

HALK FAKTORİNG A.Ş.

FINANCIAL STATEMENTS AS OF
31 DECEMBER 2019
AND INDEPENDENT AUDITORS' REPORT

(Convenience Translation of the Independent
Auditor's Report Originally Prepared and
Issued in Turkish)

(CONVENIENCE TRANSLATION OF INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH)

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Halk Faktoring A.Ş.

A) Report on the Audit of the Financial Statements

1) Qualified Opinion

We have audited the financial statements of Halk Faktoring A.Ş. ("the Company") which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and the 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, except for the effect of the matter described in the Basis For Qualified Opinion of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with "the Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Regulations" including the regulation on "The Accounting Practices of Financial Leasing, Factoring and Financing Companies and their Financial Statements" published in the Official Gazette No. 28861 dated 24 December 2013 and the communique on "The Application of Uniform Chart of Accounts and its Guide Book for Financial Leasing, Factoring and Financing Companies" and communiqués, circulars and pronouncements published by the BRSA and Turkish Accounting Standards for the matters not legislated by the aforementioned regulations.

2) Basis for Qualified Opinion

The accompanying financial statements as of 31 December 2019 include the reversal of a free provision amounting to TL 28,618 thousand, provided in the prior period and recognized as expense by the Company management considering the circumstances, which may arise from any adverse changes in the economy or market conditions. If such free provision was not provided and reversed, as at 31 December 2019, other provisions would be less by TL 28,618 thousand, and retained earnings would be higher by TL 28,618 thousand.

We conducted our audit in accordance with the Standards on Independent Auditing ("SIA") which is a part of Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). 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 Code of Ethics for Independent Auditors ("Code of Ethics") published by the POA, together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3) Emphasis of Matter

- (a) As detailed in note 4, as of the balance sheet date, 41% of the Company’s factoring receivables and 56% of current year factoring income concentrate on certain industries and companies.
- (b) As detailed in note 28, we point out the matters below which may effect the Parent Bank:

A lawsuit was filed against the Parent Bank by the United States of America (USA) New York South District Prosecution Office at New York South District Court (“District Court”) on 15 October 2019 regarding the violation of the Iran sanctions. The lawsuit and the objection and appeal processes made by the Parent Bank at the District Court and the US Second Circuit Court of Appeal (“Second Curcuit”) continue. The Second Circuit decided to suspend the hearings held at the District Court temporarily as of 31 January 2020.

In addition, the appeal process of the litigation, which was concluded with a penalty related to the prior manager of the Parent Bank who returned to Turkey after being released on 19 July 2019, continues.

At this stage, the Parent Bank Management has stated that no probable punishment, sanction or precaution related to the Parent Bank arising from the ongoing lawsuit, which is in the appeal process, have been applied. The matter regarding US authorized institutions make a decision that may affect the financial position of the Parent Bank remains uncertain. No provision was made related to these matters in the financial statements of the Parent Bank. However, the matters stated above do not affect our opinion.

4) 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.

Key Audit Matter	How the matter was addressed in the audit
<p>Impairment related to receivables from factoring transactions</p> <p>The Company has factoring receivables amounting to TL 2,125,325 Thousand including non-performing loans in the financial statements as of 31 December 2019. The Company has specific provision amounting to TL 60,015 Thousand for non-performing loans amounting to TL 74,007 Thousand which is determined in accordance with BRSA Accounting and Financial Reporting legislation.</p> <p>Factoring receivables and net non-performing loans are presented in note 4.</p> <p>The reason why the related field is considered as important in audit work is; the proportional size of factoring receivables in the financial statements, the importance of classifying them in accordance with the legislation and determining the related impairment. The related account is considered as a key audit matter since carrying out the procedures on classification of factoring receivables in accordance with the timing specified in BRSA Accounting and Financial Reporting Legislation or the compliance with the impairment methodology will significantly affect the amount of the impairment.</p>	<p>We assessed the effectiveness of the controls which are important in determining the impairment of factoring transactions and making the calculations on impairment in accordance with BRSA Accounting and Financial Reporting Legislation;</p> <p>We assessed whether the factoring receivables are impaired for the samples selected in accordance with the Standards on Independent Auditing and whether the calculation of the impairment is in compliance with the legislation.</p>

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

The Company management is responsible for the preparation and fair presentation of these financial statements in accordance with BRSA Accounting and Financial Reporting Legislation, 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.

6) Auditor's Responsibilities for the Audit of the Financial Statements

In an independent audit, our responsibilities as independent auditors are as follows:

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 the Independent Auditing Standards published by the Capital Markets Board 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 the standards on auditing issued by Capital Markets Board and SIA, 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.
- 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.

B) Report on Other Legal and Regulatory Requirements

In accordance with paragraph four of the Article 402 of the Turkish Commercial Code No. 6102 ("TCC"), nothing has come to our attention that may cause us to believe that the Company's set of accounts and financial statements prepared for the period 1 January - 31 December 2019 does not comply with TCC and the provisions of the Company's articles of association in relation to financial reporting.

In accordance with paragraph four of the Article 402 of TCC, the Board of Directors provided us all the required information and documentation with respect to our audit.

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

Additional paragraph for English translation:

The effect of the differences between the accounting principles summarized in Section 2 and the accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards (IFRS) have not been quantified and reflected in the accompanying financial statements. The accounting principles used in the preparation of the accompanying financial statements differ materially from IFRS. Accordingly, the accompanying financial statements are not intended to present the Company's financial position and results of its operations in accordance with accounting principles generally accepted in such countries of users of the financial statements and IFRS.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Müjde Aslan
Partner

İstanbul, 14 February 2020

CONTENTS	PAGE
Statement of Financial Position (Balance Sheet)	1-2
Off-Balance Sheet Items	3
Statement of Profit or Loss	4
Statement of Profit or Loss and Other Comprehensive Income	5
Statement of Changes in Equity	6-7
Statement of Cash Flows	8
Statement of Profit Distribution	9
Notes to the Financial Statements	10-52
Note 1	Organization and Operations of the Company
Note 2	Basis of Preparation of the Financial Statements
Note 3	Cash and Cash Equivalents and Central Bank
Note 4	Financial Assets at Amortized Cost
Note 5	Tangible Assets
Note 6	Intangible Assets
Note 7	Deferred Tax Assets and Liabilities
Note 8	Other Assets
Note 9	Assets Held for Sale and Discontinued Operations (Net)
Note 10	Funds Borrowed
Note 11	Factoring Receivables
Note 12	Securities Issued
Note 13	Provisions
Note 14	Current Period Tax Assets /(Debt)
Note 15	Other Liabilities
Note 16	Equity
Note 17	Operating Income
Note 18	Financing Costs
Note 19	Operating Expenses
Note 20	Other Operating Income
Note 21	Provisions
Note 22	Other Operating Expenses
Note 23	Taxation
Note 24	Earnings per Share
Note 25	Related Party Disclosures
Note 26	Contingent Assets and Liabilities
Note 27	Nature and Level of Risks Arising from Financial Assets
Note 28	Other Matters
Note 29	Events after the Reporting Period

HALK FAKTORİNG ANONİM ŞİRKETİ

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2019 (Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

ASSETS	Notes	Audited Current Period 31 December 2019			Audited Prior Period 31 December 2018			
		TL	FC	Total	TL	FC	Total	
I.	CASH AND CASH EQUIVALENTS AND CENTRAL BANK FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Net)	3.1	2,605	2,048	4,653	25,515	396	25,911
II.	DERIVATIVE FINANCIAL INSTRUMENTS FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Net)		-	-	-	-	-	-
V.	FINANCIAL ASSETS AT AMORTIZED COST (Net)	4	2,086,731	38,594	2,125,325	1,253,064	139,535	1,392,599
5.1	Factoring Receivables	4.1	2,072,739	38,594	2,111,333	1,253,064	139,535	1,392,599
5.1.1	Discounted Factoring Receivables (Net)	4.1	278,625	24,441	303,066	133,637	57,399	191,036
5.1.2	Other Factoring Receivables	4.1	1,794,114	14,153	1,808,267	1,119,427	82,136	1,201,563
5.2	Financing Loans		-	-	-	-	-	-
5.2.1	Private Customer Loans		-	-	-	-	-	-
5.2.2	Credit Cards		-	-	-	-	-	-
5.2.3	Installment Based Commercial Loans		-	-	-	-	-	-
5.3	Leases (Net)		-	-	-	-	-	-
5.3.1	Finance Lease Receivables		-	-	-	-	-	-
5.3.2	Operational Lease Receivables		-	-	-	-	-	-
5.3.3	Unearned Income (-)		-	-	-	-	-	-
5.4	Other Financial Assets at Amortized Cost		-	-	-	-	-	-
5.5	Non-Performing Receivables	4.2	74,007	-	74,007	24,662	-	24,662
5.6	Provision for Expected Losses /Specific Provisions (-)	4.2	(60,015)	-	(60,015)	(24,662)	-	(24,662)
VI.	OWNERSHIP INVESTMENTS		-	-	-	6	-	6
6.1	Associates (Net)		-	-	-	6	-	6
6.2	Subsidiaries (Net)		-	-	-	-	-	-
6.3	Joint Ventures (Net)		-	-	-	-	-	-
VII.	TANGIBLE ASSETS (Net)	5	1,221	-	1,221	828	-	828
VIII.	INTANGIBLE ASSETS (Net)	6	1,060	-	1,060	599	-	599
IX.	INVESTMENT PROPERTY (Net)		-	-	-	-	-	-
X.	CURRENT TAX ASSET		-	-	-	-	-	-
XI.	DEFERRED TAX ASSET	7	4,424	-	4,424	1,907	-	1,907
XII.	OTHER ASSETS	8	2,923	131	3,054	5,169	108	5,277
	SUBTOTAL		2,098,964	40,773	2,139,737	1,287,088	140,039	1,427,127
	ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)		858	-	858	1,221	-	1,221
13.1	Held for Sale	9	858	-	858	1,221	-	1,221
13.2	Discontinued Operations		-	-	-	-	-	-
	TOTAL ASSETS		2,099,822	40,773	2,140,595	1,288,309	140,039	1,428,348

The accompanying notes are an integral part of these financial statements.

HALK FAKTORİNG ANONİM ŞİRKETİ

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2019 (Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

LIABILITIES	Notes	Audited Current Period 31 December 2019			Audited Prior Period 31 December 2018		Total
		TL	FC		TL	FC	
I. FUNDS BORROWED	10	1,900,435	33,349	1,933,784	904,190	130,825	1,035,015
II. FACTORING PAYABLES	11	1,081	638	1,719	2,310	107	2,417
III. FINANCE LEASE PAYABLES		172	368	540	-	-	-
IV. SECURITIES ISSUED (Net)	12	-	-	-	204,912	-	204,912
V. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS		-	-	-	-	-	-
VI. DERIVATIVE FINANCIAL LIABILITIES		-	-	-	-	-	-
VII. PROVISIONS	13	2,555	-	2,555	30,587	-	30,587
7.1 Restructuring Reserves	13	-	-	-	-	-	-
7.2 Reserve for Employee Benefits	13	2,451	-	2,451	1,916	-	1,916
7.3 General Provisions	13	-	-	-	-	-	-
7.4 Other Provisions	13	104	-	104	28,671	-	28,671
VIII. CURRENT PERIOD TAX LIABILITY	14	5,602	-	5,602	5,090	-	5,090
IX. DEFERRED TAX LIABILITY		-	-	-	-	-	-
X. SUBORDINATED LOANS		-	-	-	-	-	-
XI. OTHER LIABILITIES	15	11,539	283	11,822	5,700	272	5,972
SUBTOTAL		1,921,384	34,638	1,956,022	1,152,789	131,204	1,283,993
XII. PAYABLES RELATED TO ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)		-	-	-	-	-	-
12.1 Held For Sale		-	-	-	-	-	-
12.2 Discontinued Operations		-	-	-	-	-	-
XIII. SHAREHOLDERS' EQUITY		184,573	-	184,573	144,355	-	144,355
13.1 Paid-in Capital	16.1	96,000	-	96,000	96,000	-	96,000
13.2 Capital Reserves		-	-	-	-	-	-
13.2.1 Share Premiums		-	-	-	-	-	-
13.2.2 Share Cancellation Profits		-	-	-	-	-	-
13.2.3 Other Capital Reserves		-	-	-	-	-	-
13.3 Accumulated Other Comprehensive Income that will not be Reclassified to Profit or Loss		10	-	10	10	-	10
13.4 Accumulated Other Comprehensive Income that may be Reclassified subsequently to Profit or Loss		-	-	-	-	-	-
13.5 Profit Reserves		15,008	-	15,008	10,095	-	10,095
13.5.1 Legal Reserves	16.3	15,008	-	15,008	10,095	-	10,095
13.5.2 Statutory Reserves		-	-	-	-	-	-
13.5.3 Extraordinary Reserves		-	-	-	-	-	-
13.5.4 Other Profit Reserves		-	-	-	-	-	-
13.6 Profit or Loss		73,555	-	73,555	38,250	-	38,250
13.6.1 Prior Periods Profit/Loss		-	-	-	-	-	-
13.6.2 Current Period Profit/Loss		73,555	-	73,555	38,250	-	38,250
TOTAL LIABILITIES		2,105,957	34,638	2,140,595	1,297,144	131,204	1,428,348

The accompanying notes are an integral part of these financial statements.

HALK FAKTORİNG ANONİM ŞİRKETİ

OFF-BALANCE SHEET ITEMS AS AT 31 DECEMBER 2019

(Amounts are expressed in Thousand Turkish Lira (“TL”) unless otherwise stated.)

OFF-BALANCE SHEET ITEMS	Notes	Audited Current Period 31 December 2019			Audited Prior Period 31 December 2018		
		TL	FC	Total	TL	FC	Total
I. IRREVOCABLE FACTORING TRANSACTIONS		72,433	42,704	115,137	5,923	42,522	48,445
II. REVOCABLE FACTORING TRANSACTIONS		1,433,881	18,293	1,452,174	1,090,356	52,357	1,142,713
III. COLLATERALS RECEIVED	4,26	32,968,877	11,310,664	44,279,541	23,933,087	8,827,105	32,760,192
IV. COLLATERALS GIVEN	26	225,243	13,301	238,544	563,469	-	563,469
V. COMMITMENTS		-	167,343	167,343	-	270,314	270,314
5.1 Irrevocable Commitments		-	167,343	167,343	-	270,314	270,314
5.2 Revocable Commitments		-	-	-	-	-	-
5.2.1 Lease Commitments		-	-	-	-	-	-
5.2.1.1 Finance Lease Commitments		-	-	-	-	-	-
5.2.1.2 Operating Lease Commitments		-	-	-	-	-	-
5.2.2 Other Revocable Commitments		-	-	-	-	-	-
VI. DERIVATIVE FINANCIAL INSTRUMENTS		-	-	-	-	-	-
6.1 Derivative Financial Instruments for Risk Management		-	-	-	-	-	-
6.1.1 Fair Value Hedges		-	-	-	-	-	-
6.1.2 Cash Flow Hedges		-	-	-	-	-	-
6.1.3 Net Foreign Investment Hedges		-	-	-	-	-	-
6.2 Derivative Financial Instruments Held For Trading		-	-	-	-	-	-
6.2.1 Forward Foreign Currency Purchases/Sales		-	-	-	-	-	-
6.2.2 Swap Purchases/Sales		-	-	-	-	-	-
6.2.3 Put/Call Options		-	-	-	-	-	-
6.2.4 Futures Purchases/Sales		-	-	-	-	-	-
6.2.5 Others		-	-	-	-	-	-
VII. ITEMS HELD IN CUSTODY	26	406,183	71,992	478,175	241,454	28,463	269,917
TOTAL OFF-BALANCE SHEET ITEMS		35,106,617	11,624,297	46,730,914	25,834,289	9,220,761	35,055,050

The accompanying notes are an integral part of these financial statements.

HALK FAKTORİNG ANONİM ŞİRKETİ

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 DECEMBER 2019 (Amounts are expressed in Thousand Turkish Lira ("TL") unless otherwise stated)

INCOME AND EXPENSE ITEMS	Notes	Audited	Audited
		Current Period 1 January-31 December 2019	Prior Period 1 January-31 December 2018
I. OPERATING INCOME		353,034	340,853
FACTORING INCOME	17	353,034	340,853
1.1 Interest Income from Factoring Receivables		339,706	327,366
1.1.1 Discounted		51,966	79,151
1.1.2 Other		287,740	248,215
1.2 Fees and Commissions from Factoring Receivables		13,328	13,487
1.2.1 Discounted		3,198	2,042
1.2.2 Other		10,130	11,445
INCOME FROM FINANCING LOANS		-	-
1.3 Interest Received from Financing Loans		-	-
1.4 Fees and Commissions Received from Financing Loans		-	-
LEASE INCOME		-	-
1.5 Finance Lease Income		-	-
1.6 Operating Lease Income		-	-
1.7 Fees and Commission Income on Lease Operations		-	-
II. FINANCIAL EXPENSES (-)	18	(239,850)	(241,760)
2.1 Interest Expense on Funds Borrowed		(225,105)	(224,291)
2.2 Interest Expense on Factoring Payables		-	-
2.3 Interest Expense of Finance Lease Expenses		(155)	-
2.4 Interest Expense on Securities Issued		(10,782)	(11,101)
2.5 Other Interest Expenses		-	-
2.6 Fees and Commissions Paid		(3,808)	(6,368)
III. GROSS PROFIT / LOSS (I+II)		113,184	99,093
IV. OPERATING EXPENSES (-)	19	(21,757)	(17,600)
4.1 Personnel Expenses		(14,336)	(11,089)
4.2 Employee Severance Indemnity Expense		(255)	(59)
4.3 Research and Development Expenses		-	-
4.4 General Administrative Expenses		(5,468)	(5,184)
4.5 Other		(1,698)	(1,268)
V. GROSS OPERATING PROFIT / LOSS (III+IV)		91,427	81,493
VI. OTHER OPERATING INCOME	20	205,059	312,793
6.1 Interest Income on Bank Deposits		318	850
6.2 Interest Income on Reverse Repurchase Agreements		-	-
6.3 Interest Income on Securities Portfolio		-	-
6.4 Dividend Income		-	-
6.5 Capital Market Transaction Profit		-	-
6.6 Income From Derivative Financial Instruments		-	-
6.7 Foreign Exchange Gains		174,356	307,771
6.8 Other		30,385	4,172
VII. PROVISIONS (-)	21	(36,513)	(32,450)
7.1 Special Provisions		(36,409)	(3,832)
7.2 Expected Loss Provisions		-	-
7.3 General Provisions		-	-
7.4 Other		(104)	(28,618)
VIII. OTHER OPERATING EXPENSES (-)	22	(173,780)	(304,717)
8.1 Impairment Losses on Securities Portfolio		-	-
8.2 Impairment Losses on Non-Current Assets		-	-
8.3 Losses From Derivative Financial Instruments		-	-
8.4 Foreign Exchange Losses		(173,780)	(304,554)
8.5 Other		-	(163)
IX. NET OPERATING PROFIT / LOSS (V+.....+VIII)		86,193	57,119
X. PROFIT FROM MERGER		-	-
PROFIT / LOSS FROM INVESTMENTS ACCOUNTED FOR UNDER EQUITY		-	-
XI. GAIN/LOSS ON NET MONETARY POSITION		-	-
PROFIT/LOSS FROM CONTINUING OPERATIONS BEFORE TAX (IX+...XII)		86,193	57,119
INCOME TAX EXPENSE FROM CONTINUING OPERATIONS (±)	23	(12,638)	(18,869)
14.1 Current Tax Provision		(15,155)	(16,234)
14.2 Deferred Tax Benefit (+)		(186)	(4,217)
14.3 Deferred Tax Charge (-)		2,703	1,582
NET PROFIT/LOSS FROM CONTINUING OPERATIONS (XII±XIV)		73,555	38,250
XV. INCOME FROM DISCONTINUED OPERATIONS		-	-
16.1 Income from Assets Held for Sale		-	-
Gain on Sale of Associates, Subsidiaries and Jointly Controlled Entities		-	-
16.2 Other Income from Discontinued Operations		-	-
XVII. EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
17.1 Expense on Assets Held for Sale		-	-
Loss on Sale of Associates, Subsidiaries and Jointly Controlled Entities		-	-
17.2 Other Expenses from Discontinued Operations		-	-
PROFIT/LOSS FROM DISCONTINUED OPERATIONS BEFORE TAX(XV-XVII)		-	-
INCOME TAX EXPENSE FROM DISCONTINUED OPERATIONS (±)		-	-
19.1 Current Tax Charge		-	-
19.2 Deferred Tax Benefit (+)		-	-
19.3 Deferred Tax Charge (-)		-	-
NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XVIII±XIX)		-	-
XX. NET PROFIT/LOSS FOR THE PERIOD (XV+XX)		73,555	38,250

The accompanying notes are an integral part of these financial statements.

HALK FAKTORİNG ANONİM ŞİRKETİ

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed in Thousand Turkish Lira (“TL”) unless otherwise stated)

PROFIT/LOSS AND OTHER COMPREHENSIVE INCOME STATEMENT		Audited Current Period 1 January – 31 December 2019	Audited Prior Period 1 January – 31 December 2018
I.	CURRENT PERIOD PROFIT/LOSS	73,555	38,250
II.	OTHER COMPREHENSIVE INCOME		
2.1	Items that will not be Reclassified to Profit or Loss	-	-
2.1.1	Tangible Assets Revaluation Increases/Decreases	-	-
2.1.2	Intangible Assets Revaluation Increases/Decreases	-	-
2.1.3	Defined Benefits Pension Plan Re-Measuring Loss/Income	-	-
2.1.4	Other Comprehensive Income that will not be Reclassified to Profit or Loss	-	-
2.1.5	Taxes related with Comprehensive Income that will not be Reclassified to Profit or Loss	-	-
2.2	Items that may be Reclassified subsequently to Profit or Loss	-	-
2.2.1	Foreign Exchange Differences for Foreign Currency Transactions	-	-
2.2.2	Value Increases or Decreases on Assets Held for Sales	-	-
2.2.3	Cash Flow Hedge Income/Losses	-	-
2.2.4	Net Investment Hedge Income/Losses Related to Foreign Entity	-	-
2.2.5	Other Comprehensive Income that may be Reclassified subsequently to Other Profit or Loss	-	-
2.2.6	Taxes related with Comprehensive Income that may be Reclassified subsequently to Profit or Loss	-	-
III.	TOTAL COMPREHENSIVE INCOME (I+II)	-	-
XXIII.	TOTAL PROFIT / (LOSS) ACCOUNTED FOR THE PERIOD	73,555	38,250

The accompanying notes are an integral part of these financial statements.

HALK FAKTORİNG ANONİM ŞİRKETİ

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated)

CHANGES IN EQUITY	Notes						Accumulated other comprehensive income that will never be reclassified to profit or loss			Accumulated other comprehensive profit or loss that are or may be reclassified to profit or loss											
		Paid in Capital	Capital Reserves	Share Premium	Share Cancellation Profits	Other Capitl Reserves	1	2	3	4	5	6	Profit Reserves	Legal Reserves	Statutory Reserves	Extraordinary Reserves	Other Profit Reserves	Current Period Profit or Loss	Prior Period Profit/(Loss)	Net Current Period Profit or Loss	Total Equity
Current period (Audited)																					
I. Balance at the End of the Prior Period (31.12.2018)	16.1	96,000	-	-	-	-	-	10	-	-	-	10,095	10,095	-	-	-	-	38,250	-	38,250	144,355
II. Changes in Accounting Policies TAS 8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Effect of Correction of Errors		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effect of Changes in Accounting Policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Adjusted Beginning Balance (I+II)	16.1	96,000	-	-	-	-	-	10	-	-	-	10,095	10,095	-	-	-	-	38,250	-	38,250	144,355
IV. Total Comprehensive Income		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Cash Capital Increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Capital Increase from Internal Reserves	16.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Reserves From Inflation Adjustments To																					
VII. Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Convertible Bonds		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Subordinated Loans		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Increases / Decreases due to Other Changes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Net Profit / Loss for the Period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	73,555	-	73,555	73,555
XII. Profit Distribution	16.3	-	-	-	-	-	-	-	-	-	-	4,913	4,913	-	-	-	-	(38,250)	-	(38,250)	(33,337)
12.1 Dividend Paid	16.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(33,337)	-	(33,337)	(33,337)
12.2 Transfer to Reserves	16.3	-	-	-	-	-	-	-	-	-	-	4,913	4,913	-	-	-	-	(4,913)	-	(4,913)	-
12.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38,250	(38,250)	-
Balance of the End of the Period (31.12.2019)	16	96,000	-	-	-	-	-	10	-	-	-	15,008	15,008	-	-	-	-	73,555	-	73,555	184,573

1. Revaluation increase/decrease of property and equipment,
2. The accumulated remeasurement gains/losses on defined benefit plans,
3. Other (Other comprehensive income related with equity pick up investment portions and accumulated other comprehensive income components that will not be re-classified to profit/loss)
4. Foreign currency translation differences,
5. The accumulated revaluation increases / losses on available for sale assets,
6. Other (Cash flow hedge income/ (losses), accumulated other comprehensive income components that may re-classified subsequently to profit/loss).

The accompanying notes are an integral part of these financial statements.

HALK FAKTORİNG ANONİM ŞİRKETİ

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

CHANGES IN EQUITY	Notes	Paid in Capital	Capital Reserves	Share Premium	Share Cancellation Profits	Other Capital Reserves	Accumulated other comprehensive income that will never be reclassified to profit or loss						Accumulated other comprehensive profit or loss that are or may be reclassified to profit or loss						Current Period Profit or Loss	Prior Period Profit or Loss	Net Current Period Profit/Loss	Total Equity	
							1	2	3	4	5	6	Profit Reserves	Legal Reserves	Statutory Reserves	Extraordinary Reserves	Other Profit Reserves						
Current Period (Audited)																							
I. Balance at the End of the Prior Period (31.12.2017)	16.1	70,000	-	-	-	-	-	10	-	-	-	-	4,079	4,079	-	-	-	-	32,016	-	32,016	106,105	
II. Changes in Accounting Policies TAS 8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2.1 Effect of Correction of Errors		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2.2 Effect of Changes in Accounting Policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
III. Adjusted Beginning Balance (I+II)	16.1	70,000	-	-	-	-	-	10	-	-	-	-	4,079	4,079	-	-	-	-	32,016	-	32,016	106,105	
IV. Total Comprehensive Income		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
V. Cash Capital Increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VI. Capital Increase from Internal Reserves Capital Reserves From Inflation Adjustments To Paid-In Capital	16.1	26,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,000)	(26,000)	-	-	
VII. Convertible Bonds		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
IX. Subordinated Loans		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
X. Increases / Decreases due to Other Changes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XI. Profit for the Period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38,250	-	38,250	38,250	
XII. Profit Distribution	16.3	-	-	-	-	-	-	-	-	-	-	-	6,016	6,016	-	-	-	-	(6,016)	26,000	(32,016)	-	
12.1 Dividend Paid		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
12.2 Transfer to Reserves	16.3	-	-	-	-	-	-	-	-	-	-	-	6,016	6,016	-	-	-	-	(6,016)	(6,016)	-	-	
12.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	32,016	(32,016)	-	
Balance of the End of the Period (31.12.2018)	16	96,000	-	-	-	-	-	10	-	-	-	-	10,095	10,095	-	-	-	-	38,250	-	38,250	144,355	

1. Revaluation increase/decrease of property and equipment.
2. The accumulated remeasurement gains/losses on defined benefit plans.
3. Other (Other comprehensive income related with equity pick up investment portions and accumulated other comprehensive income components that will not be re-classified to profit/loss)
4. Foreign currency translation differences.
5. The accumulated revaluation increases / losses on available for sale assets.
6. Other (Cash flow hedge income/ (losses), accumulated other comprehensive income components that may re-classified subsequently to profit/loss).

The accompanying notes are an integral part of these financial statements.

HALK FAKTORİNG ANONİM ŞİRKETİ

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

	<i>Notes</i>	Audited Current Period 1 January – 31 December 2019	Audited Prior Period 1 Ocak – 31 December 2018
A. CASH FLOWS FROM OPERATING ACTIVITIES			
1.1	Operating Profit Before Changes in Operating Assets And Liabilities	(72,670)	52,471
1.1.1	Interests Received/Lease Income	207,767	263,690
1.1.2	Interest Paid / Lease Expenses	(264,140)	(241,759)
1.1.3	Dividends Received	-	-
1.1.4	Fees and Commissions Received	13,327	13,487
1.1.5	Other Income	1,468	7,388
1.1.6	Collections from Non-performing Receivables	1,249	3,348
1.1.7	Payments to Personnel and Service Suppliers	(17,626)	(10,694)
1.1.8	Taxes Paid	(9,554)	(11,114)
1.1.9	Others	(5,161)	(28,126)
1.2	Changes in Operating Assets and Liabilities	(636,169)	(241,645)
1.2.1	Net (Increase) Decrease in Factoring Receivables	(637,195)	(119,250)
1.2.2	Net (Increase) Decrease in Financing Loans	-	-
1.2.3	Net (Increase) Decrease in Lease Receivables	-	-
1.2.4	Net (Increase) Decrease in Other Assets	869	8,896
1.2.5	Net Increase (Decrease) in Factoring Payables	(698)	(644)
1.2.6	Net Increase (Decrease) in Lease Payables	541	-
1.2.7	Net Increase (Decrease) in Funds Borrowed	-	-
1.2.8	Net Increase (Decrease) in Matured Payables	-	-
1.2.9	Net Increase (Decrease) in Other Liabilities	314	(16,524)
I.	Net Cash From Operating Activities	(708,839)	(75,051)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
2.1	Cash Paid for Purchase Of Associates, Subsidiaries and Joint-ventures	-	-
2.2	Cash Obtained From Sale of Associates, Subsidiaries and Joint-Ventures	-	-
2.3	Purchases of Tangible and Intangible Assets	(377)	(260)
2.4	Sale of Tangible and Intangible Assets	-	-
2.5	Purchase of Financial Assets at Fair Value through Other Comprehensive Income	-	-
2.6	Sale of Financial Assets at Fair Value through Other Comprehensive Income	-	-
2.7	Purchase of Financial Assets at Amortized Cost	-	-
2.8	Sale of Financial Assets at Amortized Cost	-	-
2.9	Other	(660)	(484)
II.	Net Cash Generated from Investing Activities	(1,037)	(744)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
3.1	Cash Obtained From Funds Borrowed and Securities Issued	926,767	(114,123)
3.2	Cash Used for Repayment of Funds Borrowed and Securities Issued	-	-
3.3	Equity Instruments Issued	(204,812)	210,000
3.4	Dividends Paid	(33,337)	-
3.5	Payments for Finance Leases	-	-
3.6	Other	-	-
III.	Net Cash Generated from Financing Activities	688,618	95,877
IV.	Effect of Change in Foreign Currency Translation on Cash and Cash Equivalents	-	-
V.	Net Increase in Cash and Cash Equivalents	(21,258)	20,082
VI.	Cash and Cash Equivalents at the Beginning of the Year	25,911	5,829
VII.	Cash and Cash Equivalents at the End of the Year	4,653	25,911

The accompanying notes are an integral part of these financial statements.

HALK FAKTORİNG ANONİM ŞİRKETİ

STATEMENT OF PROFIT DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

	Current Period 31 December 2019 ⁽¹⁾	Prior Period 31 December 2018
I. DISTRIBUTION OF CURRENT PERIOD PROFIT		
1.1 CURRENT PERIOD PROFIT / (LOSS)	86,193	57,119
1.2 TAXES AND LEGAL DUTIES PAYABLE (-)	(12,638)	(18,869)
1.2.1 Corporate Tax	(15,155)	(16,234)
1.2.2 Withholding Tax	-	-
1.2.3 Other Taxes and Duties	2,517	(2,635)
A. NET PROFIT / LOSS FOR THE YEAR (1.1-1.2)	73,555	38,250
1.3 ACCUMULATED LOSSES (-)	-	-
1.4 FIRST LEGAL RESERVES (-)	-	-
1.5 OTHER STATUTORY RESERVES (-) ⁽²⁾	-	-
B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A-(1.3+1.4+1.5))]	73,555	38,250
1.6 FIRST DIVIDEND TO SHAREHOLDERS (-)	33,337	-
1.6.1 To Owners of Ordinary Shares	33,337	-
1.6.2 To Owners of Privileged Shares	-	-
1.6.3 To Owners of Redeemed Shares	-	-
1.6.4 To Profit Sharing Bonds	-	-
1.6.5 To Holders of Profit and Loss Sharing Certificates	-	-
1.7 DIVIDENDS TO PERSONNEL (-)	-	-
1.8 DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
1.9 SECOND DIVIDEND TO SHAREHOLDERS (-)	-	-
1.9.1 To Owners of Ordinary Shares	-	-
1.9.2 To Owners of Privileged Shares	-	-
1.9.3 To Owners of Redeemed Shares	-	-
1.9.4 To Profit Sharing Bonds	-	-
1.9.5 To Holders of Profit and Loss Sharing Certificates	-	-
1.10 SECOND LEGAL RESERVES (-)	-	-
1.11 STATUS RESERVES (-)	-	-
1.12 EXTRAORDINARY RESERVES	-	-
1.13 OTHER RESERVES	-	-
1.14 SPECIAL FUNDS	-	-
II. DISTRIBUTION FROM RESERVES	-	-
2.1 DISTRIBUTION OF RESERVES	-	-
2.2 SECOND LEGAL RESERVES (-)	-	-
2.3 DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1 To Owners of Ordinary Shares	-	-
2.3.2 To Owners of Privileged Shares	-	-
2.3.3 To Owners of Redeemed Shares	-	-
2.3.4 To Profit Sharing Bonds	-	-
2.3.5 To Holders of Profit and Loss Sharing Certificates	-	-
2.4 DIVIDENDS TO PERSONNEL (-)	-	-
2.5 DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
III. EARNINGS PER SHARE		
3.1 TO OWNERS OF ORDINARY SHARES (TL)	-	-
3.2 TO OWNERS OF ORDINARY SHARES (%)	-	-
3.3 TO OWNERS OF PRIVILEGED SHARES (TL)	-	-
3.4 TO OWNERS OF PRIVILEGED SHARES (%)	-	-
IV. DIVIDEND PER SHARE	-	-
4.1 TO OWNERS OF ORDINARY SHARES (TL)	-	-
4.2 TO OWNERS OF ORDINARY SHARES (%)	-	-
4.3 TO OWNERS OF PRIVILEGED SHARES (TL)	-	-
4.4 TO OWNERS OF PRIVILEGED SHARES (%)	-	-

⁽¹⁾ Profit distribution decision will be decided at the General Assembly.

⁽²⁾ Deferred tax income is not subject to profit distribution.

The accompanying notes are an integral part of these financial statements.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

1 ORGANIZATION AND OPERATIONS OF THE COMPANY

Halk Faktoring AŞ (“The Company”) was incorporated on 6 June 2012 to provide factoring services and any other financial transactions. The Company maintains its operations factoring, that is a financial product which ensure "guarantee", "finance" and "collection" services by way of assignment to a company called "factor" of the trade receivables arising from sale of goods and/or services by firms to within the country.

The Company serves both domestic factoring services and it is a member of Factors Chain International ("FCI"), of which international factoring companies are members. The Company operates in accordance with “Financial Lease, Factoring and Financing Companies Law” published on the Official Gazette no. 28496 dated 13 December 2012 and “Regulation on Principles for Establishment and Operations of Finance Lease, Factoring and Financing Companies” of Banking Regulation and Supervision Agency (BRSA).

As at 31 December 2019, the number of employees of the Company is 67 (31 December 2018: 78).

The Company is registered in Turkey and located in the address below:

Reşitpaşa Mah. Eski Büyükdere Cad. No:14 Park Plaza Kat:13 34398 Maslak-Sarıyer/ İSTANBUL.

The Company carries its operations mainly in one geographical region (Turkey).

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Preparation

2.1.1 Application of Accounting Standards

The accompanying financial statements are prepared in accordance with “Communiqué Uniform Chart of Accounts to be implemented by Financial Leasing, Factoring and Financing Companies and its Explanation as well as the Form and Scope of Financial Statements to be announced to Public” published on the Official Gazette no.28861 dated 24 December 2013 promulgated by Banking Regulation and Supervision Agency (“BRSA”), Turkish Accounting Standards (“TAS”), Turkish Financial Reporting Standards (“TFRS”) and the appendices and interpretations promulgated by the Public Oversight Accounting and Auditing Standards Authority (“POA”) and the statements and guidance published by BRSA on accounting and financial reporting principles (together referred to as “BRSA Accounting and Reporting Legislation”).

In accordance with the “Regulation on Making Amendments to the Regulation on Accounting Practices and Financial Statements of Leasing, Factoring and Financing Companies” published by BRSA dated 2 May 2018, factoring, leasing, and financing companies are not have to implement TFRS 9 as of 31 December 2019. In this context, the Company continues to implement current legislation.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.1 Basis of Preparation (Continued)

2.1.1 Application of Accounting Standards (Continued)

Approval of Financial Statements:

On 14 February 2020, the Company’s Board of Directors approved the balance sheet as of 31 December 2019 and the statement of income for the financial year ends on the same date. General Assembly has the authority to modify the financial statements.

2.1.2 Functional and Presentation Currency

The presentation and functional currency of the Company is Turkish Lira (“TL”).

2.1.3 Accounting Estimates

The preparation of financial statements in accordance with BRSA Accounting and Financial Reporting Legislation requires management to apply the policies and make judgments, 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 recognized in the period in which the estimates are revised and in any future periods affected from these revisions.

In preparation of the financial statements, significant accounting estimates are as follows:

- *Specific Provisions*
- *Deferred Tax Income/Expense*
- *Tax Provision*
- *Provisions for Liabilities and Expenses*

2.1.4 Changes in Accounting Policies

The material changes in accounting policies are applied on a retrospective basis and the comparative financial statements are restated. There has not been any significant change in the accounting policies of the Company in the current year.

2.1.5 New and Revised Turkish Accounting Standards

a) Amendments that are mandatorily effective as of 2019

TFRS 16
TFRS Interpretation 23
Amendments to TAS 28

Amendments to TAS 19
Annual Improvements to TFRS
Standards 2015–2017 Cycle

Leases
Uncertainty over Income Tax Treatments
Long-term Interests in Associates and Joint Ventures
Employee Benefits
Amendments to TFRS 3, TFRS 11, TAS 12 and TAS 23

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.1 Basis of Preparation (Continued)

2.1.5 New and Revised Turkish Accounting Standards (Continued)

IFRS 16 Leases

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 supersedes the current lease guidance including TAS 17 Leases and the related Interpretations for accounting periods beginning on or after 1 January 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in TAS 17.

Impact of the new definition of a lease

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Company applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

Operating leases

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under TAS 17, which were off-balance sheet.

The reconciliation of operating lease commitments under TMS 17 prior to the first adoption date and the lease obligations recognized in the financial statements under IFRS 16 as of 1 January 2019 are as follows:

	1 January 2019
Operating Lease Commitments	2,406
Contracts excluded from IFRS 16 (-)	(460)
Total Lease Liabilities	1,946
Discounted Lease Liability	1,721

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.1 Basis of Preparation (Continued)

2.1.5 New and Revised Turkish Accounting Standards (Continued)

IFRS 16 Leases (Continued)

Impact on Lessee Accounting

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under TAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Company has:

- a) Recognised right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- b) Recognised depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
- c) Separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under TAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with TAS 36 *Impairment of Assets*. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

Finance leases

The main differences between IFRS 16 and TAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by TAS 17.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.1 Basis of Preparation (Continued)

2.1.5 New and Revised Turkish Accounting Standards (Continued)

TFRS Interpretation 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 TAS 12.

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

This amendment clarifies that an entity applies TFRS 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.

Amendments to TAS 19 Employee Benefits

The Amendments to TAS 19 *Employee Benefits* address the impact of the changes in defined benefit plans (one of the two benefits provided after employment relationship is ended defined benefit plans and defined contribution plans) to the recognition of the defined benefit plans, and TAS 19 has been amended.

Annual Improvements to TFRS Standards 2015–2017 Cycle

Annual Improvements to TFRS Standards 2015–2017 Cycle include amendments to TFRS 3 *Business Combinations* and TFRS 11 *Joint Arrangements* in when a party that participates in, but does not have joint control of, TAS 12 *Income Taxes*; income tax consequences of dividends in profit or loss, and TAS 23 *Borrowing Costs* in capitalized borrowing costs.

Other than TFRS 16, these standards, amendments and improvements have no impact on the financial position and performance of the Company.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.1 Basis of Preparation (Continued)

2.1.5 New and Revised Turkish Accounting Standards (Continued)

b) New and revised TASs in issue but not yet effective

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

TFRS 17	<i>Insurance Contracts</i>
Amendments to TFRS 3	<i>Business Combinations</i>
Amendments to TAS 1	<i>Presentation of Financial Statements</i>
Amendments to TAS 8	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i>

TFRS 17 *Insurance Contracts*

TFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. TFRS 17 supersedes TFRS 4 Insurance Contracts as of 1 January 2021.

Amendments to TFRS 3 *Business Combinations*

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

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

Amendments to TAS 1 and TAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors Definition of Material*

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

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.1 Basis of Preparation (Continued)

2.1.5 New and Revised Turkish Accounting Standards (Continued)

Effects of Revised Accounting policies

In this note, the new accounting policies, which the Company has started to apply as of 1 January 2019, have been disclosed with the effect of application of TFRS 16 Leases standard on the Group's financial statements.

a) The Effects of Accounting Policy Changes on the Company's Financial Statements

In this note, the new accounting policies, which the Company has started to apply as of 1 January 2019, have been disclosed with the effect of application of TFRS 16 Leases standard on the Group's financial statements.

The date of initial application of TFRS 16 for the Company is 1 January 2019 retrospectively taking into account the cumulative effect in the financial statements. In accordance with the adoption of TFRS 16, some changes have occurred in the accounting policies as of 1 January 2019 and adjustments have been made to the financial statements. The new accounting policies applied are explained in this note. In accordance with the transitional provisions of TFRS 16, prior year financial statements have not been restated. The effects of the amendments as of 1 January 2019 are as follows:

	Amount after adjustments 1 January 2019	TFRS 16 effect	Before the change in accounting policy 1 January 2019
ASSETS			
Right-of-Use Properties	1,721	1,721	-
Total Asset Effect	1,721	1,721	-
LIABILITIES AND EQUITY			
Lease Liabilities	1,721	1,721	-
Total Liabilities and Equity Effect	1,721	1,721	-

Right-of-use assets recognized are related to the assets below:

Right-of-Use Asset	1 January 2019	31 December 2019
Properties	1,144	27
Vehicles	577	331
Total	1,721	358

Depreciation expenses amounting to TL 1,363 and interest expenses amounting to TL 155 related to leasing contracts under TFRS 16 have been recognized during the accounting period ended 31 December 2019 (Respectively, Note 5, Note 18).

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.1 Basis of Preparation (Continued)

2.1.5 New and Revised Turkish Accounting Standards (Continued)

Effects of revised accounting policies (Continued)

a) The Effects of Accounting Policy Changes on the Company’s Financial Statements (Continued)

In applying TFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- not to re-evaluate the financially disadvantaged rental agreements within the scope of TAS 17 in the prior period
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying TAS 17 and TFRS Interpretation 4.

b) Significant accounting policies - TFRS 16 Leases

The Company leases various offices and cars. Rental contracts are typically made for fixed periods of 3 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.1 Basis of Preparation (Continued)

2.1.5 *New and Revised Turkish Accounting Standards (Continued)*

Effects of revised accounting policies (Continued)

b) Significant accounting policies – TFRS 16 Leases (Continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

2.1.6 *Changes in Accounting Estimates and Errors*

If the changes in accounting estimates relate to a specific period, they are applied in the period they relate to whereas if the changes are related to future periods, they are applied both in the period the change is made and prospectively in the future periods.

Material accounting errors are adjusted retrospectively and prior periods’ financial statements are restated.

2.1.7 *Comparative Information and Restatement of Prior Period Financial Statements*

The Company’s financial statements have been prepared comparatively with the prior period in order to give information about financial position and performance. If the presentation or classification of the financial statements is changed, in order to maintain consistency, financial statements of the prior periods are also reclassified in line with the related changes with respective disclosures for the major differences.

2.1.8 *Offsetting*

The Company’s financial assets and liabilities are offset and the net amount is presented in the financial statements if and only if there is a legally enforceable right to set off the amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies

(a) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise factoring receivables, banks, loans received and sundry payables.

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

Cash at banks comprises time deposits with an original maturity less than three months. Cash at banks reflects short-term investments; highly liquid, with an original maturity less than three months. Time deposits are recognised at discounted values by using effective interest rate.

The Company initially recognizes factoring receivables and payables on the date that they are originated. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, factoring receivables are measured at amortized cost using the effective interest method, less any impaired losses.

In accordance with the “Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies” published in the Official Gazette dated 24 December 2013 and numbered 28861 and effective from 1 January 2008 the “Communiqué on Procedures and Principles for the Provisions to be set aside by Financial Leasing, Factoring and Financing Companies for their Receivables” published in the Official Gazette dated 20 July 2007 and numbered 26588 by BRSA, some parts of factoring receivable which provide criterias, is transferred to account of non-performing receivables and after the elimination of special provision, the rest of amount is shown on financial statements.

Interest income and expense are accounted as described in Note 2.2.(h).

Loans received and sundry payables are measured at amortized cost using the effective interest method. 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 with all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company’s obligations specified in the contract expire or are discharged or cancelled.

(b) Property, plant and equipment and depreciation

Property, plant and equipment are measured at cost value, less accumulated depreciation and accumulated impairment losses, if any.

(i) Subsequent costs

The cost of replacing part of an item of tangible assets is capitalized. Subsequent expenditures can be capitalized if they increase the future economic benefit of the related asset. All other expenses are accounted in the income statement on an accrual basis.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Cont’d)

2.2 Summary of significant accounting policies (Continued)

(b) Property, plant and equipment and depreciation (Continued)

(ii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of tangible assets.

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

<u>Definition</u>	<u>Year</u>
Furniture and fixtures	4-10 years
Motor vehicles	5 years
Leasehold improvements	5 years

Leasehold improvements are amortized over the shorter of the periods of the respective leases or useful lives on a straight-line basis.

(c) Intangible assets

Intangible assets consist of computer software licenses. Computer software licenses are reflected by deducting the permanent impairment losses and the accumulated amortization from the purchase cost values. The amortization of intangible assets has been made over the estimated useful lives of the related assets, using the straight line method, provided that they do not exceed their economic life from the date of purchase.

<u>Definition</u>	<u>Year</u>
Computer software licenses	3 years

(d) Impairment of assets

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.

Provision for doubtful factoring receivables, are recognized as an expense and reduced from the profit for the year. Provision for non-performing receivables is allocated assessing the Company’s factoring receivable portfolio, quality and risk and considering the economic conditions and other factors including the related legislation against the potential losses that may be resulted from the current factoring receivables. In accordance with the “Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies” published in the Official Gazette dated 24 December 2013 numbered 28861, the Company’s specific provision rate allocated for the finance factoring receivables considering their collaterals are as follows: 20%, at a minimum, for factoring receivables overdue more than 90 days not exceeding 180 days, 50%, at a minimum, for factoring receivables overdue more than 180 days not exceeding 360 days; and 100%, at a minimum, for factoring receivables overdue more than 1 year after taking into account for the collateral received.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Cont’d)

2.2 Summary of significant accounting policies (Continued)

(d) Impairment of assets (Continued)

Financial assets (continued)

The factoring receivables that have not been collected for less than a year classified as Receivables to liquidate under the doubtful receivables; while the factoring receivables that have not been collected to more than a year are classified as uncollectible receivables.

An impairment loss in respect of a financial asset measured at amortized 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.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

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 the income statement.

Non-financial assets

The carrying amounts of the Company’s non-financial 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.

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 the income statement.

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 other assets 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.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

(e) Capital increases

Share capital increases from existing shareholders are accounted for at nominal value as approved at the annual meeting of shareholders.

(f) Reserve for severance payments

In accordance with the Turkish Labor Law, 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. Those payments are calculated with basis of taking the upper limit of severance payment at the balance sheet date.

TAS 19 “Employee Benefits” requires the calculation of the present value of possible liabilities of companies using actuarial valuation methods. Therefore, the present value of the Company's possible liability is calculated using the estimates given in the table below.

	<u>31 December 2019</u>	<u>31 December 2018</u>
Discount rate	3.60%	5.45%
Interest rate	12.10%	16.00%
Expected salary/limit increase rate	8.20%	10.00%
Expected severance payment benefit ratio	96%	94%

(g) Provision, contingent assets and liabilities

In accordance with TAS 37, “Provisions, Contingent Liabilities and Contingent Assets”, a provision is recognized when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the specified criteria are not met, the Company discloses the related issues in the accompanying notes. In cases where the time value of money is important, the amount of provision is determined as the present value of the cash outflows expected to be required to fulfill the obligation. In determining the discount rate to be used in reducing the provisions to their present values, the interest rate in the relevant markets and the risk related to the concerned liability are taken into consideration.

Contingent assets are disclosed in the notes and not recognized unless it is realized.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

(h) Income and expense recognition

(i) Factoring income

Factoring interest and commission income is recognized on accrual basis using effective interest method.

(ii) Other interest income

Other interest income recognized on accrual basis using effective interest method.

(iii) Other operation income and expense

Other operation income and expense is recognized on accrual basis.

(i) Income tax

Tax provision of the period includes the current (corporate tax) and deferred tax.

Corporate Tax

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

Deferred Tax

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date

According to TAS 12, “*Income Taxes*”; deferred tax assets and liabilities are recognized in the accompanying financial statements, using the balance sheet method, on all taxable temporary differences to the extent that they are expected to increase or decrease on the income tax payable in the period when they will reverse. Deferred tax assets are recognized to the extent that it is probable that future taxable profits 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.

If the differences arising from the valuation of the related assets are recognized in the income statement, the deferred tax income or expense related to them are also accounted in the income statement; if the differences arising from the valuation of the related asset are recognized in equity, the related deferred tax effect is also accounted in the equity accounts.

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 they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Tax rate used in the calculation of deferred tax assets and liabilities was %22 over temporary timing differences expected to be reversed in 2018, 2019 and 2020, and %20 over temporary timing differences expected to be reversed in 2021 and the following years (2018: 22-20%).

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

(j) Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (reporting entity).

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

For the purpose of the accompanying financial statements, shareholders of the Company, the group companies controlled by/associated with them, key management and the Board members of the Company are referred to as “related parties” (Note 25).

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF THE PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

(k) Subsequent events

Subsequent events mean the events occurred between the reporting date and the authorization date for the announcement of the financial statements. In accordance with TAS 10, “Subsequent Events”; if there is new evidence of the existence of such events as of the reporting date or if the related events occur after the reporting date and if these events require the correction of the financial statements, the Company corrects the financial statements in accordance with the new situation. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

(l) Statement of cash flows

The Company prepares cash flow statements to inform the users of the financial statements about the changes in its net assets, its financial structure and its ability to affect the amount and timing of its cash flows with respect to changing external conditions.

In the statement of cash flows, cash flows of the period are reported with a classification based on operating, investing and financing activities. Cash flows from operating activities represent cash flows from activities within the scope of business. Cash flows relating to investment activities represent cash flows used and generated from investment activities (fixed investments and financial investments). Cash flows relating to financing activities represent the sources of financing the Company used and the repayments of these sources.

As at 31 December 2019 and 31 December 2018, the cash and cash equivalents are as follows:

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Cash	1	-	1	-
Banks	2,604	2,048	25,514	396
-Time deposits	-	-	24,517	-
-Demand deposits	2,604	2,048	997	396
Cash and cash equivalents	2,605	2,048	25,515	396

(m) Segment Reporting

There is no segment that management of the Company performs the assessment of financial performances and decide the resource allocation.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF THE PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

(n) Effects of foreign exchange rates

Transactions denominated in foreign currency are converted to TL with the foreign exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities are converted into TL at the end of the period at the exchange rate prevailing at the reporting date. Exchange differences arising from such transactions are reflected in the income statement. Non-monetary assets and liabilities denominated in foreign currencies at their fair values are stated by converting them to TL from the exchange rate of the day the fair values are determined.

The foreign exchange rates used by the Company as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
US Dollar	5.9402	5.2609
Euro	6.6506	6.0280
GB Pound	7.7765	6.6528

(o) Leases

The rental income in which important portion of owner’s risks and rewards are transferred to the leaseholder is classified as financial lease. Rentals income under operating leases are recognized in profit or loss on a straight-line basis over the term of the relevant lease.

(p) Earnings per share

Earnings per share presented in the accompanying income statement is determined by dividing net income by the weighted average number of shares in issue during the year. In Turkey, companies can increase their share capitals by issue of “Bonus Shares” to their shareholders from their retained earnings. In computing earnings per share, such issues of “Bonus Shares” are treated as issued shares. Accordingly, the retrospective effect for those share issues is taken into consideration in determining the weighted-average number of shares outstanding used in this computation.

2.3 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 Company’s Board of Directors 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.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2 BASIS OF THE PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.3 Financial Risk Management (Continued)

Credit risk

Main activity of the Company is provide factoring services by dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults and operates regarding to the limits approved by “Credit and Risk Committee”.

All credit risk policies are assessed within the framework of “Credit and Risk Committee Regulations” approval authorizations. Risk Committee periodically monitors the Company’s exposure to credit risks and credit ratings of its counterparties. With this strategy, it is aimed to reflect the degree of tolerance of the Company regarding credit risk and the level of profit that it expects to obtain in return for various credit risks.

On the other hand credit evaluations are performed on all sector basis balanced. The Main Operation Department conducts the operations. The liaison office do not have operation or payment authority.

Liquidity risk

The Company usually creates funds by liquidating short term financial instruments, such as collecting its receivables and converting bank deposits into cash.

Liquidity risk arises in the general funding of the Company’s activities and in the management of positions. It includes both risk of being unable to fund assets at appropriate maturities and rates and risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Company meets its liquidity requirements through credit lines in the Banks. The Company continuously evaluates the liquidity risk by determining the changes in the fund resources required to reach its targets and monitoring its course.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates interest rates and equity prices will affect the Company’s income or the value of its holdings of financial instruments. Market risk management, controls market risk exposures within acceptable parameters, while aiming to optimize the return of risk.

Foreign Currency Risk

The Company is exposed currency risk due to its factoring operations in foreign currencies, cash at bank balances and financial borrowings.

As at 31 December 2019, the Company has no balance of foreign exchange borrowing (31 December 2018: TL 4,123).

Interest rate risk

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. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Company’s business strategies.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

3 CASH AND CASH EQUIVALENTS AND CENTRAL BANK

3.1 Cash and cash equivalents

As of 31 December 2019, cash and cash equivalents are as follows:

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Cash and cash equivalents	2,605	2,048	25,515	396
Total	2,605	2,048	25,515	396

As of 31 December 2019, the Company has no time deposits (31 December 2018: time deposit with interest rate of 21%, maturity of 2 days).

4 FINANCIAL ASSETS AT AMORTIZED COST

4.1 Factoring Receivables

As at 31 December 2019 and 31 December 2018 factoring receivables are as follows:

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Discounted Factoring Receivables, (net)	278,625	24,441	133,637	57,399
Other Factoring Receivables	1,794,114	14,153	1,119,427	82,136
Total	2,072,739	38,594	1,253,064	139,535

As of 31 December 2019, the amount of collateral and mortgage received by the Company in return for factoring receivables is TL 44,279,541 (31 December 2018: TL 32,760,192) (Note 26).

As of 31 December 2019, the Company has no foreign currency indexed factoring receivables (31 December 2018: TL 3,111).

Maturity Breakdown	31 December 2019	31 December 2018
0 to 6 months	1,238,000	640,537
6 to 12 months	69,527	35,614
1 to 2 months	261,418	264,320
2 to 5 months	542,388	452,128
Total	2,111,333	1,392,599

As of the balance sheet date, the Company’s 41% of factoring receivables and 56% of current year factoring income concentrate on certain industries and companies. TL 43,714 of this factoring income has been collected by the Company, and TL 144,922 has not been collected and this amount consist of occurred interest income.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

4 FINANCIAL ASSETS AT AMORTIZED COST (Continued)

4.1 Factoring Receivables (Continued)

As at 31 December 2019 and 31 December 2018, the breakdown of total factoring receivables including non-performing receivables by industrial groups is as follows:

	31 December 2019	%	31 December 2018	%
Culture Entertainment and Sports Activities	865,099	41%	758,117	54%
Petroleum Refinery Products	522,389	25%	102,458	7%
Communication	162,689	8%	156,503	11%
Construction	166,526	8%	146,174	10%
Sale of Motor Vehicles Spare Parts and Accessories	-	0%	17,793	1%
Electricity gas and water supply	48,625	2%	48,620	3%
Textile Industry	37,924	2%	41,875	3%
Factoring Companies	47,745	2%	10,393	1%
Fabricated Metal Products Industry	14,306	1%	9,872	1%
Health and Social Services	6,186	0%	2,132	0%
Hotels	72,881	3%	-	0%
Plastic Products Production	7,299	0%	5,816	0%
Road Freight Forwarding	11,728	1%	4,304	0%
Main Metal Industry	7,519	0%	9,976	1%
Machinery & Equipment	8,814	0%	-	0%
Research, Consultancy, Advertisement and Other Activities	12,054	1%	-	0%
Electrical and Non-Electrical Home Appliances	7,943	0%	4,425	0%
Food and Drink Industry	23,355	1%	28,099	2%
Chemical and Chemical Products Industry	7,901	0%	4,074	0%
Herbal Products	8,061	0%	-	0%
Garment industry	8,055	0%	5,657	0%
Furniture Industry	-	0%	-	0%
Raw Paper and Paper Products	-	0%	-	0%
Other	64,234	3%	36,311	3%
Total	2,111,333	100%	1,392,599	100%

Natures of factoring receivables are as follows:

	31 December 2019	31 December 2018
Domestic irrevocable	316,353	640,537
Foreign irrevocable	14,725	35,614
Domestic revocable	1,756,387	264,320
Foreign revocable	23,868	452,128
	2,111,333	1,392,599

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

4 FINANCIAL ASSETS AT AMORTIZED COST (Continued)

4.2 Non-Performing Receivables, (Net)

Details of the Company’s non-performing factoring receivables and provisions allocated for them as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Factoring receivables under limited collectability	51,717	-	2,100	-
Factoring receivables under follow-up	22,290	-	22,562	-
Specific provision	(60,015)	-	(24,662)	-
Non-performing receivables, net	13,992	-	-	-

Aging of non-performing factoring receivables and specific provision allocated for them as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019		31 December 2018	
	Total non-performing receivables	Allowance	Total non-performing receivables	Allowance
Not Overdue	-	-	445	(445)
Overdue 1 to 3 months	18,711	(4,719)	866	(866)
Overdue 3 to 6 months	655	(655)	469	(469)
Overdue 6 to 12 months	30,941	(30,941)	320	(320)
Overdue over 1 year	23,700	(23,700)	22,562	(22,562)
Total	74,007	(60,015)	24,662	(24,662)

Movements in specific provisions within the period are as follows:

	31 December 2019	31 December 2018
Balance at 1 January	24,662	24,178
Provision for the period (Note 21)	36,409	3,832
Collections during the period (-)(Note 20)	(1,056)	(3,348)
Balance at the end of the period	60,015	24,662

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

5 TANGIBLE ASSETS

Movements of tangible assets for the years ended 31 December 2019 and 31 December 2018 are as follows:

	Machinery and equipment	Furniture and fixtures	Leasehold improvements	Right-of-Use Securities	Right-of-Use Properties	Total
Cost						
Opening balance, 1 January 2019	1,264	411	464	-	-	2,139
Additions	375	2	-	577	1,144	2,098
Closing balance, 31 December 2019	1,639	413	464	577	1,144	4,237
Accumulated Depreciation						
Opening balance, 1 January 2019	(645)	(280)	(386)	-	-	(1,311)
Charge for the period	(246)	(51)	(45)	(246)	(1,117)	(1,705)
Closing balance, 31 December 2019	(891)	(331)	(431)	(246)	(1,117)	(3,016)
Net Carrying Value	748	82	33	331	27	1,221
Cost						
Opening balance, 1 January 2018	1,014	411	454	-	-	1,879
Additions	250	-	10	-	-	260
Closing balance, 31 December 2018	1,264	411	464	-	-	2,139
Accumulated Depreciation						
Opening balance, 1 January 2018	(579)	(258)	(376)	-	-	(1,214)
Charge for the period	(66)	(22)	(9)	-	-	(97)
Closing balance, 31 December 2018	(645)	(280)	(386)	-	-	(1,311)
Net Carrying Value	619	131	78	-	-	828

As at 31 December 2019 and 31 December 2018, there is no tangibles assets acquired through financial lease.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

6 INTANGIBLE ASSETS

Movements of intangible assets for the years ended 31 December 2019 and 31 December 2018 are as follows:

	Computer Software	Other	Total
Cost			
Opening balance, 1 January 2019	1,472	323	1,765
Additions	611	49	660
Closing balance, 31 December 2019	2,083	372	2,425
Accumulated depreciation			
Opening balance, 1 January 2019	(890)	(276)	(1,166)
Charge for the period	(177)	(22)	(199)
Closing balance, 31 December 2019	(1,067)	(298)	(1,365)
Net Carrying Value	1,016	74	1,060
	Computer Software	Other	Total
Cost			
Opening balance, 1 January 2018	1,033	250	1,283
Additions	439	73	482
Closing balance, 31 December 2018	1,472	323	1,765
Accumulated depreciation			
Opening balance, 1 January 2018	(524)	(171)	(695)
Charge for the period	(366)	(105)	(470)
Closing balance, 31 December 2018	(890)	(276)	(1,166)
Net Carrying Value	552	47	599

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

7 DEFERRED TAX ASSET AND LIABILITIES

Deferred tax is recognized over the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Tax rate used in the calculation of deferred tax assets and liabilities was 22% over temporary timing differences expected to be reversed in 2019 and 2020, and 22% over temporary timing differences expected to be reversed in 2021 and the following years (2019: 22%).

As at 31 December 2019 and 31 December 2018, details of deferred tax assets and deferred tax liabilities based on the temporary differences calculated by the prevailing tax rate are as follows:

	31 December 2019	31 December 2018
Deferred tax asset		
Unearned interest income	3,979	1,632
Provision for premiums	368	322
Provision for termination employment benefits	171	103
Total deferred tax asset	4,518	2,057
Other	(94)	(150)
Deferred tax asset / (liability), net	4,424	1,907
	31 December 2019	31 December 2018
Opening balance	1,907	4,012
Deferred tax income / (expense)	2,517	(2,635)
Other	-	530
Total	4,424	1,907

8 OTHER ASSETS

As at 31 December 2019 and 31 December 2018, details of other assets are as follows:

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Customer BSMV Receivables	1,632	85	4,230	52
Prepaid Expenses(*)	1,109	46	813	41
Personnel advances	-	-	10	-
Court advances	95	-	95	-
Other	87	-	21	15
Total	2,923	131	5,169	108

(*) Prepaid expenses consist of TL 522 of insurance expenses, TL 346 of legal fees and participation shares, TL 241 of letter of guarantee commission expenses, TL 46 of annual contribution fees.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

9 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)

As of 31 December 2019 and 31 December 2018, assets of the Company related to the assets held for sale and discontinued operations are as follows.

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Assets held for sale	858	-	1,221	-
Total	858	-	1,221	-

10 FUNDS BORROWED

As at 31 December 2019 and 31 December 2018, details of funds borrowed are as follows:

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Bank loans	1,900,435	33,349	904,190	130,825
Total	1,900,435	33,349	904,190	130,825

As at 31 December 2019 and 31 December 2018 maturity distribution of loans used by the Company are as follows:

Distribution of loans according to maturity	31 December 2019	31 December 2018
Maturity less than 1 year	1,933,784	1,035,015
Total	1,933,784	1,035,015

	31 December 2019	31 December 2018
Short-term financial liabilities		
Short-term secured domestic bank loans (*)	102,348	579,780
Short-term unsecured domestic bank loans	1,823,522	211,950
Short-term unsecured international bank loans	7,914	243,285
Total	1,933,784	1,035,015

(*) Short-term secured domestic bank loans consist of bonds given to Eximbank obtained from customers and letters of guarantee given to Takasbank.

Currency	Maturity	Interest type	Interest rate	31 December 2019		31 December 2018		
				Amount in FC	TL	Interest rate	Amount in FC	TL
TL	2020	Fixed	9%-14.95%	1,900,435	1,900,435	17.45%-35.80%	904,190	904,190
Euro	2020	Fixed	0.3%-6%	4,086	27,177	1.60%-0.40%	16,390	98,801
US Dollar	2020	Fixed	2.16%-8%	366	2,171	2.52%-6.50%	5,673	29,846
GB Pound	2020	Fixed	2.40%-3.04%	515	4,001	2.62%	327	2,178
Total					1,933,784			1,035,015

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

11 FACTORING PAYABLES

As at 31 December 2019 and 31 December 2018, details of factoring payables are as follows:

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Revocable	1,066	-	2,310	-
Irrevocable	15	638	-	107
Total	1,081	638	2,310	107

12 SECURITIES ISSUED

As of 31 December 2019 and 31 December 2018, the details of the securities issued are as follows.

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Bonds	-	-	210,000	-
Premiums on Marketable Securities	-	-	(5,088)	-
Total	-	-	204,912	-

On 17 October 2018 and 23 October 2018, the Company has issued two separate bonds to the qualified investors amounting to TL 105,000 and TL 105,000, respectively and the details are as follows:.

	Currency	Maturity Date	Interest Type	Interest Rate	Nominal Amount	Recorded Amount
TRFHAS11918	105,000	16 January 2019	Fixed	29.5%	105,000	103,735
TRFHAS21917	105,000	20 February 2019	Fixed	28.5%	105,000	101,177
Total	210,000	-	-	-	-	204,912

13 PROVISIONS

As at 31 December 2019 and 31 December 2018, details of provisions are as follows:

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
<i>Provision for employee benefits</i>				
Provision for premiums	1,675	-	1,462	-
Reserve for employee severance indemnity	527	-	279	-
Vacation pay liability	249	-	175	-
Other provisions	104	-	28,671	-
Total	2,555	-	30,587	-

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

13 PROVISIONS (Continued)

13.1 Reserve for employee severance indemnity

Reserve for employee severance indemnity

In accordance with Turkish Labor Law, the Company is required to make lump-sum payments to employees whose employment is terminated due to retirement, military services or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days’ pay and limited to a maximum of TL 6,017.60 (31 December 2018: TL 5,001.76) as at 31 December 2019.

Movement of reserve for employee severance indemnity during the period ended 31 December 2019 and 31 December 2018 are as follows:

All actuarial gains and losses are recognized in other comprehensive income.

	1 January – 31 December 2019	1 January – 31 December 2018
Opening balance, 1 January	279	220
Service cost	69	49
Interest cost	179	10
Payment made during the period	-	-
Actuarial loss / (gain)	-	-
Closing balance, 31 December	527	279

Movements of provision for unused vacation for the years ended 31 December 2019 and 31 December 2018 are as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Opening balance	175	251
Change during the period	74	(76)
Closing balance	249	175

Movements of premiums for personnel for the years ended 31 December 2019 and 31 December 2018 are as follows:

	1 January- 31 December 2019	1 January- 31 December 2018
Opening balance	1,462	1,051
Payment made during the period	(1,151)	(1,051)
Canceled during the period	(311)	-
Calculated during the period	1,675	1,462
Closing balance	1,675	1,462

13.2 Other Provisions

As of 31 December 2019, TL 104 of the other provisions consists of provision for litigation (31 December 2018: TL 7). The Company management and its attorneys concluded that the amount of litigation was sufficient.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

14 CURRENT PERIOD TAX ASSET/(DEBT)

The Company has no current tax asset (31 December 2018: None). The Company's current tax liability is TL 5,602 (31 December 2018: TL 5,090).

15 OTHER LIABILITIES

The details of other liabilities as of 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Taxes payable	3,062	-	5,062	-
Other purchase payables	551	77	383	83
Payables to personnel	8	-	6	-
Unearned commission and earnings from expenses	7,918	206	249	189
Total	11,539	283	5,700	272

16 EQUITY

16.1 Paid-in capital

The Company's paid-in capital is amounting to TL 96,000 (31 December 2018: TL 96,000) comprised of 96,000 (31 December 2018: 96,000) shares with each has a nominal value of TL 1.

As at 31 December 2019 and 31 December 2018, the Company's shareholder structure is as follows:

	31 December 2019		31 December 2018	
	Amount	Share	Amount	Share
T.Halk Bankası A.Ş.	93,600	97.50%	93,600	97.50%
Halk Yatırım Menkul Değerler A.Ş.	1,190	1.24%	1,190	1.24%
Halk Finansal Kiralama A.Ş.	1,190	1.24%	1,190	1.24%
Halk Hayat ve Emeklilik A.Ş.(*)	10	0.01%	10	0.01%
Bileşim Alternatif Dağıtım Kanalları A.Ş.	10	0.01%	10	0.01%
Paid in capital	96,000	100	96,000	100

(*) Shares of Halk Hayat ve Emeklilik A.Ş. were sold to Halkbank Skopje A.D. on 13 January 2020.

There is no preferred stock which represent the capital of the Company.

16.2 Capital Reserves

As at 31 December 2019 and 31 December 2018, the Company has no capital reserves.

16.3 Profit Reserves

As at 31 December 2019, profit reserve is amounting to TL 15,008 (31 December 2018: TL 10,095).

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

16 EQUITY (Continued)

16.4 Profit Distribution

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution.

The legal reserves consist of first and second reserves, in accordance with the Turkish Commercial Code. The first legal reserve appropriated out of the statutory profit at the rate of 5% until the total reserve reaches a maximum of 20% of the Company’s paid-in capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company’s paid-in capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital but may be used to absorb losses in the event that the general reserve is exhausted.

On 25 March 2020, the Company distributed cash dividend amounting to TL 33,337 to the shareholders pursuant to the decision taken in the General Assembly held in 2019.

17 OPERATING INCOME

For the years ended 31 December 2019 and 31 December 2018, details of operating income are as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Interest income on factoring receivables		
- Discounted	51,966	79,151
- Other	287,740	248,215
	339,706	327,366
Fees and commissions on factoring receivables		
- Discounted	3,198	2,042
- Other	10,130	11,445
	13,328	13,487
Total	353,034	340,853

18 FINANCING COSTS

For the years ended 31 December 2019 and 31 December 2018, details of financing expenses are as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Interest expense on funds borrowed	225,105	224,291
Finance lease expenses	155	-
Interest expense on securities issued	10,782	11,101
Fees and commission expenses	3,808	6,368
Total	239,850	241,760

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

19 OPERATING EXPENSES

For the years ended 31 December 2019 and 31 December 2018, details of operating expenses are as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Personnel Expenses	14,336	11,089
Rent Expenses	-	1,137
Depreciation and Amortization Expenses	1,904	567
Vehicle Expenses	667	828
Subscription and Contribution Expenses	514	501
Advertising and Announcement Expenses	194	349
Taxes and Funds Expense	407	321
Communication Expenses	290	282
Outsourced Benefits and Services	264	241
Office Expenses	234	195
IT Expenses	327	174
Representation Expenses	101	73
Notary Expenses	86	66
Severance Pay Provision Expenses	255	59
Stationary and Printing Expenses	52	52
Travel and Accommodation Expenses	27	25
Repair and Maintenance Expense	26	5
Other	2,073	1,636
Total	21,757	17,600

For the years ended 31 December 2019 and 31 December 2018, details of personnel expenses included in operating expenses are as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Wages and salaries	7,922	6,163
Bonuses and premiums	2,408	1,879
Social security premium employer’s share	2,258	1,782
Employee insurance expenses	793	606
Other	955	659
Total	14,336	11,089

20 OTHER OPERATING INCOME

For the years ended 31 December 2019 and 31 December 2018, details of other income are as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Foreign exchange gain	174,356	307,771
Collection income from non performing receivables (Note 4.2)	1,056	3,348
Interest received from banks	318	850
Other (*)	29,329	824
Total	205,059	312,793

(*) TL 28,618 of which consists of reversal of provision made in prior years.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

21 PROVISIONS

For the years ended 31 December 2019 and 31 December 2018, details of specific allowance for non-performing receivables are as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Specific provision (Note 4.2)	(36,409)	(3,832)
Other provisions	(104)	(28,618)
Total	(36,513)	(32,450)

22 OTHER OPERATING EXPENSES

For the years ended 31 December 2019 and 31 December 2018, details of other expenses are as follows:

	1 January – 31 December 2019	1 January – 31 December 2018
Foreign exchange loss	(173,780)	(304,554)
Other	-	(163)
Total	(173,780)	(304,717)

23 TAXATION

As at 31 December 2019, corporate income tax is levied at the rate of 22% (2018: 22%). Corporate tax rate is levied on the statutory corporate income tax base, which is determined by modifying accounting income for disallowable expenses and certain exclusions and allowances for tax purposes. If the profit has not been distributed, it is not subject to any other tax.

Some of the deduction rates included in the Article 15 and Article 30 of the Law no. 5520 on the Corporate Tax have been redefined according to the cabinet decision numbered 2006/10731, which was announced at Trade Registry Gazette of 23 July 2006-26237. In this respect, 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%. When applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account.

Article 13 of the Corporate Tax Law and the transfer pricing communiqués issued regarding this article clarify how the arm’s length principle should be applied to the transactions between the related persons. New amendments to transfer pricing are in accordance with the principles of “transfer pricing manual” of OECD.

If the tax payers have transactions like service taking or product and goods buying or selling with related parties which are not in accordance with the counterpart principle it will be adjudge that disguised profit distribution via transfer pricing. This kind of disguised profit distribution via transfer pricing will not be deducted from the corporate tax. The companies are obliged to fill the transfer pricing form attached to the annual corporate tax declaration. On this form, all the related party transactions, amounts and the related Transfer Pricing methods are disclosed.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

23 TAXATION (Continued)

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 closing date of the related financial year. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

The reported income tax expense for the years ended 31 December 2019 and 31 December 2018 are different than the amounts computed by applying the statutory tax rate to profits before income taxes as shown in the following reconciliation:

	31 December 2019	31 December 2018
Reported pre-tax profit	86,193	57,119
Calculated tax expense	(18,962)	(12,566)
Tax reconciliation:		
- (Non deductible expenses) / Deductions	6,324	(6,303)
Tax expense on income statement	(12,638)	(18,869)

For the years ended 31 December 2019 and 31 December 2018 tax expense in the income statement are summarized below:

	31 December 2019	31 December 2018
Corporate tax provision expense	(15,155)	(16,234)
Deferred tax income / (expense)	2,517	(2,635)
Tax expense	(12,638)	(18,869)

24 EARNINGS PER SHARE

According to TAS 33 “Earning Per Share”, companies’ share that are not quoted do not have to disclose earnings per share. The Company’s share are not quoted, and earnings/loss per share are not calculated in the accompanying financial statements.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

25 RELATED PARTY DISCLOSURES

For the years ended from the details of transactions with related parties as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
<u>Bank Deposits</u>		
T.Halk Bankası A.Ş.	2,407	25,494
<u>Sundry Liabilities (*)</u>		
Halk Sigorta A.Ş.	334	282

(*)Sundry liabilities are payable insurance certificate cost.

The details of transactions with related parties as at 31 December 2019 and 31 December 2018 are as follows:

	2019	2018
<u>Interest Income From Related Parties</u>		
T.Halk Bankası A.Ş.	318	850
<u>Other Income From Related Parties</u>		
T.Halk Bankası A.Ş.	-	-
<u>Interest Expense Due To Related Parties</u>		
T.Halk Bankası A.Ş.	24,232	3,712
<u>Insurance Expenses Due To Related Parties</u>		
Halk Hayat ve Emeklilik A.Ş.	167	141
Halk Sigorta A.Ş.	664	487
<u>Other expenses Due To Related Parties</u>		
T.Halk Bankası A.Ş.	74	-
Halk Yatırım A.Ş.	-	441

Compensation to key management:

The key management and the Board of Directors received remuneration and fees amounting to TL 2,085 for the year ended 31 December 2019 (31 December 2018: TL 1,332).

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

26 CONTINGENT ASSETS AND LIABILITIES

Commitments Received

The Company has the following commitments for its factoring receivables at 31 December 2019 and 31 December 2018:

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Pledges	32,957,560	11,310,664	23,893,517	8,827,105
Mortgages	11,300	-	39,560	-
Letters of guarantees	17	-	10	-
	32,968,877	11,310,664	23,933,087	8,827,105

Commitments Given

As at 31 December 2019 and 31 December 2018, commitments are comprised of notes given to the following institutions:

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Notes given to the courts	243	-	469	-
Commitments given to Takasbank	225,000	13,301	563,000	-
	225,243	13,301	563,469	-

Held in custody securities

The Company has obtained securities held in custody for its factoring receivables at 31 December 2019 and 31 December 2018 as detailed below:

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Customer checks	396,089	68,146	233,193	25,432
Customer notes	10,094	3,846	8,261	3,015
Pledged securities	-	-	-	16
	406,183	71,992	241,454	28,463

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

27 NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

27.1 Credit risk

As at 31 December 2019 and 31 December 2018, sectoral allocation of factoring receivables was presented on Note 4. The Company’s credit risk is not concentrated on a particular sector.

31 December 2019	Factoring Receivables		Deposit at	Other assets
	Related Party	Other Party	Banks	
As of the reporting date this is the maximum credit risk exposure	-	2,125,325	4,653	3,054
- Secured portion of maximum risk by guarantees etc.	-	2,125,325	-	-
	-	-	4,653	3,054
A. Net carrying value of financial assets which are neither impaired nor overdue	-	2,111,333	-	-
- Secured portion of net carrying value with guarantees	-	2,111,333	-	-
	-	-	-	-
B. Net carrying value of financial assets that are restructured/renegotiated, otherwise which will be regarded as overdue or impaired	-	-	-	-
- Secured portion of net carrying value with guarantees	-	-	-	-
	-	-	-	-
C. Net carrying value of financial assets which are overdue but not impaired	-	-	-	-
- Secured portion of net carrying value with guarantees	-	-	-	-
	-	-	-	-
D. Net carrying value of impaired assets	-	-	-	-
- Overdue (gross carrying value)	-	74,007	-	-
- Impairment (-)	-	(60,015)	-	-
- Secured portion of net carrying value with guarantees	-	-	-	-
- Notdue (gross carrying value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Secured portion of net carrying value with guarantees	-	-	-	-
	-	-	-	-
E. Off balance sheet items with credit risks	-	-	-	-

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

27 NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

27.1 Credit risk (continued)

31 December 2018	Factoring Receivables		Deposit at Banks	Other assets
	Related Party	Other Party		
As of the reporting date this is the maximum credit risk exposure	-	1,392,599	25,910	5,277
- Secured portion of maximum risk by guarantees etc.	-	1,392,599	-	-
	-	-	25,910	5,277
A. Net carrying value of financial assets which are neither impaired nor overdue	-	1,392,599	-	-
- Secured portion of net carrying value with guarantees	-	1,392,599	-	-
	-	-	-	-
B. Net carrying value of financial assets that are restructured/renegotiated, otherwise which will be regarded as overdue or impaired	-	-	-	-
- Secured portion of net carrying value with guarantees	-	-	-	-
	-	-	-	-
C. Net carrying value of financial assets which are overdue but not impaired	-	-	-	-
- Secured portion of net carrying value with guarantees	-	-	-	-
	-	-	-	-
D. Net carrying value of impaired assets	-	-	-	-
- Overdue (gross carrying value)	-	24,662	-	-
- Impairment (-)	-	(24,662)	-	-
- Secured portion of net carrying value with guarantees	-	-	-	-
- Notdue (gross carrying value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Secured portion of net carrying value with guarantees	-	-	-	-
	-	-	-	-
E. Off balance sheet items with credit risks	-	-	-	-

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

27 NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

27.2 *Liquidity risk*

The following table details the maturities of non-derivative financial assets and liabilities. The tables below have been drawn up based on the undiscounted contractual amounts of the financial assets and liabilities based on their maturities. Interest amounts to be collected and to be disbursed regarding the Company’s assets and liabilities have also been included in the table below:

31 December 2019						
Contractual Maturities	Carrying amount	Total Contractual Cash Flows	Less than 3 months	3-12 months	1-5 years	More than 5 years
Non-derivative Financial Liabilities	1,947,326	(1,949,028)	(1,655,462)	(293,566)	-	-
Funds borrowed	1,933,784	(1,935,486)	(1,641,920)	(293,566)	-	-
Factoring liabilities	1,719	(1,719)	(1,719)	-	-	-
Other liabilities	11,822	(11,822)	(11,822)	-	-	-

31 December 2018						
Contractual Maturities	Carrying amount	Total Contractual Cash Flows	Less than 3 months	3-12 months	1-5 years	More than 5 years
Non-derivative Financial Liabilities	1,043,132	(1,061,631)	(1,042,581)	(19,050)	-	-
Funds borrowed	1,035,015	(1,053,514)	(1,034,464)	(19,050)	-	-
Factoring liabilities	2,417	(2,417)	(2,417)	-	-	-
Other liabilities	5,972	(5,972)	(5,972)	-	-	-

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

27 NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

27.3 Market Risk

Interest rate risk

As at 31 December 2019 and 31 December 2018, the weighted average effective interest rate of financial instruments are as follows:

	2019				2018			
	TL	EUR	USD	GBP	TL	EUR	USD	GBP
Assets								
Factoring receivables	16.02%	3.15%	3.10%	3.20%	29.55%	3.62%	3.09%	3.15%
Liabilities								
Bonds	-	-	-	-	29.00%	-	-	-
Funds borrowed	10.52%	1.38%	2.47%	3.04%	26.78%	1.80%	2.66%	2.62%

As of 31 December 2019 and 31 December 2018, the Company’s interest rate sensitive financial instruments are as follows:

	31 December 2019	31 December 2018
Fixed Rate		
<u>Financial Assets</u>		
Factoring receivables	2,125,325	1,392,599
<u>Financial Liabilities</u>		
Funds borrowed	1,933,784	1,035,015
Securities Issued	-	204,912
Factoring liabilities	1,719	2,417

Interest rate sensitivity of assets

As at 31 December 2019 there is no floating rate instrument (31 December 2018: None).

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

27 NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

27.3 Market Risk (continued)

Foreign currency risk

Foreign currency position risk for the Company is a result of the difference between the Company’s assets denominated in foreign currencies and indexed to foreign currencies and liabilities denominated in foreign currencies. The Company has closed foreign currency position as at 31 December 2019. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date and the foreign exchange differences arising are recognized as foreign exchange profit or loss.

As at 31 December 2019 and 31 December 2018, TL equivalent of foreign currency denominated assets and liabilities held by the company are as follows:

31 December 2019	US Dollar	Euro	Other currencies	Total
Cash and cash equivalents	597	1,440	11	2,048
Factoring receivables and non-performing receivables	4,067	30,007	4,520	38,594
Other assets	79	52	-	131
Total foreign currency assets	4,743	31,499	4,531	40,773
Funds borrowed	2,171	27,177	4,001	33,349
Factoring liabilities	424	214	-	638
Lease liabilities	-	368	-	368
Other liabilities	-	217	36	253
Total foreign currency liabilities	2,595	27,976	4,037	34,608
Balance sheet position	2,148	3,523	494	6,165
Off-balance sheet position	-	-	-	-
Net foreign currency position	2,148	3,523	494	6,165

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

27 NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

27.3 Market Risk (continued)

Foreign currency risk (continued)

31 December 2018	US Dollar	Euro	Other currencies	Total
Cash and cash equivalents	301	90	5	396
Factoring receivables and non-performing receivables	35,689	104,581	2,376	142,647
Other assets	88	20	-	108
Total foreign currency assets	36,078	104,691	2,381	143,150
Fund borrowed	33,969	98,801	2,178	134,948
Other liabilities	75	30	2	107
Factoring liabilities	29	230	13	272
Total foreign currency liabilities	34,073	99,061	2,193	135,327
Balance sheet position	2,005	5,630	188	7,823
Off-balance sheet position	-	-	-	-
Net foreign currency position	2,005	5,630	188	7,823

Foreign Currency Risk Sensitivity

For the periods ended 31 December 2019 and 31 December 2018, decreases that will occur in the income statement (except for tax effect) due to 20% depreciation of TL against the currencies below are given in the table below. This analysis assumes that all other variables, in particular interest rates; remain constant. If TL appreciates by 20% against the related currencies will increase the profit by the same amount.

	1 January – 31 December 2019	1 January – 31 December 2018
USD	424	401
EUR	705	1,126
Other	99	38
Total	1,228	1,565

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

27 NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

27.4 Fair Values of Financial Instruments

31 December 2019	Financial assets at amortized cost	Financial liabilities at amortized cost	Carrying value	Fair value
<u>Financial assets</u>				
Cash and Cash Equivalents	4,653	-	4,653	4,653
Loans, (Net)	2,125,324	-	2,125,324	2,125,325
<u>Financial Liabilities</u>				
Funds Borrowed	-	1,933,784	1,933,784	1,933,784
Factoring liabilities	-	1,719	1,719	1,719
Lease Liabilities	-	541	541	540
Other Liabilities	-	11,823	11,823	11,822
<u>31 December 2018</u>				
<u>Financial Asset</u>				
Cash and Cash Equivalents	25,911	-	25,911	25,911
Loans, (Net)	1,392,599	-	1,392,599	1,392,599
<u>Financial Liabilities</u>				
Funds Borrowed	-	1,035,015	1,035,015	1,035,015
Factoring Liabilities	-	2,417	2,417	2,417
Securities Issued (Net)	-	204,912	204,912	204,912
Other Liabilities	-	5,972	5,972	5,972

Banks, factoring receivables and other liabilities' fair value presumed to be close to their carrying amounts since they are short-term and the possible losses are assumed to be insignificant in value and therefore negligible.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

27 NATURE AND LEVEL OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

27.4 Fair Values of Financial Instruments (continued)

Fair Value Levels of Financial Instruments Classification

IFRS 7 – *Financial instruments* requires the classification of fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value to be disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by Company. This distinction brings about a fair value measurement classification generally 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).

Classification is needed available observable market informations.

This classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

As at 31 December 2019, there is no financial assets and liabilities at fair value through profit or loss (31 December 2018: None).

27.5 Capital Management

The Company’s policy is to maintain a strong capital base and to maintain a balance between the indebtedness and equity in an effective way so as to increase its profit. The capital structure of the Company consists of equity comprising issued capital, reserves and retained earnings disclosed in Note 18.

The Company’s capital cost and risks related with each capital class are assessed by the key management of the Company. During these examinations, the key management assesses capital cost and risks attributable to each capital class and the decisions related to the Board of Directors are submitted to the Board of Directors.

There is no change in the policies of the Company as compared to prior period.

As of 31 December 2019 and 31 December 2018, equity to debt ratios are as follows:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Total Liabilities ⁽¹⁾	1,935,503	1,242,344
Less: Cash and Cash Equivalents	4,653	25,911
Net Liabilities	1,930,850	1,216,433
Total Shareholders’ Equity	184,573	144,355
Shareholders’ equity / debt	10%	12%

(1) Total liabilities exclude taxes and other liabilities, provisions for liabilities and expenses, current year tax charge, deferred revenues and deferred tax liability.

HALK FAKTORİNG ANONİM ŞİRKETİ

NOTES TO THE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019

(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

28 OTHER MATTERS

An indictment in which the allegations put forward in the lawsuit against the violation of Iranian sanctions against the former manager of the Parent Bank was repeated, was filed against the Parent Bank by the New York South District Prosecutor's Office, which is affiliated with the United States Department of Justice on 15 October 2019.

In order to object to the court's personal verdict and to submit requests for the recusation, a private hearing was requested by the Parent Bank from the New York District Court. The District Court denied the concerning request. The Parent Bank applied to the New York 2nd Court of Appeal and requested a high court order in order for the District Court to hold a private hearing.

When the District Court wanted to continue the general hearings in which the case was to be discussed, the hearings were requested to be ceased with reference to the aforementioned Court. The District Court denied the concerning request. The decision to halt the hearings rejected by the Parent Bank was also appealed before the 2nd Court of Appeal.

The 2nd Court of Appeal decided to temporarily suspend the hearing before the District Court until the appellate panel of 3 judges made its final decision regarding the cessation of hearings.

The appeal process for the final cessation of hearings before the 2nd Court of Appeal and for the order of a high court to hold a private hearing is still ongoing.

The judicial process is closely monitored by the Parent Bank through US law firms that are experts in their field.

The appeal process which resulted in criminal proceedings concerning the former manager of the Parent Bank who was released and returned to Turkey on 19 July 2019 still continues.

The Parent Bank thoroughly complies with the national and international regulations in all its businesses and transactions, at all times; and endeavours to further develop its compliance policy as per the international standards.

While delivering its banking services, the Parent Bank solely utilizes foreign trade applications that are acknowledged and monitored by current regulations and all other banks; no other mechanism, method, or system is used. The foreign trade transactions and money transfers processed are explicit, transparent and readily observable by the relevant authorities. The Parent Bank shall preserve the transparency of its transactions and its policy of compliance with the international regulations, hereinafter, with the same determination.

Since the Parent Bank places an utmost importance on the matter, it had gone through a change in its organizational structure and established a new unit in the name of “Department of Compliance”.

29 EVENTS AFTER THE REPORTING PERIOD

None.