

QNB Finans Faktoring Anonim Őirketi

**Financial statements as of December 31, 2019
together with independent auditors' report**
(Convenience translation into English of financial statements as
of December 31, 2019 and Independent Auditors' Report
originally issued in Turkish, See Note 2.1)

(Convenience translation into English of Independent Auditors' Report originally issued in Turkish)

Independent auditors' report

To the General Board of QNB Finans Faktoring Anonim Şirketi

A) Audit of the Financial Statements

1) Opinion

We have audited the balance sheet of QNB Finans Faktoring A.Ş. ("the Company") as at December 31, 2019 and the profit or loss statement, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of QNB Finans Faktoring A.Ş. as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the Communiqué on "The Application of Uniform Charts of Accounts and its Guide Book In Connection to the Establishment and Main Activities of Finance Leasing, Factoring and Financing Companies and The Format of the Financial Statements for Public Presentation" published in the Official Gazette No: 28861 on December 24, 2013 and interpretations published by BRSA and Turkish Financial Reporting Standards ("IFRS") for those matters not regulated by the aforementioned regulations.

2) Basis for Opinion

We conducted our audit in accordance with Independent Auditing Standards ("ISA") which are a part of Turkish Auditing Standards issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank within the meaning of Code of Ethics for Independent Auditors (Code of Ethics) published by POA and have fulfilled our other responsibilities in accordance with the code of ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3) Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

(Convenience translation into English of Independent Auditors' Report originally issued in Turkish)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of factoring receivables</i>	
Determining the adequacy of impairment allowance on factoring receivables is a key area of judgment for the management due to the significance of the balances, and complexity and subjectivity over estimating timing and amount of impairment. The risk is that factoring receivables are impaired and no reasonable impairment losses/provisions are provided in accordance with the requirements of BRSA. Accordingly, carrying amount of factoring receivables and customers might be greater than the estimated recoverable amounts, therefore the impairment test of these factoring receivables is a key audit matter. Refer Section 4 Note I-5 to the financial statements relating to the impairment of factoring receivables.	Our audit procedures included, among others, considering, assessing and testing the relevant controls over granting, booking, monitoring and settlement, and those relating to the calculation of credit provisions, to confirm the operating effectiveness of the key controls in place, which identify the impaired factoring receivables and advances and the required provisions against them. In addition we selected samples of factoring receivables and advances based on our judgement and considered whether there was objective evidence that impairment exists on these factoring receivables and advances. We also assessed whether impairment losses for factoring receivables and advances were reasonably determined in accordance with the requirements of BRSA.

4) Responsibilities of Management and Directors for the Financial Statements

The Company management is responsible for the preparation and fair presentation of the financial statements in accordance with the BRSA Accounting and Reporting Legislation and for such internal control as management determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

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

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

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

In an independent audit, the responsibilities of us as independent auditors are:

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with BRSA Independent Audit Regulation and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

(Convenience translation into English of Independent Auditors' Report originally issued in Turkish)

As part of an audit in accordance with BRSA Independent Audit Regulation and ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

(Convenience translation into English of Independent Auditors' Report originally issued in Turkish)

B) Reports on independent auditor's responsibilities arising from other regulatory requirements

- 1) In accordance with Article 402 paragraph 4 of the Turkish Commercial Code ("TCC"); no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period January 1 – December 31, 2019 are not in compliance with the code of the Company's articles of association in relation to financial reporting.
- 2) In accordance with Article 402 paragraph 4 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The name of the engagement partner who supervised and concluded this audit is Emre Çelik.

Additional paragraph for convenience translation into English of financial statements as of December 31, 2019 and independent auditors' report originally issued in Turkish.

As explained in detail in Note 2.1 to the financial statements, the accompanying financial statements are presented in accordance with regulations, communiqués, interpretations and circulars published by the BRSA on accounting and financial reporting principles. The effects of differences between the accounting principles and standards set out by regulations, communiqués, interpretations and circulars published by the BRSA, and accounting principles generally accepted in the countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Emre Çelik, SMMM
Partner

January 29, 2020
Istanbul, Turkey

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(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as at December 31, 2019

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

SECTION ONE

GENERAL INFORMATION

1. Organisation and principal activities

QNB Finans Faktoring A.Ş. (“The Company”) was established on June 8, 2009 in Turkey, started its operations on October, 2009. The main business of the entity is to provide factoring services in and out of Turkey. QNB Finansbank A.Ş. is the owner of 99.99% of entity’s shares.

The Company has 131 employees as of December 31, 2019 (December 31, 2018: 131).

The Company has 22 branches Osmanbey, Güneşli, Kıraç, Çorlu, Gebze, Pendik, Kozyatağı, Bursa, Ankara, İvedik, Eskişehir, Konya, Samsun, İzmir, Antalya, Denizli, Manisa, Gaziantep, Kayseri, Adana, Diyarbakır and Mersin. (December 31, 2018:25).

As of December 22, 2015, a share sales agreement has been signed between National Bank of Greece SA (“NBG”) and Qatar National Bank (“QNB”) regarding the sale of 99.81% of Finansbank Anonim Şirketi (“Finansbank”) shares NBG owns at a price of EUR 2 billion 750 million. In June 15, 2016, share transfer carried out following the release of necessary legal permit from related countries and end of the process, principal shareholder of the Company is Finansbank and ultimate shareholder of the Company is QNB.

The Company is registered in Turkey and moved to the following address where it operates on May 25, 2015:

Esentepe Mah. Büyükdere Street Kristal Kule No:215 21th Floor ŞİŞLİ - İSTANBUL

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

The organizational structure of the company as of 31.12.2019 is as follows;

Position	Name	Assignment Date	Board Members Duty End Date	Mission Time
Chairman of the Board	Sinan Şahinbaş	26/03/2018	26/03/2021	3 Years
Board Member	Adnan Menderes Yayla	26/03/2018	26/03/2021	3 Years
Board Member	Bülent Yurdalan	26/03/2018	26/03/2021	3 Years
Board Member- General Manager	Nergis Ayvaz Bumedian	26/03/2018	26/03/2021	3 Years
Board Member	Erkin Aydın	26/03/2018	26/03/2021	3 Years
Board Member	Osman Ömür Tan	19/06/2019	26/03/2021	2 Years

SECTION TWO

FINANCIAL STATEMENTS

- I. Balance Sheet (Statement of Financial Position)
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- III. Statement of Profit or Loss
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- VI. Statement of Cash Flow

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Balance sheet (Statement of financial position)

as of December 31, 2019

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

I. BALANCE SHEET – ASSETS

ASSETS(*)	Section 4 Note I	THOUSAND TURKISH LIRA					
		Audited			Audited		
		Current Period (31 December 2019)			Prior Period (31 December 2018)		
		TL	FC	Total	TL	FC	Total
I. CASH,CASH EQUIVALENTS and CENTRAL BANK	1	19	33,095	33,114	306	3,562	3,868
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)	2	-	-	-	-	-	-
III. DERIVATIVE FINANCIAL ASSETS	4	-	-	-	9	-	9
IV. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Net)	3	-	-	-	-	-	-
V. FINANCIAL ASSETS MEASURED AT AMORTISED COST (Net)		1,423,979	219,452	1,643,431	1,082,799	132,691	1,215,490
5.1 Factoring Receivables	5	1,417,478	219,452	1,636,930	1,074,986	132,691	1,207,677
5.1.1 Discounted Factoring Receivables (Net)		732,024	79,297	811,321	443,606	25,040	468,646
5.1.2 Other Factoring Receivables		685,454	140,155	825,609	631,380	107,651	739,031
5.2 Finance Loans		-	-	-	-	-	-
5.2.1 Consumer Loans		-	-	-	-	-	-
5.2.2 Credit Cards		-	-	-	-	-	-
5.2.3 Commercial Installment Loans		-	-	-	-	-	-
5.3 Lease Receivables(Net)		-	-	-	-	-	-
5.3.1 Financial Lease Receivables		-	-	-	-	-	-
5.3.2 Operating Lease Receivables		-	-	-	-	-	-
5.3.3 Unearned Income (-)		-	-	-	-	-	-
5.4 Other Financial Assets Measured at Amortised Cost		-	-	-	-	-	-
5.5 Doubtful Receivables	6	75,416	2,119	77,535	75,642	-	75,642
5.6 Expected Credit Losses/Specific Provisions (-)	6	68,915	2,119	71,034	67,829	-	67,829
VI. INVESTMENTS		2	-	2	2	-	2
6.1 Investments in Associates (Net)		2	-	2	2	-	2
6.2 Subsidiaries (Net)		-	-	-	-	-	-
6.3 Joint Ventures (Net)		-	-	-	-	-	-
VII. TANGIBLE ASSETS (Net)	8	4,893	-	4,893	827	-	827
VIII. INTANGIBLE ASSETS (Net)	9	7,589	-	7,589	5,241	-	5,241
IX. INVESTMENT PROPERTY (Net)		-	-	-	-	-	-
X. CURRENT TAX ASSETS		-	-	-	-	-	-
XI. DEFERRED TAX ASSETS	11	18,719	-	18,719	22,402	-	22,402
XII. OTHER ASSETS	12	3,643	115	3,758	4,254	45	4,299
SUBTOTAL		1,458,844	252,662	1,711,506	1,115,840	136,298	1,252,138
XIII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)		-	-	-	-	-	-
13.1 Held for sale purpose		-	-	-	-	-	-
13.2 Discontinued Operations		-	-	-	-	-	-
TOTAL ASSETS		1,458,844	252,662	1,711,506	1,115,840	136,298	1,252,138

(*) The financial statements prepared as of 31 December 2019 is presented in accordance with the new financial statement format in the “Regulation on the amendment to the regulation on the accounting practices and financial statements of financial leasing, factoring and financing companies” published on 01 February 2019 by the Banking Regulation and Supervision Agency. In order to be comparable with the financial statements dated 31 December 2019, the financial statements dated 31 December 2018 were restated in accordance with the new financial statement format.

The accompanying notes are integral part of these financial statements.

QNB Finans Faktoring A.Ş.**Balance sheet (Statement of financial position)****as of December 31, 2019****(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)****I. BALANCE SHEET – LIABILITIES**

LIABILITIES(*)	Section 4 Note II	THOUSAND TURKISH LIRA					
		Audited Current Period (31 December 2019)			Audited Prior Period (31 December 2018)		
		TL	FC	Total	TL	FC	Total
I. FUNDS BORROWED	1	1,103,013	246,393	1,349,406	649,952	167,787	817,739
II. FACTORING PAYABLES		1,962	103	2,065	802	2,919	3,721
III. LEASING TRANSACTIONS PAYABLES (Net)		3,239	1,113	4,352	-	-	-
IV. MARKETABLE SECURITIES ISSUED (Net)	2	164,116	-	164,116	282,946	-	282,946
V. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS		-	-	-	-	-	-
VI. DERIVATIVE FINANCIAL LIABILITIES		-	-	-	1,493	-	1,493
VII. PROVISIONS	6	5,610	-	5,610	4,561	-	4,561
7.1 Restructuring Provision		-	-	-	-	-	-
7.2 Employee Benefits Obligation Provision		5,598	-	5,598	4,491	-	4,491
7.3 General Provision		-	-	-	-	-	-
7.4 Other Provisions		12	-	12	70	-	70
VIII. CURRENT TAX LIABILITY	5	2,005	-	2,005	4,865	-	4,865
IX. DEFERRED TAX LIABILITY		-	-	-	-	-	-
X. LOANS		-	-	-	-	-	-
XI. OTHER LIABILITIES	3-4	2,920	301	3,221	3,783	353	4,136
SUBTOTAL		1,282,865	247,910	1,530,775	948,402	171,059	1,119,461
XII. LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND HELD FROM TERMINATED OPERATIONS (Net)		-	-	-	-	-	-
12.1 Held for sale purpose		-	-	-	-	-	-
12.2 Held from terminated operations		-	-	-	-	-	-
XIII. SHAREHOLDERS' EQUITY		180,731	-	180,731	132,677	-	132,677
13.1 Paid-in Capital	7	65,000	-	65,000	65,000	-	65,000
13.2 Capital Reserves		-	-	-	-	-	-
13.2.1 Share Premiums		-	-	-	-	-	-
13.2.2 Share Cancellation Profits		-	-	-	-	-	-
13.2.3 Other Capital Reserves		-	-	-	-	-	-
13.3 Other Comprehensive Income or Expenses that Will Not Be Reclassified in Profit or Loss		(636)	-	(636)	(402)	-	(402)
13.4 Other Comprehensive Income or Expenses that Will Be Reclassified in Profit or Loss		-	-	-	-	-	-
13.5 Profit Reserves	8	4,046	-	4,046	2,235	-	2,235
13.5.1 Legal Reserves		4,046	-	4,046	2,235	-	2,235
13.5.2 Status Reserves		-	-	-	-	-	-
13.5.3 Extraordinary Reserves		-	-	-	-	-	-
13.5.4 Other Profit Reserves		-	-	-	-	-	-
13.6 Profit or Loss		112,321	-	112,321	65,844	-	65,844
13.6.1 Previous Years Profit or Loss		64,033	-	64,033	29,617	-	29,617
13.6.2 Period Net Profit or Loss		48,288	-	48,288	36,227	-	36,227
TOTAL LIABILITIES		1,463,596	247,910	1,711,506	1,081,079	171,059	1,252,138

(*) The financial statements prepared as of 31 December 2019 is presented in accordance with the new financial statement format in the “Regulation on the amendment to the regulation on the accounting practices and financial statements of financial leasing, factoring and financing companies” published on 01 February 2019 by the Banking Regulation and Supervision Agency. In order to be comparable with the financial statements dated 31 December 2019, the financial statements dated 31 December 2018 were restated in accordance with the new financial statement format.

The accompanying notes are integral part of these financial statements.

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Off-Balance sheet (Statement of financial position)

as of December 31, 2019

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

II. OFF-BALANCE SHEET

OFF-BALANCE SHEET ITEMS	Section 4 Note I	THOUSAND TURKISH LIRA					
		AUDITED			AUDITED		
		CURRENT PERIOD			PRIOR PERIOD		
		(31/12/2019)			(31/12/2018)		
		TL	FC	Total	TL	FC	Total
I. RECOURSE FACTORING TRANSACTIONS		12,741	42,045	54,786	15,916	61,162	77,078
II. NON-RECOURSE FACTORING TRANSACTIONS		412,926	18,967	431,893	273,255	16,229	289,484
III. GUARANTEES RECEIVED		34,552,490	3,615,813	38,168,303	28,492,437	3,031,224	31,523,661
IV. GUARANTEES GIVEN		86,743	-	86,743	337,420	-	337,420
V. COMMITMENTS		-	-	-	-	-	-
5.1 Irrevocable Commitments		-	-	-	-	-	-
5.2 Revocable Commitments		-	-	-	-	-	-
5.2.1 Lease Commitments		-	-	-	-	-	-
5.2.1 Financial Lease Commitments		-	-	-	-	-	-
5.2.1 Operating Lease Commitments		-	-	-	-	-	-
5.2.2 Other revocable commitments		-	-	-	-	-	-
VI. DERIVATIVE FINANCIAL INSTRUMENTS	4	-	-	-	36,254	93,631	129,885
6.1 Hedging Derivative Financial Instruments		-	-	-	-	-	-
6.1.1 Transactions for Fair Value Hedge		-	-	-	-	-	-
6.1.2 Transactions for Cash Flow Hedge		-	-	-	-	-	-
6.1.3 Transactions for Foreign Net Investment Hedge		-	-	-	-	-	-
6.2 Trading Transactions		-	-	-	36,254	93,631	129,885
6.2.1 Forward buy/sell transactions		-	-	-	-	-	-
6.2.2 Swap buy/sell transactions		-	-	-	36,254	93,631	129,885
6.2.3 Optional buy/sell transactions		-	-	-	-	-	-
6.2.4 Futures buy/sell transactions		-	-	-	-	-	-
6.2.5 Other		-	-	-	-	-	-
VII. ITEMS HELD IN CUSTODY		871,144	122,421	993,565	641,162	108,328	749,490
TOTAL OFF BALANCE SHEET COMMITMENTS		35,936,044	3,799,246	39,735,290	29,796,444	3,310,574	33,107,018

The accompanying notes are integral part of these financial statements.

QNB Finans Faktoring A.Ş.**Statement of Profit or Loss****as of December 31, 2019****(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)****III. STATEMENT OF PROFIT OR LOSS**

PROFIT OR LOSS ITEMS	Section 4 Note III	THOUSAND TURKISH LIRA	
		AUDITED	AUDITED
		CURRENT PERIOD (01/01-31/12/2019)	PRIOR PERIOD (01/01-31/12/2018)
I. OPERATING INCOME	1	270,375	295,778
 FACTORING INCOME		270,375	295,778
1.1 Interest Received from Factoring Receivables		253,979	270,111
1.1.1 Discounted		150,988	165,756
1.1.2 Other		102,991	104,355
1.2 Fees and Commissions Received from Factoring Receivables		16,396	25,667
1.2.1 Discounted		6,629	14,880
1.2.2 Other		9,767	10,787
FINANCE LOAN INCOME		-	-
1.3 Interest Received from Finance Loans		-	-
1.4 Fees and Commissions Received from Finance Loans		-	-
LEASING INCOME		-	-
1.5 Financial Leasing Income		-	-
1.6 Operational Leasing Income		-	-
1.7 Fees and Commissions Received from Leasing Transactions		-	-
II. FINANCIAL EXPENSES (-)	4	(167,683)	(191,344)
2.1 Interest Paid for Borrowings		(127,606)	(140,363)
2.2 Interest Paid for Factoring Transactions		-	-
2.3 Financial Lease Expense		(500)	-
2.4 Interest Paid for Securities		(33,032)	(44,406)
2.5 Other Interest Expenses		-	-
2.6 Fees and Commissions		(6,545)	(6,575)
III. GROSS PROFIT/LOSS (I-II)		102,692	104,434
IV. OPERATING EXPENSE (-)	2	(39,924)	(32,948)
4.1 Personnel Expenses		(25,614)	(20,977)
4.2 Provision Expense for Employment Termination Benefits		(339)	(136)
4.3 Research and Development Expenses		-	-
4.4 General Administration Expenses		(13,791)	(11,680)
4.5 Other		(180)	(155)
V. GROSS OPERATING PROFIT/LOSS (III+IV)		62,768	71,486
VI. OTHER OPERATING INCOME	3	39,754	126,143
6.1 Interest Received from Banks		577	307
6.2 Interest Received from Securities		-	34
6.3 Dividend Income		-	-
6.4 Trading Account Gain/Losses		-	-
6.5 Gain/losses from Derivative Transactions		1,993	-
6.6 Foreign Exchange Gain/Losses		21,197	117,720
6.7 Other		15,987	8,082
VII. PROVISIONS		(19,127)	(33,906)
7.1 Specific Provision		(19,127)	(33,906)
7.2 Expected Loss Provision		-	-
7.3 General Provision		-	-
7.4 Other		-	-
VIII. OTHER OPERATING EXPENSES (-)	5	(21,456)	(117,192)
8.1 Impairment of Marketable Securities		-	-
8.2 Impairment of Fixed Assets		-	-
8.3 Sermaye Piyasası İşlemleri Zararı		-	-
8.4 Loss from Derivative Financial Transaction		-	(1,517)
8.5 Foreign Exchange Loss		(21,456)	(115,675)
8.6 Other		-	-
IX. NET OPERATING INCOME/EXPENSE (V+...+VIII)		61,939	46,531
X. MERGER PROFIT I		-	-
XI. SURPLUS WRITTEN AS GAIN AFTER MERGER PROFIT / LOSS FROM INVESTMENTS ACCOUNTED FOR UNDER EQUITY		-	-
XII. NET MONETARY POSITION GAIN/LOSS		-	-
XIII. PROFIT/LOSS BEFORE TAXES FROM CONTINUING OPERATIONS (IX+...+XII)		61,939	46,531
XIV. PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS(±)	6	(13,651)	(10,304)
14.1 Current Tax Provision		(9,902)	(15,191)
14.2 Deferred Tax Expense Effect (+)		(3,749)	-
14.3 Deferred Tax Income Effect (-)		-	4,887
XV. NET PROFIT/LOSS FROM CONTINUING OPERATIONS (XIII±XIV)		48,288	36,227
XVI. INCOME FROM TERMINATED OPERATIONS		-	-
16.1 Income from Assets Held for Resale		-	-
16.2 Income from Investment and Associates, Subsidiaries and Joint Ventures		-	-
16.3 Other income		-	-
XVII. EXPENSES FROM TERMINATED OPERATIONS (-)		-	-
17.1 Expenses from Assets Held for Resale		-	-
17.2 Loss on Investment and Associates, Subsidiaries and Joint Ventures		-	-
17.3 Other Expenses		-	-
XVIII. PROFIT/LOSS BEFORE TAX FROM TERMINATED OPERATIONS (XVI-XVII)		-	-
XIX. TAXATION ON INCOME FROM TERMINATED OPERATIONS (±)		-	-
19.1 Current Tax Provision		-	-
19.2 Deferred Tax Expense Effect (+)		-	-
19.3 Deferred Tax Income Effect (-)		-	-
XX. NET PROFIT/LOSS FROM TERMINATED OPERATIONS (XVIII±XIX)		-	-
XXI. NET PROFIT/LOSSES (XIV+XIX)		48,288	36,227
EARNINGS PER SHARE		-	-

The accompanying notes are integral part of these financial statements.

Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Statement of Profit or Loss and Other Comprehensive Income

as of December 31, 2019

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

IV. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

PROFIT OR LOSS ITEMS	Note	THOUSAND TURKISH LIRA	
		Audited	Audited
		CURRENT PERIOD (1/1-31/12/2019)	PRIOR PERIOD (1/1-31/12/2018)
I. PERIOD INCOME/LOSS		48,288	36,227
II. OTHER COMPREHENSIVE INCOME		(234)	(77)
2.1 Items that will not be reclassified to profit or loss		(234)	(77)
2.1.1 Gains/(losses) on revaluation of tangible assets		-	-
2.1.2 Gains/(losses) on revaluation of intangible assets		-	-
2.1.3 Gains/(losses) on remeasurement of defined benefit pension plans		(300)	(98)
2.1.4 Other items that will not be reclassified to profit or loss		-	-
2.1.5 Taxation on comprehensive income that will not be reclassified to profit or loss		66	21
2.2 ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS		-	-
2.2.1 Translation differences for transactions in foreign currencies		-	-
2.2.2 Valuation and / or Reclassification Income / Expense of the Financial Assets at Fair Value Through Other Comprehensive Income		-	-
2.2.3 Gains/(losses) from cash flow hedges		-	-
2.2.4 Gains/(losses) from net investment hedges		-	-
2.2.5 Other items that will be reclassified to profit or loss		-	-
2.2.6 Taxation on comprehensive income that will be reclassified to profit or loss		-	-
III. TOTAL COMPREHENSIVE INCOME (I+II)		48,054	36,150

The accompanying notes are integral part of these financial statements.

Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.
Statement of changes in equity
for the period ended December 31, 2019
(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

V. STATEMENT OF CHANGES IN EQUITY

CHANGE IN EQUITY ITEMS	Notes	Paid in capital	Share premium	Share cancellation profits	Other capital reserves	Change in Accumulated revaluation of fixed assets	Accumulated remeasurement gain / loss of defined benefit pension plan	Other (Shares of Investments Valued by Equity Method in Other Comprehensive Income Not Classified Through Profit or Loss and Other Accumulated Amounts of Other Comprehensive Income Items Not Reclassified Through Other Profit or Loss)	Accumulated Other Comprehensive Income or Expenses Not Reclassified Through Profit or Loss	Foreign Currency Transition Differences	Accumulated Revaluation and/or Remeasurement Gain/Loss of the Financial Asset at Fair Value Through Other Comprehensive Income	Other (Cash Flow Hedge Gain/Loss, Shares of Investments Valued by Equity Method in Other Comprehensive Income Classified Through Profit or Loss and Other Accumulated Amounts of Other Comprehensive Income Items Reclassified Through Other Profit or Loss)	Accumulated Other Comprehensive Income or Expenses Reclassified Through Profit or Loss	Profit reserves	Prior Period Profit or (Loss)	Current Period Profit or (Loss)	Non-controlling interests	Total Shareholders Equity	
PRIOR PERIOD (31/12/2018) (Audited)																			
Balances at the beginning period	7	50,000	-	-	-	-	(325)	-	-	-	-	-	-	1,435	14,425	15,992	-	81,527	
Corrections made as per TAS 8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of corrections		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted balances		50,000	-	-	-	-	(325)	-	-	-	-	-	-	1,435	14,425	15,992	-	81,527	
Total Comprehensive Income		-	-	-	-	-	(77)	-	-	-	-	-	-	-	-	-	-	-	(77)
Capital increase		15,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,000
Capital Increase Through Internal Resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Inflation adjustments to paid-in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Convertible bonds		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated loan		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase/Decrease due to Other Changes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit distribution		-	-	-	-	-	-	-	-	-	-	-	-	800	15,192	(15,992)	-	-	36,277
Dividends		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to reserves		-	-	-	-	-	-	-	-	-	-	-	-	800	15,192	(15,992)	-	-	-
Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at the end of period		65,000	-	-	-	-	(402)	-	-	-	-	-	-	2,235	29,617	36,227	-	132,677	
CURRENT PERIOD (31/12/2019) (Audited)																			
Balances at the beginning period	7	65,000	-	-	-	-	(402)	-	-	-	-	-	-	2,235	29,617	36,227	-	132,677	
Corrections made as per TAS 8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of corrections		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted balances		65,000	-	-	-	-	(402)	-	-	-	-	-	-	2,235	29,617	36,227	-	132,677	
Total Comprehensive Income		-	-	-	-	-	(234)	-	-	-	-	-	-	-	-	-	-	-	(234)
Capital increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Increase Through Internal Resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Inflation adjustments to paid-in capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Convertible bonds		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated loan		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase/Decrease due to Other Changes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit distribution		-	-	-	-	-	-	-	-	-	-	-	-	1,811	34,416	(36,227)	-	-	48,288
Dividends		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to reserves		-	-	-	-	-	-	-	-	-	-	-	-	1,811	34,416	(36,227)	-	-	-
Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at the end of period		65,000	-	-	-	-	(636)	-	-	-	-	-	-	4,046	64,033	48,288	-	180,731	

The accompanying notes are integral part of these financial statements.

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Statement of cash flows

for the period ended December 31, 2019

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

VI. STATEMENT OF CASH FLOWS

	Note	THOUSAND TURKISH LIRA	
		AUDITED	AUDITED
		CURRENT PERIOD (1/1-31/12/2019)	PRIOR PERIOD (1/1-31/12/2018)
A. CASH FLOWS FROM OPERATING ACTIVITIES			
1.1 Operating profit before changes in operating assets and liabilities		46,554	34,148
1.1.1 Interest received/leasing income		254,556	270,418
1.1.2 Interest paid / Leasing Expenses		(167,683)	(191,344)
1.1.3 Leasing Expenses		-	-
1.1.4 Dividends received		-	-
1.1.5 Fees and commissions received	26	16,396	25,667
1.1.6 Other income		-	-
1.1.7 Collections from previously written off doubtful receivables		15,987	8,065
1.1.8 Payments to personnel and service suppliers		(39,924)	(32,948)
1.1.9 Taxes paid		(13,651)	(10,326)
1.1.10 Other		(19,127)	(35,384)
1.2 Changes in operating assets and liabilities		93,618	12,587
1.2.1 Net (increase) decrease in factoring receivables		(427,941)	170,295
1.2.1 Net (increase) decrease in finance loans		-	-
1.2.1 Net (increase) decrease in lease receivables		-	-
1.2.2 Net (increase) decrease in other assets		(4,233)	(4,855)
1.2.3 Net increase (decrease) in factoring payables		(1,656)	3,002
1.2.3 Net increase (decrease) in lease payables		-	-
1.2.4 Net increase (decrease) in funds borrowed		531,667	(160,492)
1.2.5 Net increase (decrease) in due payables		-	-
1.2.6 Net increase (decrease) in other liabilities		(4,219)	4,637
I. Net Cash Used in Operating Activities		140,172	46,735
B. CASH FLOWS FROM INVESTING ACTIVITIES			
2.1 Acquisition of Investments, Associates and Subsidiaries		-	-
2.2 Disposal of Investments, Associates and Subsidiaries		-	-
2.3 Purchases of Property and Equipment	10.11	-	(5,547)
2.4 Disposals of Property and Equipment		-	-
2.5 Purchase of Investments Available-for-sale		-	-
2.6 Sale of Investments Available-for-sale		-	-
2.7 Purchase of Investment Securities Held to Maturity		-	-
2.8 Sale of Investment Securities Held to Maturity		-	-
2.9 Other		6,170	950
II. Net Cash (Used in)/Provided from Investing Activities		6,170	(4,597)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
3.1 Cash Obtained from Funds Borrowed and Securities Issued		164,116	282,946
3.2 Cash used for repayment of funds borrowed and securities issued		(282,946)	(342,143)
3.3 Issued capital instruments		-	-
3.4 Dividends paid		-	-
3.5 Payments for finance leases		-	-
3.6 Other		-	15,000
III. Net Cash (Used in)/Provided from Financing Activities		(118,830)	(44,197)
IV. Effect of change in foreign exchange rate on cash and cash equivalents		1,734	2,079
V. Net increase / (decrease) in cash and cash equivalents		29,246	20
VI. Cash and cash equivalents at beginning of the period	5	3,868	3,848
VII. Cash and cash equivalents at end of the period	5	33,114	3,868

The accompanying notes are integral part of these financial statements.

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Profit distribution table

for the period ended December 31, 2019

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

VII. STATEMENT OF PROFIT DISTRIBUTION

	Note	THOUSAND TURKISH LIRA	
		AUDITED	AUDITED
		CURRENT YEAR (31/12/2019)	PRIOR PERIOD (31/12/2018)
I. DISTRIBUTION OF CURRENT PERIOD PROFIT (*)			
1.1	CURRENT PERIOD PROFIT	61,939	46,531
1.2	TAXES AND DUES PAYABLE (-)	13,651	(10,304)
1.2.1	Corporate Tax (Income Tax)	9,902	(15,191)
1.2.2	Withholding Tax	-	-
1.2.3	Other taxes and dues (**)	(3,749)	4,887
A.	NET PERIOD PROFIT (1.1-1.2)	48,288	36,227
1.3	PRIOR YEARS LOSSES (-)	-	-
1.4	FIRST LEGAL RESERVE (-) (-)	-	-
1.5	OTHER STATUTORY RESERVES NEEDED TO BE KEPT IN THE COMPANY (-)	-	(4,887)
B.	DISTRIBUTABLE NET PERIOD PROFIT [(A-1.3-1.4-1.5)]	-	31,340
1.6	FIRST DIVIDEND TO SHAREHOLDERS (-)	-	-
1.6.1	To Owners of Ordinary Shares	-	-
1.6.2	To Owners of Preferred Stocks	-	-
1.6.3	To Owners of Preferred Stocks (Preemptive Rights)	-	-
1.6.4	To Profit Sharing Bonds	-	-
1.6.5	To Owners of the profit /loss Sharing Certificates	-	-
1.7	DIVIDENS TO PERSONNEL (-)	-	-
1.8	DIVIDENS TO BOARD OF DIRECTORS (-)	-	-
1.9	SECOND DIVIDENS TO SHAREHOLDERS (-)	-	-
1.9.1	To Owners of Ordinary Shares	-	-
1.9.2	To Owners of Preferred Stocks	-	-
1.9.3	To Owners of Preferred Stocks (Preemptive Rights)	-	-
1.9.4	To Profit Sharing Bonds	-	-
1.9.5	To Owners of the profit /loss Sharing Certificates	-	-
1.10	SECOND LEGAL RESERVES (-)	-	-
1.11	STATUS RESERVES (-)	-	-
1.12	EXTRAORDINARY RESERVES	-	-
1.13	OTHER RESERVES	-	-
1.14	SPECIAL FUNDS	-	-
II.	DISTRIBUTION FROM RESERVES	-	-
2.1	DISTRIBUTED RESERVES	-	-
2.2	SECOND LEGAL RESERVES (-)	-	-
2.3	SHARE TO SHAREHOLDERS (-)	-	-
2.3.1	To Owners of Ordinary Shares	-	-
2.3.2	To Owners of Preferred Stocks	-	-
2.3.3	To Owners of Preferred Stocks (Preemptive Rights)	-	-
2.3.4	To Profit Sharing Bonds	-	-
2.3.5	To Owners of the profit /loss Sharing Certificates	-	-
2.4	SHARE TO PERSONNEL (-)	-	-
2.5	SHARE TO BOARD OF DIRECTORS (-)	-	-
III.	EARNINGS PER SHARE	-	-
3.1	TO OWNERS OF STOCKS	-	0.4822
3.2	TO OWNERS OF STOCKS (%)	-	48.22%
3.3	TO OWNERS OF PREFERRED STOCKS	-	-
3.4	TO OWNERS OF PREFERRED STOCKS (%)	-	-
IV.	DIVIDEND PER SHARE	-	-
4.1	TO OWNERS OF STOCKS	-	-
4.2	TO OWNERS OF STOCKS (%)	-	-
4.3	TO OWNERS OF PREFERRED STOCKS	-	-
4.4	TO OWNERS OF PREFERRED STOCKS (%)	-	-

(*) The decision regarding distribute profit for 2019 will be made at the General Assembly meeting. The General Assembly meeting has not been held as of the report date.

(**) Deferred tax expense is not subject to profit distribution.

The accompanying notes are integral part of these financial statements.

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2018

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

SECTION THREE

ACCOUNTING PRINCIPLES

1. Basis of preparation of the financial statements

1.1. Basis of Presentation

The Company maintains its books of account in accordance with the Communiqué on “The Application of Uniform Charts of Accounts and its Guide Book In Connection to the Establishment and Main Activities of Finance Leasing, Factoring and Financing Companies and The Format of the Financial Statements for Public Presentation” published in the Official Gazette No: 28861 on December 24, 2013. The Company maintains its books of account in accordance with the Turkish Accounting Standards applying the disclosures of Banking Regulations and Supervision Agency (“BRSA”) and “BRSA Accounting and Financial Reporting Regulations”. As of December 31, 2018 financial statements are presented in new financial statement format in accordance with “regulation on amendments related to regulation on accounting applications and financial statements of financial leasing, factoring and financing companies” published by BRSA on February 1, 2019.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Authorization of financial statements:

The Board of Directors has approved the publication of financial statements of the Company on January 29, 2020. The General Assembly has the authority to modify the financial statements.

Additional paragraph for convenience translation into English

The differences between accounting principles, as described in the preceding paragraphs, and accounting principles generally accepted in countries in which these financial statements are to be distributed and International Financial Reporting Standards (“IFRS”) have not been quantified in these financial statements. Accordingly, these financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

1.1.1 Functional Currency

Financial statements of the Company have been presented using the currency (functional currency) of the economic environment in which the Company operates. Financial position and the results of operations of the Company have been presented in Turkish Lira (“TL”) the current currency of the company.

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Basis of preparation of the financial statements (continued)

1.1.2 Clarification/Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

1.1.3 Going Concern

The financial statements have been prepared based on the going concern assumption.

Comparatives and restatement of prior year financial statements

In order to enable the determination of the financial position and performance trends, the Company's financial statements have been presented comparatively with the prior period. Reclassifications are made on comparative figures to conform to changes in presentation or reclassification of the financial statements.

1.2 Changes in Accounting Policies

Significant changes in accounting policies are applied retrospectively and the prior period financial statements are restated accordingly. There is no major change in the accounting policies of the Company in the current year.

1.3 Changes in Accounting Estimates and Errors

The effect of a change in an accounting estimate is recognised prospectively in the period of the change, if the change affects that period only; or the period of the change and future periods, if the change affects both. There has not been any significant change in the accounting estimates of the Company in the current year.

1.4 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at December 31, 2019 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and TFRIC interpretations effective as of January 1, 2019. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at January 1, 2019 are as follows:

IFRS 16 Leases

In April 2018, POA has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes TAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted.

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognises an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Basis of preparation of the financial statements (continued)

1.4 The new standards, amendments and interpretations (continued)

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Transition to IFRS 16 :

The company has implemented IFRS 16 with a facilitated backward approach.

The Company elected to use the exemptions applicable to the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Company has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:

Assets

Tangible Assets (right of-use assets)	5.399
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Liabilities

Lease Liabilities	5.399
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The standard is applied for annual periods beginning on or after January 1, 2019.

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Basis of preparation of the financial statements (continued)

1.4 The new standards, amendments and interpretations (continued)

Set out below are the new accounting policies of the Company upon adoption of IFRS 16:

Right-of-use assets

The company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use assets includes:

- (a) the amount of lease liabilities recognized,
- (b) lease payments made at or before the commencement date less any lease incentives received and
- (c) initial direct costs incurred.

Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the company recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

The lease payments include

- (a) fixed payments
- (b) variable lease payments that depend on an index or a rate,
- (c) amounts expected to be paid under residual value guarantees.
- (d) the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease,
- (e) if the lease term reflects the company exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the effective date of the lease, the company measures the lease obligation as follows:

- (a) The book value is increased to reflect the accretion of interest of lease liabilities
- (b) The book value is reduced to reflect the lease payments made

In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Basis of preparation of the financial statements (continued)

1.4 The new standards, amendments and interpretations (continued)

Short-term leases and leases of low-value assets

The company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

As the Company has started to apply IFRS 16, the asset classified in the tangible assets is TL 4,109 as of December 31, 2019, TL 4,352 is leasing liabilities, TL 500 is finance expense and TL 4,447 is amortization expense.

Amendments to TAS 28 “Investments in Associates and Joint Ventures” (Amendments)

In December 2017, POA issued amendments to TAS 28 *Investments in Associates and Joint Ventures*. The amendments clarify that a company applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

IFRS 9 *Financial Instruments* excludes interests in associates and joint ventures accounted for in accordance with TAS 28 *Investments in Associates and Joint Ventures*. In this amendment, POA clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the financial position or performance of the Company.

TFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in “TAS 12 *Income Taxes*” when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:

- (a) whether an entity considers uncertain tax treatments separately;
- (b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- (c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- (d) how an entity considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The interpretation did not have a significant impact on the financial position or performance of the company.

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Basis of preparation of the financial statements (continued)

1.4 The new standards, amendments and interpretations (continued)

Annual Improvements – 2015–2017 Cycle

In January 2019, POA issued Annual Improvements to IFRS Standards 2015–2017 Cycle, amending the following standards:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- TAS 12 *Income Taxes* — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- TAS 23 *Borrowing Costs* — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalisation rate on general borrowings.

The amendments are effective from annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the financial position or performance of the Company

Plan Amendment, Curtailment or Settlement” (Amendments to TAS 19)

In January 2019, the POA published Amendments to TAS 19 “Plan Amendment, Curtailment or Settlement” The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. The amendments did not have a significant impact on the financial position or performance of the Company.

These amendments are applied for annual periods beginning on or after 1 January 2019.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The POA issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation.

These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments are not applicable for the Company and did not have an impact on the financial position or performance of the Company.

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QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Basis of preparation of the financial statements (continued)

1.4 The new standards, amendments and interpretations (continued)

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the financial statements are as follows. The company will make the necessary changes if not indicated otherwise, which will be affecting financial statements and disclosures, when the new standards and interpretations become effective.

IFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In December 2017, POA postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. The Company will wait until the final amendment to assess the impacts of the changes.

IFRS 17 - The new Standard for insurance contracts

The PAO issued IFRS 17 in February 2019, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The standard is not applicable for the Company and will not have an impact on the financial position or performance of the Company.

Definition of a Business (Amendments to IFRS 3)

In May 2019, the PAO issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- Clarify the minimum requirements for a business;
- Remove the assessment of whether market participants are capable of replacing any missing elements;
- Add guidance to help entities assess whether an acquired process is substantive;
- Narrow the definitions of a business and of outputs; and
- Introduce an optional fair value concentration test.

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted.

The amendments are not applicable for the Company and will not have an impact on the financial position or performance of the Company.

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Basis of preparation of the financial statements (continued)

1.4 The new standards, amendments and interpretations (continued)

Definition of Material (Amendments to TAS 1 and TAS 8)

In June 2019, the PAO issued amendments to TAS 1 Presentation of Financial Statements and TAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to TAS 1 and TAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted. The amendments are not applicable for the Company and will not have an impact on the financial position or performance of the Company

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

The amendments issued to IFRS 9 and TAS 39 which are effective for periods beginning on or after January 1, 2020 provide certain reliefs for 4 fundamental matters in connection with interest rate benchmark reform. These reliefs are related to hedge accounting as follows:

- Highly probable requirement
- Prospective Assessments
- Retrospective Assessments
- Separately identifiable risk components

Reliefs used as a result of amendments in IFRS 9 and TAS 39 is aimed to be disclosed in financial statements based on the amendments made in IFRS 7.

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

There are no new standards, comments and changes to existing IFRS standards published by IASB but not yet adapted / published by the POA.

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QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

2. Applied valuation principles / accounting policies

Significant valuation principles and accounting policies that are used to prepare financial statement are as follows:

a. Revenue:

Factoring service income is composed of collected and accrued interest income and commission income earned from advance payments made to customers.

Factoring commission income is composed of a certain percentage amount which is received on the value of invoices subject to factoring transactions or the prepayment.

All of the income and expenses are recognized with accrual basis accounting.

b. Property, plant and equipment:

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

Property, plant and equipment are depreciated principally on a straight-line basis considering the expected useful lives. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Expenses for the maintenance of property, plant and equipment are normally recorded in profit and loss statement. Gain or loss arising on the disposal or retirement of an item of tangible asset is determined as the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

Estimated useful life of the assets as follows:

	<u>Year</u>
Furniture and Fixtures	5
Leasehold Improvements	5

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

2. Applied valuation principles / accounting policies (continued)

c. Intangible Assets:

Computer Software

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.

Useful lives of intangible assets are as follows:

	<u>Year</u>
Computer Software	1-15

d. Impairment of Assets:

If there are events or situations which the book value of assets subject to amortization may not be recoverable, the impairment test is applied. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of net selling price or value in use. For purposes of assessing impairment, assets are grouped at the lowest level of identifiable cash flows (cash generating unit). At each reporting date, the Company assesses whether there is any indication that carrying value of assets except financial assets and deferred tax assets is impaired or not.

e. Borrowing Costs:

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

f. Financial Instruments:

Financial assets and liabilities are recognized in balance sheet as long as the company is legally involved in particular financial instruments..

Financial Assets

Financial assets are accounted for at fair value less transaction costs except for the financial assets classified as at fair value through profit or loss, which are initially measured at fair value. Investments are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

Financial assets are classified into the following specified categories: financial assets as ‘at fair value through profit or loss’ (FVTPL), ‘held-to-maturity investments’, ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriates a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for financial assets other than those financial assets designated as at fair value through profit or loss.

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

2. Applied valuation principles / accounting policies (continued)

Factoring receivables and other receivables

Factoring receivables represent financial assets created through financing of debtors. Factoring receivables are first recognized at their acquisition cost and then valued at their costs discounted using the effective interest rate method.

The factoring receivables provision for the impairment of investments in factoring is established based on a credit review of the receivables portfolio. The Company has set this provision in accordance with the BRSA's "Communiqué on the Procedures Regarding the Provisions to Be Provided for the Loans of Leasing, Factoring and Financing Companies" (“Provisions Communiqué”) which was published in the Official Gazette No. 28861 of December 24, 2013.

The Company calculates and recognitions losses or expected losses about its receivables in accordance with the "Regulation on Accounting Applications and Financial Tables of Financial Leasing, Factoring and Financing Companies" dated December 24, 2013 and numbered 28861.

According to the Communiqué, specific provisions are set in following proportions: minimum 20% for collateralized factoring receivables overdue for 90 to 180 days, minimum 50% for collateralized factoring receivables overdue for 180 to 360 days, and 100% for collateralized factoring receivables overdue for more than 1 year.

By taking into account all data concerning the credibility level of debtors and the principles of reliability and prudence, the Company also creates specific provisions for receivables without including collaterals, even if they are collected when due or are not overdue beyond the time limits given.

The Communiqué on Provisions states, but not requires, that a general provision, not directly related to any specific transaction, may be created for potential, unmeasured losses associated with any principal or interest or both that are not overdue or are overdue for less than ninety days. The Company creates general provisions for its factoring receivables that have not yet become doubtful.

Receivables that cannot be collected, whether in whole or in part, are written off only after the relevant debtor is ruled insolvent by a court of competent jurisdiction. Once a receivable is written off, the provision created for the receivable is reversed and the receivable is removed from assets. Any account receivable written off in any previous year but later collected is recognized as income.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. As of December 31, 2019, the Company follows their derivative financial instruments under this account.

Dividends related to shares that are classified in this company are recognized in the income statement when the entity has the right to use dividend.

As at balance sheet date, the details of financial assets at fair value through profit or loss are given in Note 4.

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

2. Applied valuation principles / accounting policies (continued)

Impairment on Financial Asset

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For loans and receivables, the amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of a provision account. When a trade receivable is uncollectible, it is written off against the provision account. Changes in the carrying amount of the provision are recognized in profit or loss.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand; demand deposits and other short-term highly liquid investments which their original maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying value of these assets approximates their fair value.

Financial Liabilities

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below:

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in ‘other gains/losses’ line in the statement of comprehensive income.

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QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

2. Applied valuation principles / accounting policies (continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method and the interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of financial liability, or, where appropriate, a shorter period.

g. Business Combinations:

None.

h. Foreign Currency Transactions:

The financial statements of the Company are presented in the currency of the primary economic environment in which the entity operates. Financial position and the results of operations of the Company are expressed in TL.

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

	December 31, 2019	December 31, 2018
USD	5.9402	5.2609
EUR	6.6506	6.0280

In preparing the financial statements of the Company, transactions in currencies other than TL (foreign currencies) are recorded at the prevailing exchange rates at the transaction date.

At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency exchange differences of monetary items and collection and disbursement of foreign currency exchange gains and losses resulting from the profit or loss are included in the income statement..

i. Earnings per Share:

In accordance with TAS 33 “Earnings per Share”, companies whose shares are not traded on the stock exchange are not obliged to disclose earnings per share.

i. Subsequent Events:

Subsequent events cover any events which arise between the date of the statement of financial position and the date of approval of the financial statements, even if they occurred after any declaration of the net profit for the period or specific financial information publicly disclosed.

The Company adjusts its financial statements if such subsequent events require an adjustment to the financial statements.

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

2. Applied valuation principles / accounting policies (continued)

j. Provisions, Contingent Liabilities and Contingent Assets:

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

k. Finance Lease:

Lease - The Company as Lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lesser is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged to the profit or loss in accordance with the Company's general policy on borrowing costs as detailed above. The entity has no financial lease debts.

Rental payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant leases.

l. Related Parties:

Shareholding, contractual rights and institutions which can control or significantly affect directly or indirectly the other side with family relations, are defined as related party. Shareholders and company management are also included to related parties. Related party transactions include the assets and liabilities between related parties as the transfer price or free.

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity,
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

2. Applied valuation principles / accounting policies (continued)

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

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

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

m. Segment Reporting:

The segment disclosure as per IFRS 8 is not presented since the Company's borrowing instruments or financial instruments based on equity are not traded on the stock exchange or other organized markets.

n. Taxation on Income:

Income tax expense represents the sum of the current tax and deferred tax payable.

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred Tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

2. Applied valuation principles / accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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.

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination.

o. Employee Benefits/ Retirement Pay Provision:

Obligations related to employee termination benefits are accounted for in accordance with “International Accounting Standard for Employee Rights” (“IAS 19”) and are classified under “reserve for employment termination benefits” account in the balance sheet.

In accordance with the existing social legislation in Turkey, the Company is required to make certain lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Provision of employee termination benefits are calculated over the present value of probable liability under the law by using actuarial estimates and recognized in financial statements (Section 4 Note II-6). The actuarial gains or losses occurred after January 1, 2013 are accounted under equity in accordance with the revised IAS 19 standard.

The retirement benefit obligation recognized in the statement of financial position represents the present value of the defined benefit obligation. The actuarial gains and losses are recognized in other comprehensive income.

ö. Statement of Cash Flows:

In statement of cash flows, cash flows are classified according to operating, investment and finance activities.

Cash flows from operating activities are those resulting from factoring operations of the Company.

Cash flows from investing activities indicate cash inflows and outflows resulting from fixed asset and financial investments.

Cash flows from financing activities indicate the resources used in financing activities and the repayment of these resources.

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

2. Applied valuation principles / accounting policies (continued)

Cash and cash equivalents comprise cash on hand and demand deposits with original maturities of 3 months or 3 months from the date of purchase, with less risk of significant value change readily convertible to cash and other short-term highly liquid investments.

Critical accounting assessments, estimates and assumptions

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions affecting the assets and liabilities disclosed in the balance sheet, or the contingent assets and liabilities, and the income and expenses reported to have been incurred during the period involved. Although based on the best estimates and knowledge of the Company’s Management, the actual results may differ from these estimates.

Critical assessments, estimates and assumptions that would significantly affect both the accompanying financial statements and the carrying amounts of recognized assets and liabilities in the next period include:

Recognition of deferred tax assets; Deferred income tax assets are classified to the extent that the related tax benefit is probable. The amount of profits that may be taxed in the future and the amount of prospective tax benefits are based on the medium term business plan prepared by the Company’s Management and the extrapolated estimates made thereafter. The Company calculates deferred tax on its non performing loan receivable portfolio, which is included in the tax base of the Company, assuming that these receivables will be taxable through future collection and / or sale. The business plan is based on Management expectations regarded as reasonable under the circumstances. As of December 31, 2019, the Company’s total deferred tax assets is TL 18,719 (Deferred tax assets on December 31, 2018: TL 22,402).

Impairment of factoring receivables; The assumptions and methods used to estimate the timing and volume of prospective cash flows from factoring receivables are frequently reviewed in order to resolve any differences between estimated impairment of factoring receivables and actual losses incurred. The Company has booked a provision of TL 71,034 for impaired factoring receivables (December 31, 2018: TL 67,829) (Section 4 Note I-5).

Provision of the employee termination benefit; has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. IFRS requires entities to develop actuarial valuation methods to estimate the provision required for termination benefits. Using the assumptions in the calculation of the total liability as of December 31, 2019, provision has been recognized amounting to TL 1,769 (December 31, 2018: TL 1,130).

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

SECTION FOUR

I. Disclosures and footnotes on the balance sheet's active accounts

1. Cash, cash equivalents and central bank

	December 31, 2019		December 31, 2018	
	TL	FC	TL	FC
Banks	19	33,095	306	3,562
Demand Deposit	19	33,095	306	3,562
Time Deposit	-	-	-	-
	19	33,095	306	3,562

The Company has no time deposit as of December 31, 2019 (December 31, 2018: None).

As of December 31, 2019, the Company has demand deposit with total amount of TL 32,528 (TL 8 Turkish Lira and TL 32,520 foreign currency) at QNB Finansbank A.Ş which is related party of the Company. (As of December 31, 2018, the Company has demand deposit with total amount of TL 821 (TL 212 Turkish Lira and TL 609 foreign currency) at QNB Finansbank A.Ş which is related party of the Company. There is no lien or restriction on the Company's bank deposits. The details of all related party transactions of the Company is given at Section 4- Footnote I-7.

The reconciliation of the amounts of cash and cash equivalents in balance sheet and presented in the statement of cash flows:

	December 31, 2019	December 31, 2018
Cash and Cash Equivalents		
Demand Deposit	33,114	3,868
Time Deposit (1-3 months)	-	-
	33,114	3,868

2. Financial Assets at Fair Value Through Profit/Loss

None (December 31, 2018: None).

3. Financial assets at fair value through other comprehensive income

None (December 31, 2018: None).

4. Derivative Financial Assets/Liabilities

As of 31 December 2019, the company has no derivative financial assets. (As of December 31, 2018, the total value of the swaps is 129,885 TL, the fair value of the positive and negative discount difference is 9 and 1,493 TL respectively.)

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

5. Factoring receivables

	December 31, 2019		December 31, 2018	
	TL	FC	TL	FC
Domestic factoring receivables	1,443,217	166,846	1,102,138	25,719
Import and export factoring receivables	-	53,752	-	107,651
Unearned interest income	(25,739)	(1,146)	(27,152)	(679)
	1,417,478	219,452	1,074,986	132,691

Unearned interest income represents revenues collected in advance, calculated on the basis of the maturities of factoring receivables.

Factoring transactions are classified as follows:

	December 31, 2019	December 31, 2018
Domestic revocable	1,176,852	726,939
Domestic irrevocable	406,327	373,087
Foreign revocable	7,368	25,498
Foreign irrevocable	46,383	82,153
	1,636,930	1,207,677

As of December 31, 2019, the total amount of postdate cheques and bills received by the Company against its factoring receivables is TL 993,565 (December 31, 2018: TL 749,490). These cheques and bills are classified in off-balance sheet accounts.

	December 31, 2019	December 31, 2018
Factoring Receivables:		
Fixed Rate	1,095,073	862,559
Floating Rate	541,857	345,118
	1,636,930	1,207,677

Breakdown of factoring receivables by maturity:

	December 31, 2019	December 31, 2018
0-30 days	441,942	570,663
30-90 days	726,261	408,913
90-180 days	363,517	193,535
180-360 days	72,990	26,640
1 year and over	32,220	7,926
	1,636,930	1,207,677

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

5. Factoring receivables (continued)

Factoring receivables are analysed as follows:

	December 31, 2019	December 31, 2018
Neither overdue nor impaired	1,636,314	1,200,564
Overdue, but not impaired	616	7,113
Impaired	77,535	75,642
Total	1,714,465	1,283,319
(Less): Provision for impairment	71,034	67,829
Factoring receivables and doubtful receivables (net)	1,643,431	1,215,490

The Company's guarantees for factoring receivables which are as follows. To calculate the amount of guarantees, only the portion corresponding to the amount of the receivables taken into account in case of the amount of the guarantee exceeds the receivable amount:

Guarantees Received:	December 31, 2019	December 31, 2018
Notes	1,520,288	1,118,773
Pledges	123,143	96,717
	1,643,431	1,215,490

6. Doubtful receivables

	December 31, 2019	December 31, 2018
Doubtful factoring receivables	77,535	75,642
Specific provisions	(71,034)	(67,829)
	6,501	7,813

Aging of doubtful factoring receivables as at December 31, 2019 and December 31, 2018 are as follows:

	December 31, 2019	December 31, 2018
90 – 180 days	9,611	20,072
180 – 360 days	3,998	9,810
1 year and over	63,926	45,760
	77,535	75,642

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

6. Doubtful receivables (continued)

The movement of specific provision for doubtful factoring receivables is as follows:

	January 1 – December 31, 2019	January 1 – December 31, 2018
Balance as at January 1	(67,829)	(41,988)
Provision booked during the period	(19,127)	(33,906)
Collections	15,922	8,065
Balance at December 31	(71,034)	(67,829)

7. Related party transactions

Funds borrowed from related parties

QNB Finansbank A.Ş.

Currency Type	Interest Rate	Maturity	December 31, 2019
TL	15.12%	25 Sep 20	72,704
TL	14.70%	1 Apr 20	67,372
TL	11.81%	31 Mar 20	22,805
			162,881

QNB Finansbank A.Ş.

Currency Type	Interest Rate	Maturity	December 31, 2018
TL	35.70%	2 Jan 19	6,541
TL	36.49%	1 Feb 19	1,091
TL	24.68%	2 Jan 19	223,848
EUR	4.73%	31 Jan 19	3,738
			235,218

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QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

7. Related party transactions (continued)

Deposits held on Related Parties

	December 31, 2019
QNB Finansbank A.Ş.Demand Deposit	32,528
	32,528

(*) The Company has no time deposits with related parties as of December 31, 2019 (December 31, 2018: None).

Deposits held on Related Parties

	December 31, 2018
QNB Finansbank A.Ş.Demand Deposit	821
	821

	January 1 – December 31, 2019	January 1 - December 31, 2018
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Interest Income from related parties

QNB Finansbank A.Ş.	228	132
	228	132

Financing Expenses(*)

QNB Finansbank A.Ş.	(25,449)	(22,934)
	(25,449)	(22,934)

(*) The company has started to apply IFRS 16 Leases standard as of January 1, 2019. As of 31 December 2019, the finance expense balance amounting to TL 215 from IFRS 16 is also included in the related finance expense balance.

	January 1 – December 31, 2019	January 1 - December 31, 2018
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General Administrative Expenses

Finansbank A.Ş.	(3,433)	(3,317)
IBTECH Uluslararası Bil. Ve İlt. Tekn. Ar. Ge. Dan. Des. San. ve Tic. A.Ş.	(72)	(68)
Cigna Finans Emeklilik ve Hayat A.Ş.	(13)	(14)
Efinans Elektronik Ticaret ve Bilişim Hizmetleri A.Ş.	(7)	-
QNB Finans Yatırım Menkul Değerler A.Ş.	(1,182)	(1,000)
	(4,707)	(4,399)

<u>Benefits provided to Top Management</u>	3,607	2,590
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<u>Short term Benefits(*)</u>	3,607	2,590
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(*) Top Management consists of general manager, assistant general managers and directors.

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

8. Property, plant and equipment

Depreciation expense is recognized under operating expenses in the statement of profit or loss (Section 4-Footernote I-1).

	Furniture and fixtures	Leasehold improvements	Land	Rights of Use(*)	Total
<u>Cost</u>					
Opening Balance	1,171	144	125	5,401	6,841
Additions	187	6	-	3,189	3,382
Disposals(*)	(6)	-	-	(2,134)	(2,140)
Closing Balance, December 31, 2019	1,352	150	125	6,456	8,083
<u>Accumulated Depreciation</u>					
Opening Balance	(564)	(49)	-	-	(613)
Change for the period	(207)	(29)	-	(4,447)	(4,683)
Disposals	6	-	-	2,100	2,106
Closing Balance, December 31, 2019	(765)	(78)	-	(2,347)	(3,190)
Net book value as of December 31, 2019	587	72	-	4,109	4,893

As the Company has started to apply IFRS 16, the asset classified in the tangible assets is TL 4.109 as of December 31, 2019, TL 4.352 is leased, TL 500 is finance expense and TL 4.447 is amortization expense.

	Furniture and fixtures	Leasehold Improvements	Land	Total
<u>Cost</u>				
Opening Balance	624	120	125	869
Additions	579	64	-	643
Disposals (*)	(32)	(40)	-	(72)
Closing Balance, December 31, 2018	1,171	144	125	1,440
<u>Accumulated Depreciation</u>				
Opening Balance	(460)	(40)	-	(500)
Change for the period	(136)	(49)	-	(185)
Disposals (*)	32	40	-	72
Closing Balance, December 31, 2018	(564)	(49)	-	(613)
Net book value as of December 31, 2018	607	95	125	827

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

9. Intangible assets

Amortization expense is recognized under General Administrative expenses in the statement of profit or loss (Section 4-Footnote I-1).

	December 31, 2019	December 31, 2018
<u>Cost (Computer software)</u>		
Opening balance	7,496	2,592
Additions	3,516	4,904
Closing Balance	11,012	7,496
<u>Accumulated amortization</u>		
Opening balance	(2,255)	(1,491)
Charge for the period	(1,168)	(764)
Closing balance	(3,423)	(2,255)
Net Book Value	7,589	5,241

10. Goodwill

None (December 31, 2018: None).

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

11. Deferred tax assets and liabilities

The cumulative temporary differences subject to deferred tax has been calculated, and the deferred income tax assets and liabilities as of December 31, 2019 and 2018 are shown in the following table, which was prepared using the applicable tax rates:

	Total temporary differences		Deferred tax assets/(liabilities)	
	2019	2018	2019	2018
Provision for impaired doubtful factoring receivables	52,840	67,829	11,625	14,922
Unearned income	27,194	28,534	5,983	6,277
Provision for premiums	3,000	2,700	660	594
Provision for termination benefits	1,770	1,130	389	249
Provision for unused vacation	829	661	185	145
Provision for litigation	12	70	-	15
Use Rights(IFRS 16)	189	-	42	-
Rediscount for general administrative expense	282	142	62	31
Derivative instruments	-	1,484	-	327
Deferred Tax Assets	86,116	102,550	18,946	22,560
Income accrual on derivatives contracts	-	-	-	-
Net difference between carrying value and tax base of tangible assets and intangible assets	(818)	(534)	(180)	(117)
IRR difference of loans	(210)	(188)	(47)	(41)
Deferred tax liabilities	(1,028)	(722)	(227)	(158)
Deferred tax (liabilities) / assets, net	85,088	101,828	18,719	22,402

Movement of deferred tax assets as of balance sheet date is as follows:

	December 31, 2019	December 31, 2018
Opening Amount	22,402	17,494
Deferred tax income/ (expense)	(3,749)	4,887
Amount accounted under equity	66	21
Closing Balance	18,719	22,402

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

12. Other assets

	December 31, 2019		December 31, 2018	
	TL	FC	TL	FC
Prepaid Expenses(*)	720	-	1,193	-
	720	-	1,193	-

	December 31, 2019		December 31, 2018	
	TL	FC	TL	FC
Advances Given	129	-	115	-
Other (**)	2,794	115	2,946	45
	2,923	115	3,061	45

(*) Prepaid expenses account consists of the amounts paid to Capital Markets Board (CMB) and Finans Yatırım A.Ş. and the BRSA Activity Shareholder’s Equity regarding the issuance of bonds. This account is shown under other assets line at current period .

(**) Other item which is 2,794 TL consist of 2,613 TL and banking and insurance transaction tax receivables due to 181 TL stamp tax receivables. Amounting to TL 115 consist of banking and insurance transaction tax receivables due to domestic foreign exchange receivable (31 December 2018: TL 2,906 of the amount of TL 2,946 in the other item consists of Turkish Lira and TL 17 of the foreign currency indexed factoring customers will receive BSMV, while TL 23 consists of stamp duty and other receivables. The portion of TL 45 consists of BSMV receivables from customers with respect to domestic foreign exchange receivables).

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

II. Explanations and footnotes on the balance sheet's liabilities

1. Borrowings

	December 31, 2019		December 31, 2018	
	TL	FC	TL	FC
Short term borrowings	1,103,013	113,328	649,952	88,506
Long term borrowings	-	133,065	-	79,281
Total borrowings	1,103,013	246,393	649,952	167,787

Short term borrowings are as follows:

Currency Type	Interest Rate	FC Amount	December 31, 2019
TL	10.80%-20.16%	-	1,103,013
EUR	1.60%-2.25%	5,634	37,472
USD	3.05%-4.93%	12,762	75,807
GBP	3.26%-3.26%	6	49
			1,216,341

Short term borrowings are as follows:

Currency Type	Interest Rate	FC Amount	December 31, 2018
TL	14.9% - 36.5%	-	649,952
EUR	1.5% - 4.7%	10,538	63,524
USD	1.5% - 1.5%	61	320
GBP	2.6% - 2.6%	3,707	24,662
			738,458

Long term borrowings are as follows:

Currency Type	Interest Rate	FC Amount	December 31, 2019
TL	-	-	-
EUR	1.58%	20,007	133,065
Total			133,065

Currency Type	Interest Rate	FC Amount	December 31, 2018
TL	-	-	-
USD	4.83%	15,070	79,281
Total			79,281

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Borrowings (continued)

	December 31, 2019		December 31, 2018	
	TL	FC	TL	FC
Fixed rate	1,080,208	198,525	649,952	9,979
Floating rate	22,805	47,868	-	157,808
	1,103,013	246,393	649,952	167,787

2. Securities issued

	December 31, 2019		December 31, 2018	
	TL	FC	TL	FC
Bond issued	164,116	-	282,946	-
	164,116	-	282,946	-

Features of bonds that were issued by the Company to qualified investors are as follows:

ISIN CODE	Date of Issue	Nominal Value	Interest Rate	Due Date	Payment Period
TRFFINF62018	24/12/2019	69,348	10.80%	16/06/2020	End of the maturity
TRFFINF32011	24/12/2019	99,982	10.55%	10/03/2020	End of the maturity

3. Other liabilities

As of 31 December 2019, the “Other Liabilities” item amounting to TL 3.221 consists of the debts to the sellers of TL 38, other foreign resources amounting to TL 812 and the taxes and liabilities payable amounting to TL 2.371 detailed in Section 4 Note II-4.

3.1 Other payables and other liabilities

	December 31, 2019		December 31, 2018	
	TL	FC	TL	FC
Payables to suppliers (*)	386	154	187	148
	386	154	187	148

(*) The amounts shows the payables of the Company to the suppliers as of December 31, 2019.

	December 31, 2019		December 31, 2018	
	TL	FC	TL	FC
Other Liabilities (*)	163	147	496	205
	163	147	496	205

(*) This is an interim account that unearned income of interest, fees and commissions are followed under this account as of December 31, 2019.

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

4. Tax and liabilities payables

	December 31, 2019		December 31, 2018	
	TL	FC	TL	FC
Taxes and liabilities(*)	2,371	-	3,100	-
	2,371	-	3,100	-

(*) The amount includes income tax payable, BITT and Social Security Institution Premiums.

5. Current income tax assets/ liability

	December 31, 2019	December 31, 2018
Provision for current period corporate income tax	(9,902)	(15,191)
Less: prepaid taxes	7,897	10,326
	(2,005)	(4,865)

6. Employee benefits

Provision for Employee Termination Benefits

	December 31, 2019	December 31, 2018
Bonus Provision	3,000	2,700
Provision for employment termination benefits	1,769	1,130
Provision for unused vacation	829	661
	5,598	4,491

As of December 31, 2019 and December 31, 2018, the movement of the bonus provision as of is as follows:

	December 31, 2019	December 31, 2018
Provision amount, January 1	2,700	2,120
Bonus payments in the period	(2,700)	(1,800)
Additional payments in the period	3,000	2,380
Balance at the end of the period	3,000	2,700

As of December 31, 2019 and December 31, 2018, the movement of the unused vacation payment provision during the period is as follows:

	December 31, 2019	December 31, 2018
Provision as of January 1	661	505
Charge for the period	168	156
Cancel for the period	-	-
Balance at the end of the period	829	661

QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

6. Employee benefits (continued)

Retirement Pay Provision:

The provision for employment termination benefits is provided for as explained below.

Under the Turkish Labour Law, the Company is required to pay employment termination benefits to each employee who has completed one year of service or who is entitled to a retirement at the age of 60 (58 for women) after 25 service years (20 for women) or who is called for military service or who is calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. Some transition provisions related to the pre-retirement service term was excluded from the law since the related law was changed as of 23 May 2002.

The amount payable consists of one month's salary limited to a maximum of TL 6,379.86 for each period of service as of December 31, 2019 (December 31, 2018: TL 5,434.42).

The retirement pay liability is not funded. The provision is calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. TAS 19 (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the Company's obligation under defined benefit plans.

Accordingly, the following actuarial assumptions were used in the calculation of the total liability. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 8,20% and a discount rate of 12,1%, resulting in a real discount rate of approximately 9,2% (December 31, 2018: inflation rate of between 12,0%, discount rate of 16,30%, real discount rate of approximately 13,0%).

As of December 31, 2019 and 2018 the movement of provision for employee termination benefits is as follows;

	2019	2018
Provision as of January 1	1,130	896
Service Cost	334	213
Interest Cost	158	93
Settlement/Curtailment/Termination loss/(gain)	-	-
Actuarial Gain/Loss	300	97
Payments during the period	(153)	(169)
Balance at the end of the period	1,769	1,130

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

7. Paid-in capital and capital reserves

At December 31, 2019 and 2018, the shareholders’ of the Company and their share capitals with historical amounts are as follows:

Paid-in Capital:

Shareholders	December 31, 2019		December 31, 2018(*)	
	% Share	Amount	% Share	Amount
Finansbank A.Ş.	99.99996	64,999	99.99996	64,999
Ibtech Uluslararası Bilişim ve İletişim Tek. Araştırma Geliştirme Danışmanlık Destek San. ve Tic. A.Ş.	0.00001	<1	0.00001	<1
Finans Finansal Kiralama A.Ş.	0.00001	<1	0.00001	<1
Finans Yatırım Menkul Değerler A.Ş.	0.00001	<1	0.00001	<1
Finans Portföy Yönetimi A.Ş.	0.00001	<1	0.00001	<1
	100	65,000	100	65,000

(*) The Company increased its capital from TL 50,000 to TL 65,000 with the Boards of Directors decision dated February 20, 2018 and numbered 14. The Company has increased its capital in cash on March 26, 2018 at the amount of TL 15,000.

Capital Reserves

In statutory financial statements, accumulated profits may be distributed except for legal reserves and subject to following requirements for legal reserves.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code. The TCC stipulates that the first legal reserve is appropriated out of taxable profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company’s paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves may only be used to offset losses unless they exceed 50 % of paid-in share capital, and may not be used for any other purpose

According to Law No. 5228 on Amendments to Certain Tax Laws published in Official Gazette No. 25539 if 31 July 2004, inflation adjustments to shareholders’ equity line items arising from inflation adjusted financial statements and recognized in “Accumulated Profit/Loss” may be offset against inflation-adjusted accumulated losses or included in share capital by corporate taxpayers, and this transaction is treated as a dividend distribution.

BRSA has expressed its opinion that, income generated from deferred tax assets may not be qualified as cash or internal resource, and as such, the income generated in this manner should not be classified as part of the current term income subject to dividend distribution and capital increase. As of December 31, 2019, the Company has TL (3,749) deferred tax income (December 31, 2018: TL 4,887).

All “inflation-adjustments to shareholders’ equity” may only be used to increase capital through bonus issues or to offset losses, while the carrying amount of extraordinary reserves are permitted to be used to increase capital through bonus issues, payment of cash dividends or to offset losses.

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QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

8. Profit reserves

	December 31, 2019	December 31, 2018
Legal Reserves	4,046	2,235
Total	4,046	2,235

The Company booked first legal reserve amounting to TL 3,754 and second legal reserve amounting to TL 292 over the accumulated profit.

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions.

9. Foreign currency position

December 31, 2019	US Dollar	EUR	Other	TL	Total
Cash	-	-	-	-	-
Trading derivative financial assets	-	-	-	-	-
Banks	771	30,444	1,880	19	33,114
Factoring receivables	69,948	142,975	6,529	1,423,979	1,643,431
Subsidiaries	-	-	-	2	2
Property, plant and equipment	-	-	-	4,893	4,893
Intangible assets	-	-	-	7,589	7,589
Prepaid expenses	-	-	-	720	720
Other assets	63	52	-	21,642	21,757
Total assets	70,782	173,471	8,409	1,458,844	1,711,506
Trading derivative financial liabilities	-	-	-	-	-
Borrowings	(75,808)	(170,536)	(49)	(1,103,013)	(1,349,406)
Factoring payables	-	(103)	-	(1,962)	(2,065)
Marketable securities issued	-	-	-	(164,116)	(164,116)
Payables from Leases	-	(1,113)	-	(3,239)	(4,352)
Tax and liabilities payables	-	-	-	(2,005)	(2,005)
Provisions	-	-	-	(5,610)	(5,610)
Other payables	(6)	(278)	(17)	(2,920)	(3,221)
Total liabilities	(75,814)	(172,030)	(66)	(1,282,865)	(1,530,775)
Net foreign currency position	(5,032)	1,441	8,343	175,979	180,731
Financial derivative instruments	-	-	-	-	-

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

9. Foreign currency position (continued)

December 31, 2018	US Dollar	EUR	Other	TL	Total
Cash	-	-	-	-	-
Trading derivative financial assets	-	-	-	9	9
Banks	480	1,634	1,448	306	3,868
Factoring receivables (*)	13,542	89,812	31,960	1,080,176	1,215,490
Subsidiaries	-	-	-	2	2
Property, plant and equipment	-	-	-	827	827
Intangible assets	-	-	-	5,241	5,241
Prepaid expenses	-	-	-	1,193	1,193
Other assets (****)	25	38	-	25,445	25,508
Total assets	14,047	91,484	33,408	1,113,199	1,252,138
Trading derivative financial liabilities	-	-	-	(1,493)	(1,493)
Borrowings (**)	(79,601)	(63,524)	(24,662)	(649,952)	(817,739)
Factoring payables (***)	(10)	(121)	(2,798)	(792)	(3,721)
Marketable securities issued	-	-	-	(282,946)	(282,946)
Tax and liabilities payables	-	-	-	(3,100)	(3,100)
Provisions	-	-	-	(9,426)	(9,426)
Other payables	(15)	(170)	(168)	(683)	(1,036)
Total liabilities	(79,626)	(63,815)	(27,628)	(948,392)	(1,119,461)
Net foreign currency position	(65,579)	27,669	5,780	164,807	132,677
Financial derivative instruments	64,183	(29,448)	-	36,254	-

(*) As of balance sheet date, USD 365 thousand and EUR 117 thousand amounting to a total TL equivalent of TL 2,623 thousand of foreign currency indexed factoring receivables are classified in TL column on the balance sheet.

(**) As of balance sheet date, there is no foreign currency indexed loans. (December 31, 2018: None)

(***) As of balance sheet date, USD 1.8 thousand amounting to a total TL equivalent of TL 10 thousand of the total foreign currency indexed factoring payables are classified in TL column on the balance sheet.

(****) As of balance sheet date, USD 3 thousand amounting to a total TL equivalent of TL 18 thousand of the total foreign currency indexed BITT on factoring receivables are classified in TL column on the balance sheet. Also, this account includes deferred tax amounting TL 22,402.

10. Provisions, contingent assets and liabilities

As of December 31, 2019 the Company has litigation provision amounting to TL 12 (December 31, 2018: TL 70).

11. Segment reporting

None (December 31, 2018: None).

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

III. Disclosures and footnotes on income statement

1. Income from operating activities

	January 1 – December 31, 2019	January 1– December 31, 2018
Interest income on factoring operations, net	253,979	270,111
Factoring commission income	16,396	25,667
	270,375	295,778

2. Operating Expenses

	January 1 – December 31, 2019	January 1– December 31, 2018
Wages	(17,032)	(14,134)
Personnel premium expenses	(3,000)	(2,380)
Social security contributions	(2,120)	(1,761)
Other	(1,787)	(1,233)
Health insurance expenses	(890)	(886)
Meal expenses	(572)	(467)
Bonus payment	(111)	(32)
Outsourced personnel expenses	(102)	(84)
Personnel expenses	(25,614)	(20,977)
Rent expenses and membership dues	(3,107)	(3,111)
Travel expenses	(2,478)	(2,193)
Legal Consultancy and Litigation Expenses	(2,610)	(2,403)
Other General Administrative Expenses	(1,497)	(1,516)
Depreciation and amortization expenses	(1,404)	(949)
Representation expenses	(1,181)	(262)
Taxes and duties other than on income	(614)	(424)
Consultancy expenses	(576)	(451)
Provision for employment termination benefits	(339)	(136)
Provision for unused vacation	(168)	(156)
Communication expenses	(130)	(130)
Stationary Expenses	(118)	(199)
Public Relations and Advertising Expenses	(88)	(41)
Operating Expenses	(39,924)	(32,948)

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**Explanatory notes to the financial statements
as of December 31, 2019 (continued)**

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

3. Other operating income

	January 1 – December 31, 2019	January 1– December 31, 2018
Foreign exchange gains	21,197	117,720
Profit from derivative financial transactions	1,993	-
Interest income on bank deposits	577	307
Other Income (*)	15,987	8,116
	39,754	126,143

(*) Collections from legal proceedings firms are recorded in other income

4. Financing expenses

	January 1 – December 31, 2019	January 1– December 31, 2018
Interest expenses	(127,606)	(140,363)
Interest expenses on securities issued	(33,032)	(44,406)
Interest expenses Related to Leasing Transactions	(500)	-
Fees and commissions paid	(6,545)	(6,575)
	(167,683)	(191,344)

5. Other operating expenses

	January 1 – December 31, 2019	January 1– December 31, 2018
Foreign exchange loss	(21,456)	(115,675)
Loss from derivative financial transactions	-	(1,517)
	(21,456)	(117,192)

6. Taxes

<i>Tax Provision</i>	January 1 – December 31, 2019	January 1– December 31, 2018
Provision for current period corporate income tax	(9,902)	(15,191)
Deferred tax income / (expense)	(3,749)	4,887
	(13,651)	(10,304)

Reconciliation of tax provision:	January 1 – December 31, 2019	January 1– December 31, 2018
Profit before tax	61,939	46,531
Effective Tax Rate	22%	22%
Calculated Tax Base	(13,626)	(10,237)
Non-allowable expenses	(25)	(67)
Changes in deferred tax rate (22%-20%)	-	-
Tax expense in statement of profit or loss	(13,651)	(10,304)

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

6. Taxes (continued)

Corporate Tax

The Company is subject to Turkish corporate taxes. The Company has no corporate tax liability based on the results for current period.

In Turkey, the corporate tax rate is 20%. However, in accordance with the addition of temporary 10th article to the Corporate Tax Law, 20% corporate tax rate are applied as 22% to the profits of the entities relating to 2018, 2019 and 2020 tax periods (for the entities with special accounting period will be applied to the tax periods commenced in related year).

Companies calculate temporary tax at a rate of 20% over their quarterly financial profits (22% for taxation periods of 2018, 2019 and 2020) and declare until the 14th day of the second month following that period and pay until the evening of the seventeenth day. The temporary tax paid during the year belongs to that year and is deducted from the corporate tax to be calculated on the corporate tax return to be submitted in the following year. Despite the offset, if the amount of temporary tax paid remains, this amount can be refunded or deducted.

There is no procedure for a final and definitive agreement on tax assessments in Turkey. The companies prepare their tax returns between April 1-30 of the year following the closing period of the relevant year. These statements and the accounting records that are based on this can be examined and changed by the Tax Office within 5 years.

Income withholding tax:

In addition to corporate taxes, companies should also calculate income withholding taxes and surcharges on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% between 24 April 2003 and 22 July 2006. That withholding tax was increased to 15% by the Resolution of the Council of Ministers No 2006/10731, dated 22 July 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

Withholding tax at the rate of 19.8% is still applied to investment allowances relating to investment incentive certificates obtained prior to April 24, 2003. Subsequent to this date, the investments without investment incentive certificates do not qualify for tax allowance.

7. Earnings per share

Since the Company's shares are not traded in stock exchange, earning per share has not been disclosed in the accompanying financial statements.

(Convenience translation into English of financial statements originally prepared and issued in Turkish)

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

SECTION FIVE

1. Information on financial structure

a) Capital Risk Management

The Company aims to make the most efficient use of the debt and equity balance while trying to maintain the continuity of its operations,.

In accordance with Article 12 of the “Regulation on the Formation and Operations of Financial Leasing, Factoring and Financial Companies”, published in Official Gazette of December 24, 2013, it is mandatory to achieve and maintain a minimum shareholders’ equity to total assets ratio of 3%. The Company has reached standard rate as of December 31, 2019 (December 31, 2018: The Company has reached standard rate).

The Company’s equity to debt ratios as at December 31, 2019 and December 31, 2018 are as follows:

	December 31, 2019	December 31, 2018
Total Debt	1,530,775	1,119,461
Less: Cash and Cash Equivalents	(33,114)	(3,868)
Net Debt	1,497,661	1,115,593
Total Equity	(180,731)	(132,677)
Equity/Debt Ratio	12.07%	11.89%

b) Significant Accounting Policies

The significant account policies of the Company have been explained in the Note 3 “Applied Valuation Principles / Accounting Policies”.

c) Financial Instrument Categories

	December 31, 2019	December 31, 2018
<u>Financial Assets:</u>		
Cash	-	-
Trading Derivative Financial Assets	-	9
Banks	33,114	3,868
Factoring Receivables	1,643,431	1,215,490
<u>Financial Liabilities:</u>		
Borrowings	(1,349,406)	(817,739)
Securities issued	(164,116)	(282,946)
Factoring Payables	(2,065)	(3,721)
Other Payables	-	-
Other Miscellaneous Liabilities	-	-
Other Liabilities	(3,221)	(1,036)
Trading Derivative Financial Liabilities	-	(1,493)

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Information on financial structure (continued)

The fair values of financial assets and liabilities are determined as follows:

- Level 1: Financial assets and liabilities are measured on the basis of the stock exchange prices quoted for identical assets and or liabilities in active markets.
- Level 2: Financial assets and liabilities are measured on the basis of inputs, other quoted market prices included in Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3: Financial assets and liabilities are measured on the basis of inputs that are unobservable in active markets and cannot be used to measure the fair value of an identical asset or liability

As of December 31, 2019, the levels of the financial assets of the entity at fair value are as follows:

December 31, 2019

	Level 1	Level 2	Level 3
Trading Derivative Financial Assets	-	-	-
	-	-	-

As of December 31, 2018, the levels of the financial assets of the entity at fair value are as follows:

December 31, 2018

	Level 1	Level 2	Level 3
Trading Derivative Financial Assets	-	1,484	-
	-	1,484	-

d) Financial Risk

The Company is exposed to market (foreign currency risk and interest rate risk) and liquidity risk relating to its operations.

e) Market Risk

The Company is exposed to financial risks which is related to changes in foreign exchange rates (please refer to f) and interest rates (please refer to g) and its operations. At a company level, market risk is measured by sensitivity analysis.

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QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Information on financial structure (continued)

f) Currency Risk

Currency risk is a result of the foreign currency transactions. The Company manages its exposure to currency risk which is a result of the Company’s operations and cash flows due to the financing agreement regularly.

The foreign currency details of monetary assets and liabilities of the Company is disclosed at Note: 23

Foreign Currency Sensitivity

The Company is mainly exposed to foreign currency risk in USD and EUR.

The table below shows the Company’s sensitivity to 10% increases and decrease in foreign currency exchange rate. 10% is the rate used for the Company’s foreign currency risk reporting to senior management, and expresses the contingent change the management expects on exchange rates. Sensitivity analysis only covers monetary items with open foreign currency type at the end of period and shows the effects of the 10% foreign currency change to the subjected items at the end of the period. Positive value expresses the increase in income.

	December 31, 2019			
	Profit / Loss		Equity	
	Appreciation of foreign currency	Deppreciation of foreign currency	Appreciation of foreign currency	Deppreciation of foreign currency
Change of USD by 10% against TL				
1 - USD net asset/liability	(503)	503	(503)	503
2- Secured portion from USD Risk (-)	-	-	-	-
3- USD Effect – net (1+2)	(503)	503	(503)	503
Change of EUR by 10% against TL				
4 - EUR net asset/liability	144	(144)	144	(144)
5 - Secured portion from EUR risk (-)	-	-	-	-
6- EUR Effect – net (4+5)	144	(144)	144	(144)
Change of other currency by 10% against TL				
7- Other currency net asset/liability	834	(834)	834	(834)
8- Secured portion from Other FC risk (-)	-	-	-	-
9- Other FC Effect – net (7+8)	834	(834)	834	(834)
TOTAL (3 + 6 +9)	475	(475)	475	(475)

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Information on financial structure (continued)

	December 31, 2018			
	Profit/Loss		Equity	
	Appreciation of foreign currency	Depreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency
Change of USD by 10% against TL				
1 - USD net asset/liability	(140)	140	(140)	140
2- Secured portion from USD risk (-)	-	-	-	-
3- USD Effect – net (1+2)	(140)	140	(140)	140
Change of EUR by 10% against TL				
4 - EUR net asset/liability	(178)	178	(178)	178
5 - Secured portion from EUR risk (-)	-	-	-	-
6- EURO Effect – net (4+5)	(178)	178	(178)	178
Change of other currency by 10% against TL				
7- Other currency net asset/liability	578	(578)	578	(578)
8- Secured portion from Other FC risk (-)	-	-	-	-
9- Other FC Effect – net (7+8)	578	(578)	578	(578)
TOTAL(3 + 6 +9)	260	(260)	260	(260)

g) Interest Rate Risk Management

The Company is exposed to interest rate risk which is related to the Company's factoring transactions to over fixed and floating interest rates and debt. Such risk is allocated to receivables and payables properly and controlled by the Company.

Interest Rate Sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for non derivative instruments at the balance sheet date. Management of the Company operates sensitivity analysis through fluctuating scenarios in interest rates of 100 basis points. The mentioned ratio is also used for reporting to senior management.

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Information on financial structure (continued)

	December 31, 2019	December 31, 2018
Financial instruments with fixed interest rate		
Financial Assets:		
Cash and cash equivalents (Banks)	33,114	3,868
Factoring receivables	1,095,073	862,559
Financial Liabilities:		
Borrowings	1,278,733	659,931
Securities issued	164,116	282,946
<u>Financial Instruments with floating interest rate</u>		
Financial Assets:		
Factoring receivables	541,857	345,118
Financial Liabilities:		
Borrowings	70,673	157,808

Changes in interest rates as of the balance sheet date do not have a significant effect on the Company's floating rate financial assets and liabilities.

h) Other Pricing Risks

None (December 31, 2018: None).

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Information on financial structure (continued)

i) Credit Risk Management

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

Factoring receivables consist of a large number of customers, spread across diverse industries. Ongoing credit evaluation is performed on the financial condition of accounts.

The sectoral categorization of factoring receivables is as follows:

	December 31, 2019	%	December 31, 2018	%
Construction	293,567	18%	231,368	19%
Wholesale Trade and Brokering	186,693	11%	67,581	6%
Transportation	161,364	10%	66,277	5%
Other	157,876	10%	33,811	3%
Petroleum refinery products	151,476	9%	255,997	21%
Financial Institutions	140,864	9%	69,546	6%
Textile	87,835	5%	128,714	11%
Chemicals, Plastics and Pharmaceuticals	80,729	5%	42,516	3%
Tourism	69,488	4%	44,152	4%
Metal Industry	60,044	4%	17,901	1%
Mining	42,230	3%	46,543	4%
Food	39,734	2%	56,752	5%
Electrical and Electronics Industries	37,460	2%	31,799	3%
Organization for Social Services and Sports	36,976	2%	19,527	2%
Other Manufacturing	31,197	2%	36,980	3%
Motorized Vehicles	22,019	1%	18,489	2%
Wood and Wood Products Industry	17,316	1%	26,601	2%
Machinery and Equipment	13,438	1%	11,631	1%
Computer System	13,125	1%	9,305	1%
	1,643,431	100%	1,215,490	100%

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QNB Finans Faktoring A.Ş.

Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Information on financial structure (continued)

The loan risks that are exposed in terms of financial instrument;

December 31, 2019	Factoring Receivables			Financial Assets at Fair Value Through Profit or Loss
	Related Party	Third Party	Deposit on bank accounts	
Maximum credit risk exposure at reporting date (*)	-	1,643,431	33,114	-
- Maximum credit risk secured guarantees etc.	-	1,643,431	-	-
A. Net book value of financial assets either not due or not impaired	-	1,636,314	33,114	-
- Net value secured by guarantees etc.	-	1,636,314	-	-
B. Book value of financial assets with renegotiated conditions, Otherwise would be classified as past due or impaired	-	-	-	-
C. Net book value of assets past due but not impaired	-	616	-	-
- Net value secured by guarantees etc.	-	616	-	-
D. Net book value of assets impaired	-	6,501	-	-
- Past due (gross book value)	-	77,535	-	-
- Impairment amount (-)	-	71,034	-	-
- Net value secured by guarantees etc.	-	6,501	-	-
- Not due (gross book value)	-	-	-	-
- Impairment amount (-)	-	-	-	-
- Net value secured by guarantees etc.	-	-	-	-

E. Off balance items exposed to credit risk

(*) The factors that increase the credibility such as guarantees received are not taken into account while determining the amount.

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Information on financial structure (continued)

The loan risks that are exposed in terms of financial instrument;

December 31, 2018	Factoring Receivables			Financial Assets at Fair Value Through Profit or Loss
	Related Party	Third Party	Deposits on bank accounts	
Maximum credit risk exposure at reporting date (*)	-	1,215,490	3,868	9
- Maximum credit risk secured guarantees etc.	-	1,215,490	-	-
A. Net book value of financial assets either not due or not impaired	-	1,200,564	3,868	9
- Net value secured by guarantees etc.	-	1,200,564	-	-
B. Book value of financial assets with renegotiated conditions, Otherwise would be classified as past due or impaired	-	-	-	-
C. Net book value of assets past due but not impaired	-	7,113	-	-
- Net value secured by guarantees etc.	-	7,113	-	-
D. Net book value of assets impaired	-	7,813	-	-
- Past due (gross book value)	-	75,642	-	-
- Impairment amount (-)	-	67,829	-	-
- Net value secured by guarantees etc.	-	7,813	-	-
- Not due (gross book value)	-	-	-	-
- Impairment amount (-)	-	-	-	-
- Net value secured by guarantees etc.	-	-	-	-
E. Off balance items exposed to credit risk				

(*) The factors that increase the credibility such as guarantees received are not taken into account while determining the amount.

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Information on financial structure (continued)

i) Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity Risk Table

The following table details the Company's remaining maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interests that will be charged and interests that will be paid over the Company's assets and liabilities.

December 31, 2019

Contractual Maturities	Carrying amount	Contractual cash outflows (I+II+III+IV)	Less than 3 Month (I)	Between 3-12 months (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Borrowings	1,349,406	1,369,432	1,045,845	186,362	137,225	-
Securities issued	164,116	169,330	69,348	99,982	-	-
Liabilities from leasing transactions	4,352	4,677	1,189	2,566	922	-
Factoring payables	2,065	2,065	2,065	-	-	-
Other Liabilities	3,221	3,221	3,221	-	-	-
	1,523,160	1,548,725	1,121,668	288,910	138,147	-

December 31, 2018

Contractual Maturities	Carrying amount	Contractual cash outflows (I+II+III+IV)	Less than 3 Month (I)	Between 3-12 months (II)	Between 1-5 years (III)	Over 5 years (IV)
Non-derivative financial liabilities						
Borrowings	817,739	827,308	734,311	8,269	84,728	-
Securities issued	282,946	292,559	292,559	-	-	-
Factoring payables	3,721	3,721	3,721	-	-	-
Other Liabilities	1,036	1,036	1,036	-	-	-
	1,105,442	1,124,624	1,031,627	8,269	84,728	-

The Company performs its payments according to contract maturities.

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Explanatory notes to the financial statements

as of December 31, 2019 (continued)

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1. Information on financial structure (continued)

As at December 31, 2019 and December 31, 2018, assets and liabilities of the entity based on their remaining maturity are as follows:

December 31, 2019

Contractual Maturities	Carrying amount	Contractual cash outflows (I+II+III+IV)	Less than 3 Month (I)	Between 3-12 months (II)	Between 1-5 years (III)	Over 5 years (IV)
Derivative financial liabilities						
Derivative cash inflows	-	-	-	-	-	-
Derivative cash outflows	-	-	-	-	-	-
	-	-	-	-	-	-

December 31, 2019

Contractual Maturities	Carrying amount	Contractual cash outflows (I+II+III+IV)	Less than 3 Month (I)	Between 3-12 months (II)	Between 1-5 years (III)	Over 5 years (IV)
Derivative financial liabilities						
Derivative cash inflows	9	64,183	64,183	-	-	-
Derivative cash outflows	1,493	65,702	65,702	-	-	-
	1,502	129,885	129,885	-	-	-

j) Fair value measurement of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (other than in a forced sale) between market participants at the measurement date. The best indication of fair value is a quoted price, if any, in an active market.

The Company has estimated the fair values of its financial instruments, using relevant market information and adequate fair valuation techniques. However, using market information to measure fair values of financial instruments requires interpretation and judgment skills. Accordingly, the estimates presented in the accompanying financial statements are not necessarily indicative of the fair values that the Company could achieve in a current market transaction.

Fair values of financial instruments are measured on the basis of reliable information from the capital markets in Turkey. Fair values of other financial instruments are measured with reference to the current price of a similar instrument or by using assumption techniques, such as discounting futures cash flows using current market interest rates.

Fair values of short-term assets and liabilities are expected to be close to their carrying values due to the negligible effect of discount.

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Explanatory notes to the financial statements

as at December 31, 2019 (continued)

(Amounts expressed in thousands of Turkish Lira (“thousand TL”) unless otherwise stated.)

1. Information on financial structure (continued)

j) Fair value measurement of financial instruments (continued)

Carrying values of factoring accounts, along with the provisions for doubtful accounts, are assumed to have been measured at fair value due to their short-term nature.

December 31, 2019	Carrying Amount	Fair Value
<u>Financial assets</u>		
Cash and cash equivalents (Banks)	33,114	33,114
Factoring receivables	1,643,431	1,643,431
<u>Financial liabilities</u>		
Factoring payables	2,065	2,065
Other Liabilities	-	-
Borrowings	1,349,406	1,349,406
Securities issued	164,116	164,116
<hr/>		
December 31, 2018	Carrying Amount	Fair Value
<u>Financial assets</u>		
Banks	3,868	3,868
Factoring receivables	1,215,490	1,215,490
<u>Financial liabilities</u>		
Factoring payables	3,721	3,721
Other Liabilities	1,036	1,036
Borrowings	817,739	817,739
Securities issued	282,946	282,946

The Company believes that the carrying amount of factoring receivables reflects its fair value due to the short-term nature of a significant portion of factoring receivables.

34. Subsequent events

None.