaired assets, net	11	35.512	38.647
Provision for impairment of factoring receivables (-)	10	(555)	(4.936)
Recoveries from impaired factoring receivables	10	1.037	3.443
Personnel expenses (-)	7	(33.360)	(32.880)
Operating expenses (-)	6	(17.266)	(17.131)
Provision for impaired assets		(3.321)	(8.193)
Other operating income/(expenses), net		4.411	1.272
Profit before tax		**7.536**	**24.832**
Income tax expense (-)	8	(533)	(6.851)
Profit for the year		**7.003**	**17.981**
Attributable to			
Equity holders of the Company	21	7.003	17.981
Earnings per share			
Earnings per share (TL)	21	0,08	0,20
OTHER COMPREHENSIVE INCOME			
Revaluation of property and equipment, net		-	(4.307)
Re-measurement of post-employment benefits obligation, net of tax	19	(45)	151
Other comprehensive income / (expenses)		**(45)**	**(4.156)**
Total comprehensive income		**6.958**	**13.825**

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

LİDER FAKTORİNG A.Ş. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Attributable to equity holders of the Company						
	Share capital	**Inflationary effect on share capital**	**Revaluation funds, net of tax**	**Actuarial gains, net of tax**	**Legal reserves**	**Retained earnings**	**Total equity**
Balances at 1 January 2019	**45.000**	**5.874**	**47.100**	**(1.591)**	**10.949**	**48.237**	**155.569**
Previous year's misstatement (IAS 8)	-	-	(2.758)	-	-	2.758	-
Transfer to legal reserves	-	-	-	-	1.354	(1.354)	-
Capital increase	-	-	-	-	-	-	-
Total comprehensive income	-	-	(4.307)	151	-	17.981	13.825
- Profit for the year	-	-	-	-	-	*17.981*	*17.981*
- Other comprehensive income	-	-	*(4.307)*	*151*	-	-	*(4.156)*
Balances at 31 December 2019 Audited	**45.000**	**5.874**	**40.035**	**(1.440)**	**12.303**	**67.622**	**169.394**
Balances at 1 January 2020	**45.000**	**5.874**	**40.035**	**(1.440)**	**12.303**	**67.622**	**169.394**
Transfer to legal reserves	-	-	-	-	1.248	(1.248)	-
Capital increase	45.000	-	-	-	-	(45.000)	-
Total comprehensive income	-	-	-	(45)	-	7.003	6.958
- Profit for the year	-	-	-	-	-	*7.003*	*7.003*
- Other comprehensive income	-	-	-	*(45)*	-	-	*(45)*
Balances at 31 December 2020 Audited	**90.000**	**5.874**	**40.035**	**(1.485)**	**13.551**	**28.377**	**176.352**

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

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

	Notes	Audited 1 January - 31 December 2020	Audited 1 January - 31 December 2019
Net profit for the period		**7.003**	**17.981**
Adjustments for:			
Depreciation and amortization	12, 13	1.385	2.578
Provision for employee severance payments	7	808	986
Provision/reversal for unused vacation	19	510	(32)
Net interest income		(15.675)	(38.745)
Income tax expense	8	533	6.851
Provision for doubtful receivables	10	555	4.936
Bonus provision	19	447	388
Effect of credit adjusted net present value calculation	11	(35.512)	(27.351)
Provision for credit impaired assets	11	3.321	8.193
Changes in operating assets and liabilities			
Change in factoring receivables and credit impaired assets		(19.215)	(199.553)
Interest received		135.329	195.857
Collection from credit impaired assets	11	35.302	35.225
Change in other assets		(2.142)	(21.347)
Change in factoring payables		128	(927)
Change in other liabilities		(479)	2.132
Employee severance paid (-)	19	(169)	(143)
Income taxes paid (-)		(3.147)	(5.108)
Net cash generated by / (used in) operating activities		**108.357**	**(18.079)**
Investing activities:			
Purchase of property and equipment and intangible assets (-)	12, 13	(678)	(277)
Sale of property and equipment and intangible assets	12, 13	92	275
Net cash used in investing activities		**(586)**	**(2)**
Financing activities:			
Cash flow provided from borrowings and debt securities issued		278.319	473.294
Cash flow used in borrowings and debt securities issued		(377.100)	(467.520)
Net cash provided from / (used in) financing activities		**(98.781)**	**5.774**
Net increase / (decrease) in cash and cash equivalents		**8.990**	**(12.307)**
Cash and cash equivalents at 1 January	9	10.777	23.084
Cash and cash equivalents at period end	**9**	**19.767**	**10.777**

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 Trade Registry Gazette on 10 July 2013.

One of the existing shareholders sold 15% of the Company's shares in an initial public offering made in 2014 and the shares started floating on Istanbul Stock Exchange ("ISE") at 19 June 2014. As at 31 December 2020 the shares are traded in ISE.

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 was 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 Trade Registry Gazette No. 8319 on 14 May 2013. Destek Varlık, which obtained 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.

The Company's subsidiary Destek Varlık Yönetim A.Ş.'s tradename of "Destek" has been removed according to the final decision of Istanbul 9th Commercial Court of first instance 2015/50 E.-2016/668 K. The title of the company has been changed to "Deren Varlık Yönetim A.Ş." in the Extraordinary General Assembly meeting dated 8 August 2019 by publishing in the Trade Registry Gazette dated 10 July 2019.

The Company has applied to BRSA for establishing an asset management company with the name of Denge Varlık Yönetim A.Ş. ("Denge Varlık", "subsidiary") as of 30 July 2018 and BRSA has granted the establishment license on 4 December 2018. Denge Varlık was established on 2 May 2019 and decision to establishment was published on 8 May 2019 in the Trade Registry Gazette No. 9824.

With the provision of sub-paragraph (b) and Article 156 of the first paragraph of Article 155 of the Turkish Commercial Code (TCC) numbered 6102, pursuant to Articles 19 and 20 of the Corporate Tax Law No. 5520, according to the provision of "Facilitated Merger", an application has been made to the BRSA regarding the merger of Deren Varlık together with all its assets and liabilities by transferring it to Denge Varlık. With the decision of the BRSA dated 26 December 2019 and numbered 8752, considering that Deren Varlık, the company to be transferred due to the merger, will be abandoned from the trade registry due to the fact that it will lose the establishment conditions specified in Article 4 of the Regulation related to the operating license cancelation.

1 - GENERAL INFORMATION (cont'd)

Deren Varlık's operating permit cancellation decision was published in the Official Gazette dated 31 December 2019 and numbered 30995. An extraordinary general assembly meeting regarding the merger process authorized by the BRSA was held on 31 December 2019. The merger was registered on 8 January 2020 has been declared the registration date 14 January 2020 and Turkey in 9993 numbered Trade Registry Gazette.

In terms of consolidated financial statements, Lider Faktoring A.Ş. and its consolidated subsidiary, Denge Varlık, are jointly described as the "Group". The Group has 183 employees as at 31 December 2020 (31 December 2019: 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.

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.

Spreading in the world and Turkey and declared as a pandemic by the World Health Organization on 11 March 2020 Covid-19 pandemic and measures taken against the pandemic, caused disruptions in operations in all countries exposed to the pandemic and adversely affect the economic conditions both globally and in our country. The effects of the pandemic on the financial results, accounting policies and performance of the Group are evaluated by the top management of the Group as of the reporting date.

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) Effects of changes in accounting policies

In the current year, accounting policies applied by the Group has not changed.

2 - BASIS OF PREPARATION (cont'd)

(d) 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 period ending 31 December 2020 is included in the following notes:

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 credit impaired assets

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

The Group estimates future cash flows for its 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 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 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 credit impaired assets. The Group has estimated a total of TL 264,045 undiscounted credit impaired assets for the period between 2020 - 2026 (31 December 2019: TL 170,620). The discounted carrying values of the related future cash flows equal to TL 112,896 and TL 115,472 as at 31 December 2020 and 31 December 2019, respectively. Further details regarding to the Group's accounting policies and assumptions regarding to the credit impaired assets are explained in Note 3 (i) and in Note 11.

Deferred taxes

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from deductible temporary differences, all of which could reduce taxable income in the future. The Group has recognized deferred tax assets because it is apparent that taxable profit will be available sufficient to recognize deferred tax assets.

(e) 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 reclassified and significant changes are disclosed if required.

2 - BASIS OF PREPARATION (cont'd)

(f) 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.

(g) Segment reporting

The Group provides services in the factoring and debt management of credit impaired assets portfolios fields in Turkey as at 31 December 2020.

As at 31 December 2020, segment reporting is prepared based on factoring and debt management of credit impaired assets services. The debt management of credit impaired assets service's impact on the Group's operating results for the period ending 31 December 2020 is represented in Note 4.

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

1) New and revised IFRS Standards that are effective for the current year

Amendments to IFRS 3 Definition of a Business

Amendments to IAS 1 and IAS 8 Definition of Material

Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

Amendments to IFRS 16 COVID-19 Related Rent Concessions

Amendments to Conceptual Framework Amendments to References to the Conceptual Framework in IFRSs

Amendments to IFRS 3 Definition of a Business

The definition of "business" is important because the accounting for the acquisition of an activity and asset group varies depending on whether the group is a business or only an asset group. The definition of "business" in IFRS 3 Business Combinations standard has been amended. With this change:

- By confirming that a business should include inputs and a process; clarified that the process should be essential and that the process and inputs should contribute significantly to the creation of outputs.
- The definition of a business has been simplified by focusing on the definition of goods and services offered to customers and other income from ordinary activities.
- An optional test has been added to facilitate the process of deciding whether a company acquired a business or a group of assets.

2 - BASIS OF PREPARATION (cont'd)

(h) Application of new and revised international financial reporting standards (IFRSs) (cont'd)

1) New and revised IFRS Standards that are effective for the current year (cont'd)

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

The amendments clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

Amendments to IFRS 16 COVID-19 Related Rent Concessions

The changes in COVID-19 Related Rent Concessions (Amendment to IFRS 16) brings practical expedient which allows a lessee to elect not to assess whether a COVID 19 related rent concession is a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of COVID 19 and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
- there are no substantive changes to other terms and conditions of the lease.

There were no COVID-19-related rent concessions prior to 1 June 2020.

The references to the Conceptual Framework revised the related paragraphs in IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC 32. The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

2 - BASIS OF PREPARATION (cont'd)

(h) Application of new and revised international financial reporting standards (IFRSs) (cont'd)

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

The Group has not yet adopted the following standards and amendments and interpretations to the existing standards:

IFRS 17	Insurance Contracts
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to IFRS Standards 2018-2020	Amendments to IFRS 1, IFRS 9 and IAS 41
Amendments to TFRS 4	Extension of the Temporary Exemption from Applying IFRS 9
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2

IFRS 17 Insurance Contracts

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023.

Amendments to IAS 1 Classification of Liabilities as Current or Non-Current

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

Amendment defers the effective date by one year. Amendments to IAS 1 are effective for annual reporting periods beginning on or after 1 January 2023 and earlier application is permitted.

2 - BASIS OF PREPARATION (cont'd)

(h) Application of new and revised international financial reporting standards (IFRSs) (cont'd)

2) New and revised IFRSs in issue but not yet effective (cont'd)

Amendments to IFRS 3 Reference to the Conceptual Framework

The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Amendments to IAS 16 Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

Amendments to IAS 37 Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts.

The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

Annual Improvements to IFRS Standards 2018-2020

Amendments to IFRS 1 First time adoption of International Financial Reporting Standards

The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.

Amendments to IFRS 9 Financial Instruments

The amendment clarifies which fees an entity includes in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

2. BASIS OF PREPARATION (cont'd)

(h) Application of new and revised international financial reporting standards (IFRSs) (cont'd)

2) New and revised IFRSs in issue but not yet effective (cont'd)

Annual Improvements to IFRS Standards 2018-2020 (cont'd)

Amendments to IAS 41 Agriculture

The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in IFRS 13.

The amendments to IFRS 1, IFRS 9, and IAS 41 are all effective for annual periods beginning on or after 1 January 2022. Early application is permitted.

Amendments to TFRS 4 Extension of the Temporary Exemption from Applying IFRS 9

The amendment changes the fixed expiry date for the temporary exemption in TFRS 4 Insurance Contracts from applying TFRS 9 Financial Instruments, so that entities would be required to apply TFRS 9 for annual periods beginning on or after 1 January 2023.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2

The amendments in Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 are all effective for annual periods beginning on or after 1 January 2021. Early application is permitted.

Group management is evaluating the effects of standards that have not yet entered into force on the Group's financial results, accounting policies and performance.

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

Subsidiaries

The consolidated financial statements of the Company include its subsidiaries, 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 accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The table below shows the ratio of shares of subsidiaries of the Company as at 31 December 2020 and 31 December 2019:

Legal entitiy Not-listed in stock exchange:	Service line	Location	31 December 2020 Share (%)	31 December 2019 Share (%)
Deren Varlık Yönetim A.Ş. (*)	Credit impaired assets management	İstanbul	-	100
Denge Varlık Yönetim A.Ş.	Credit impaired assets management	İstanbul	100	100

(*)Deren Varlık and Denge Varlık companies were registered on 8 January 2020 regarding the merger under Denge Varlık.

Accounting policies of subsidiaries have been changed wherever required 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 (cont'd)

(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

Classification and measurement

The Group measures its financial assets at amortized cost. The financial assets at amortized cost consist of factoring receivables, 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.

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.

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, 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.

3 - SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Impairment of financial assets

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.

3 - SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) Impairment of financial assets (cont'd)

Calculation of expected credit losses (cont'd)

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.

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%.

Credit impaired assets: 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.

(e) 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 (cont'd)

(f) 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 unit's 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.

(g) Intangible assets

Other intangible assets

Intangible assets include 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.

3 - SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Leases

The Group has applied IFRS 16 using the cumulative modified retrospective approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the effective date of the modification

The Group did not make any such adjustments during the periods presented.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Leases (cont'd)

The Group as lessee (cont'd)

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Other expenses' in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

(i) 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.

Credit impaired assets, purchased from different established banks in Turkey and other financial institutions constitute the Group's credit impaired assets that are tracked. 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 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 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 credit impaired assets.

(j) 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.

3 - SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Impairment of non-financial assets (cont'd)

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.

(k) 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.

(l) 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.

(m) 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.

3 - SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) 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.

(ii) Commission expenses

Commission charges are recognized on the accrual basis.

(iii) Other income and expenses

Other income and expenses are recognized on an 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 for at amortized cost.

(v) Interest expenses on bank borrowings and debt securities

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

(o) 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.

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.

3 - SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(o) Income tax (cont'd)

(ii) Deferred tax (cont'd)

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.

(p) 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.

(q) 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, Note 26.

4 – SEGMENT INFORMATION

The Group provides services in the factoring and debt management of credit impaired assets portfolios fields in Turkey as at 31 December 2020 and 31 December 2019.

31 December 2020	Factoring operations	Asset management operations	Elimination	Total
Operating segment assets	872.791	114.400	(42.743)	944.448
Operating segment liabilities	700.353	67.743	-	768.096

31 December 2020	Factoring operations	Asset management operations	Elimination	Total
Interest income	136.972	-	-	136.972
Interest expenses (-)	(110.740)	(11.381)	824	(121.297)
Fee and commission income, net	5.403	-	-	5.403
Operating income/(expenses), net	(30.377)	17.659	(824)	(13.542)
Taxation (-)	(421)	(112)	-	(533)
Net profit	837	6.166	-	7.003

31 December 2019	Factoring operations	Asset management operations	Elimination	Total
Operating segment assets	1.071.110	140.177	(76.990)	1.134.297
Operating segment liabilities	901.677	99.682	(36.456)	964.903

31 December 2019	Factoring operations	Credit impaired assets	Elimination	Total
Interest income	197.881	-	-	197.881
Interest expenses (-)	(142.874)	(24.001)	7.739	(159.136)
Fee and commission income, net	5.865	-	-	5.865
Operating income/(expenses), net	(31.887)	19.848	(7.739)	(19.778)
Taxation (-)	(6.216)	(635)	-	(6.851)
Net profit	22.769	(4.788)	-	17.981

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 2020		**31 December 2019**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and cash equivalents	19.767	19.767	10.777	10.777
Factoring receivables	737.249	737.249	934.141	934.141
Credit impaired assets	112.986	112.986	115.472	115.472
Other assets	1.039	1.039	1.101	1.101
Financial liabilities				
Bank borrowings	709.646	710.042	804.108	773.308
Lease liabilities	43.965	45.206	47.885	45.996
Debt securities issued	-	-	98.781	98.781
Factoring payables	1.927	1.927	1.799	1.799

5 - DETERMINATION OF FAIR VALUES (cont'd)

Classification relevant to fair value information

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 2020, Group has no financial assets and liabilities measured at fair value (31 December 2019: None).

6 - OPERATING EXPENSES

For the periods ended 31 December 2020 and 31 December 2019, operating expenses comprised the following:

	1 January - 31 December 2020	1 January - 31 December 2019
Legal and court expenses	5.621	5.339
Rent expenses	1.951	1.182
Communication expenses	1.000	1.150
Depreciation and amortization expenses	1.385	2.578
Outsourced benefits and service expenses	1.238	1.329
Subscription expenses	947	984
Consultancy expenses	944	821
Office supplies expenses	822	811
Travelling expenses	454	604
Information technologies expenses	531	481
Maintenance and repair expenses	262	276
Taxes and duties other than on income	471	268
Advertising expenses	7	7
Others	1.633	1.301
	17.266	**17.131**

7 - PERSONNEL EXPENSES

For the periods ended 31 December 2020 and 31 December 2019, personnel expenses comprised the following:

	1 January - 31 December 2020	1 January - 31 December 2019
Salary expenses	18.144	18.186
Board of directors salary expenses	8.219	7.993
Social security premium expenses	5.058	4.682
Employee termination indemnity	808	986
Meal expenses	1.131	1.033
	33.360	**32.880**

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 realized 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.

The income tax expense for the periods ended 31 December 2020 and 31 December 2019 comprised the following items:

	1 January - 31 December 2020	1 January - 31 December 2019
Current period tax expense		
Income tax expense (-)	(62)	(6.378)
Deferred tax (expense)/benefit	(471)	(473)
Total tax expense (-)	**(533)**	**(6.851)**

8 - TAXATION (cont'd)

The reported tax expense for the periods ended 31 December 2020 and 31 December 2019 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 2020	1 January - 31 December 2019
Profit before income taxes	**7.536**	**24.832**
Theoretical tax charge at the applicable tax rate 22%	(1.658)	(5.452)
Tax effect of items which are not deductible or assessable for taxation purposes (-)	(255)	(49)
Utilized carry forward tax losses	1.270	-
Accumulated losses on which deferred tax is not calculated	-	(1.520)
Other discounts and exceptions	110	170
Total tax expense (-)	**(533)**	**(6.851)**

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 2020 and 31 December 2019 comprised the following:

	31 December 2020	31 December 2019
Taxes on income	62	6.378
Less: Corporation taxes paid in advance	(1.473)	(4.704)
Current tax (assets) and liabilities	**(1.411)**	**1.674**

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.

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 2020 financial statements (31 December 2019: 22%).

For the periods ended 31 December 2020 and 31 December 2019, movements of deferred tax assets are as follows:

	31 December 2020	31 December 2019
Balance at 1 January	**5.274**	**5.308**
Taxes on income (-)	(471)	(473)
Deferred tax expense recognized in other comprehensive income	11	439
Balance at period end	**4.814**	**5.274**

8 - TAXATION (cont'd)

Deferred tax assets and deferred tax liabilities as at 31 December 2020 and 31 December 2019 were attributable to the items detailed in the table below:

	Cumulative temporary differences		Deferred tax temporary differences	
	31 December 2020	**31 December 2019**	**31 December 2020**	**31 December 2019**
Provision for impaired factoring receivables (**)	21.335	22.996	4.211	4.622
Deferred commission income on factoring receivables	1.363	1.514	300	333
Reserve for employment termination benefits	7.974	6.716	1.618	1.343
Deferred commission income	122	212	27	47
Temporary differences on receivables from credit impaired assets	--	402	--	88
Other	1.185	485	261	97
Deferred tax asset	**31.979**	**32.325**	**6.417**	**6.530**
Valuation difference between carrying values and tax base of buildings and lands (*)	(11.822)	(11.425)	(1.182)	(1.143)
Effects of useful life differences of property and equipment, and intangible assets	(139)	(500)	(31)	(110)
Temporary differences on borrowings and issued marketable securities	(1.772)	(14)	(390)	(3)
Deferred tax liability (-)	**(13.733)**	**(11.939)**	**(1.603)**	**(1.256)**
Deferred tax asset			**4.814**	**5.274**

(*) 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 2019: 10%).

(**) Within the regulation made in Article 26 of the Law No. 7186 on the Amendment of Income Tax Law and Certain Laws, 6361 numbered Leasing, Factoring and Financing Companies Law Article 16 paragraph 2 has been changed. According to new regulation the specific provisions of the factoring companies in 2019 and following years can be considered as deductible expenses in determining the corporate tax base of the related years. Since it will be considered as deductible expense in tax declaration in 2019 and subsequent years, deferred tax assets calculated before 2019 will not be taken into consideration in the calculation of deferred tax. A total of TL 4.177 deferred tax asset calculated before 2019 will continue to be recognized in accordance with the previous regulations.

9 - CASH AND CASH EQUIVALENTS

As at 31 December 2020 and 31 December 2019, cash and cash equivalents comprised the following:

	31 December 2020	31 December 2019
Cash at banks	19.740	10.762
- Demand deposits	*13.135*	*5.390*
- Time deposits	*6.605*	*5.372*
Cash on hand	27	15
Total	**19.767**	**10.777**

As at 31 December 2020 the Group has time deposits (less than 1 month) with the average interest rate 12% (31 December 2019: Less than 1 month, with the interest rate 8%).

As at 31 December 2020, there is no blockage on cash and cash equivalents (31 December 2019: none).

10 - FACTORING RECEIVABLES AND FACTORING PAYABLES

(i) Factoring receivables

As at 31 December 2020 and 31 December 2019 factoring receivables comprised the following:

	31 December 2020	31 December 2019
Domestic factoring receivables	774.871	969.776
Doubtful receivables	28.759	30.640
Factoring receivables, gross	**803.630**	**1.000.416**
Unearned income on factoring transactions (-)	(37.467)	(35.991)
Expected credit loss	(28.914)	(30.284)
Factoring receivables, net	**737.249**	**934.141**

As at 31 December 2020 and 31 December 2019, maturity of factoring receivables excluding unearned income and doubtful receivables are as follows:

	31 December 2020	31 December 2019
Up to 1 month	182.390	198.019
1 month to 3 months	327.521	402.597
3 months to 1 year	251.062	358.028
1 year and over	13.898	11.132
	774.871	**969.776**

10 - FACTORING RECEIVABLES AND FACTORING PAYABLES (cont'd)

(i) Factoring receivables (cont'd)

The Group has obtained the following collaterals for its receivables as at 31 December 2020 and 31 December 2019:

	31 December 2020	31 December 2019
Customer notes and cheques obtained as collateral	847.481	1.033.120

As at 31 December 2020, carrying value of the Group's restructured factoring receivables amounts to TL 13.093 (31 December 2019: TL 13.093).

As at 31 December 2020 and 31 December 2019, maturity profile of the doubtful factoring receivables and the expected credit loss allowance for them is as follows:

	31 December 2020		
	Stage 1	**Stage 2**	**Stage 3**
Expected credit loss	(123)	(32)	(28.759)
	(123)	**(32)**	**(28.759)**

	31 December 2019		
	Stage 1	**Stage 2**	**Stage 3**
Expected credit loss	(750)	(293)	(29.241)
	(750)	**(293)**	**(29.241)**

As at 31 December 2020 and 31 December 2019, maturity profile of the doubtful factoring receivables and the specific allowance for them is as follows:

	31 December 2020		31 December 2019	
	Doubtful receivables	**Specific allowance**	**Doubtful receivables**	**Specific allowance**
Past due 0-3 months	220	(220)	2.225	(826)
Past due 3-6 months	169	(169)	2.254	(2.254)
Past due 6-12 months	6.103	(6.103)	3.981	(3.981)
Past due over 1 year	22.267	(22.267)	22.180	(22.180)
Total	**28.759**	**(28.759)**	**30.640**	**(29.241)**

10 - FACTORING RECEIVABLES AND FACTORING PAYABLES (cont’d)

(i) Factoring receivables (cont’d)

Movements in the total provision for impairment in the doubtful factoring receivables for the periods ended 31 December 2020 and 31 December 2019 were as follows:

	31 December 2020	31 December 2019
Balance at 1 January	**30.284**	**29.002**
Allowance for the period	555	4.936
Recoveries of amounts previously provided for specific provision	(1.037)	(3.443)
Revesal of expected credit loss	(888)	(211)
Balance at period end	**28.914**	**30.284**

(ii) Factoring payables

As at 31 December 2020, factoring payables amounting to TL 1.927 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 2019: TL 1.799).

11 - CREDIT IMPAIRED ASSETS

As at 31 December 2020 and 31 December 2019, credit impaired assets of the Group comprised the following:

	31 December 2020	31 December 2019
Receivables from credit impaired assets (*)	112.986	115.472
Acquired credit impaired assets	*131.911*	*131.076*
Expected credit loss allowance	*(18.925)*	*(15.604)*
	112.986	**115.472**

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

Portfolio	Purchase year	Currency	Cost	31 December 2020 Carrying amount
2014 Portfolio	2014	TL	48.350	12.762
2015 Portfolio	2015	TL	25.300	19.892
2016 Portfolio	2016	TL	43.000	37.535
2017 Portfolio	2017	TL	20.000	30.291
2018 Portfolio	2018	TL	7.350	11.914
2020 Portfolio	2020	TL	625	592
				112.986

11 - CREDIT IMPAIRED ASSETS (cont'd)

Portfolio	Purchase year	Currency	Cost	31 December 2019 Carrying amount
2014 Portfolio	2014	TL	48.350	14.871
2015 Portfolio	2015	TL	25.300	20.723
2016 Portfolio	2016	TL	43.000	38.449
2017 Portfolio	2017	TL	20.000	29.602
2018 Portfolio	2018	TL	7.350	11.827
				115.472

As explained in detail in Note 3 (i), 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 credit impaired assets" and negative differences are recorded under "Other operating income/(expenses)". If any objective evidence that the receivables from 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 2020 net present value of the receivables from credit impaired assets amount to TL 112.986 (31 December 2019: TL 115.472).

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

The Group estimates future cash flows for its 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 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 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 credit impaired assets. The Group has estimated with a total of undiscounted TL 264.045 collections from its credit impaired assets portfolio for the periods between 2020 and 2026 (31 December 2019: TL 170.620 undiscounted collection from its credit impaired assets portfolio for the periods between 2019 and 2025).

Movement of allowances for credit impaired assets for the period ended 31 December 2020 and 31 December 2019 are presented below:

	31 December 2020	31 December 2019
Balance at 1 January	**15.604**	**7.411**
Expected credit loss	3.321	8.193
Balance at period end	**18.925**	**15.604**

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

11 - CREDIT IMPAIRED ASSETS (cont'd)

Movement of the credit impaired assets for the years ended as at 31 December 2020 and 31 December 2019 is presented below:

	31 December 2020	31 December 2019
Balance at 1 January	**115.472**	**120.243**
Acqusition of distressed loans	625	-
Collection received in the period	(35.302)	(35.225)
Provision (-)	(3.321)	(8.193)
Income from valuation in current period	9.438	11.296
Accrued interest	26.074	27.351
Balance at period end	**112.986**	**115.472**

12 - PROPERTY AND EQUIPMENT

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

	Right of use assets	Buildings	Furniture and fixtures	Leasehold improvements	Total
Cost					
Balance at 1 January 2019	-	67.307	3.423	280	71.010
Additions	171	-	6	100	277
Revaluation	-	(4.787)	-	-	(4.787)
Change in accounting policy	4.704	-	-	-	4.704
Transfer	-	(6.270)	-	-	(6.270)
Disposals	-	-	(5)	(6)	(11)
Balance at 31 December 2019	**4.875**	**56.250**	**3.424**	**374**	**64.923**
Balance at 1 January 2020	4.875	56.250	3.424	374	64.923
Additions	-	-	186	447	633
Disposals	-	-	-	-	-
Balance at 31 December 2020	**4.875**	**56.250**	**3.610**	**821**	**65.556**
Accumulated depreciation					
Balance at 1 January 2019 (-)	-	-	(2.084)	(259)	(2.343)
Depreciation for the period (-)	(2.115)	-	(242)	(10)	(2.367)
Disposals	-	-	5	6	11
Balance at 31 December 2019	**(2.115)**	**-**	**(2.321)**	**(263)**	**(4.699)**
Balance at 1 January 2020 (-)	(2.115)	-	(2.321)	(263)	(4.699)
Depreciation for the period (-)	(662)	-	(479)	(54)	(1.195)
Disposals	-	-	-	-	-
Balance at 31 December 2020	**(2.777)**	**-**	**(2.800)**	**(317)**	**(5.894)**
Net book value					
31 December 2019	**2.760**	**56.250**	**1.103**	**111**	**60.224**
31 December 2020	**2.098**	**56.250**	**810**	**504**	**59.662**

The Group's head office building and Skyland office building which has a total of TL 30.200 and 26.050 net book value was subject to sell and leaseback agreement with İş Finansal Kiralama A.Ş. on 24 December 2020 and 30 April 2020. 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.

As at 31 December 2020, total amount of insurance coverage on property and equipment is TL 17.143 (31 December 2019: TL 13.090).

13 - INTANGIBLE ASSETS

For the periods ended 31 December 2020 and 31 December 2019, movements of intangible assets are as follows:

	Softwares
Cost	
Balance at 1 January 2019	1.977
Disposals	(264)
Balance at 31 December 2019	**1.713**
Balance at 1 January 2020	1.713
Additions	464
Disposals	(92)
Balance at 31 December 2020	**2.085**
Accumulated amortization	
Balance at 1 January 2019 (-)	(1.205)
Amortization for the period (-)	(211)
Disposals	87
Balance at 31 December 2019	**(1.329)**
Balance at 1 January 2020 (-)	(1.329)
Amortization for the period (-)	(190)
Disposals	92
Balance at 31 December 2020	**(1.427)**
Net book value	
At 31 December 2019	**384**
At 31 December 2020	**658**

14 - OTHER ASSETS AND PREPAID EXPENSES

As at 31 December 2020 and 31 December 2019, details of other assets and prepaid expenses are stated below.

	31 December 2020	31 December 2019
Receivables from lawsuit files (*)	209	130
Prepaid expenses	421	742
Advances given	409	229
	1.039	**1.101**

(*) 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 2020 and 31 December 2019, assets held for sale comprised the following:

	31 December 2020	31 December 2019
Assets held for sale	6.862	6.892
	6.862	**6.892**

For the periods ended 31 December 2020 and 31 December 2019, movements of assets held for sale were as follows:

	1 January 2020	Addition	Disposal	31 December 2020
Real estate	6.892	481	(511)	6.862
	6.892	**481**	**(511)**	**6.862**

	1 January 2019	Addition	Disposal	31 December 2019
Real estate	818	6.270	(196)	6.892
	818	**6.270**	**(196)**	**6.892**

16 - BORROWINGS

(i) Bank loans

As at 31 December 2020 and 31 December 2019, details of bank borrowings of the Group are as follows:

31 December 2020 Unsecured	Original amount	Effective interest rate (%)	Up to 1 year	1 year and over	Total loans and borrowings
Bank loans-TL	699.937	12,40-22,00	699.937	-	699.937
Bank loans-US Dollar	1.323	3,50	9.709	-	9.709
Bank loans-Euro	-	-	-	-	-
Total unsecured borrowings			**709.646**	**-**	**709.646**

31 December 2019 Unsecured	Original amount	Effective interest rate (%)	Up to 1 year	1 year and over	Total loans and borrowings
Bank loans-TL	795.704	10.60-14.60	784.803	10.901	795.704
Bank loans-US Dollar	1.290	4,50	7.300	-	7.300
Bank loans-Euro	179	2,25	1.104	-	1.104
Total unsecured borrowings			**793.207**	**10.901**	**804.108**

16 - BORROWINGS (cont'd)

(i) 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 2020 and 31 December 2019, commitments in relation to finance leases are payable as follows:

	31 December 2020	31 December 2019
With one year	47.367	49.918
Minimum lease payments	**47.367**	**49.918**
Future finance charges (-)	(6.160)	(4.793)
Recognized as a liability	**41.207**	**45.125**

As at 31 December 2020 and 31 December 2019, the present value of finance lease liabilities is as follows:

	31 December 2020	31 December 2019
With one year	41.207	45.125
More than one year	-	-
Present value of minimum lease payments	**41.207**	**45.125**

(ii) Operational lease payables

As at 31 December 2020 and 31 December 2019, the present value of operational lease liabilities is as follows:

	31 December 2020	31 December 2019
With one year	2.758	989
More than one year	-	1.771
Present value of minimum lease payments	**2.758**	**2.760**

17 - DEBT SECURITIES ISSUED

As at 31 December 2020 and 31 December 2019, debt securities issued comprised the following:

	31 December 2020	31 December 2019
Bonds issued	-	83.596
Bills issued	-	15.185
	-	**98.781**

As at 31 December 2020, there isn't any bills and bonds issued by the Group.

As at 31 December 2019, details of bills and bonds issued by the Group are as follows:

ISIN CODE	Issue date	Issued nominal amount (TL)	Maturity date	Sales type	Coupon Period Payment
Bonds issued					
TRFLDFK32016	4 November 2019	28.100	6 March 2020	Qualified investor	At maturity
TRFLDFK12018	4 October 2019	24.000	10 January 2020	Qualified investor	At maturity
TRFLDFK42015	5 December 2019	21.000	3 April 2020	Qualified investor	At maturity
TRFLDFK22017	4 October 2019	23.500	7 February 2020	Qualified investor	At maturity
TRFDVYA62014	20 June 2019	5.000	19 June 2020	Qualified investor	Quarterly
TRFDVYE2013	25 March 2019	9.000	23 October 2020	Qualified investor	Quarterly
Bills issued					
TRSDVYA22011	28 August 2018	15.000	25 February 2020	Qualified investor	Quarterly

The bills 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").

For the periods ended 31 December 2020 and 31 December 2019, movements of the debt securities issued are presented below:

	31 December 2020	31 December 2019
Balance at 1 January	**98.781**	**92.382**
Proceeds from debt securities issued	278.319	473.294
Repayments of debt securities issued (-)	(377.100)	(467.520)
Non-cash items in debt securities issued	-	625
Balance at period end	**-**	**98.781**

18 - OTHER LIABILITIES

As at 31 December 2020 and 31 December 2019, other liabilities comprised the following:

	31 December 2020	31 December 2019
Taxes and duties other than on income	2.298	2.217
Payables to suppliers	1.343	1.245
Other payables	43	7
	3.684	**3.469**

19 - EMPLOYEE BENEFITS

As at 31 December 2020 and 31 December 2019, employee benefits comprised the following:

	31 December 2020	31 December 2019
Employee termination benefits provision	6.663	5.966
Unused vacation accruals	1.311	801
Bonus provision	447	388
Other	453	-
	8.874	**7.155**

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 7.117,17 at 31 December 2020 (31 December 2019: full TL 6.730,15) 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 (cont'd)

Employee termination benefits payments (cont'd)

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 2020 and 31 December 2019:

	31 December 2020	31 December 2019
Discount rate (%)	4,67	5,02
Expected rate of salary/limit increase (%)	7,00	9,50

For the periods ended 31 December 2020 and 31 December 2019, movements in the reserve for employee severance payments are as follows:

	31 December 2020	31 December 2019
Balance at 1 January	**5.966**	**5.109**
Interest cost	293	497
Service cost	515	697
Paid (-)	(169)	(143)
Actuarial (gains)/losses (*)	58	(194)
Balance at period end	**6.663**	**5.966**

(*) Actuarial gains and losses for the year ended 31 December 2020 and 31 December 2019 are recognized in the statement of profit or loss and other comprehensive income.

Unused vacation accruals

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

For the periods ended 31 December 2020 and 31 December 2019, movements in the vacation pay liability are as follows:

	31 December 2020	31 December 2019
Balance at 1 January	**801**	**833**
Increase/(reversal) of accruals	510	(32)
Balance at period end	**1.311**	**801**

20 - EQUITY

20.1 Paid-in capital

As at 31 December 2020, the nominal value of the Company's authorized and paid-in share capital amounts to TL 90.000 (31 December 2019: TL 45.000) comprising 90.000 (31 December 2019: 45.000) 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.

As at 31 December 2020 and 31 December 2019, the composition of the authorized and paid-in share capital as full TL was as follows:

	31 December 2020					31 December 2019
	Share (%)	**Group A**	**Group B**	**Group C**	**Total**	**Share (%)**
Nedim Menda	33,56%	10.000	21.286.250	8.910.000	30.206.250	33,56%
Jak Sucaz	21,39%	10.000	19.238.750	-	19.248.750	21,39%
Lizet Sucaz	6,24%	5.000	5.608.750	-	5.613.750	6,24%
Refka B. Adato	6,24%	5.000	5.608.750	-	5.613.750	6,24%
Raşel Elenkave	1,89%	15.000	1.688.750	-	1.703.750	11,34%
Judit Menda	0,02%	5.000	8.750	-	13.750	6,24%
Publicly traded	30,67%	-	27.600.000	-	27.600.000	15,00%
Total	**100,00%**	**50.000**	**81.040.000**	**8.910.000**	**90.000.000**	**100,00%**

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.

20.2 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 13.551 at 31 December 2020 (31 December 2019: TL 12.303).

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 2020 revaluation surplus amount is TL 40.035 (31 December 2019: TL 40.035).

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 (1.485) as at 31 December 2020 (31 December 2019: TL (1.440)).

21 - EARNINGS PER SHARE

For the years ended 31 December 2020 and 31 December 2019, 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 2020	31 December 2019
Weighted average number of shares	90.000	90.000
Profit for the period	7.003	17.981
Basic and diluted profit per share	**0,08**	**0,20**

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.

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, credit impaired assets and the total of bank deposits, represent the maximum amount exposed to credit risk.

22 - FINANCIAL INSTRUMENTS (cont'd)

i) Credit risk (cont'd)

a) Risk management framework (cont'd)

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

	31 December 2020	31 December 2019
Factoring receivables	737.249	934.141
Credit impaired assets	112.986	115.472
Other receivables	1.039	1.101
Cash and cash equivalents (*)	19.740	10.762
	871.014	**1.061.476**

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

The Group manages the concentrations risk on factoring and 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.

As at 31 December 2020 and 31 December 2019 all of the Group's operations are in Turkey.

As at 31 December 2020 and 31 December 2019, the breakdown of factoring receivables, excluding unearned income and doubtful receivables, by industrial groups is as follows:

	31 December 2020	(%)	31 December 2019	(%)
Construction	107.494	14	131.854	14
Textile	103.487	14	129.518	13
Trading	103.958	14	122.677	13
Iron and steel	92.756	12	118.182	12
Automotive	57.650	7	79.872	8
Food	57.756	7	65.901	7
Machinery	40.707	5	53.972	6
Paper and printing	39.539	5	52.321	5
Rubber and plastics	42.646	6	50.989	5
Agricultural products	23.348	3	34.941	4
Wood products	25.795	3	31.210	3
Electrics and electronics	23.294	3	25.034	3
Chemicals	17.667	2	22.848	2
Leather products	8.507	1	10.856	1
Tourism	2.415	0	3.229	0
Others	27.852	4	36.372	4
Total	**774.871**	**100**	**969.776**	**100**

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

22 - FINANCIAL INSTRUMENTS (cont'd)

i) Credit risk (cont'd)

a) Risk management framework (cont'd)

The Group is subject to credit risk through its credit impaired assets management operations. Within the scope of credit impaired assets management operations, the Group purchases credit impaired assets from different established banks in Turkey. The Group's 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 2020 and 31 December 2019, 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 (cont'd)

i) Credit risk (cont'd)

b) Collaterals (cont'd)

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 2020			31 December 2019		
	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)	**737.249**	**114.025**	**19.740**	**934.141**	**116.573**	**10.762**
Maximum risk secured with collaterals	737.249	-	-	934.141	-	-
A) Net carrying value of financial assets which are neither impaired nor overdue	737.404	1.039	19.740	920.692	1.101	10.762
B) Net carrying value of financial assets that are restructured, otherwise which will be regarded as overdue or impaired	-	-	-	13.093	-	-
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	(155)	112.986	-	356	115.472	-
- Overdue (gross book value)	28.759	131.911	-	30.640	131.076	-
- Impairment (-)	(28.914)	(18.925)	-	(30.284)	(15.604)	-
- 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	-	-	-	-	-	-

(*) Cash on hand excluded.

22 - FINANCIAL INSTRUMENTS (cont'd)

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 2020	Carrying amount	Contractual cash flows	3 months or less	3 to 12 months	1 to 5 years	Over 5 years
Non-derivative financial liabilities	**755.538**	**765.357**	**659.488**	**105.869**	**-**	-
Bank loans	709.646	717.451	632.540	84.911	-	-
Lease liabilities	43.965	45.979	25.021	20.958	-	-
Factoring payables	1.927	1.927	1.927	-	-	-

31 December 2019	Carrying amount	Contractual cash flows	3 months or less	3 to 12 months	1 to 5 years	Over 5 years
Non-derivative financial liabilities	**952.573**	**992.619**	**846.107**	**115.009**	**31.503**	-
Bank loans	804.108	816.225	722.714	62.008	31.503	-
Lease liabilities	47.885	48.995	30.994	18.001	-	-
Debt securities issued	98.781	125.600	90.600	35.000	-	-
Factoring payables	1.799	1.799	1.799	-	-	-

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 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 (cont'd)

iii) Market risk (cont'd)

a) Interest rate risk (cont'd)

The tables below summarize average effective interest rates by major currencies for monetary financial instruments as at 31 December 2020 and 31 December 2019:

	31 December 2020			31 December 2019		
	USD (%)	Euro (%)	TL (%)	USD (%)	Euro (%)	TL (%)
Assets						
Cash and cash equivalents	-	-	12,00	-	-	15,00
Factoring receivables	7,56	-	14,95	15,26	14,63	15,83
Credit impaired assets	-	-	18,00	-	-	21,12
Liabilities						
Borrowings	3,50	-	14,38	2,25	4,50	12,41
Debt securities issued	-	-	12,59	-	-	18,06
Lease liabilities	-	-	14,41	-	-	15,50

Interest rate profile

As at 31 December 2020 and 31 December 2019, the interest rate profiles of the interest-bearing financial instruments were as follows:

Carrying amount	31 December 2020	31 December 2019
Fixed rate instruments		
Time deposits	6.605	5.372
Factoring receivables	737.249	934.141
Credit impaired assets	112.986	115.472
Borrowings	(449.348)	(519.144)
Debt securities issued	-	(91.121)
Lease liabilities	(43.965)	(47.885)
Variable rate instruments		
Borrowings	(260.298)	(332.849)
Debt securities issued	-	(7.660)

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 2020 and 31 December 2019 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.

22 - FINANCIAL INSTRUMENTS (cont'd)

iii) Market risk (cont'd)

a) Interest rate risk (cont'd)

Interest rate sensitivity (cont'd)

	Profit or loss		Equity (*)	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2020				
Variable rate instruments	(1.578)	1.578	(1.578)	1.578
31 December 2019				
Variable rate instruments	(1.767)	1.767	(1.767)	1.767

(*) 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 2020	Demand and up to 3 months	3 to 12 months	Over 1 year	Non-interest bearing	Total
Assets					
Cash and cash equivalents	6.605	-	-	13.162	19.767
Factoring receivables	182.390	327.521	264.960	-	774.871
Credit impaired assets	8.943	22.913	81.130	-	112.986
Total assets	**197.938**	**350.434**	**346.090**	**13.162**	**907.624**
Liabilities					
Borrowings	(638.473)	(71.173)	-	-	(709.646)
Lease liabilities	-	(43.965)	-	-	(43.965)
Factoring payables	(1.927)	-	-	-	(1.927)
Total liabilities	**(640.400)**	**(115.138)**	**-**	**-**	**(755.538)**
Net re-pricing gap	**(442.462)**	**235.296**	**346.090**	**13.162**	**152.086**

22 - FINANCIAL INSTRUMENTS (cont'd)

iii) Market risk (cont'd)

a) Interest rate risk (cont'd)

Interest rate sensitivity (cont'd)

31 December 2019	Demand and up to 3 months	3 to 12 months	Over 1 year	Non-interest bearing	Total
Assets					
Cash and cash equivalents	5.372	-	-	5.405	10.777
Factoring receivables	198.019	402.597	369.160	-	969.776
Credit impaired assets	13.866	35.989	65.617	-	115.472
Total assets	**217.257**	**438.586**	**434.777**	**5.405**	**1.096.025**
Liabilities					
Borrowings	(711.986)	(61.087)	(31.035)	-	(804.108)
Debt securities issued	(76.665)	(22.116)	-	-	(98.781)
Lease liabilities	(29.889)	(17.996)	-	-	(47.885)
Factoring payables	(1.799)	-	-	-	(1.799)
Total liabilities	**(820.339)**	**(101.199)**	**(31.035)**	-	**(952.573)**
Net re-pricing gap	**(603.082)**	**337.387**	**403.742**	**5.405**	**143.452**

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 2020 and 31 December 2019, the currency risk exposures are as follows (TL equivalents):

31 December 2020	USD	Euro	Total
Factoring receivables	10.695	-	10.695
Other receivables	250	-	250
Loans and borrowings (-)	(9.751)	(2.078)	(11.829)
Net balance sheet exposure	**1.194**	**(2.078)**	**(884)**

31 December 2019	USD	Euro	Total
Factoring receivables	5.742	3.230	8.972
Other receivables	36	-	36
Loans and borrowings (-)	(7.300)	(3.526)	(10.826)
Net balance sheet exposure	**(1.522)**	**(296)**	**(1.818)**

22 - FINANCIAL INSTRUMENTS (cont'd)

iii) Market risk (cont'd)

b) Foreign currency risk

Exchange rates applied as at 31 December 2020 and 31 December 2019:

	31 December 2020	31 December 2019
USD	7,3405	5,9402
Euro	9,0079	6,6506

Sensitivity analysis

A 10 percent depreciation of the TL against the following currencies at 31 December 2020 and 31 December 2019 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 2020	Equity	Profit or loss
USD	119	119
Euro	(208)	(208)
	(89)	**(89)**

31 December 2019	Equity	Profit or loss
USD	(152)	(152)
Euro	(30)	(30)
	(182)	**(182)**

A 10 percent strengthening in the TL against the foreign currencies as at 31 December 2020 and 31 December 2019 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.

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 2020	31 December 2019
Total liabilities	**768.096**	**964.903**
Cash and cash equivalents (-)	19.767	10.777
Net debt	**748.329**	**954.126**
Total equity	**176.352**	**169.394**
Net debt /equity ratio	**4,24**	**5,63**

22 - FINANCIAL INSTRUMENTS (cont'd)

iv) Operational risk (cont'd)

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 16,4% as at 31 December 2020 (31 December 2019: 14,9%) as calculated in accordance with statutory consolidated financial statements.

23 – GUARANTEES RECEIVED

Commitments and contingent liabilities arising in the ordinary course of business comprised the following items as at 31 December 2020 and 31 December 2019:

Collaterals received

	31 December 2020	31 December 2019
Personal guarantees	8.446.414	7.674.367
Cheques and notes received as collateral	5.578.244	4.664.579
	14.024.658	**12.338.946**

Letters of guarantee

	31 December 2020	31 December 2019
Given to banks	163.586	167.947
	163.586	**167.947**

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

	31 December 2020	31 December 2019
Customer cheques	731.038	956.632
Customer notes	116.443	76.488
	847.481	**1.033.120**

24 - RELATED PARTY DISCLOSURES

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 2020 was amounting to TL 8.219 (31 December 2019: TL 7.993).

25 - DISCLOSURES OF INTERESTS IN OTHER ENTITIES

Condensed statement of financial position of Denge Varlık Yönetim A.Ş. is at 31 December 2020 is presented below:

Condensed balance sheet:	**31 December 2020**
Current assets	114.328
Non-current assets	532
Total assets	**114.860**
Financial liabilities (-)	65.942
Other liabilities (-)	2.265
Total liabilities	**68.207**
Paid capital	40.000
Re-measurements of employee termination benefits	(140)
Retained earnings	624
Net loss for the period	6.169
Net assets	**46.653**

26 - EVENTS AFTER THE REPORTING PERIOD

In Turkey, corporate earnings are subject to 20% corporate tax, which is effective as of 1 January 2006, and within the scope of the "Law on Amendment of the Law on Collection Procedure of Public Receivables and Some Other Certain Laws" numbered 7316 and published in the Official Gazette dated 22 April 2021, this rate will be applied as 25% for the corporate earnings for the 2021 taxation period and 23% for the corporate earnings for the 2022 taxation period, starting with the declarations to be submitted as of 1 July 2021.