



**Halk Faktoring
Anonim Şirketi**

Financial Statements
As at and for the year ended
31 December 2016
With Independent Auditors' Report

*“Convenience Translation to English of
Financial Statements
And Notes To The Financial Statements
Originally Issued In Turkish”*

15 March 2017

*This report contains “Independent Auditors’ Report”
comprising 2 pages and the “Financial Statements and Its
Explanatory Notes” comprising 45 pages.*



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**Convenience Translation of the Independent Auditors' Report
Originally Prepared and Issued in Turkish**

To the Board of Directors of Halk Faktoring Anonim Şirketi,

Report on the Financial Statements

We have audited the accompanying statement of financial position of Halk Faktoring Anonim Şirketi ("the Company") as at 31 December 2016, and the statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Legislation which includes "Communiqué on Uniform Chart of Accounts and Prospectus to be implemented by Financial Leasing, Factoring and Financing Companies" published in the Official Gazette numbered 28861 dated 24 December 2013 and "Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies", communiqués, and circulars and, announcements made by BRSA and requirements of Turkish Accounting Standards for the matters not regulated by the aforementioned legislations, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Independent Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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HALK FAKTORİNG ANONİM ŞİRKETİ
STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2016
(Amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

ASSET	Notes	Audited Current Period 31 December 2016			Audited Prior Period 31 December 2015		
		TL	FC	Total	TL	FC	Total
I. CASH AND CASH EQUIVALENTS		1,215	-	1,215	421	-	421
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Net)		-	-	-	-	-	-
2.1 Financial Assets Held for Trading		-	-	-	-	-	-
2.2 Financial Assets Designated at Fair Value Through Profit or Loss		-	-	-	-	-	-
2.3 Derivative Financial Assets Held for Trading		-	-	-	-	-	-
III. BANKS	3	1,585,577	376,515	1,962,092	552,188	609,390	1,161,578
RECEIVABLES FROM REVERSE REPURCHASE AGREEMENTS		-	-	-	-	-	-
IV. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)		-	-	-	-	-	-
VI. FACTORING RECEIVABLES	4	849,636,746	284,891,836	1,134,528,582	415,948,297	69,871,827	485,820,124
6.1 Discounted Factoring Receivables		226,225,108	249,211,352	475,436,460	175,839,666	6,214,873	182,054,539
6.1.1 Domestic		234,044,376	249,705,257	483,749,633	182,301,798	6,226,170	188,527,968
6.1.2 Foreign		-	-	-	-	-	-
6.1.3 Unearned Income (-)		(7,819,268)	(493,905)	(8,313,173)	(6,462,132)	(11,297)	(6,473,429)
6.2 Other Factoring Receivables		623,411,638	35,680,484	659,092,122	240,108,631	63,656,954	303,765,585
6.2.1 Domestic		623,411,638	-	623,411,638	240,108,631	-	240,108,631
6.2.2 Foreign		-	35,680,484	35,680,484	-	63,656,954	63,656,954
VII. FINANCING LOANS		-	-	-	-	-	-
7.1 Private Customer Loans		-	-	-	-	-	-
7.2 Credit Cards		-	-	-	-	-	-
7.3 Installment Based Commercial Loans		-	-	-	-	-	-
VIII. LEASE RECEIVABLES		-	-	-	-	-	-
8.1 Lease Receivables		-	-	-	-	-	-
8.1.1 Finance Lease Receivables		-	-	-	-	-	-
8.1.2 Operational Lease Receivables		-	-	-	-	-	-
8.1.3 Other		-	-	-	-	-	-
8.1.4 Unearned Income (-)		-	-	-	-	-	-
8.2 Leasing Contracts in Progress		-	-	-	-	-	-
8.3 Advances Given for Lease Transactions		-	-	-	-	-	-
IX. OTHER RECEIVABLES	5	1,004,770	72,117	1,076,887	808,580	34	808,614
X. NON-PERFORMING FACTORING RECEIVABLES	6	-	-	-	1,063,590	-	1,063,590
10.1 Non-Performing Factoring Receivables		23,315,694	-	23,315,694	5,918,684	-	5,918,684
10.2 Non-Performing Financing Loans		-	-	-	-	-	-
10.3 Non-Performing Lease Receivables		-	-	-	-	-	-
10.4 Specific Provisions (-)		(23,315,694)	-	(23,315,694)	(4,855,094)	-	(4,855,094)
XI. DERIVATIVE FINANCIAL ASSETS HELD FOR RISK MANAGEMENT PURPOSE		-	-	-	-	-	-
11.1 Fair Value Hedges		-	-	-	-	-	-
11.2 Cash Flow Hedges		-	-	-	-	-	-
11.3 Hedges of Net Investment in Foreign Operations		-	-	-	-	-	-
XII. INVESTMENTS HELD TO MATURITY (Net)		-	-	-	-	-	-
XIII. INVESTMENT IN SUBSIDIARIES (Net)		-	-	-	-	-	-
XIV. INVESTMENT IN ASSOCIATES (Net)		6	-	6	6	-	6
XV. INVESTMENT IN JOINT VENTURES (Net)		-	-	-	-	-	-
XVI. TANGIBLE ASSETS (Net)	7	807,215	-	807,215	880,279	-	880,279
XVII. INTANGIBLE ASSETS (Net)	8	322,815	-	322,815	224,503	-	224,503
17.1 Goodwill		-	-	-	-	-	-
17.2 Other Intangibles		322,815	-	322,815	224,503	-	224,503
XVIII. PREPAID EXPENSES	9	381,932	30,022	411,954	279,833	23,832	303,665
IXX. CURRENT TAX ASSETS	17	970,394	-	970,394	-	-	-
XX. DEFERRED TAX ASSETS	10	1,926,648	-	1,926,648	1,630,640	-	1,630,640
XXI. OTHER ASSETS	11	26,404	-	26,404	415,976	-	415,976
SUBTOTAL		856,663,722	285,370,490	1,142,034,212	421,804,313	70,505,083	492,309,396
XXII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)		-	-	-	-	-	-
22.1 Assets Held For Sale		-	-	-	-	-	-
22.2 Assets of Discontinued Operations		-	-	-	-	-	-
TOTAL ASSETS		856,663,722	285,370,490	1,142,034,212	421,804,313	70,505,083	492,309,396

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 2016
(Amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

LIABILITIES	Notes	Audited Current Period 31 December 2016			Audited Prior Period 31 December 2015		
		TL	FC	Total	TL	FC	Total
I. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING		-	-	-	-	-	-
II. FUNDS BORROWED	12	779,797,433	284,001,391	1,063,798,824	360,408,392	69,609,051	430,017,443
III. FACTORING PAYABLES	13	382,635	205,323	587,958	10,545	212,998	223,543
IV. LEASE OBLIGATIONS		-	-	-	-	-	-
4.1 Finance Lease Obligations		-	-	-	-	-	-
4.2 Operational Lease Obligations		-	-	-	-	-	-
4.3 Others		-	-	-	-	-	-
4.4 Deferred Finance Lease Expenses (-)		-	-	-	-	-	-
V. DEBT SECURITIES ISSUED (Net)		-	-	-	-	-	-
5.1 Bills		-	-	-	-	-	-
5.2 Asset-Backed Securities		-	-	-	-	-	-
5.3 Bonds		-	-	-	-	-	-
VI. OTHER PAYABLES	14	139,963	71,011	210,974	129,985	59,335	189,320
VII. OTHER LIABILITIES		-	-	-	-	-	-
VIII. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT		-	-	-	-	-	-
8.1 Fair Value Hedges		-	-	-	-	-	-
8.2 Cash Flow Hedges		-	-	-	-	-	-
8.3 Hedges of Net Investment in Foreign Operations		-	-	-	-	-	-
IX. TAXES AND DUTIES PAYABLE	15	1,627,462	-	1,627,462	807,814	-	807,814
X. PROVISIONS	16	1,423,744	-	1,423,744	1,154,226	-	1,154,226
10.1 Restructuring Reserves		-	-	-	-	-	-
10.2 Reserves For Employee Benefits		1,310,600	-	1,310,600	803,609	-	803,609
10.3 Other Provisions		113,144	-	113,144	350,617	-	350,617
XI. DEFERRED INCOME	14	184,815	131,521	316,336	321,400	88,301	409,701
XII. CURRENT TAX LIABILITIES	17	-	-	-	1,545,940	-	1,545,940
XIII. DEFERRED TAX LIABILITY		-	-	-	-	-	-
XIV. SUBORDINATED LOANS		-	-	-	-	-	-
SUBTOTAL		783,556,052	284,409,246	1,067,965,298	364,378,302	69,969,685	434,347,987
XV. PAYABLES FOR ASSETS HELD FOR SALE AND ASSETS RELATED TO DISCONTINUED OPERATIONS		-	-	-	-	-	-
15.1 Payables Related to the Assets held for Sale		-	-	-	-	-	-
15.2 Payables Related to the Discontinued Operations		-	-	-	-	-	-
XIV. SHAREHOLDERS' EQUITY		74,068,914	-	74,068,914	57,961,409	-	57,961,409
16.1 Paid-in Capital	18.1	55,500,000	-	55,500,000	46,500,000	-	46,500,000
16.2 Capital Reserves		-	-	-	-	-	-
16.2.1 Share Premiums		-	-	-	-	-	-
16.2.2 Share Cancellation Profits		-	-	-	-	-	-
16.2.3 Other Capital Reserves		-	-	-	-	-	-
16.3 Accumulated Other Comprehensive Income that will never be Reclassified to Profit or Loss	18.2	(10,245)	-	(10,245)	(21,079)	-	(21,079)
16.4 Accumulated Other Comprehensive Income that are or may be Reclassified to Profit or Loss		-	-	-	-	-	-
16.5 Profit Reserves	18.3	1,217,832	-	1,217,832	383,110	-	383,110
16.5.1 Legal Reserves		1,217,832	-	1,217,832	383,110	-	383,110
16.5.2 Statutory Reserves		-	-	-	-	-	-
16.5.3 Extraordinary Reserves		-	-	-	-	-	-
16.5.4 Other Profit Reserves		-	-	-	-	-	-
16.6 Profit or Loss		17,361,327	-	17,361,327	11,099,378	-	11,099,378
16.6.1 Prior Periods Profit/Loss		1,264,656	-	1,264,656	1,117,440	-	1,117,440
16.6.2 Net Income or Loss for the Current Period		16,096,671	-	16,096,671	9,981,938	-	9,981,938
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		857,624,966	284,409,246	1,142,034,212	422,339,711	69,969,685	492,309,396

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

HALK FAKTORİNG ANONİM ŞİRKETİ**OFF-BALANCE SHEET ITEMS AS AT 31 DECEMBER 2016**

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

STATEMENT OF OFF-BALANCE SHEET ITEMS	Notes	Audited Current Period 31 December 2016			Audited Prior Period 31 December 2015		
		TL	FC	Total	TL	FC	Total
I. REVOCABLE FACTORING TRANSACTIONS		2,571,349	29,375,314	31,946,663	1,155,372	18,881,086	20,036,458
II. IRREVOCABLE FACTORING TRANSACTIONS		506,410,612	5,769,181	512,179,793	142,890,711	556,230	143,446,941
III. COLLATERALS RECEIVED	4,28	13,707,289,473	6,211,489,174	19,918,778,647	6,236,272,288	1,925,248,166	8,161,520,454
IV. COLLATERALS GIVEN	28	361,256	-	361,256	26,453,056	-	26,453,056
V. COMMITMENTS		-	-	-	-	-	-
5.1 Irrevocable Commitments		-	-	-	-	-	-
5.2 Revocable Commitments		-	-	-	-	-	-
5.2.1 Lease Commitments		-	-	-	-	-	-
5.2.1.1 Financial Lease Commitments		-	-	-	-	-	-
5.2.1.2 Operational 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 Trading Derivatives		-	-	-	-	-	-
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	28	329,514,185	29,075,161	358,589,346	196,224,623	13,146,686	209,371,309
TOTAL OFF-BALANCE SHEET ITEMS		14,546,146,875	6,275,708,830	20,821,855,705	6,602,996,050	1,957,832,168	8,560,828,218

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

HALK FAKTORİNG ANONİM ŞİRKETİ

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

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

INCOME AND EXPENSE ITEMS		Notes	Audited	Audited
			Current Period	Prior Period
			1 January – 31 December	1 January – 31 December
			2016	2015
I.	OPERATING INCOME	19	133,747,633	60,969,399
	FACTORING INCOME		133,747,633	60,969,399
1.1	Factoring Interest Income		124,197,844	57,436,859
1.1.1	Discounted		44,981,198	19,403,913
1.1.2	Other		79,216,646	38,032,946
1.2	Factoring Commission Income		9,549,789	3,532,540
1.2.1	Discounted		1,517,226	950,028
1.2.2	Other		8,032,563	2,582,512
II.	FINANCING EXPENSES (-)	20	(80,338,079)	(37,763,067)
2.1	Interest Expense on Funds Borrowed		(79,451,553)	(37,142,415)
2.2	Interest Expense on Factoring Payables		-	-
2.3	Interest Expense on Financial Leases		-	-
2.4	Interest Expense on Debt Securities Issued		-	-
2.5	Other Interest Expenses		-	-
2.6	Fees and Commission Expenses		(886,526)	(620,652)
III.	GROSS PROFIT / LOSS (I-II)		53,409,554	23,206,332
IV.	OPERATING EXPENSES (-)	21	(14,563,381)	(11,161,735)
4.1	Personnel Expenses		(10,063,731)	(7,374,577)
4.2	Provision Expense for Employee Termination Indemnity		(63,936)	(28,202)
4.3	Research and Development Expenses		-	-
4.4	General Administrative Expenses		(3,861,650)	(3,458,956)
4.5	Other		(574,064)	(300,000)
V.	GROSS OPERATING PROFIT / LOSS (III+IV)		38,846,173	12,044,597
VI.	OTHER OPERATING INCOME	22	18,747,913	7,156,479
6.1	Interest Income on Banks		9,619	49,237
6.2	Interest Income on Reverse Repurchase Agreements		-	-
6.3	Interest Income on Securities		-	-
6.3.1	Interest Income on Trading Financial Assets		-	-
6.3.2	Interest Income on Financial Assets Valued at Fair Value Through Profit or Loss		-	-
6.3.3	Interest Income on Financial Assets Available-for-Sale		-	-
6.3.4	Interest Income on Investments Held to Maturity		-	-
6.4	Dividend Income		-	-
6.5	Trading Account Income		-	-
6.5.1	Derivatives		-	-
6.5.2	Others		-	-
6.6	Foreign Exchange Gains		18,316,197	4,182,574
6.7	Other		422,097	2,924,668
VII.	SPECIFIC PROVISIONS FOR NON-PERFORMING RECEIVABLES (-)	23	(18,678,589)	(1,861,628)
VIII.	OTHER OPERATING EXPENSES (-)	24	(18,167,816)	(4,069,916)
8.1	Impairment in Value of Securities		-	-
8.1.1	Impairment in Value of Financial Assets Designated at Fair Value Through Profit or Loss		-	-
8.1.2	Impairment in Value of Financial Assets Available-for-Sale		-	-
8.1.3	Impairment in Value of Investments Held to Maturity		-	-
8.2	Impairment in Value of Non Current Assets		-	-
8.2.1	Impairment in Value of Tangible Assets		-	-
8.2.2	Impairment in Value of Assets Held for Sale and Assets Related to Discontinued Operations		-	-
8.2.3	Impairment in Value of Goodwill		-	-
8.2.4	Impairment in Value of Other Intangible Assets		-	-
8.2.5	Impairment in Value of Subsidiaries, Associates and Joint-Ventures		-	-
8.3	Trading Account Losses from Financial Derivatives		-	-
8.4	Foreign Exchange Losses		(18,108,601)	(3,977,002)
8.5	Other		(59,215)	(92,914)
IX.	OPERATIONAL PROFIT/LOSS (V+.....+VIII)		20,747,681	13,269,532
X.	INCOME RESULTED FROM MERGER		-	-
XI.	GAIN/LOSS ON NET MONETARY POSITION		-	-
XII.	PROFIT/LOSS FROM CONTINUING OPERATIONS BEFORE TAXES (IX+X+XI)		20,747,681	13,269,532
XIII.	PROVISION FOR TAXES FROM CONTINUING OPERATIONS (±)	25	(4,651,010)	(3,287,594)
13.1	Current Tax Charge	17,25	(4,949,727)	(3,139,594)
13.2	Deferred Tax Charge (-)	10	-	(148,000)
13.3	Deferred Tax Benefit (+)	10	298,717	-
XIV.	NET PROFIT/LOSS AFTER TAXES FROM CONTINUING OPERATIONS(XII±XIII)		16,096,671	9,981,938
XV.	INCOME FROM DISCONTINUED OPERATIONS		-	-
15.1	Income from Assets Held for Sale		-	-
15.2	Income from Sale of Associates, Subsidiaries and Joint-Ventures		-	-
15.3	Other Income From Discontinued Operations		-	-
XVI.	EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
16.1	Expense From Assets Held for Sale		-	-
16.2	Expense from Sale of Associates, Subsidiaries and Joint-Ventures		-	-
16.3	Other expense from Discontinued Operations		-	-
XVII.	PROFIT/LOSS BEFORE TAXES ON DISCONTINUED OPERATIONS		-	-
XVIII.	PROVISION FOR TAXES FROM DISCONTINUED OPERATIONS (±)		-	-
18.1	Current Tax Charge		-	-
18.2	Deferred Tax Benefit (+)		-	-
18.3	Deferred Tax Charge (-)		-	-
XIX.	NET INCOME/LOSS AFTER TAXES FROM DISCONTINUED OPERATIONS		-	-
XX.	NET PROFIT/LOSS		16,096,671	9,981,938
	EARNINGS PER SHARE			
	Earnings Per Share from Continuing Operations	26	0.2900	0.1799
	Earnings Per Share from Discontinuing Operations		-	-
	DILUTED EARNINGS PER SHARE			
	Earnings Per Share from Continuing Operations		-	-
	Earnings Per Share from Discontinuing Operations	26	0.2900	0.1799

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

HALK FAKTORİNG ANONİM ŞİRKETİ**STATEMENT OF PROFIT AND LOSS OR OTHER COMPREHENSIVE INCOME FOR THE YEAR
ENDED 31 DECEMBER 2016**

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

	Audited Current Period 1 January – 31 December 2016	Audited Prior Period 1 January – 31 December 2015
PROFIT/LOSS AND OTHER COMPREHENSIVE INCOME		
I.	NET PROFIT/LOSS	16,096,671
II.	OTHER COMPREHENSIVE INCOME	9,981,938
2.1	Items that will never be Reclassified to Profit or Loss	(21,079)
2.1.1	Revaluation of Tangible Assets	-
2.1.2	Revaluation of Intangible Assets	-
2.1.3	Remeasurement of Reserve for Employee Benefits	(26,349)
2.1.4	Other Comprehensive Income that will never Reclassified to Profit or Loss	-
2.1.5	Related Tax	-
2.1.5.1	Current Tax Benefit/Charge	5,270
2.1.5.2	Deferred Tax Benefit/Charge (-)	-
2.2	Items that are or may be Reclassified to Profit or Loss	5,270
2.2.1	Foreign Currency Translation Differences	-
2.2.2	Assets Held for Sales- Net Change in Fair Value	-
2.2.3	Cash Flow Hedges- Effective Portion of Changes in Fair Value	-
2.2.4	Net Investment Hedge Income/Losses	-
2.2.5	Other Comprehensive Income that are or may be Reclassified to Profit or Loss	-
2.2.6	Related Tax	-
2.2.6.1	Current Tax Benefit/Charge	-
2.2.6.2	Deferred Tax Benefit/Charge (-)	-
III.	TOTAL COMPREHENSIVE INCOME (I+II)	-
XXIII.	TOTAL PROFIT / LOSS ACCOUNTED FOR THE PERIOD	16,107,505
		9,960,859

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 2016
(Amounts are expressed in Turkish Lira ("TL") unless otherwise stated)

CHANGES IN EQUITY	Notes	Paid-in Capital	Capital Reserves	Share Premium	Share Capital on Profits	Other Capital Reserves	Accumulated other comprehensive income that will be reclassified to profit or loss						Total Equity	
							1	2	3	4	5	6		
Prior Period (01.01 – 31.12.2015) (Audited)														
I. Balance at the Beginning of the Period	TR.1	40,000,000	-	-	-	-	-	-	-	-	-	-	-	40,000,000
II. Correction Made According to TAS 9		-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Effect of Corrections of Errors		-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effect of Changes in Accounting Policies		-	-	-	-	-	-	-	-	-	-	-	-	-
III. Adjusted Beginning Balance (I+II)		40,000,000	-	-	-	-	-	-	-	-	-	-	-	40,000,000
IV. Total Comprehensive Income		-	-	-	-	-	-	-	-	-	-	-	-	-
V. Cash Capital Increase		-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Capital Increase from Internal Reserves		6,500,000	-	-	-	-	-	-	-	-	-	-	-	6,500,000
VII. Capital Reserves From Inflation Adjustments		-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. To Paid-in Capital		-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Convertible Bonds		-	-	-	-	-	-	-	-	-	-	-	-	-
X. Subordinated Loans		-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Increases / Decreases due to Other Changes		-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Profit for the Period		-	-	-	-	-	-	-	-	-	-	-	-	7,178,966
12.1 Profit Distribution		-	-	-	-	-	-	-	-	-	-	-	-	-
12.1 Dividend Paid		-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 Transfer to Reserves		-	-	-	-	-	-	-	-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-
Balance of the End of the Period	TR.1	46,500,000	-	-	-	-	383,110	383,110	383,110	383,110	383,110	383,110	383,110	51,099,378
Current period (01.01 – 31.12.2016) (Audited)														
I. Balance at the Beginning of the Period	TR.1	46,500,000	-	-	-	-	383,110	383,110	383,110	383,110	383,110	383,110	383,110	51,099,378
II. Correction Made According to TAS 9		-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Effect of Corrections of Errors		-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effect of Changes in Accounting Policies		-	-	-	-	-	-	-	-	-	-	-	-	-
III. Adjusted Beginning Balance (I+II)		46,500,000	-	-	-	-	383,110	383,110	383,110	383,110	383,110	383,110	383,110	51,099,378
IV. Total Comprehensive Income		-	-	-	-	-	-	-	-	-	-	-	-	-
V. Cash Capital Increase		-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Capital Increase from Internal Reserves		9,000,000	-	-	-	-	-	-	-	-	-	-	-	9,000,000
VII. Capital Reserves From Inflation Adjustments		-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. To Paid-in Capital		-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Convertible Bonds		-	-	-	-	-	-	-	-	-	-	-	-	-
X. Subordinated Loans		-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Increases / Decreases due to Other Changes		-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Profit for the Period		-	-	-	-	-	-	-	-	-	-	-	-	9,981,938
12.1 Profit Distribution		-	-	-	-	-	-	-	-	-	-	-	-	-
12.1 Dividend Paid		-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 Transfer to Reserves		-	-	-	-	-	-	-	-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-
Balance of the End of the Period	TR.3	55,500,000	-	-	-	-	1,217,832	1,217,832	1,217,832	1,217,832	1,217,832	1,217,832	1,217,832	61,006,671

1. Revolution increase/decrease of property and equipment.
2. Employee benefits re-measuring income/loss.
3. Other (Other comprehensive income related with equity pick up investment portwas and accumulated other comprehensive income components that will not be re-classified to profit/loss)
4. Foreign currency translation differences for foreign operations.
5. Net change in fair value of available-for-sale financial 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 2016**

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

	<i>Notes</i>	Audited Current Period 1 January – 31 December 2016	Audited Prior Period 1 January – 31 December 2015
A. CASH FLOWS FROM OPERATING ACTIVITIES			
1.1		38,982,318	14,425,050
Operating Profit Before Changes in Operating Assets And Liabilities			
1.1.1		117,340,149	54,015,797
1.1.2		(80,338,079)	(37,763,067)
1.1.3		-	-
1.1.4		-	-
1.1.5		9,549,789	6,455,736
1.1.6		570,478	114,130
1.1.7		217,989	864,723
1.1.8		(8,775,780)	(7,412,329)
1.1.9		(5,919,869)	(1,593,654)
1.1.10	17	6,337,641	(256,286)
1.2		(37,703,069)	(14,447,376)
Changes in Operating Assets and Liabilities			
1.2.1		(659,724,417)	(117,942,505)
1.2.2		-	-
1.2.3		-	-
1.2.4		4,755,715	1,212,976
1.2.5		364,415	223,543
1.2.6		-	-
1.2.7		622,884,221	102,250,296
1.2.8		-	-
1.2.9		(5,983,003)	(191,686)
I.		1,279,249	(22,326)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
2.1		-	-
2.2		-	-
2.3	7	(234,643)	(775,814)
2.4		(93)	-
2.5		-	(5,257)
2.6		-	-
2.7		-	-
2.8		-	-
2.9	8	(243,205)	(200,489)
II.		(477,941)	(981,560)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
3.1		-	-
3.2		-	-
3.3		-	-
3.4		-	-
3.5		-	-
3.6		-	-
III.		-	-
Net Cash Generated from in Financing Activities			
IV.		-	-
Effect of Change in Foreign Exchange Rates on Cash and Cash Equivalents			
V.		801,308	(1,003,886)
Net Increase / (Decrease) in Cash and Cash Equivalents			
VI.	2.2.1	1,161,999	2,165,885
Cash and Cash Equivalents at the Beginning of the Year			
VII.	2.2.1	1,963,307	1,161,999
Cash and Cash Equivalents at the End of the Year			

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 2016

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

	Current Period ⁽¹⁾ 31 December 2016	Prior Period 31 December 2015
I. DISTRIBUTION OF CURRENT PERIOD PROFIT		
1.1 CURRENT PERIOD PROFIT	20,747,681	13,269,532
1.2 TAXES AND LEGAL DUTIES PAYABLE (-)	(4,651,010)	(3,287,594)
1.2.1 Corporate Tax (Income Tax)	(4,949,727)	(3,139,594)
1.2.2 Withholding Tax	-	-
1.2.3 Other Taxes and Duties	298,717	(148,000)
A. NET PROFIT FOR THE YEAR (1.1-1.2)	16,096,671	9,981,938
1.3 ACCUMULATED LOSSES (-)	-	-
1.4 FIRST LEGAL RESERVES (-)	-	(834,722)
1.5 OTHER STATUTORY RESERVES (-) ⁽²⁾	-	-
B. NET PROFIT AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]	16,096,671	9,147,216
1.6 FIRST DIVIDEND TO SHAREHOLDERS (-)	-	-
1.6.1 To Owners of Ordinary Shares	-	-
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	-	9,147,216
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	0,2900	0,1799
3.2 TO OWNERS OF ORDINARY SHARES (%)	29.00	17.99
3.3 TO OWNERS OF PRIVILEGED SHARES	-	-
3.4 TO OWNERS OF PRIVILEGED SHARES (%)	-	-
IV. DIVIDEND PER SHARE	-	-
4.1 TO OWNERS OF ORDINARY SHARES	-	-
4.2 TO OWNERS OF ORDINARY SHARES (%)	-	-
4.3 TO OWNERS OF PRIVILEGED SHARES	-	-
4.4 TO OWNERS OF PRIVILEGED SHARES (%)	-	-

⁽¹⁾ Profit distribution related to year 2016 will be decided at the General Assembly.⁽²⁾ Deferred tax income is not subject to profit distribution.

HALK FAKTORİNG ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

1. ORGANIZATION AND OPERATIONS OF THE COMPANY

Halk Faktoring AŞ was incorporated on 6 June 2012 to provide factoring services. 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. 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 2016, the number of employees of the Company is 70 (31 December 2015: 72).

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 Accounting Standards Applied

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").

The financial statements as at and for the year ended 31 December 2016 have been approved by the Board of Directors of the Company and authorized for issue as at 15 March 2017. The General Assembly and / or legal authorities have the discretion of making changes in the accompanying financial statements after their issuance.

HALK FAKTORİNG ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Preparation *(Continued)*

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 requires management to 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.

In preparation of the financial statements, the significant estimates and judgments are not used by the Company.

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 *Standards issued but not yet effective and not early adopted*

The standards and interpretations adopted in 2016

The Company applied all of the relevant and required standards TAS/TFRSs and related interpretations as at 31 December 2016.

Standards and interpretations not yet issued as at 31 December 2016

There have been new standards and interpretations not yet adopted to the accompanying financial statements as at and for the interim period ended 31 December 2016 and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below;

Standards issued but not yet effective and not early adopted

TFRS 9 Financial Instruments

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2018. Phase 1 of this new TFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

HALK FAKTORİNG ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Amounts are expressed in Turkish Lira (“TL”) unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Preparation *(Continued)*

2.1.5 Standards issued but not yet effective and not early adopted *(continued)*

TFRS 15 Revenue from Contracts with Customers

As issued in September 2016, the new standard replaces existing TFRS guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognizing revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under TFRS. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company

Improvements to IFRSs

The IASB issued Annual Improvements to IFRSs - 2014–2016 Cycle. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Company does not expect that these amendments will have significant impact on the financial position or performance of the Company.

Annual Improvements to IFRSs 2014-2016 Cycle

IFRS 1 “First Time Adoption of International Financial Reporting Standards”

IFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters related to disclosures for financial instruments, employee benefits and consolidated financial statements.

IFRS 12 “Disclosure of Interests in Other Entities”

The amendments clarify that the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate under the requirements of IFRS 12, when an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5.

IAS 28 “Investments in Associates and Joint Ventures”

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Preparation (Continued)

2.1.5 Standards issued but not yet effective and not early adopted (continued)

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Company will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under TFRS.

IFRS 9 Financial Instruments – Hedge Accounting and amendments to TFRS 9, TFRS 7 and TAS 39 -IFRS 9 (2013)

In November 2013, the IASB issued a new version of IFRS 9, which includes the new hedge accounting requirements and some related amendments to IAS 39 and IFRS 7. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging transactions. Further, the new standard removes the 1 January 2015 effective date of IFRS 9. The new version of IFRS 9 issued after IFRS 9 (2013) introduces the mandatory effective date of 1 January 2018 for IFRS 9, with early adoption permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

IFRS 9 Financial Instruments (2014)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from TAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The amendments clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Preparation (Continued)

2.1.5 Standards issued but not yet effective and not early adopted (continued)

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA (continued)

Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative

IAS 7 Statement of Cash Flows has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. The amendments will require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for periods beginning on or after 1 January 2017, with earlier application permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

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. There has not been any significant change in the accounting estimates of the Company in the current year.

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 simultaneousl

HALK FAKTORİNG ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Amounts are expressed in Turkish Lira ("TL") unless otherwise stated.)

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.2 Summary of significant accounting policies

(a) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise factoring receivables, banks and other 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).

Other non-derivative financial instruments are measured at amortized cost using the effective interest method less any impairment.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or 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.

HALK FAKTORİNG ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(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)

(b) Tangible Assets

Tangible assets are measured at cost, less accumulated depreciation and accumulated impairment losses, if any.

(i) Subsequent costs

The cost of replacing part of an item of tangible assets is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of tangible assets are recognized in the income statement as incurred.

(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	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 represent computer software licenses and rights. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their useful lives. Costs that are directly associated with the development of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets.

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

2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

2.2 Summary of Significant Accounting Policies (Continued)

(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.

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.

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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 par value as approved at the annual meeting of shareholders.

(f) Reserve for severance payments

In accordance with the existing social legislation in Turkey, the Company is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Those payments are calculated with basis of taking the upper limit of severance payment at the balance sheet date.

In accordance with TAS 19, “Employee Benefits”, the Company calculated the severance pay liability incurred due to retirement of its employees by discounting the future liabilities to their present values, by using statistical method and reflected to the financial statements. The main estimates used are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Discount Rate	4.00 %	3.85 %
Interest Rate	11.25 %	10.50 %
Expected Salary/Limit Increase Rate	6.50 %	6.40 %
Expected severance payment benefit ratio	100 %	100 %

(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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability if the time value of the money is significant to the provision.

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

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2 BASIS OF THE 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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or their tax assets and liabilities will be realized simultaneously.

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 recognised 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. Deferred tax is calculated using the tax rates that are expected to be valid at the time that the temporary differences will close.

Valuation of assets on the statement of income as a result of these differences and deferred tax income or expense in the income statement on the relevant valuation of the asset is accounted for in equity as a result of the differences, the related deferred tax effect is also recognized in equity.

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.

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2 BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)

2.2 Summary of Significant Accounting Policies (Continued)

(j) Related parties

In accordance with TAS 24, "Related Party Disclosures" shareholders, key management and board members, in each case together with companies controlled by or affiliated with them, and associated companies are considered and referred to as related parties. Related party transactions consist of the transfer of the assets and liabilities between related parties by a price or free of charge.

For the purpose of the accompanying financial statements, shareholders of the Company the companies controlled by/associated with them, key management and the Board members of the Company are referred to as "related parties".

(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"; post-balance sheet events that provide additional information about the Company's position at the balance sheet dates (adjusting events) are reflected in the financial statements. 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 2016 and 31 December 2015, the cash and cash equivalents are as follows:

	31 December 2016	31 December 2015
Cash	1,215	421
Banks	1,962,092	1,161,578
-Time deposits	-	-
-Demand deposits	1,962,092	1,161,578
	1,963,307	1,161,999

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

2.2 Summary of Significant Accounting Policies (Continued)

(m) Segment reporting

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

(n) Foreign currency transactions

Income and expenses deriving from transactions in foreign currencies have been translated into TL at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into TL at the exchange rates prevailing at the reporting date. Exchange gains or losses arising from conversion of foreign currency items have been included in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to TL at the exchange rate at the date that the fair value was determined.

The foreign exchange rates used by the Company as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
US Dollar	3.5318	2.9076
Euro	3.6939	3.1776
GB Pound	4.3222	4.3007

(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. All other leases are classified as operating leases. 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.

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

2.3 Financial Risk Management (Continued)

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.

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. The Company's exposure to credit risks and credit ratings of its counterparties are monitored periodically. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Risk Committee.

On the other hand credit evaluations are performed on all sector basis balanced. The Main Operation Department conducts the operations. The Branches does 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's policy is to match cash out flows mainly arising from the repayments of the fund borrowed and cash inflows.

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, control 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 2016, the balance of foreign exchange borrowing is TL 16,168,515 (31 December 2015: TL 12,534,444).

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.

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3 BANKS

As at 31 December 2016 and 31 December 2015 cash at banks are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
-Demand deposits	1,585,577	376,515	552,188	609,390
-Time deposits	-	-	-	-
	1,585,577	376,515	552,188	609,390

Bank account consists of time and demand deposit. As at 31 December 2016, there is no time deposit (31 December 2015: None).

As at 31 December 2016 and 31 December 2015, there is no blockage on demand deposits.

4 FACTORING RECEIVABLES

As at 31 December 2016 and 31 December 2015, factoring receivables are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
<i>Factoring Receivables-Discounted</i>				
Domestic factoring receivables	234,044,376	249,705,257	182,301,798	6,226,170
Export factoring receivables	-	-	-	-
Unearned factoring income	(7,819,268)	(493,905)	(6,462,132)	(11,297)
	226,225,108	249,211,352	175,839,666	6,214,873
<i>Other Factoring Receivables</i>				
Domestic factoring receivables	623,411,638	-	240,108,631	-
Foreign factoring receivables	-	35,680,484	-	63,656,954
	623,411,638	35,680,484	240,108,631	63,656,954
Factoring receivables, net	849,636,746	284,891,836	415,948,297	69,871,827

As at 31 December 2016, amount of guarantees received for factoring receivables is TL 19,918,778,647 (31 December 2015: TL 8,161,520,454.) (Note 28).

As at 31 December 2016 foreign currency indexed factoring receivables is amounting to TL 16,190,733 (31 December 2015: 12,611,997).

HALK FAKTORİNG ANONİM ŞİRKETİ**NOTES TO THE FINANCIAL STATEMENTS**

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4 FACTORING RECEIVABLES (Continued)

As at 31 December 2016 and 31 December 2015, the breakdown of total factoring receivables including non-performing receivables by industrial groups is as follows:

	31 December 2016	%	31 December 2015	%
Cultural, entertainment and sport	302,029,044	27%	120,325,246	25%
Petroleum refinery products	222,261,643	20%	38,238,445	8%
Communication	119,351,997	11%	55,929,130	11%
Construction	86,841,078	8%	45,761,091	9%
Sale of motor vehicles	55,408,500	5%	32,175,000	0%
Electricity gas and water supply	54,037,500	5%	51,050,000	10%
Textile and textile products	45,502,989	4%	30,752,478	6%
Factoring companies	38,110,005	3%	7,375,890	2%
Fabricated metal products industry	22,287,417	2%	16,540,858	3%
Health and social services	16,189,874	1%	5,106,805	1%
Plastic	14,735,750	1%	13,286,064	3%
Other manufacturing industry	14,630,901	1%	15,212,709	3%
Electric and non-electric household appliances	13,807,278	1%	11,026,700	2%
Road freight transportation	13,443,862	1%	4,386,766	1%
Sale of motor vehicles spare parts and accessories	10,603,215	1%	787,726,000	0%
Metal industry and mining products	10,542,997	1%	2,210,761	0%
Machinery and equipment	9,535,245	1%	5,158,426	1%
Chemical and chemical products industry	6,172,863	1%	1,570,751	0%
Medicines	5,343,902	0%	690,492,000	0%
Food and beverage industry	5,049,550	0%	6,402,268	1%
Cement lime and gypsum production	4,577,768	0%	238,816,000	0%
Furniture industry	4,507,676	0%	2,757,122	1%
Textile and textile products industry	4,458,264	0%	1,324,495	0%
Tile marble flat stones	4,090,069	0%	2,679,340	1%
Hotels	4,014,704	0%	154,656,000	0%
Garment industry	3,882,456	0%	3,014,869	1%
Metal industry	3,350,253	0%	11,694,610	2%
Radio tv tape video equipment and devices industry	3,305,868	0%	1,221,588	0%
Wholesale trade and brokerage	3,263,469	0%	723,568,000	0%
Other	33,192,445	3%	31,229,869	6%
Total	1,134,528,582	100%	486,883,714	100%

Natures of factoring receivables are as follows:

	31 December 2016	31 December 2015
Domestic irrevocable	279,982,840	-
Foreign irrevocable	15,688,808	54,485,188
Domestic revocable	818,865,258	417,011,886
Foreign revocable	19,991,676	15,386,640
	1,134,528,582	486,883,714

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5 OTHER RECEIVABLES

As at 31 December 2016 and 31 December 2015 Company's other receivables are as follows:

	31 Aralık 2016		31 Aralık 2015	
	TL	FC	TL	FC
Customer Banking and Insurance Transaction Taxes Receivable	1,004,770	72,117	808,580	34
	1,004,770	72,117	808,580	34

6 NON-PERFORMING RECEIVABLES

Details of the Company's non-performing factoring receivables and provisions allocated for them as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Factoring Receivables Under Follow-up (90 – 180 days)	18,379,067	-	1,467,824	-
Factoring Receivables Under Follow-up (180 – 360 days)	4,936,627	-	4,450,860	-
Specific provision	(23,315,694)	-	(4,855,094)	-
Non-performing receivables(Net)	-	-	1,063,590	-

Aging of non-performing factoring receivables and specific provision allocated for them as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	Total doubtful factoring receivables	Allowance	Total doubtful factoring receivables	Allowance
No Overdue	1,380,676	(1,380,676)	-	-
Overdue 1 to 3 months	156,549	(156,549)	-	-
Overdue 3 to 6 months	833,195	(833,195)	175,573	(87,786)
Overdue 6 to 12 months	16,053,667	(16,053,667)	1,293,114	(317,311)
Overdue over 1 year	4,891,607	(4,891,607)	4,449,997	(4,449,997)
Total	23,315,694	(23,315,694)	5,918,684	(4,855,094)

Movements in specific provision for factoring receivables during the years ended 31 December are as follows:

	31 December 2016	31 December 2015
Balance at 1 January	4,855,094	5,106,490
Provision for the period (Note 23)	18,678,589	1,861,628
Recoveries during the period (-)(Note 22)	(217,989)	(2,113,024)
Balance at the end of the period	23,315,694	4,855,094

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7 TANGIBLE ASSETS

Movements of tangible assets for the years ended 31 December 2016 and 31 December 2015 are as follows:

	Machinery and equipment	Furniture and fixtures	Leasehold improvements	Total
Cost				
Opening balance, 1 January 2016	579,468	391,940	435,540	1,406,948
Additions	203,370	16,347	14,926	234,643
Disposals	(1,699)	-	-	(1,699)
Closing balance, 31 December 2016	781,139	408,287	450,466	1,639,892
Accumulated depreciation				
Opening balance, 1 January 2016	(188,545)	(119,232)	(218,892)	(526,669)
Additions	(157,437)	(74,500)	(75,675)	(307,612)
Disposals	1,604	-	-	1,604
Closing balance, 31 December 2016	(344,378)	(193,732)	(294,567)	(832,677)
Net carrying value	436,761	214,555	155,899	807,215
Cost				
Opening balance, 1 January 2015	324,869	148,152	166,259	639,280
Additions	262,745	243,788	269,281	775,814
Disposals	(8,146)	-	-	(8,146)
Closing balance, 31 December 2015	579,468	391,940	435,540	1,406,948
Accumulated depreciation				
Opening balance, 1 January 2015	(90,034)	(53,208)	(67,556)	(210,798)
Additions	(101,400)	(66,024)	(151,336)	(318,760)
Disposals	2,889	-	-	2,889
Closing balance, 31 December 2015	(188,545)	(119,232)	(218,892)	(526,669)
Net carrying value	390,923	272,708	216,648	880,279

As at 31 December 2016 and 31 December 2015, there is no tangibles assets acquired through financial lease.

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8 INTANGIBLE ASSETS

Movements of intangible assets for the years ended 31 December 2016 and 31 December 2015 are as follows:

	Computer Software	Licenses	Total
Cost			
Opening balance, 1 January 2016	353,807	218,658	572,465
Additions	243,205	-	243,205
Disposals	-	-	-
Closing balance, 31 December 2016	597,012	218,658	815,670
Accumulated depreciation			
Opening balance, 1 January 2016	(301,588)	(46,374)	(347,962)
Additions	(79,777)	(65,116)	(144,893)
Closing balance	-	-	-
Closing balance, 31 December 2016	(381,365)	(111,490)	(492,855)
Net carrying value	215,647	107,168	322,815

	Computer Software	Licences	Total
Cost			
Opening balance, 1 January 2015	318,334	53,642	371,976
Additions	35,473	165,016	200,489
Disposals	-	-	-
Closing balance, 31 December 2015	353,807	218,658	572,465
Accumulated depreciation			
Opening balance, 1 January 2015	(218,078)	(6,460)	(224,538)
Additions	(83,510)	(39,914)	(123,424)
Closing balance	-	-	-
Closing balance, 31 December 2015	(301,588)	(46,374)	(347,962)
Net carrying value	52,219	172,284	224,503

9 PREPAID EXPENSES

Prepaid expenses as at 31 December 2016 and 31 December 2015 are as follows

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Insurance expense	381,932	-	279,833	-
Prepaid contribution fee	-	30,022	-	23,832
Total	381,932	30,022	279,833	23,832

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10 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.

As at 31 December 2016 and 31 December 2015, 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 2016	31 December 2015
Deferred tax asset		
Unearned interest income	1,725,902	1,376,626
Allowance for doubtful factoring receivables	-	24,940
Employee bonus accrual	187,712	130,000
Reserve for employee benefits	74,408	30,722
Tax base differences in tangible and intangible assets	-	5,886
Other provisions	31,731	62,466
Total deferred tax asset	2,019,753	1,630,640
Deferred tax liabilities	(93,105)	-
Deferred tax asset / (liabilities), net	1,926,648	1,630,640
	31 December 2016	31 December 2015
Opening balance	1,630,640	1,773,370
Deferred tax (expense) / income	298,717	(148,000)
Other comprehensive income	(2,709)	5,270
	1,926,648	1,630,640

11 OTHER ASSETS

As at 31 December 2016 and 31 December 2015, details of other assets are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Advances given (Personnel)	6,038	-	394,405	-
Other	20,366	-	21,571	-
	26,404	-	415,976	-

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12 FUNDS BORROWED

As at 31 December 2016 and 31 December 2015, details of funds borrowed are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Bank loans	779,797,433	284,001,391	360,408,392	69,609,051
	779,797,433	284,001,391	360,408,392	69,609,051

As at 31 December 2016 and 31 December 2015 maturity distribution of loans used by the Company are as follows:

Distribution of loans according to maturity	31 December 2016	31 December 2015
Maturity less than 1 year	1,063,798,824	430,017,443
Total	1,063,798,824	430,017,443

	31 December 2016	31 December 2015
Short term financial liabilities		
Short-term secured domestic bank loans (*)	2,311,750	6,226,170
Short-term unsecured domestic bank loans	913,672,510	300,408,393
Short-term unsecured international bank loans	147,814,564	123,382,880
Total	1,063,798,824	430,017,443

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

As at 31 December 2016, foreign currency indexed borrowings have been presented in TL column in the accompanying balance sheet TL 16,168,515 (31 December 2015:TL 12,534,444).

31 December 2016						31 December 2015		
Currency	Maturity	Rate type	Interest rate	Amount in		Interest rate	Amount in	
				FC	TL		FC	TL
TL	2017	Fixed	10,50%-12,40%	779,797,433	779,797,433	13.25%-13.50%	360,408,392	360,408,392
Euro	2017	Fixed	0,50%-3,30%	23,314,679	86,122,763	0.50%-2.47%	9,077,655	28,845,155
US Dollar	2017	Fixed	1,14%-4,65%	55,499,117	196,011,782	1.70%-2.90%	13,984,881	40,662,442
GB Pound	2017	Fixed	1,50%-2,40%	431,920	1,866,846	1.40%-1.60%	23,590	101,454
					1,063,798,824			430,017,443

13 FACTORING PAYABLES

As at 31 December 2016 and 31 December 2015, details of factoring payables are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Revocable	382,635	-	10,545	-
Irrevocable	-	205,323	-	212,998
	382,635	205,323	10,545	212,998

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14 OTHER PAYABLES AND DEFERRED INCOME

As at 31 December 2016 and 31 December 2015, details of other payables are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Other payables	134,699	71,011	114,027	59,335
Payables to personnel	5,264	-	15,958	-
	139,963	71,011	129,985	59,335

As at 31 December 2016 and 31 December 2015, details of deferred income are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Unearned commission and charge income	184,815	131,521	321,400	88,301
	184,815	131,521	321,400	88,301

15 TAXES AND DUTIES PAYABLE

As at 31 December 2016 and 31 December 2015, details of taxes and duties payables are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Banking and insurance transaction taxes payable	1,201,272	-	604,872	-
Social security premium	308,044	-	100,589	-
Income tax payable	110,749	-	95,909	-
Other	7,397	-	6,444	-
	1,627,462	-	807,814	-

16 PROVISIONS

As at 31 December 2016 and 31 December 2015, provisions are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
<i>Provision for employee benefits</i>				
Employee bonus accrual	938,558	-	650,000	-
Reserve for employee severance indemnity	158,174	-	105,893	-
Vacation pay liability	213,868	-	47,716	-
<i>Other provisions</i>				
Other provisions	113,144	-	350,617	-
	1,423,744	-	1,154,226	-

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16 PROVISIONS (Continued)

Reserve for employee severance indemnity

In accordance with the existing social legislation in Turkey, the Company is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. Such payments are calculated on the basis of 30 days' pay and limited to a maximum of TL 4,297 (31 December 2015: TL 3,828) as at 31 December 2016 per year of employment at the rate of pay applicable at the date of retirement or termination.

Other provisions

As at 31 December 2016 TL 97,506 of other provisions consists of litigation provisions (31 December 2015: TL 300,000).

Movement of reserve for employee severance indemnity during the period ended 31 December 2016 is as follows:

	1 January – 31 December 2016	1 January – 31 December 2015
Opening balance, 1 January	105,893	73,649
Service cost	70,566	16,965
Interest cost	11,149	3,259
Payment made during the period	(15,891)	(14,329)
Actuarial loss / (gain)	(13,543)	26,349
Closing balance, 31 December	158,174	105,893

All actuarial losses and gains calculated are recognized under other comprehensive income.

Movements of vacation pay liability for the years ended 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Opening balance	47,716	39,381
Payment made during the period	(92,422)	(13,950)
Calculated during the period	258,574	22,285
Closing balance	213,868	47,716

Movements of employee bonus accruals for the years ended 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Opening balance	650,000	659,536
Payment made during the period	(648,613)	(287,415)
Canceled during the period	(1,387)	(372,121)
Calculated during the period	938,558	650,000
Closing balance	938,558	650,000

17 CURRENT TAX ASSET /(LIABILITIES)

As at 31 December 2016, the Company has TL 970,394 tax assets (31 December 2015: TL None) which is the difference between prepaid corporate taxes amounting to TL 5,919,869 and corporate taxes payable amounting to TL 4,949,727. There is no tax losses as at 31 December 2016 (31 December 2015: TL 1,545,940).

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18 EQUITY

18.1 PAID-IN CAPITAL

The Company's paid-in capital is amounting to TL 55,500,000 (31 December 2015: TL 46,500,000) comprised of 55,500,000 (31 December 2015: 46,500,000) shares with each has a nominal value of TL 1.

Paid-in capital of the Company was increased by TL 9,000,000 from retained earnings to TL 55,500,000 from TL 46,500,000 by the decision of General Assembly as at 21 April 2016.

As at 31 December 2016 and 31 December 2015, the Company's shareholder structure is as follows:

	31 December 2016		31 December 2015	
	Amount	Share	Amount	Share
T.Halk Bankası AŞ	54,112,500	97.50	45,337,500	97.50
Halk Yatırım Menkul Değerler AŞ	688,200	1.24	576,600	1.24
Halk Finansal Kiralama AŞ	688,200	1.24	576,600	1.24
Halk Portföy Yönetimi AŞ	5,550	0.01	4,650	0.01
Bileşim Alternatif Dağıtım Kanalları AŞ	5,550	0.01	4,650	0.01
Paid in capital	55,500,000	100	46,500,000	100

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

18.2 Other Comprehensive Income or Expenses Not Reclassified to Profit or Loss

As at 31 December 2016, other comprehensive income or expenses not reclassified to profit or loss is amounting to TL 10,245 (31 December 2015: TL 21,079).

18.3 Profit Reserves

As at 31 December 2016, profit reserve is amounting to TL 1,217,832 (31 December 2015: TL 383,110). By the decision of General Assembly meeting held on 16 April 2015, the Company increased its legal reserves by TL 834,722 from its retained earnings.

18.4 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.

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19 OPERATING INCOME

For the years ended 31 December 2016 and 31 December 2015 , details of operating income are as follows:

	2016	2015
Interest income on factoring receivables		
- Discounted	44,981,198	19,403,913
- Other	79,216,646	38,032,946
	124,197,844	57,436,859
Fees and commissions on factoring receivables		
- Discounted	1,517,226	950,028
- Other	8,032,563	2,582,512
	9,549,789	3,532,540
Operating Income	133,747,633	60,969,399

20 FINANCING COSTS

For the years ended 31 December 2016 and 31 December 2015, details of financing expenses are as follows:

	2016	2015
Interest expense on funds borrowed	79,451,553	37,142,415
Fees and commission expenses	886,526	620,652
Total	80,338,079	37,763,067

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21 OPERATING EXPENSES

For the years ended 31 December 2016 and 31 December 2015 , details of operating expenses are as follows:

	31 December 2016	31 December 2015
Personnel expenses	10,063,731	7,374,577
Rent expenses	980,447	858,945
Other	574,062	381,786
Vehicle expenses	546,887	431,336
Depreciation and amortization expenses	452,505	442,184
Membership expenses	424,791	275,110
Communication expenses	261,136	198,373
Benefits and services provided outside	227,120	204,228
Advertisement expenses	210,041	32,962
IT expenses	180,769	318,129
Office expenses	165,885	151,389
Taxes and funds expense	161,466	231,831
Representation expenses	75,187	79,728
Travel and accommodation expenses	70,286	30,239
Provision for employe benefits	63,936	28,202
Stationary and printing expenses	53,607	66,149
Notary expenses	45,587	47,421
Repair and maintenance expense	5,938	9,146
Total	14,563,381	11,161,735

For the years ended 31 December 2016 and 31 December 2015, details of personnel expenses included in operating expenses are as follows:

	2016	2015
Wages and salaries	6,338,077	5,059,870
Bonuses and premiums	1,543,254	1,097,766
Social security premium employer's share	1,217,126	799,790
Employee insurance expenses	425,248	253,935
Others	540,026	163,216
Total	10,063,731	7,374,577

22 OTHER OPERATING INCOME

For the years ended 31 December 2016 and 31 December 2015, details of other income are as follows:

	2016	2015
Foreign exchange gain	18,316,197	4,182,574
Collection income from non performing receivables (Note 6)	217,989	2,113,024
Interest received from banks	9,619	49,237
Other	204,108	811,644
Total	18,747,913	7,156,479

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23 SPECIFIC PROVISION FOR NON-PERFORMING RECEIVABLES

For the years ended 31 December 2016 and 31 December 2015, details of specific allowance for doubtful receivables are as follows:

	2016	2015
Specific provision (Note 6)	(18,678,589)	1,861,628
Total	(18,678,589)	1,861,628

24 OTHER OPERATING EXPENSES

For the years ended 31 December 2016 and 31 December 2015, details of other expenses are as follows:

	2016	2015
Foreign exchange loss	(18,108,601)	3,977,002
Other	(59,215)	92,914
Total	(18,167,816)	4,069,916

25 TAXATION

As at 31 December 2016, corporate income tax is levied at the rate of 20% (2015: 20%). 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 15th and 30th articles 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.

The transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing sets details about implementation. 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.

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.

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25 TAXATION (Continued)

The reported income tax expense for the years ended 31 December 2016 and 31 December 2015 are different than the amounts computed by applying the statutory tax rate to profits before income taxes as shown in the following reconciliation:

Reported pre-tax profit / (loss)	31 December 2016	Rate%	31 December 2015	Rate %
Profit before tax	20,747,681		13,269,532	
Tax computed using statutory tax rate	(4,149,536)	(20.00)	(2,653,906)	(20.00)
Tax reconciliation:				
-Non deductible expenses	(501,474)	(0.02)	(633,688)	(4.78)
Tax expense on income statement	(4,651,010)	(22.42)	(3,287,594)	(24.78)

For the years ended 31 December 2016 and 31 December 2015 tax expense in the income statement are summarized below:

	31 December 2016	31 December 2015
Corporate tax provision expense	(4,949,727)	(3,139,594)
Deferred tax income / (expense)	298,717	(148,000)
Tax provision	(4,651,010)	(3,287,594)

26 EARNINGS PER SHARE

The weighted average number of shares of the Company and earnings per share for the years ended 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Weighted average number of outstanding shares (*)	55,500,000	55,500,000
Net profit for the period	16,096,671	9,981,938
Basic earnings per share	0,2900	0,1799

There is no diluted share of the Company.

(*)Capital increase has been made through internal sources, increase in the number of shares used in the previous period calculation of earnings per share.

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27 RELATED PARTY DISCLOSURES

For the years ended from the details of transactions with related parties as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
<u>Bank Deposits</u>		
T.Halk Bankası AŞ	1,066,109	199,890
<u>Fund Borrowed</u>		
T.Halk Bankası AŞ	92,500,000	-
<u>Sundry Liabilities (*)</u>		
Halk Sigorta AŞ	19,498	55,436

(*)Sundry liabilities are payable insurance certificate cost.

For the years ended from the details of transactions with related parties as at 31 December 2016 and 31 December 2015 are as follows:

	2016	2015
<u>Interest Income From Related Parties</u>		
T.Halk Bankası AŞ	9,618	18,733
<u>Interest Expense Due To Related Parties</u>		
T.Halk Bankası AŞ	3,540,000	1,676,118
<u>Rent Expenses Due To Related Parties</u>		
Halk GYO AŞ	-	71,893
<u>Insurance Expenses Due To Related Parties</u>		
Halk Hayat ve Emeklilik AŞ	429,434	185,927
<u>Other expenses Due To Related Parties</u>		
Halk Yatırım AŞ	2,950	2,950

Directors' Remuneration

The key management and the Board of Directors received remuneration and fees amounting to TL 1,490,975 for the year ended 31 December 2016 (31 December 2015: TL 1,361,245).

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28 CONTINGENT ASSETS AND LIABILITIES

Collateral received

The Company has the following collaterals for its factoring receivables at 31 December 2016 and 31 December 2015:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Pledges	13,651,729,473	6,211,489,174	6,194,972,288	1,925,248,166
Mortgages	55,560,000	-	41,300,000	-
Letters of guarantees	-	-	-	-
	13,707,289,473	6,211,489,174	6,236,272,288	1,925,248,166

Commitments

As at 31 December 2016 and 31 December 2015, commitments are comprised of notes given to the following institutions:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Notes given to the courts	361,256	-	53,056	-
Commitments given to Takasbank	-	-	26,400,000	-
	361,256	-	26,453,056	-

Held in custody securities

The Company has obtained securities held in custody for its factoring receivables at 31 December 2016 and 31 December 2015 as detailed below:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Customer checks	324,826,076	27,591,369	187,787,367	13,080,297
Customer notes	4,688,109	1,474,218	8,427,256	58,152
Pledged securities	-	9,574	10,000	8,237
	329,514,185	29,075,161	196,224,623	13,146,686

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1 Credit risk (continued)

	31 December 2015			
	Related party	Other party	Time deposit on banks	Other assets
As of the reporting date this is the maximum credit risk exposure				
- Credit risk with collateral secured portion	-	485,820,124	1,161,578	415,976
	-	8,161,520,454	-	-
A) Net carrying value of financial assets which are neither impaired nor overdue				
- Secured portion of net carrying value (with letter of guarantee etc)	-	6,211,272,288	1,161,578	415,976
	-	-	-	-
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 letter of guarantee etc)	-	9,761,397	-	-
	-	25,000,000	-	-
C) Net carrying value of financial assets which are overdue but not impaired				
- Secured portion of net carrying value (with letter of guarantee etc)	-	-	-	-
	-	-	-	-
D) Net carrying value of impaired assets				
- Overdue (gross carrying value)	-	1,063,590	-	-
- Impairment (-)	-	5,918,684	-	-
- Secured portion of net carrying value (with letter of guarantee etc)	-	(4,855,094)	-	-
- Notdue (gross carrying value)	-	-	-	-
- Impairment (-)	-	-	-	-
- Secured portion of net carrying value (with letter of guarantee etc)	-	-	-	-
E) Off balance sheet items with credit risks				
	-	-	-	-

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.2 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 2016						
Maturites on agreement	Carrying amount	Contractual Cash Flows	Less than 3 months	3-12 months	1-5 years	More than 5 years
Non derivative financial liabilities	1,064,597,753	(1,067,806,604)	(1,048,555,290)	(19,251,314)	-	-
Funds borrowed	1,063,798,824	(1,067,007,675)	(1,047,756,361)	(19,251,314)	-	-
Factoring liabilities	587,958	(587,958)	(587,958)	-	-	-
Other liabilities	210,974	(210,974)	(210,974)	-	-	-
31 December 2015						
Maturites on agreement	Carrying amount	Contractual Cash Flows	Less than 3 months	3-12 months	1-5 years	More than 5 years
Non derivative financial liabilities	430,616,464	(431,111,681)	(427,919,561)	(3,192,120)	-	-
Funds borrowed	430,017,443	(430,512,660)	(427,320,540)	(3,192,120)	-	-
Factoring liabilities	223,543	(223,543)	(223,543)	-	-	-
Other liabilities	189,320	(189,320)	(189,320)	-	-	-

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.3 Market Risk

Interest Rate Risk

As at 31 December 2016 and 31 December 2015, the weighted average effective interest rate of financial instruments are as follows:

	2016				2015			
	TL	EUR	USD	GBP	TL	EUR	USD	GBP
Assets								
Banks								
-Time deposits	-	-	-	-	-	-	-	-
Factoring receivables	%15.64	%5.42	%6.52	%6.69	%17.59	%4.00	%3.43	%4.75
Liabilities								
Funds borrowed	%11.35	%0.87	%1.39	%2.38	%13.32	%1.43	%1.89	%1.40

As of 31 December, the Company's interest rate sensitive financial instruments are as follows:

	31 December 2016	31 December 2015
Fixed Rate		
<i>Financial Assets</i>		
Factoring receivables	1,134,528,582	485,820,124
Time deposit	-	-
<i>Financial Liabilities</i>		
Funds borrowed	1,063,798,824	430,017,443
Factoring liabilities	587,958	223,543

Interest rate sensitivity of assets:

As at 31 December 2016 there is no floating rate instrument (31 December 2015: None).

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.3 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.

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company has closed foreign currency position as at 31 December 2016. 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.

As at 31 December 2016 and 31 December 2015, TL equivalent of foreign currency denominated assets and liabilities held by the company are as follows:

31 December 2016	US Dollar	Euro	Other foreign currencies	Total
Banks	116,236	151,447	108,833	376,515
Factoring receivables and non-performing receivables (*)	203,722,137	95,888,766	1,471,665	301,082,568
Other assets	69,881	32,258	-	102,139
Total foreign currency assets	203,908,254	96,072,471	1,580,498	301,561,223
Fund borrowed (**)	(205,196,429)	(93,106,631)	(1,866,846)	(300,169,906)
Other liabilities	(25,579)	(167,064)	(9,889)	(202,532)
Factoring liabilities	(153,537)	-	(51,786)	(205,323)
Total Foreign Currency Liabilities	(205,375,545)	(93,273,695)	(1,928,521)	(300,577,761)
Balance sheet position	(1,467,291)	2,798,776	(348,023)	983,462
Off-balance sheet position	-	-	-	-
Net foreign currency position	(1,467,291)	2,798,776	(348,023)	983,462

(*)As at 31 December 2016 foreign currency indexed factoring receivables amount TL 16,190,733 presented in the financial statements in TL column.

(**)As at 31 December 2016 foreign currency indexed fund borrowed amount TL 16,168,515 presented in the financial statements in TL column.

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29 FINANCIAL RISK MANAGEMENT (Continued)

29.3 Market Risk (Continued)

Foreign currency risk (continued)

31 December 2015	US Dollar	Euro	Other foreign currencies	Total
Banks	103,867	482,575	22,948	609,390
Factoring receivables and non-performing receivables (*)	49,746,884	32,632,795	104,145	82,483,824
Other assets	-	-	-	-
Total foreign currency assets	49,850,751	33,115,370	127,093	83,093,214
Fund borrowed (**)	(49,742,784)	(32,299,257)	(101,454)	(82,143,495)
Other liabilities	(5,589)	(140,342)	(1,705)	(147,636)
Factoring liabilities	(42,820)	(161,317)	(8,861)	(212,998)
Total Foreign Currency Liabilities	(49,791,193)	(32,600,916)	(112,020)	(82,504,129)
Balance sheet position	59,558	514,454	15,073	589,085
Off-balance sheet position	-	-	-	-
Net foreign currency position	59,558	514,454	15,073	589,085

(*)As at 31 December 2015 foreign currency indexed factoring receivables amount to TL 12,611,997 presented in the financial statements in TL column.

(**)As at 31 December 2015 foreign currency indexed fund borrowed amount TL 12,534,444 presented in the financial statements in TL column.

Foreign Currency Risk Sensitivity

As at 31 December 2016, 10 percent weakening of TL against the foreign currencies would have increased profit before tax by the amount presented in the table below. This analysis assumes that all other variables, in particular interest rates; remain constant at 31 December 2016 and 31 December 2015. 10% appreciated of TL against the currencies below increased the profit by the same amount presented below.

	1 January – 31 December 2016	1 January – 31 December 2015
USD	(146,729)	5,955
EUR	279,878	51,445
Other	(34,802)	1,507
Total	98,347	58,907

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29.4 Fair Values of Financial Instruments

<u>31 December 2016</u>	<u>Amortized financial assets</u>	<u>Loans and receivables</u>	<u>Amortized financial liabilities</u>	<u>Carrying Value</u>	<u>Fair Value</u>
<u>Financial Assets</u>					
Banks	1,962,092	-	-	1,962,092	1,962,092
Factoring Receivables and Non Performing Receivables	-	1,134,528,582	-	1,134,528,582	1,134,528,582
<u>Financial Liabilities</u>					
Funds Borrowed	-	-	1,063,798,824	1,063,798,824	1,063,798,824
Factoring liabilities	-	-	587,958	587,958	587,958
Other liabilities	-	-	527,310	527,310	527,310
<u>31 December 2015</u>					
<u>Financial Assets</u>					
Banks	1,161,578	-	-	1,161,578	1,161,578
Factoring Receivables and Non Performing Receivables	-	486,883,714	-	486,883,714	486,883,714
<u>Financial Liabilities</u>					
Funds Borrowed	-	-	430,017,443	430,017,443	430,017,443
Factoring liabilities	-	-	223,543	223,543	223,543
Other liabilities	-	-	599,021	599,021	599,021

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.

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29 FINANCIAL RISK MANAGEMENT (CONTINUED)

29.4 Fair Values of Financial Instruments (Continued)

Fair Values of Financial Instruments classification

TFRS 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).

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

As at 31 December 2016, there is no financial assets and liabilities at fair value through profit or loss (31 December 2015: None).

29.5 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 19.

The cost of equity and every other risk associated with equity items assessed by the Company's top management and the decisions related to Board of Directors have to be submitted for Board of Directors approval.

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

As of 31 December 2016 and 31 December 2015, equity to debt ratios are as follows:

	<u>2016</u>	<u>2015</u>
Total liabilities ⁽¹⁾	1,064,597,756	430,430,306
Cash and cash equivalents (-)	1,962,092	1,161,999
Net liabilities	1,062,635,664	429,268,307
Total shareholders' equity	74,068,914	57,961,409
Shareholders' equity / debt	7%	14%

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

30 EVENTS AFTER THE REPORTING PERIOD

None.