Fiba Faktoring Anonim Şirketi

Financial Statements
As at 31 December 2017
and Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Fiba Faktoring A.Ş. ("the Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its 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 Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key Audit Matter	How the matter was addressed in the audit
Allowance for impaired factoring receivables At 31 December 2017, gross finance receivables were TL 1,338,353 thousands against which receivable allowance for impairment of TL 45,173 thousands and unearned income TL 27,496 thousands were recorded ending with a net carrying amount of TL 1,257,725 thousands. The details are disclosed in Note 11 of the financial statements. For specific allowances a management decision and judgement is required to determine when an impairment event has occurred and a necessary classification should be done. So there is a risk of misstatement in the calculation of allowance related to classification of performing / non-performing receivables in accordance with IAS 39. Furthermore, the specific allowances are made against the carrying amount of receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these receivables to their recoverable amounts. In assessing the recoverable amounts of the receivables, the estimated future cash flows are discounted to their present value using the leasing receivables' original effective interest rates which requires management's significant judgement to exercise. Because of the significance of these judgements and the size of lease receivables, the audit of allowance for probable losses on lease receivables is a key area of focus. Furthermore there is a risk of misstatement in the calculation of allowance related to errors in the main parameters of allowance for probable losses on finance lease receivables (specific and collective) in accordance with IAS 39 in the IFRS financial statements.	We reviewed the provisioning methodology implemented by the Company. We understood and tested the key controls over the classification and provisioning methodology such as; system based and manual controls over the timely recognition of impaired receivables, controls over the impairment calculation models including data inputs, controls over cash flow estimates and finally governance controls which include the management meetings for the approval process of allowance for probable losses on loans. We performed a loan review process by testing sample of factoring receivables to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner. We tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. This included taking into consideration the impact of forbearance. Finally, we understood and tested the controls over related disclosures.

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Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 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 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We 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 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.

The engagement partner on the audit resulting in this independent auditor's report is Hasan KILIÇ.

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

Hasan KILIÇ
Partner

İstanbul, 7 May 2018

Fiba Faktoring Anonim Şirketi

Statement of Financial Position

As at 31 December 2017

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

	Notes	**Audited 31/12/2017**	**Audited 31/12/2016**
Assets			
Cash and cash equivalents	*10*	14,396	72,114
Factoring receivables	*11*	1,257,725	1,006,038
Investment securities	*12*	85,928	109,862
Property and equipment	*13*	4,150	4,152
Intangible assets	*14*	113	412
Other assets	*15*	21,733	20,428
Derivative financial assets	*19*	6,717	26,767
Deferred tax assets	*8*	4,286	4,431
Total assets		**1,395,048**	**1,244,204**
Liabilities			
Loans and borrowings	*16*	935,184	920,550
Securities issued	*17*	216,845	80,051
Factoring payables	*11*	373	2,040
Other liabilities	*18*	2,682	2,449
Derivative financial liabilities	*19*	4,401	197
Taxes payable on income	*8*	3,515	-
Employee benefits	*20*	2,680	1,996
Total liabilities		**1,165,680**	**1,007,283**
Equity			
Share capital	*21*	81,110	81,110
Legal reserves	*21*	41,289	41,289
Other comprehensive income and expenses that will be reclassified subsequently to profit or loss		335	2
Retained earnings		106,634	114,520
Total equity		**229,368**	**236,921**
Total liabilities and equity		**1,395,048**	**1,244,204**

The notes on pages 5 to 45 are an integral part of these financial statements.

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

	Notes	Audited 2017	Audited 2016
Interest income			
Interest income on factoring receivables		183,805	145,805
Interest income on cash and cash equivalents and investments		3,208	3,424
Total interest income		**187,013**	**149,229**
Interest expense			
Interest expense on loans and borrowings		(88,824)	(57,705)
Interest expense on securities issued		(14,144)	(12,920)
Total interest expense		**(102,968)**	**(70,625)**
Net interest income		**84,045**	**78,604**
Fee and commission income on factoring transactions		4,564	4,465
Fee and commission expense on factoring transactions		(174)	(166)
Other commission expenses, net		(4,207)	(2,129)
Net fee and commission income		**183**	**2,170**
Operating income		**84,228**	**80,774**
Net trading gains/(losses)	*9*	(26,712)	23,637
Foreign exchange gains/(losses), net		12,910	(33,076)
Dividend income	*24*	-	9
Other operating income		712	225
Other operating expenses		**(13,090)**	**(9,205)**
Net impairment loss on financial assets	*11*	(4,108)	(18,671)
Impairment provision on investment securities	*12*	(9,188)	-
Personnel expenses	5	(18,569)	(17,624)
Administrative expenses	*6*	(6,314)	(6,882)
Depreciation and amortisation	*13,14*	(460)	(331)
Other expenses	*7*	(2,512)	(1,742)
Profit before income taxes		**29,987**	**26,319**
Income tax charge	*8*	(7,873)	(7,001)
Net profit for the year		**22,114**	**19,318**
Other comprehensive income			
Other comprehensive income and expenses that will be reclassified subsequently to profit or loss		333	(17)
Total comprehensive income for the year		**22,447**	**19,301**

The notes on pages 5 to 45 are an integral part of these financial statements.

Fiba Faktoring Anonim Şirketi

Statement of Changes in Equity

For the Year Ended 31 December 2017

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

	Notes	Share capital	Legal & other reserves	Other comprehensive income and expenses that will be reclassified subsequently to profit or loss	Retained earnings	Total Equity
Balances at 1 January 2016		**81,110**	**40,298**	**19**	**122,120**	**243,547**
Total comprehensive income for the period:						
Profit for the period		-	-	-	19,318	19,318
Other comprehensive loss		-	-	(17)	-	(17)
Total comprehensive income for the period		-	**-**	**(17)**	**19,318**	**19,301**
Transactions with owners, recorded directly in equity:						
Dividends	*21*	-	-	-	(25,927)	(25,927)
Transfers to legal reserves	*21*	-	991	-	(991)	-
Total transactions with owners recorded directly in equity		**-**	**991**	**-**	**(26,918)**	**(25,927)**
Balances at 31 December 2016	*21*	**81,110**	**41,289**	**2**	**114,520**	**236,921**

	Notes	Share capital	Legal & other reserves	Other comprehensive income and expenses that will be reclassified subsequently to profit or loss	Retained earnings	Total Equity
Balances at 1 January 2017		**81,110**	**41,289**	**2**	**114,520**	**236,921**
Total comprehensive income for the period:						
Profit for the period		-	-	-	22,114	22,114
Other comprehensive income		-	-	333	-	333
Total comprehensive income for the period		-	**-**	**333**	**22,114**	**22,447**
Transactions with owners, recorded directly in equity:						
Dividends	*21*	-	-	-	(30,000)	(30,000)
Transfers to legal reserves		-	-	-	-	-
Total transactions with owners recorded directly in equity		**-**	**-**	**-**	**(30,000)**	**(30,000)**
Balances at 31 December 2017	*21*	**81,110**	**41,289**	**335**	**106,634**	**229,368**

Fiba Faktoring Anonim Şirketi

Statement of Cash Flows

For the Year Ended 31 December 2017

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

	Notes	**Audited 2017**	**Audited 2016**
Cash flows from operating activities:			
Net profit / (loss) for the year		22,114	19,318
Adjustments for:			
Depreciation and amortisation	*13,14*	460	331
Provision for reserve for employee severance payments, net	*20*	696	744
Provision for vacation pay liability	*20*	110	30
Derivative financial instruments	*19*	24,254	(29,008)
Net interest and fee accruals		44,001	220
Dividend income	*24*	-	(9)
Income taxes	*8*	7,873	7,001
Impairment provision on investment securities	*12*	9,188	-
Provision for doubtful receivables	*11*	4,108	18,671
Gain on sale of investments		(390)	-
Unrealized foreign exchange losses/(gain) (net)		(2,286)	(7,917)
		110,128	**9,381**
Change in factoring receivables		(266,641)	(84,750)
Change in other assets		(1,305)	(165)
Change in factoring payables		(1,667)	(1,655)
Net change in loans and bank borrowings		(14,751)	228,947
Change in other liabilities		478	252
Employee severance paid	*20*	(122)	(301)
Taxes (paid)/received		(4,308)	-
Proceeds from recoveries of impaired factoring receivables	*11*	2,887	4,542
Net cash provided from/(used in) operating activities		**(175,301)**	**156,251**
Cash flows from investing activities:			
Acquisition of property and equipment	*13*	(262)	(308)
Disposal of property and equipment		8	19
Acquisition of investment securities	*12*	(1,248)	-
Disposal of investment securities		18,261	500
Acquisition of intangible assets	*14*	(150)	(114)
Dividend received	*24*	-	9
Net cash provided from/(used in) investing activities		**16,609**	**106**
Cash flows from financing activities:			
Cash (payments)/proceeds from securities issued		130,332	(67,317)
Dividends paid	*21*	(30,000)	(25,927)
Net cash provided from/(used in) financing activities		**100,332**	**(93,244)**
Effects of foreign exchange rate fluctuations on cash and cash equivalents		693	639
Increase/(decrease) in cash and cash equivalents		**(57,667)**	**63,752**
Cash and cash equivalents at 1 January	*10*	72,061	8,309
Cash and cash equivalents at 31 December	***10***	**14,394**	**72,061**

The notes on pages 5 to 45 are an integral part of these financial statements.

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

1 General Information

Fiba Faktoring Anonim Şirketi ("Fiba Faktoring" or the "Company") was established in 1992 to provide factoring services to industrial and commercial firms, and is registered in Turkey.

The address of the registered office of Fiba Faktoring is as follows:

1. Levent Plaza A Blok Kat: 2, Büyükdere Caddesi No: 173 1. Levent 34330 İstanbul-Turkey.

The number of employees of the Company as at 31 December 2017 is 109 (31 December 2016: 111).

The Company's principal activity is to provide factoring services substantially in one geographical segment (Turkey).

The composition of the authorised and paid-in share capital of Fiba Faktoring A.Ş. is as follows:

	31 December 2017		**31 December 2016**	
	Number of shares	**Share (%)**	**Number of shares**	**Share (%)**
Fiba Holding A.Ş.	46,198	57	46,198	57
Fina Holding A.Ş.	34,912	43	34,912	43
Others	<1	<1	<1	<1
	81,110	**100**	**81,110**	**100**

2 Basis of preparation

(a) Statement of compliance

The Company maintains its books of account and prepares its statutory financial statements in Turkish Lira ("TL") in accordance with the Uniform Chart of Accounts issued by Banking Regulation and Supervision Agency ("BRSA"), the Turkish Commercial Code (the "TCC"), and Tax Legislation. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The financial statements were approved by the Company management on 7 May 2018. The General Assembly and other regulatory bodies have the power to amend the statutory financial statements after their issue.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, as adjusted for the effects of inflation that ended at 31 December 2005 except for the derivative financial instruments and certain investment securities available for sale which are measured at fair value.

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

(c) Functional and presentation currency

These financial statements are presented in TL, which is the Company's functional currency.

(d) Use of estimates and judgments

The preparation of the financial statements requires in conformity with IFRSs management to make judgements, estimates and assumptions that affect the application of 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 recognised in the year in which the estimate is revised and in any future years affected.

In particular, information about significant assumptions and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 3(d) and (e) Useful lives of property and equipment and intangible assets
- Note 4 – Determination of fair values
- Note 8 – Taxation
- Note 11 – Factoring receivables – Allowance for doubtful receivables
- Note 19 – Derivative financial instruments
- Note 20 – Employee benefits
- Note 22 – Financial risk management
- Note 23 – Commitments and contingencies

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

3 Significant accounting policies

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

(a) Accounting in hyperinflationary economies

International Accounting Standard ("IAS") No. 29, which deals with the effects of inflation in the financial statements, requires that financial statements prepared in the currency of a hyperinflationary economy to be stated in terms of the measuring unit current at the reporting date and the corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%.

The cumulative three-year inflation rate in Turkey was 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by Turkish Statistical Institute. This, together with the sustained positive trend in the quantitative factors such as financial and economic stabilisation, decrease in the interest rates and the appreciation of TL against the US Dollars ("USD"), have been taken into consideration to categorise Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006. Therefore, IAS 29 has not been applied to the financial statements as at and for the year ended 31 December 2017 and 2016.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to TL at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to TL at the exchange rates ruling at the reporting date announced by Central Bank of Turkey ("CBT"). Gains and losses arising from foreign currency transactions are recognised in profit or loss.

Foreign currency translation rates used by the Company as at 31 December are as follows:

	2017	***2016***
USD	3.7719	3.5192
EUR	4.5155	3.7099
GBP	5.0803	4.3189

(c) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, factoring receivables, investments, other receivables, factoring payables, loans and borrowings, securities issued and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument.

Regular way purchases and sales of financial instruments are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the instrument.

Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

3 Significant accounting policies *(continued)*

(c) Financial instruments *(continued)*

Cash and cash equivalents

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

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

Accounting for interest income and expenses is discussed in note 3 (m).

Factoring receivables

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

Loans and borrowings

Loans and borrowings and securities issued are recognised initially at fair value, net of any transaction costs incurred. Subsequent to initial recognition, loans and borrowings are measured at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings.

Investments

Investments in equity and debt securities are classified as available-for-sale assets. Available-for-sale assets are financial assets that are not held for trading purposes, or held to maturity. Investments in debt securities are measured at fair value. Investments in equity securities, which are not quoted in an active market, are measured at cost less impairment losses, if any, as their fair values cannot be estimated reasonably.

When equity investments are disposed of, any resulting gain or loss is recognised in profit or loss as the difference between the sales price and the carrying amount of the investment.

Other

Other non-derivative financial and liabilities are measured at amortised cost.

Derivative financial instruments

The Company holds derivative financial instruments for trading purposes. The Company engages in currency swap, forward and option contracts.

Derivatives held for trading are recognised initially at fair value; attributable transaction costs are recognised in profit and loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes in its fair value are recognised in profit or loss.

Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of ant tax effect. Share capital increased pro-rata to existing shareholders is accounted for at par value as approved at the annual meeting of shareholders.

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

3 Significant accounting policies *(continued)*

(d) Property and equipment

Recognition and measurement

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

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

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

Gains and losses on disposal of a component of an item at property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized on a net basis within "other operating income" or "other expenses" in profit or loss.

Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment.

The estimated useful lives for the current and comparative years are as follows:

Buildings	50 years
Furniture and fixtures	5 years
Leasehold improvements	5 years

Leasehold improvements are amortised over the shorter of the lease period and their useful lives.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(e) Intangible assets

Intangible assets represent computer software licenses. Intangible assets acquired before 1 January 2006 are measured at cost as adjusted for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29, less accumulated amortisation, and impairment losses, if any. Intangible assets acquired after 1 January 2006 are measured at cost less accumulated amortisation and impairment losses, if any. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives for the current and comparative years are 3 years.

3 Significant accounting policies *(continued)*

(f) Leased assets

Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the Company, are classified as tangible assets acquired by financial lease. Upon the initial recognition tangible assets acquired by financial lease are measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and leased assets are not recognized on the Company's statement of financial position.

(g) Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property is included in profit or loss in the period in which the property is derecognized.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property that is measured at fair value to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property that is measured at fair value, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

(h) Impairment

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available-for-sale financial assets is calculated by reference to its current fair value.

Financial assets are tested for impairment on an individual basis.

Impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

3 Significant accounting policies *(continued)*

(h) Impairment *(continued)*

Non-financial assets

The carrying amounts of the Company's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

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

Impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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 amortisation, if no impairment loss had been recognised.

(i) Employee benefits

Reserve for employee severance payments

In accordance with the existing social legislation in Turkey, the Company is required to make certain 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 an agreed formula, are subject to certain upper limits and are recognised in the accompanying financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Company that may arise from the retirement of the employees.

The actuarial gains and losses are recognized in other comprehensive income. However, the company management evaluated the impact of actuarial gain/loss on the current year financial statements and accounted all actuarial gain/losses in the income statement due to the fact that post tax impact is not material.

As at 31 December, the assumptions used in the calculation are as follows:

	2017	**2016**
Net discount rate	3.31%	3.31%
Expected salary / limit increase	7.00%	7.00%
Turnover rate to estimate the probability of retirement	95%	95%

3 Significant accounting policies *(continued)*

(j) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability.

(k) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(l) Related parties

For the purpose of accompanying 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.

(m) Interest income and expenses

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expenses presented in profit or loss include interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

(n) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised in profit or loss as the related services are provided.

Other fees and commission expenses are expensed in profit or loss as the services are received.

(o) Dividends

Dividend income is recognised when the right to receive income is established.

(p) Net trading gain or loss

Net trading gain or loss comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

3 Significant accounting policies *(continued)*

(r) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

Deferred tax liabilities and assets are recognised when it is probable that the future economic benefits resulting from the reversal of taxable temporary differences will flow to or from the Company. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Currently enacted tax rates are used to determine deferred taxes on income.

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.

(s) Events after the reporting period

Events after the reporting period are events that occur between reporting date and the authorisation date for the issuance of the financial statements and may impact the Company positively or negatively. If there is evidence of such events as at reporting date or if such events occur after reporting date and if adjustments are necessary, the Company's financial statements are adjusted according to the new situation. The Company discloses the post-reporting date events that are not adjusting events but material.

(t) Application of New and Revised International Financial Reporting Standards (IFRSs)

i. Amendments to IFRSs that are mandatorily effective for the current year

Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealized Losses* [1]
Amendments to IAS 7	*Disclosure Initiative* [1]
Annual Improvements to IFRS Standards 2014–2016 Cycle	*IFRS 12* [1]

[1] Effective for annual periods beginning on or after 1 January 2017.

Amendments to IAS 12 ***Recognition of Deferred Tax Assets for Unrealized Losses***

The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Company's financial statements as the Company already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

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

(t) Application of New and Revised International Financial Reporting Standards (IFRSs) *(continued)*

i. Amendments to IFRSs that are mandatorily effective for the current year *(continued)*

Amendments to IAS 7 *Disclosure Initiative*

This amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

These changes do not have any effect on the Company's financial liabilities.

Annual Improvements to IFRS Standards 2014–2016 Cycle

IFRS 12: IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Company's financial statements as none of the Company's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

ii. New and revised IFRSs in issue but not yet effective

IFRS 9	*Financial Instruments* [1]
IFRS 15	*Revenue from Contracts with Customers* [1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
IFRS 16	*Leases* [2]
Amendments to IFRS 2	*Classification and Measurement of Share-Based Payment Transactions* [1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration* [1]
Amendments to IAS 40	*Transfers of Investment Property* [1]
Annual Improvements to IFRS Standards 2014–2016 Cycle	*IFRS 1* [1], *IAS 28* [1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures* [2]
IFRS 17	*Insurance Contracts* [3]
IFRIC 23	*Uncertainty over Income Tax Treatments* [2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation* [2]
Annual Improvements to IFRS Standards 2015–2017 Cycle	*IFRS 3 and IFRS 11, IAS 12, IAS 23* [2]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.
[3] Effective for annual periods beginning on or after 1 January 2021.

(t) Application of New and Revised International Financial Reporting Standards (IFRSs) *(continued)*

ii. New and revised IFRSs in issue but not yet effective *(continued)*

IFRS 9 Financial Instruments – Classification and Measurement

IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities.

Basic provisions of IFRS 9:

- All financial assets within the scope of IFRS 9 are required to be recognized at initial recognition, at amortized cost or at fair value. In particular, borrowing instruments held in a business model intended to collect contractual cash flows and borrowing instruments with contractual cash flows that include interest payments solely on principal and principal balance are generally measured at amortized cost subsequent to recognition. The overall fair value change in the borrowing instruments held in a business model for both collecting cash flows from contracts and selling financial assets and the borrowing instruments leading to cash flows involving only interest payments in principal and principal amounts on certain dates. All other borrowing instruments and equity instruments are measured at fair value at the end of subsequent periods. In addition, pursuant to IFRS 9, entities may have a preference that can not be reversed regarding the presentation of changes in fair value of an investment in an equity instrument that is not held for trading purposes in other comprehensive income. Dividends from such investments are clearly included in the financial statements as profit or loss unless they represent a part of the cost of the investment.
- In accordance with IFRS 9, the measurement of a financial liability that is designated as a fair value change in profit or loss is reflected in the other comprehensive income if changes in the credit risk associated with the financial liability do not create accounting inconsistency in profit or loss or increase the accounting inconsistency in profit or loss. Changes in the fair value of a financial liability attributable to a credit risk can not be reclassified to profit or loss in subsequent periods. In accordance with IAS 39, any change in the fair value difference of the financial liability at fair value through profit or loss is shown in profit or loss.
- Regarding the impairment of financial assets, IFRS 9 requires expected credit loss model, contrary to realized credit loss model in accordance with IAS 39. Expected credit loss model requires an entity to account for expected credit losses and any changes in expected credit losses at each reporting date to reflect changes in credit risk from initial recognition. In other words, according to the new arrangement, it is not necessary for a credit loss to be realized before the credit losses are recognized.

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

(t) Application of New and Revised International Financial Reporting Standards (IFRSs) *(continued)*

ii. New and revised IFRSs in issue but not yet effective *(continued)*

IFRS 15 Revenue from Contracts with Customers

IFRS 15 introduces a single comprehensive model for use in accounting for revenue generated from contracts with customers. When IFRS 15 enters into force, IAS 18 "Revenue", IAS 11 "Construction Contracts" and related Comments, which provide guidance for the receipt of revenue at present, will be invalidated.

The basic principle of IFRS 15 is that the entity reflects the amount of the goods or services that the customer has committed to the customer over the amount that he / she expects to qualify for the transfer in the financial statements.

In particular, this standard introduces a five-step approach to income recognition in financial statements:

- Step 1: Define customer contracts
- Step 2: Define the act responsibilities in the contracts
- Step 3: Determination of transaction price
- Step 4: Distribution of the transaction price in the contracts to the fulfillment obligations
- Step 5: Acquisition of financial statements when the entity fulfills its performance requirements

The effective date of IFRS 15 is annual accounting periods beginning on or after 1 January 2018. Early implementation is allowed. Two alternative applications are presented for transition to IFRS 15; full retroactive application or modified retroactive application. If modified retroactive application is preferred, prior periods will not be restated but comparative quantitative information will be provided in the notes of the financial statements.

Amendments to IFRS 10 and IAS 28 ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Company's financial statements in future periods should such transactions arise.

IFRS 16 ***Leases***

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

(t) Application of New and Revised International Financial Reporting Standards (IFRSs) *(continued)*

ii. New and revised IFRSs in issue but not yet effective *(continued)*

IFRS 16 *Leases* *(continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Company will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognize a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognized in the Company's financial statements and the directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

In contrast, for finance leases where the Company is a lessee, as the Company has already recognized an asset and a related finance lease liability for the lease arrangement, and in cases where the Company is a lessor (for both operating and finance leases), the directors of the Company do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognized in the Company's financial statements.

Amendments to IFRS 2 *Classification and Measurement of Share-Based Payment Transactions*

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

(t) Application of New and Revised International Financial Reporting Standards (IFRSs) *(continued)*

ii. New and revised IFRSs in issue but not yet effective *(continued)*

Amendments to IFRS 2 ***Classification and Measurement of Share-Based Payment Transactions*** *(continued)*

3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

   i. the original liability is derecognised;
   ii. the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
   iii. any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply. The directors of the Company do not anticipate that the application of the amendments in the future will have a significant impact on the Company's financial statements as the Company does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

IFRIC 22 ***Foreign Currency Transactions and Advance Consideration***

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements. This is because the Company already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

Amendments to IAS 40 ***Transfers of Investment Property***

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

(t) Application of New and Revised International Financial Reporting Standards (IFRSs) *(continued)*

ii. New and revised IFRSs in issue but not yet effective *(continued)*

Amendments to IAS 40 *Transfers of Investment Property* *(continued)*

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Specific transition provisions apply.

The directors of the Company anticipate that the application of these amendments may have an impact on the Company's financial statements in future periods should there be a change in use of any of its properties.

Annual Improvements to IFRS Standards 2014–2016 Cycle

The Annual Improvements include amendments to a number of IFRSs, which have been summarised below. The package also includes amendments to IFRS 12 Disclosure of Interests in Other Entities, which is effective for annual periods beginning on or after 1 January 2017 (see section 1A above for details).

- **IFRS 1:** The amendments delete certain short-term exemptions in IFRS 1 because the reporting period to which the exemptions applied have already passed. As such, these exemptions are no longer applicable.
- **IAS 28:** The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture.

In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.

The amendments apply retrospectively with earlier application permitted.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements.

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

This amendment clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements.

(t) Application of New and Revised International Financial Reporting Standards (IFRSs) *(continued)*

ii. New and revised IFRSs in issue but not yet effective *(continued)*

IFRS 17 *Insurance Contracts*

This new standard 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 2021.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements.

IFRIC 23 *Uncertainty over Income Tax Treatments*

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements.

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

This amendment amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Company's financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle

- **IFRS 3** and **IFRS 11** - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- **IAS 12** - The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.

- **IAS 23** - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

The Company evaluates the effects of these standards, amendments and improvements on the financial statements.

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

4 Determination of fair values

Accounting classification and fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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.

The estimated fair values of financial instruments have been determined using available market information by the Company, and where it exists, appropriate valuation methodologies. However, judgment is necessary required to interpret market data to determine the estimated fair value. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances. Management has estimated that the fair value of certain financial instruments is not materially different than their recorded values due to their short-term nature except for long term factoring receivables and loans and borrowings.

The investments that are classified as available-for-sale which do not have a quoted market price in an active market and other methods of reasonably estimating their market values would be inappropriate; accordingly, they are stated at cost, including the adjustments for the effects of inflation till 31 December 2005, less impairment losses, if any. Other available for sale investments and financial assets at fair value through profit or loss are measured based on quoted market prices at the end of the reporting period.

As at 31 December, the carrying amounts and fair values of financial instruments are as follows:

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	14,396	14,396	72,114	72,114
Investment securities	85,928	85,928	109,862	109,862
Factoring receivables	1,257,725	1,257,725	1,006,038	1,006,038
Derivative financial assets	6,717	6,717	26,767	26,767
Financial liabilities				
Loans and borrowings	935,184	935,445	920,550	920,811
Securities issued	216,845	216,845	80,051	80,051
Factoring payables	373	373	2,040	2,040
Derivative financial liabilities	4,401	4,401	197	197

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

4 Determination of fair values *(continued)*

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2017	Level 1	Level 2	Level 3	Total
Investment securities available for sale (*)	26,938	-	-	26,938
Derivative financial assets	-	6,717	-	6,717
Total financial assets	**26,938**	**6,717**	**-**	**33,655**
Derivative financial liabilities	-	4,401	-	4,401
Total financial liabilities	**-**	**4,401**	**-**	**4,401**

31 December 2016	Level 1	Level 2	Level 3	Total
Investment securities available for sale (*)	42,932	-	-	42,932
Derivative financial assets	-	26,767	-	26,767
Total financial assets	**42,932**	**26,767**	**-**	**69,699**
Derivative financial liabilities	-	197	-	197
Total financial liabilities	**-**	**197**	**-**	**197**

(*) TL 68,178 of investment securities available for sale are accounted for at cost as those are non-quated equity securities and their fair values cannot be reliably measured. As of 31 December 2017, TL 9,188 impairment loss provision booked (31 December 2016: TL 66,930 of investment security available for sale).

5 Personnel expenses

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

	2017	2016
Salary expenses	12,595	12,037
Compulsory social security obligations	1,947	1,749
Premiums and bonuses to employees	1,855	1,612
Health expenses	591	582
Provision/ (reversal) for employee severance payments	574	443
Meal expenses	415	411
Severance payment and other personel provision	122	346
Increase / (decrease) in vacation pay provision	110	30
Others	360	414
	18,569	**17,624**

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

6 Administrative expenses *(including depreciation and amortisation)*

For the years ended 31 December, administrative expenses comprised the following:

	2017	2016
Office rent, contribution, maintanance, cleanning expenses	2,042	1,970
Traveling, operational lease and other vehicle expenses	1,495	1,220
Consultancy expenses	676	685
Lawsuit expenses	497	1,724
Communication expenses	429	420
Taxes, duties, charges and funds	336	359
Advertising expenses	37	39
Notary expenses	10	11
IT expenses	10	9
Other	782	445
	6,314	**6,882**

7 Other expenses

For the years ended 31 December, other expenses comprised the following:

	2017	2016
Donations	1,975	65
Bank charges	353	321
Others	184	1,356
	2,512	**1,742**

For the year ended 31 December 2017, donations include contributions made to Hüsnü Özyeğin Foundation by TL 1.801 (31 December 2016: none), to Hüsnü Özyeğin University amounting to TL 41 (31 December 2016: TL 39) "AÇEV" amounting to none (31 December 2016: TL 4), and to other various foundations amounting to TL 133 (31 December 2016: TL 22).

8 Taxation

As at 31 December 2017, corporate income tax is levied at the rate of 20% (31 December 2016: 20%) on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes. While the corporate tax rate was at the rate of 20% since 1 January 2006, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019 and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%.

There is also a withholding tax levied at a certain rate on the dividends paid and is accrued only at the time of such payments. Some of the deduction rates included in the 15th and 30th articles of the Law no. 5520 on the Corporate Tax, was redefined according to the cabinet decision numbered 2006/10731, which was announced at Trade Registry Gazette of 23 July 2006-26237. In this context, withholding tax rate on dividend payments, which are made to the companies except those are settled in Turkey or generate income in Turkey via a business or a regular agent was increased to 15% from 10%.

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.

In Turkey, 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 details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's 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 for corporate income tax purposes.

75% of gains on disposal of investment in equity securities were held for at least 2 years within the assets of acquirer entity after acquisition, are exempt from taxation if such gains are added to paid-in capital or kept under equity as restricted funds for at least 5 years.

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

8 Taxation *(continued)*

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

	2017	2016
Current tax charge		
Current tax	(7,823)	-
	(7,823)	**-**
Deferred tax (charge)/benefit		
Origination and reversal of temporary differences	(50)	(7,001)
	(50)	**(7,001)**
Income tax charge	**(7,873)**	**(7,001)**

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

	2017	2016
	Amount	**Amount**
Reported profit before income tax	29,987	26,319
Income tax using the domestic corporation tax rate	(5,997)	(5,264)
Non-deductible expenses (*)	(1,830)	(255)
Deferred tax ratio difference (22%- 20%)	(46)	-
Tax exempt income	-	2
Others (**)	-	(1,484)
Total income tax charge	**(7,873)**	**(7,001)**

(*) Non-deductible expenses include donations and special communication tax.

(**) Under the Law No. 6736 Restructuring of Certain Receivables, the company withdrawn the right of tax to be offset that originated from previous year losses by increasing tax base.

In accordance with the related 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.

	2017	2016
Taxes on income	7,823	-
Less: Taxes paid in advance	(4,308)	-
Total	**3,515**	**-**
Less: Witholding income taxes	(35)	-
Taxes payable on income	**3,480**	**-**

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

8 Taxation *(continued)*

The Company recognizes deferred tax assets and liabilities based on the temporary differences arising between its taxable statutory financial statements and its financial statements. As at 31 December 2017, the effective tax rate used in the calculation of deferred tax is 22% for the taxable income to be realized between 2018 and 2020 and 20% for the following years (31 December 2016: 20%).

At 31 December, deferred tax assets and liabilities were attributable to the items detailed in the table below:

At 31 December	2017	2016	2017	2016	2017	2016
	Assets		Liabilities		Net	
Carried forward tax losses	-	5,978	-	-	-	5,978
Factoring receivables	4,102	3,410	-	-	4,102	3,410
Derivative financial instruments	968	39	1,478	5,353	(510)	(5,314)
Employee benefits	553	399	-	-	553	399
Loans and borrowings	-	-	249	60	(249)	(60)
Property and equipments	-	-	35	24	(35)	(24)
Impairment provision on investment securities	459	-	95	-	364	-
Others	100	78	39	36	61	42
	6,182	**9,904**	**1,896**	**5,473**	**4,286**	**4,431**

As at 31 December 2017 and 2016, there is no unrecognised deferred tax asset and liabilities.

The expiry date of tax loss carry forwards for the years ended 31 December is as follows:

	2017	2016
31 December 2019	-	24,875
31 December 2020	-	5,015
Total	**-**	**29,890**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The movement of deferred assets and (liabilities) for the years ended 31 December are as follows:

	2017	2016
Balance at 1 January	4,431	11,432
Deferred tax credit/(expense) recognised in profit or loss	(50)	(7,001)
Deferred tax expense recognized in other comprehensive income	(95)	-
Balance at 31 December	**4,286**	**4,431**

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

9 Net trading gains / (losses)

For the years ended 31 December, net trading gain comprised the following:

	2017	2016
Net gains/(losses) from derivative financial instruments	(26,712)	23,637
	(26,712)	**23,637**

10 Cash and cash equivalents

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

	2017	2016
Cash at banks		
- demand deposits	9,255	13,561
- time deposits	5,138	58,553
Cash on hand	3	-
Total cash and cash equivalents	**14,396**	**72,114**
Accrued interest on time deposits	(2)	(53)
Cash and cash equivalents in the statement of cash flow	**14,394**	**72,061**

As at 31 December 2017 and 2016, cash and cash equivalents include cash balances on hand, demand deposits and time deposits with original maturity periods of less than three month and over-night time deposits.

As at 31 December 2017, TL denominated time deposits amounting to TL 3,250 has an average interest rate of 6.00%, USD denominated time deposits amounting to USD 500 has an average interest rate of 1.50%. (31 December 2016: TL denominated time deposits amounting to TL 58,500 has an average interest rate of 8.87%).

11 Factoring receivables and payables

As at 31 December, factoring receivables comprised the following:

	2017	2016
Domestic factoring receivables	1,266,908	995,857
Export factoring receivables	19,107	30,115
Impaired factoring receivables	52,338	48,627
Factoring receivables, gross	**1,338,353**	**1,074,599**
Unearned income on factoring transactions	(35,455)	(27,496)
Allowance for impaired factoring receivables	(45,173)	(41,065)
Factoring receivables, net	**1,257,725**	**1,006,038**

As at 31 December 2017, factoring receivables amounting to TL 57,689 mature above one year (31 December 2016: TL 35,250).

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

11 Factoring receivables and payables *(continued)*

Movements in the allowance for doubtful receivables for the years ended 31 December were as follows:

	2017	2016
Balance at 1 January	41,065	26,762
Provision, net of recoveries, transfer	4,108	14,303
Transfers (*)	-	*(4,368)*
Allowance for the year	*6,995*	*23,213*
Recoveries of amounts previously provided	*(2,887)*	*(4,542)*
Balance at 31 December	**45,173**	**41,065**

(*) As of 31 December 2017, there is no impaired factoring receivables transferred to an asset management company. (31 December 2016: The Company sold its impaired factoring receivables amounting to TL 4,368 having net book value of zero with a sale price of TL 10 to Güven Varlık Yönetimi A.Ş).

As at 31 December, the aging analysis of the impaired factoring receivables are as follows:

	2017		2016	
	Gross Amount	**Provision**	**Gross Amount**	**Provision**
Undue	64	26	-	-
Overdue 1 to 3 months	2,170	2,170	140	63
Overdue 3 to 6 months	1,205	29	466	109
Overdue 6 to 12 months	3,481	1,362	5,224	2,841
Overdue over 1 year	45,418	41,586	42,797	38,052
Total	**52,338**	**45,173**	**48,627**	**41,065**

Details of the collaterals obtained from customers are presented in Note 22.

Factoring payables

As at 31 December, factoring payables are as follows:

	2017	2016
Domestic factoring payables	373	1,753
Export factoring payables	-	287
	373	**2,040**

Factoring payables represent the amounts collected on behalf of customers but not yet paid at the end of the reporting period.

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

12 Investment securities

Investments in securities available-for-sale

As at 31 December, the Company holds securities in the following details:

	2017	2016
Debt Securities		
Private bank bonds	26,938	42,932
Equity Securities		
Non - quoted	68,178	66,930
Impairment provision	(9,188)	-
	85,928	**109,862**

As at 31 December, the Company holds equity securities in the following companies:

	2017		2016	
	Carrying value	**% of ownership**	**Carrying value**	**% of ownership**
Credit Europe Group N.V. ("Credit Europe")	67,438	1.29	66,190	1.29
Fiba Alışveriş Mer. Gel. İnş. ve Paz. Tic. A.Ş.	728	0.16	728	0.16
Kapital Holding A.Ş.	10	-	10	-
Others	2	-	2	-
Total	**68,178**		**66,930**	
Impairment provision	(9,188)		-	
Total	**58,990**		**66,930**	

The Company's above TL 68,178 of investment securities available for sale are accounted for at cost as those are non-quoted equity securities and their fair values cannot be reliably measured. As of 31 December 2017, TL 9,188 impairment loss provision booked (31 December 2016 : None)

As at 31 December, contractual maturities of the debt securities in the following details:

	2017	2016
Short Term		
Up to 1 year	26,938	-
Long Term		
Up to 5 years	-	17,131
More than five years	-	25,801
	26,938	**42,932**

As of 31 December 2017, interest rates of the foreign debt securities are 8.00% (31 December 2016: 8.00% and 8.50%).

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

13 Property and equipment

Movements in property and equipment for the years ended 31 December were as follows:

	Buildings (*)	Furniture and fixtures	Leasehold improvements	Others(**)	Total
Cost					
Balance at 1 January 2016	2,751	1,111	1,767	1,531	7,160
Additions	11	122	175	-	308
Disposals	-	(17)	(22)	-	(39)
Balance at 31 December 2016	**2,762**	**1,216**	**1,920**	**1,531**	**7,429**
Balance at 1 January 2017	2,762	1,216	1,920	1,531	7,429
Additions	-	262	-	-	262
Fixed assets written off	-	(12)	-	-	(12)
Balance at 31 December 2017	**2,762**	**1,466**	**1,920**	**1,531**	**7,679**
Accumulated depreciation					
Balance at 1 January 2016	552	833	1,653	-	3,038
Depreciation for the year	81	100	78	-	259
Disposals	-	(8)	(12)	-	(20)
Balance at 31 December 2016	**633**	**925**	**1,719**	**-**	**3,277**
Balance at 1 January 2017	633	925	1,719	-	3,277
Depreciation for the year	81	108	67	-	256
Fixed assets written off	-	(4)	-	-	(4)
Balance at 31 December 2017	**714**	**1,029**	**1,786**	**-**	**3,529**
Carrying amounts					
At 1 January 2016	2,199	278	114	1,531	4,122
At 31 December 2016	**2,129**	**291**	**201**	**1,531**	**4,152**
At 1 January 2017	2,129	291	201	1,531	4,152
At 31 December 2017	**2,048**	**437**	**134**	**1,531**	**4,150**

(*) As at 31 December 2017, TL 1,890 (31 December 2016: TL 1,945) of net carrying value of building was acquired through finance lease contracts.

(**) Others comprised of collection of paintings which are not amortised.

There is no pledge or liens on property and equipment.

As at 31 December 2017, total insurance coverage on property and equipment amounted to TL 16,896 (31 December 2016: TL 23,103) and TL 45 is paid as insurance premium (31 December 2016: TL 40).

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

14 Intangible assets

Movements in intangible assets for the years ended 31 December were as follows:

	Software
Cost	
Balance at 1 January 2016	798
Additions	114
Balance at 31 December 2016	**912**
Balance at 1 January 2017	**912**
Additions	150
Written off	(427)
Balance at 31 December 2017	**635**
Accumulated amortisation	
Balance at 1 January 2016	428
Amortisation for the year	72
Balance at 31 December 2016	**500**
Balance at 1 January 2017	**500**
Amortisation for the year	204
Written off	(182)
Balance at 31 December 2017	**522**
Carrying amounts	
At 1 January 2016	370
At 31 December 2016	**412**
At 1 January 2017	412
At 31 December 2017	**113**

As at 31 December 2017 and 2016, there is no internally generated software.

15 Other assets

As at 31 December, other assets comprised the following:

	2017	**2016**
Receivables from BMV accruals	4,174	3,078
Prepaid expenses	824	610
Advances given	238	221
Others	53	75
Investment property (*)	16,444	16,444
	21,733	**20,428**

(*) Investment property acquired in return of factoring receivables. As of 31 December 2017, fair value of the investment property is 41,950 TL. An independent expert has determined fair value; the fair value level is 3.

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

15 Other assets *(continued)*

The fair value of the company's investment property as at 31 December 2017 and 31 December 2016 has been arrived at on the basis of a valuation carried out on the date by 9 January of 2017, independent expert company is not related to the company. Independent expert company is member of the Capital Market Board ("CMB"), and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties.

There has been no change to the valuation technique during the year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

16 Loans and borrowings

As at 31 December, loans and borrowings comprised the following:

2017					
	Original amount	**Nominal interest rate (%)** (*)	**TL amount**		
			Up to 1 year	**1 year and over**	**Total loans and borrowings**
TL	792,795	13,60-16,70	792,795	-	792,795
USD	23,237	4,10-4,80	87,647	-	87,647
EUR	11,838	1,80-2,95	53,456	-	53,456
GBP	253	1,07-1,08	1,286	-	1,286
TL			**935,184**	**-**	**935,184**

2016					
	Original amount	**Nominal interest rate (%)** (*)	**TL amount**		
			Up to 1 year	**1 year and over**	**Total loans and borrowings**
TL	549,994	9,30-12,95	549,994	-	549,994
USD	66,227	2,90-4,00	233,064	-	233,064
EUR	37,061	0,50-3,10	137,492	-	137,492
TL			**920,550**	**-**	**920,550**

(*) These rates represent the range of nominal interest rates of outstanding borrowings with fixed and floating rates as at 31 December 2017 and 2016.

As at 31 December 2017, loans and borrowings are amounting of TL 356,436, USD 22,500 and EUR 10,000 secured by Fiba Holding A.Ş. (31 December 2016: TL 159,000, USD 35,000 and EUR 31,000 secured by Fiba Holding A.Ş.).

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

17 Securities issued

The Company issued two discounted private sector bills on 15 August 2017 and 6 November 2017, with maturity by six months, having 130,000 TL nominal and 93,120 TL nominal respectively.

Code	Currency	Maturity	Interest type	Interest rate (*)	Nominal value	Carrying value
TRFFBFK21817	TL	9 February 2018	Fixed	11.25%	130,000	128,019
TRFFBFK51814	TL	3 May 2018	Fixed	11.25%	93,120	88,826
					223,120	**216,845**

(*) Annual nominal interest rate.

The Company issued one discounted private sector bills on 10 October 2016 with maturity by six months, having TL 82,390 nominal.

Code	Currency	Maturity	Interest type	Interest rate (*)	Nominal value	Carrying value
TRFFBFK41716	TL	6 April 2017	Fixed	11.25%	82,390	80,051
					82,390	**80,051**

(*) Annual nominal interest rate.

18 Other liabilities

As at 31 December, other liabilities comprised the following:

	2017	**2016**
Taxes and duties payable other than on income	1,988	1,595
Payables to suppliers	128	401
Others	566	453
	2,682	**2,449**

19 Derivative financial instruments

The Company uses the currency swap, forward and option derivative instruments. "Currency swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies. Forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Accumulative boosted forward transaction is a type of forward contract in which the transaction occurs every work day throughout the agreed time period based on the conditions of the agreement.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Company's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms.

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

19 Derivative financial instruments *(continued)*

The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative instruments held as at 31 December, which represent the carrying values are as follows:

	31 December 2017		31 December 2016	
	Assets	***Liabilities***	***Assets***	***Liabilities***
Currency swaps	4,757	(911)	17,427	(96)
Currency forwards	1,960	(3,490)	9,340	(101)
	6,717	**(4,401)**	**26,767**	**(197)**

20 Employee benefits

As at 31 December, employee benefits comprised the following:

	2017	**2016**
Reserve for employee severance payments	1,850	1,276
Vacation pay accruals	830	720
	2,680	**1,996**

20.1 Reserve for employee severance payments

In accordance with existing social legislation in Turkey, the Company 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 TL 5,001.76 (in full TL basis) at 31 December 2017 (31 December 2016: TL 4,426.16 (in full TL basis) 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.

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. TAS 19 Employee Benefits stipulates the development of company's liabilities by using actuarial valuation methods under defined benefit plans.

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

20.1 Reserve for employee severance payments *(continued)*

As at and for the years ended 31 December, movements in the reserve for employee severance payments were as follows:

	2017	2016
Balance at 1 January	1,276	833
Interest cost	42	28
Service cost	654	716
Payment during the year	(122)	(301)
Balance at 31 December	**1,850**	**1,276**

Actuarial differences are recognized in profit or loss.

20.2 Vacation pay accruals

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

For the years ended 31 December, movements in the vacation pay accruals were as follows:

	2017	2016
Balance at 1 January	720	690
(Reversal) / Expense during the year	110	30
Balance at 31 December	**830**	**720**

21 Equity

21.1 Paid-in capital

At 31 December 2017, the nominal paid-in capital of the Company comprises 81,109,700 shares (31 December 2016: 81,709,700) of TL 1 each. There are no privileged shares of the Company.

For the years ended 31 December, the composition of the authorised and paid-in share capital was as follows:

	31 December 2017		31 December 2016	
	Number of shares	Share (%)	Number of shares	Share (%)
Fiba Holding A.Ş.	46,198	57	46,198	57
Fina Holding A.Ş.	34,912	43	34,912	43
Others	<1	<1	<1	<1
	81,110	**100**	**81,110**	**100**

21.2 Legal reserves

The legal reserves, which are included in retained earnings, 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 is 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 financial statements, the total of the legal reserves amounted to TL 41,289 as at 31 December 2017 (31 December 2016: legal reserves TL 41,289).

21.3 Retained earnings

75% of gains on disposal of investment in equity securities, which were held for at least 2 years within the assets of acquirer entity after acquisition, are exempt from taxation if such gains are added to paid-in capital or kept under equity as restricted funds for at least 5 years. As at 31 December 2017, retained earnings balance is comprised of such restricted funds amounting to TL 53,043 (31 December 2016: TL 83,043).

As per the Extraordinary General Assembly Meeting held on 6 February 2017, it was decided to distribute restricted funds at amounting TL 30,000.

22 Financial risk management

The Company has exposure to the following risks during the course of its operations:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk.

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework.

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

Credit risk

The Company is subject to credit risk through its factoring operations. Risk Management and Analysis Department is responsible to manage the credit risk. The Company 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 requiring credit. At reporting date, there were no significant concentrations of credit risk on customer basis. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

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

22 Financial risk management *(continued)*

Credit risk *(continued)*

Exposure to credit risk

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

	Note	**2017**	**2016**
Factoring receivables	*11*	1,257,725	1,006,038
Investment securities	*12*	85,928	109,862
Derivative financial assets	*18*	6,717	26,767
Other assets (*)	*15*	53	75
Cash and cash equivalents	*10*	14,396	72,114
Total		**1,364,819**	**1,214,856**

(*) Non-financial instruments such as, prepaid expenses, assets acquired in return of factoring receivables, banking transaction tax and advances given are excluded from other assets.

As at 31 December 2017, factoring receivables include receivables that are past due but not impaired amounting to TL 9,256 (31 December 2016: TL 9,421).

Transactions involving derivatives are mainly with related parties.

The Company establishes an allowance for doubtful receivables that represents its estimate of incurred losses in respect of factoring receivables. This allowance includes the specific loss component that relates to individual customer exposures.

The Company has obtained the following collaterals for its factoring receivables at 31 December:

	2017	**2016**
Customer contracts, notes and cheques obtained as collateral	5,937,829	2,623,870
Mortgages	41,985	26,575
Pledges	17,690	18,490
	5,997,504	**2,668,935**

Liquidity risk

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

The Company's approach to managing liquidity is to ensure, as far 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 Company's reputation.

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

22 Financial risk management *(continued)*

Liquidity risk *(continued)*

The Company monitors its liquidity position on a periodic basis, which assists it in monitoring cash flow requirements and optimizing its cash return on investments. Typically, the Company ensures that it has sufficient liquid assets to meet expected operational expenses including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. To manage liquidity risk arising from financial liabilities, the Company holds liquid assets mainly comprising cash and cash equivalents and investments in debt securities for which there is an active market. These assets can be readily sold to meet liquidity requirements.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements on undiscounted basis.

31 December 2017	Carrying amount	Contractual cash flows	3 months or less	3 to 12 months	1 to 5 years
Non-derivative financial liabilities					
Loans and borrowings	935,184	976,451	237,726	738,725	-
Securities issued	216,845	223,120	-	223,120	-
Factoring payables	373	373	373	-	-
Other liabilities (*)	240	240	240	-	-
Total	**1,152,642**	**1,200,184**	**238,339**	**961,845**	**-**

31 December 2016	Carrying amount	Contractual cash flows	3 months or less	3 to 12 months	1 to 5 years
Non-derivative financial liabilities					
Loans and borrowings	920,550	939,681	529,687	409,994	-
Securities issued	80,051	82,390	-	82,390	-
Factoring payables	2,040	2,040	2,040	-	-
Other liabilities (*)	412	412	412	-	-
Total	**1,003,053**	**1,024,523**	**532,139**	**492,384**	**-**

(*) Other liabilities exclude withholding taxes and duties payable.

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

22 Financial risk management *(continued)*

Liquidity risk *(continued)*

The table below shows the notional amounts of derivative instruments analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	31 December 2017				
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
Currency swaps:					
Purchases	51,877	42,589	158,242	-	252,708
Sales	52,612	41,258	155,540	-	249,410
Forward					
Purchases	47,301	-	3,844	-	51,145
Sales	49,042	-	3,529	-	52,571
Total of purchases	99,178	42,589	162,086	-	303,853
Total of sales	101,654	41,258	159,069	-	301,981
Total of transactions	**200,832**	**83,847**	**321,155**	**-**	**605,834**

	31 December 2016				
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
Currency swaps:					
Purchases	37,407	-	128,737	-	166,144
Sales	37,533	-	117,542	-	155,075
Forward					
Purchases	967	-	87,131	-	88,098
Sales	1,065	-	82,488	-	83,553
Total of purchases	38,374	-	215,868	-	254,242
Total of sales	38,598	-	200,030	-	238,628
Total of transactions	**76,972**	**-**	**415,898**	**-**	**492,870**

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

22 Financial risk management *(continued)*

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company'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.

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 factoring receivables and loans and borrowings, which have floating interest rate.

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

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

	31 December 2017				31 December 2016			
	USD (%)	Euro (%)	GBP (%)	TL (%)	USD (%)	Euro (%)	GBP (%)	TL (%)
Assets								
Cash at banks								
- Time deposits	1.50	-	-	6.00	-	-	-	8.87
Factoring receivables	8.82	8.13	1.09	18.85	8.32	5.80	8.25	16.36
Investment securities	8.00	-	-	-	8.21	-	-	-
Liabilities								
Loans and borrowings	4.49	2.78	-	14.58	3.57	2.49	-	10.87
Securities issued	-	-	-	14.50	-	-	-	11.25

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

22 Financial risk management *(continued)*

Market risk *(continued)*

Interest rate profile

At 31 December, the interest rate profile of the interest-bearing financial instruments was:

	Carrying amount	
	2017	**2016**
Fixed rate instruments		
Factoring receivables	784,868	756,383
Time deposits	5,138	58,553
Investment securities available for sale	26,938	42,932
Factoring payables	(373)	(2,040)
Loans and borrowings	(935,184)	(920,550)
Securities issued	(216,845)	(80,051)
Variable rate instruments		
Factoring receivables	465,692	242,093

Fair value sensitivity analysis for fixed rate instruments

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

Additionally, the Company does not account for any fixed rate financial assets and liabilities as available-for-sale. Therefore, a change in interest rates at the reporting date would not directly affect equity.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 31 December 2017.

	Profit or loss		Equity (*)	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
31 December 2017				
Variable rate instruments	4,657	(4,657)	4,926	(4,926)
	4,657	(4,657)	4,926	(4,926)
31 December 2016				
Variable rate instruments	2,421	(2,421)	2,850	(2,850)
	2,421	(2,421)	2,850	(2,850)

(*) Equity effects includes the profit or loss effect of the related financial instruments.

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

22 Financial risk management *(continued)*
Market risk *(continued)*

Foreign currency risk

The Company is exposed to currency risk through transactions (such as factoring operations and borrowings) in foreign currencies. As the currency in which the Company presents its financial statements is TL, the financial statements are affected by movements in the exchange rates against TL.

At 31 December, the currency risk exposures were as follows (TL equivalents):

	2017			
	USD	**Euro**	**Other**	**TL Total**
Foreign currency monetary assets				
Cash and cash equivalents	4,412	3,138	647	8,197
Investment securities available for sale	26,938	-	-	26,938
Factoring receivables	36,061	25,553	1,064	62,678
Total foreign currency monetary assets	**67,411**	**28,691**	**1,711**	**97,813**
Foreign currency monetary liabilities				
Loans and borrowings	87,647	53,456	1,286	142,389
Factoring payables	214	-	-	214
Other liabilities	-	43	7	50
Total foreign currency monetary liabilities	**87,861**	**53,499**	**1,293**	**142,653**
Gross exposure	**(20,450)**	**(24,808)**	**418**	**(44,840)**
Off balance sheet net notional position	44,206	9,977	-	54,183
Net position	**23,756**	**(14,831)**	**418**	**9,343**

	2016			
	USD	**Euro**	**Other**	**TL Total**
Foreign currency monetary assets				
Cash and cash equivalents	1,859	3,769	2,442	8,070
Investment securities available for sale	42,932	-	-	42,932
Factoring receivables	19,114	49,065	82	68,261
Other assets				
Total foreign currency monetary assets	**63,905**	**52,834**	**2,524**	**119,263**
Foreign currency monetary liabilities				
Loans and borrowings	233,065	137,491	-	370,556
Factoring payables	946	287	-	1,233
Other liabilities	-	87	1	88
Total foreign currency monetary liabilities	**234,011**	**137,865**	**1**	**371,877**
Gross exposure	**(170,106)**	**(85,031)**	**2,523**	**(252,614)**
Off balance sheet net notional position	169,273	82,936	-	252,209
Net position	**(833)**	**(2,095)**	**2,523**	**(405)**

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

22 Financial risk management *(continued)*
Market risk *(continued)*

Foreign currency sensitivity analysis

A 10 percent weakening of TL against the foreign currencies at 31 December 2017 would have increased (decreased) equity and profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 31 December 2016.

31 December 2017	**Equity**	**Profit or loss**
USD	2,376	2,376
Euro	(1,483)	(1,483)
Other	42	42
	935	**935**

31 December 2016	**Equity**	**Profit or loss**
USD	(83)	(83)
Euro	(210)	(210)
Other	252	252
	(41)	**(41)**

A 10 percent strengthening of the TL against the foreign currencies at 31 December 2017 and 2016 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.

Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to meet local regulatory requirements. As per the "Leasing, Factoring and Financial Companies Law" No. 6361, published in the Official Gazette dated 13 December 2012, minimum paid-in capital requirement of the Company is TL 20,000. The Company's paid-in capital is above the minimum limits.

As at 31 December 2017 and 2016, ratio of net debt to equity is presented below:

	2017	**2016**
Total liabilities	1,165,680	1,007,283
Minus: Cash and cash equivalents	(14,396)	(72,114)
Net debt	1,151,284	935,169
Total equity	229,368	236,921
Net debt/equity ratio	5.02	3.95

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

23 Commitments and contingencies

Commitments and contingent liabilities arising in the ordinary course of business comprised the following items:

	2017	2016
Letter of guarantees given to Takasbank	550,000	275,000
Letter of guarantees given to courts	7,782	10,465
	557,782	**285,465**

24 Related party disclosures

For the purpose of accompanying 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. A number of transactions are entered into with the related parties in the normal course of business.

As at 31 December, the Company had the following balances outstanding from its related parties:

	2017	2016
Cash at banks		
Credit Europe Bank NV – demand	2	1,255
Credit Europe Bank Suisse – demand	-	40
Fibabanka A.Ş. – time	-	55,052
Fibabanka A.Ş. – demand	664	327
	666	**56,674**

	31 December 2017		31 December 2016	
	TP	YP	TP	YP
Investment securities available for sale				
-Equity Securities				
Credit Europe Group NV	58,250	-	66,190	-
Fiba Alışveriş Mrk. Gel. İnş. Paz. Ve Tic. A.Ş	728	-	728	-
-Bank Bonds				
Credit Europe Bank NV	-	26,938	-	42,932
Total	**58,978**	**26,938**	**66,918**	**42,932**

	2017	2016
Other Receivables		
Fibabanka A.Ş.	11	5
	11	**5**
Other Payables		
Fiba Holding A.Ş.	31	31
	31	**31**

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

24 Related party disclosures *(continued)*

For the years ended 31 December, the transactions with the related parties are summarised below:

	2017	2016
Interest income on cash and cash equivalents		
Fibabanka A.Ş.	24	58
	24	**58**
Dividend income		
Fiba AVM A.Ş.	-	9
	-	**9**

	2017	2016
Other operating income		
Credit Europe Group NV - *Interest gain from available for sale*	3,035	3,260
Credit Europe Bank Suisse - *Trading gain from derivatives*	-	1,184
Güven Varlık Yönetimi A.Ş. - *Other*	116	61
	3,151	**4,505**

	2017	2016
Administrative expenses		
Ofishane Ofis Yatırımları ve Kiralama Hizmetleri A.Ş.	214	140
Fiba Holding A.Ş.	127	108
Fibabanka A.Ş.	46	42
Fiba Gayrimenkul Gel. İnş. ve Yat. A.Ş.	8	8
Fina Holding A.Ş.	8	7
	403	**305**
Donations		
Hüsnü Özyeğin Foundation	1,801	-
Hüsnü Özyeğin University	41	39
AÇEV	1	4
	1,843	**43**
Other expenses		
Fiba Emeklilik ve Hayat A.Ş. - *Other*	27	23
Fibabanka A.Ş. - *Other*	26	22
Florence Nightingale İş Sağlığı ve Güvenliği Hiz. Tic. A.Ş	9	20
Marka Mağazacılık A.Ş. - *Other*	10	16
Credit Europe Bank NV - *Other*	7	7
Credit Europe Bank Suisse - *Other*	1	1
Credit Europe Bank Suisse - *Trading gain from derivatives*	-	1,807
	80	**1,896**

Total benefit of key management for the year ended 31 December 2017 amounted to TL 1,816 (31 December 2016: TL 1,795).

25 Subsequent events

None.