Dünya Varlık Yönetim Anonim Şirketi

Consolidated Financial Statements
As At and For the Year Ended
31 December 2020
With Independent Auditors' Report

30 April 2021

This report contains the "independent auditors' report" comprising 4 pages and; the "consolidated financial statements and notes to the consolidated financial statements" comprising 39 pages.

Dünya Varlık Yönetim Anonim Şirketi

Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Dünya Varlık Yönetim Anonim Şirketi:

Opinion

We have audited the consolidated financial statements of Dünya Varlık Yönetim A.Ş. ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

KPMG

Key Audit Matters

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

Valuation of Purchased or Originated Credit-impaired Financial Assets

Refer to note 2.5 for the relevant accounting policy and note 6 for purchased or originated credit-impaired financial assets.

The Key Audit Matter	How the matter was addressed in our audit
Valuation of purchased or originated credit-impaired financial assets. As of 31 December 2020, purchased or originated credit-impaired financial assets comprise 91% of the Company's total assets. The Company accounts for its purchased or originated credit-impaired financial assets in accordance with International Financial Reporting Standards. The appropriateness of expected future cash flows of purchased or originated credit-impaired financial assets is a key area of judgment for management. The expected future cash flows of purchased or originated credit-impaired financial assets is an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty and expected net selling prices of the collaterals. The carrying amount of the purchased or originated credit-impaired financial assets is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the increase and decrease in carrying amount is recorded as "Interest income from purchased or originated credit-impaired financial assets" Valuation of purchased or originated credit-impaired financial assets was considered to be a key audit matter, due to the significance of the estimates, assumptions and the level of judgements as explained above.	We assessed and tested the design and operating effectiveness of the controls over expected future cash flows of purchased or originated credit-impaired financial assets including the quality of underlying data and systems. We tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default for expected future cash flows of purchased or originated credit-impaired financial assets We compared the historical cash flow expectations with the realized cash inflows. Finally, we evaluated the adequacy of the disclosures including the disclosures for forbearance and cover values.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the 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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

A.Güvenç

Alper Güvenç, SMMM
Partner

30 April 2021
Istanbul, Turkey

Dünya Varlık Yönetim Anonim Şirketi

Consolidated statement of financial position
As at December 31, 2020
(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

	Notes	December 31, 2020	December 31, 2019
Assets			
Cash and cash equivalents	5	62,223	80,688
Purchased or originated credit-impaired financial assets	6	1,215,257	1,282,479
Other assets	9	25,906	23,635
Property and equipment	7	7,246	9,459
Intangible assets	8	11,500	11,817
Assets held for sale	9	8,114	11,966
Derivative financial assets	10	2,128	-
Total assets		**1,332,374**	**1,420,044**
Liabilities			
Bonds issued and other borrowings	11	626,467	738,553
Lease payables (net)		3,835	6,733
Deferred tax liability	14	94,153	89,640
Other liabilities	12	44,851	42,696
Reserve for employment termination benefits	13	2,494	1,963
Total liabilities		**771,800**	**879,585**
Equity			
Share capital	15	185,000	185,000
Reserves	15	14,340	14,340
Share premium		17,099	17,099
Retained earnings	15	342,696	324,020
Other accumulated comprehensive income that will be reclassified in profit or loss		1.439	--
Total equity		**560,574**	**540,459**
Total liabilities and equity		**1,332,374**	**1,420,044**

Dünya Varlık Yönetim Anonim Şirketi

Consolidated statement of profit or loss and other comprehensive income
For the year ended December 31, 2020
(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

	Notes	January 1- December 31 2020	January 1- December 31, 2019
Income from purchased or originated credit-impaired financial assets	16	262,951	383,362
Other operating income	17	10,534	8,772
Total revenue		**273,485**	**392,134**
Operating expenses	18	(125,492)	(167,812)
Operating profit		**147,993**	**224,322**
Finance income	19	8,410	9,625
Finance costs	19	(133,573)	(182,148)
Profit before tax		**22,830**	**51,799**
Taxation on expense	14	(4,154)	(9,879)
Net profit for the year		**18,676**	**41,920**
Other accumulated comprehensive income that will not be reclassified in profit and loss		1,798	-
Other accumulated comprehensive income that will not be reclassified in profit and loss related taxes		(359)	-
Total comprehensive income for the year		**20,115**	**41,920**
Basic earnings per share attributable to the equity holders of the group (expressed in full TL)	**2.6**	**0.1010**	**0.2266**

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

Consolidated statement of changes in equity
For the year ended December 31, 2020
(Amounts expressed in thousands of Turkish Lira (“TRY”), unless otherwise indicated.)

	Notes	Share capital	Legal reserves	Share premium	Retained earnings	Other accumulated comprehensive income that will be reclassified in profit or loss	Total equity
Balance at 1 January 2019		**185,000**	**10,075**	**17,099**	**286,365**	**-**	**498,539**
Profit for the period		-	-	-	41,920	-	41,920
Total comprehensive income		**-**	**-**	**-**	**41,920**	**-**	**41,920**
Transfer to legal reserves		-	4,265	-	(4,265)	-	-
Balance at 31 December 2019	15	**185,000**	**14,340**	**17,099**	**324,020**	**-**	**540,459**
Balance at 1 January 2020		**185,000**	**14,340**	**17,099**	**324,020**	**-**	**540,459**
Profit for the period					18,676	-	18,676
Other comprehensive income for the period						1,439	1,439
Total comprehensive income					**18,676**	**1,439**	**20,115**
Balance at 31 December 2020	15	**185,000**	**14,340**	**17,099**	**342,696**	**1,439**	**560,574**

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

Dünya Varlık Yönetim Anonim Şirketi

Consolidated statement of cash flows
For the year ended December 31, 2020
(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

		Notes	January 1- December 31, 2020	January 1- December 31, 2019
A.	**CASH FLOWS FROM OPERATIONS**			
	Collections from purchased or originated credit-impaired financial assets		330,189	395,457
	Cash generated from other operating activities		10,534	8,772
	Payments to personnel and service suppliers		(71,525)	(87,605)
	Taxes paid		(8,735)	(11,034)
	Interest received		8,185	9,734
	Other		(15,835)	10,706
	Changes in other operating assets and liabilities		(4,426)	(15,308)
	Net (increase) / decrease in other assets		(2,271)	(11,780)
	Net increase / (decrease) in other liabilities		(2,155)	(3,528)
I.	**Net cash provided from operations**		**248,387**	**310,722**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
II.	**Net cash used in investing activities**		**(27,784)**	**(170,797)**
	Purchases of property, equipment and intangible assets	7, 8	(5,575)	(8,214)
	Proceeds from property, equipment and intangible assets	7, 8	4,618	318
	Purchases of purchased or originated credit-impaired financial assets	6	(17,310)	(159,902)
	Other		(9,518)	(3,061)
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
III.	**Net cash from / (used in) financing activities**		**(239,024)**	**(96,832)**
	Cash obtained from funds borrowed and bonds issued	10	545,471	655,731
	Cash used for repayment of funds borrowed and bonds issued	10	(658,414)	(577,118)
	Interest paid	10	(126,081)	(172,275)
	Payments for finance leases		-	(3,170)
IV.	**Effect of change in foreign exchange rates on cash and cash equivalents**		**(104)**	**(109)**
V.	**Net increase/(decrease) in cash and cash equivalents (I+II+III+IV)**		**(18,526)**	**42,984**
VI.	**Cash and cash equivalents at beginning of the period**		**80,685**	**37,701**
VII.	**Cash and cash equivalents at end of the period**	**5**	**62,159**	**80,685**

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

1. Corporate information

LBT Varlık Yönetim Anonim Şirketi (LBT) was established on February 1, 2008 as a subsidiary of Lehman Ali Inc., according to Article 143 and Temporary Article 1 of the Banking Law numbered 5411, the Regulation on the Foundation and Operation Principles of Asset Management Companies and the approval numbered 2438 dated January 10, 2008 of Banking Regulation and Supervision Agency (BRSA) for the establishment. The registration of foundation was dated February 1, 2008 and registered in the Turkish Trade Registry Gazette numbered 6995 dated February 8, 2008.

In the public announcement dated September 15, 2008, the bankruptcy petition under the scope of United States Bankruptcy Law Chapter 11 was sent to New York South Bankruptcy Court by Lehman Brothers Holdings Inc. (LBHI) registered in United States of America, the ultimate parent of Lehman Ali Inc.. Subsequent to this development the shares owned by Lehman Ali Inc. were acquired by Vector Holdings S.a.r.l. in 2009 pursuant to the approval of BRSA. During 2011, the European Bank for Reconstruction and Development (EBRD) acquired 12.27% of the shares of LBT as a result of a share capital increase.

LBT acquired 99.99% of the shares of Turkasset Varlık Yönetim A.Ş. (Turkasset) for TRY 20,000 on May 20, 2014 and on June 26, 2014 the parent (LBT) and the subsidiary (Turkasset) were legally merged under Turkasset upon completion of the required legal formalities and approvals. Through this legal merger LBT (the parent) and its subsidiary (Turkasset) became a single entity under the legal entity of Turkasset without any consideration.

Turkasset acquired 99.99% of the shares of Atlas Varlık Yönetim A.Ş. (Atlas) on September 29, 2016 and on November 21, 2016 the subsidiary (Atlas) was renamed as Hayat Varlık Yönetim A.Ş. (Hayat Varlık). On March 17, 2017 the parent (Turkasset) and the subsidiary (Hayat Varlık) were legally merged under Hayat Varlık upon completion of the required legal formalities and approvals. Through this legal merger Turkasset (the parent) and its subsidiary (Hayat Varlık) became a single entity under the legal entity of Hayat Varlık without any consideration.

Dünya Varlık Yönetim A.Ş. (Dünya Varlık) was established according to Article 143 and Temporary Article 1 of the Banking Law numbered 5411, the Regulation on the Foundation and Operation Principles of Asset Management Companies and the approval of Banking Regulation and Supervision Agency (BRSA) numbered 8329 dated April 18, 2019, as Hayat Varlık's 99.50% subsidiary. The registration of foundation was dated May 30, 2019 and registered in the Turkish Trade Registry Gazette numbered 9844 dated June 10, 2019. Dünya Varlık obtained operating permit based on BRSA's approval number 8959 dated March 19, 2020, published in the Official Gazette numbered 31074 dated March 20, 2020.

On June 30, 2020, Hayat Varlık (the former parent) and Dünya Varlık (its former subsidiary) were legally merged under Dünya Varlık upon the completion of the required legal formalities and approvals. Through this legal merger, Hayat Varlık (the former parent) and Dünya Varlık (its former subsidiary) became a single entity under the legal entity of Dünya Varlık without any consideration.

Comparative financial statements for the period December 31, 2019 are the consolidated figures of Hayat Varlık (the former parent) and Dünya Varlık (its former subsidiary). Current period financial statements are presented under the legal entity of Dünya Varlık.

Dünya Varlık (either formerly Turkasset, LBT and Hayat Varlık) is referred to as the Company, hereinafter.

The main shareholder and ultimate parent of the Company as of December 31, 2020 is Vector Holdings S.a.r.l. The registered address of the Company is Profilo Plaza, B Blok, Kat:1 Mecidiyeköy, İstanbul, Turkey.

The Company's scope of operation under the articles of incorporation is as below:

- To purchase or sell receivables and other assets of banks, participation banks and other financial institutions;
- To collect from obligators of the receivables, to convert assets into cash or to resell by restructuring;
- To give consultancy service to banks, participation banks and other financial institutions for restructuring or selling of their receivables and other assets and to act as an intermediary in those operations;
- To issue securities or operate in capital markets on condition of obtaining necessary permission from Capital Markets Board of Turkey;
- To invest in participations for running its operations;

(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

1. Corporate information (continued)

- To make investment in financial instruments issued by or sold under the intermediation of other asset management companies;
- To provide consultancy service to the companies for financial and corporate restructurings.

In practice, the Company is mainly engaged in acquiring purchased or originated credit-impaired financial assets portfolios from banks and other financial institutions.

The Company established Hisar Stratejik Yatırımlar Holding Anonim Şirketi with TRY 50 capital on December 23, 2010. The establishment decision was registered on December 23, 2010 and published in the Turkish Trade Registry Gazette numbered 7717 dated December 28, 2010.

Hisar Stratejik Yatırımlar Holding Anonim Şirketi established Merkez Alacak Yönetimi Danışmanlık ve Destek Hizmetleri Anonim Şirketi with TRY 100 capital on April 15, 2015. The establishment decision was registered on April 15, 2015 and published in the Turkish Trade Registry Gazette numbered 8805 dated April 21, 2015.

Information on consolidated subsidiaries is as follows as of December 31, 2020.

	Name	Address(City/Country)	Voting rate	Company risk group share rate (%)
1	Hisar Stratejik Yatırımlar Holding A.Ş.	İstanbul/ Türkiye	99.99	100.00

Information on consolidated subsidiaries is as follows as of December 31,2019.

	Name	Address(City/Country)	Voting rate	Company risk group share rate (%)
1	Hisar Stratejik Yatırımlar Holding A.Ş.	İstanbul/ Türkiye	99.99	100.00
2	Dünya Varlık Yönetim A.Ş.	İstanbul/ Türkiye	99.50	100.00

The Company and its consolidated subsidiaries are referred to as the Group.

These consolidated financial statements as of and for the year ended December 31, 2020 has been approved for issue by the Board of Directors on April 30, 2021.

2. Basis of presentation and significant accounting policies

The basis of presentation and principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

2.1 Basis of presentation of financial statements

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The Group maintains its books of account and prepares its financial statements in Turkish Lira ("TRY") which is the Group's functional and presentation currency.

These consolidated financial statements are prepared on the basis of historical cost, except for derivative financial instruments shown at their fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2. Basis of presentation and significant accounting policies (continued)

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

2.3 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements as at 31 December 2020 are consistent with those followed in the preparation of the consolidated financial statements of the prior year.

Significant changes in accounting policies and significant accounting errors identified are applied retrospectively and the prior period financial statements are restated. Changes in accounting policies for these new standards are presented in the current accounting policies. These accounting policies have no significant effect on the Company's financial statements.

2.4. New standards, interpretations and amendments

2.4.1 Standards, interpretations and amendments issued but not yet effective

IFRS 17 Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2023 but companies can apply it earlier.

The Group does not expect that application of IFRS 17 will have significant impact on its consolidated financial statements.

2. Basis of presentation and significant accounting policies (continued)

2.4. New standards, interpretations and amendments (continued)

2.4.1 Standards, interpretations and amendments issued but not yet effective (continued)

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

On 23 January 2020, IASB issued Classification of Liabilities as Current or Non-Current which amends IAS 1 Presentation of Financial Statements to clarify its requirements for the presentation of liabilities in the statement of financial position.

The amendments clarify one of the criteria in IAS 1 for classifying a liability as non-current—that is, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

The amendments include:

(a) Specifying that an entity's right to defer settlement must exist at the end of the reporting period;

(b) Clarifying that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;

(c) Clarifying how lending conditions affect classification; and

(d) Clarifying requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

The Group shall apply retrospectively these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted. However, the amendment published on 15 July 2020, IASB decided to defer the effective date of IAS 1 until 1 January 2023.

The Group does not expect that application of these amendments to IAS 1 will have significant impact on its consolidated financial statements.

Covid-19 related rent concession (Amendments to IFRS 16)

In May 2020, IASB issued Covid-19 related rent concession which amends IFRS 16 Leases.

The amendments allow lessees not to account for rent concessions as lease modifications if they arise as a direct consequence of COVID-19.

The practical expedient will only apply if:

- the revised consideration is substantially the same or less than the original consideration
- the reduction in lease payments relates to payments due on or before 30 June 2021
- no other substantive changes have been made to the terms of the lease.

No practical expedient is provided for lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly.

The Group shall apply these amendments for annual periods beginning on or after 1 June 2020 with earlier application permitted.

Reference to the Conceptual Framework (Amendments to IFRS 3)

In May 2020, IASB issued Reference to the Conceptual Framework, which made amendments to IFRS 3 Business Combinations.

The amendments updated IFRS 3 by replacing a reference to an old version of the Board's Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

2. Basis of presentation and significant accounting policies (continued)

2.4. New standards, interpretations and amendments (continued)

2.4.1 Standards, interpretations and amendments issued but not yet effective (continued)

Property and Equipment—Proceeds before Intended Use (Amendments to IAS 16)

In May 2020, IASB issued Property and Equipment—Proceeds before Intended Use, which made amendments to IAS 16 Property and Equipment. The amendments prohibit a company from deducting from the cost of property and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

The amendments improve transparency and consistency by clarifying the accounting requirements—specifically, the amendments prohibit a company from deducting from the cost of property and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

In May 2020, IASB issued Onerous Contracts—Cost of Fulfilling a Contract, which made amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

IASB developed amendments to IAS 37 to clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

The Group shall apply these amendments for annual periods beginning on or after 1 January 2022 with earlier application permitted.

Annual Improvements to IFRS Standards 2018–2020

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2018–2020 Cycle for applicable standards in May 2020. The amendments are effective as of 1 January 2022. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards

This amendment simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRS Standards later than its parent – i.e. if a subsidiary adopts IFRS Standards later than its parent and applies IFRS 1.D16(a), then a subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent’s date of transition to IFRS Standards. This amendment will ease transition to IFRS Standards for subsidiaries applying this optional exemption by i) reducing undue costs; and ii) avoiding the need to maintain parallel sets of accounting records.

IFRS 9 Financial Instruments

This amendment clarifies that – for the purpose of performing the ‘’10 per cent test’ for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

IFRS 16 Leases, Illustrative Example 13

The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, this example is not clear as to why such payments are not a lease incentive. It will help to remove the potential for confusion in identifying lease incentives in a common real estate fact pattern.

2. Basis of presentation and significant accounting policies (continued)

2.4. New standards, interpretations and amendments (continued)

2.4.1 Standards, interpretations and amendments issued but not yet effective (continued)

IBOR Reform and its Effects on Financial Reporting—Phase 2

In August 2020, IASB issued amendments that complement those issued in 2019 and focus on the effects of the interest rate benchmark reform on a company’s financial statements that arise when, for example, an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark rate.

The Phase 2 amendments, Interest Rate Benchmark Reform—Phase 2, address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues). In 2019, the Board issued its initial amendments in Phase 1 of the project.

The objectives of the Phase 2 amendments are to assist companies in:

- applying IFRS Standards when changes are made to contractual cash flows or hedging relationships because of the interest rate benchmark reform; and
- providing useful information to users of financial statements.

In Phase 2 of its project, the Board amended requirements in IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities;
- hedge accounting; and
- disclosures.

The Phase 2 amendments apply only to changes required by the interest rate benchmark reform to financial instruments and hedging relationships.

2.5 Summary of significant accounting policies

2.5.1 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and cash on hand. For the purposes of the statement of cash flows, cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

2.5.2 Non-derivative financial assets

The Group initially recognises financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Group classifies its financial assets as subsequently measured at either amortised cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost, using the effective interest method and net of any impairment loss, if:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

The Group's financial assets comprise cash in banks and purchased non-performing loan portfolios and non-performing individual loans which are classified as "Purchased or originated credit-impaired financial assets" and measured at amortized cost using effective interest rate method. Effective interest rate on purchased or originated credit-impaired financial assets purchased at a deep discount is calculated based on estimated cash flows at initial acquisition, thus taking into account incurred credit losses. Where estimates of cash flows change, the carrying amount of the purchased or originated credit-impaired financial assets are adjusted to reflect actual and revised estimated cash flows. More precisely, the carrying amount is calculated by computing the present value of estimated future cash flows at the original effective interest rate and any consequent adjustment is recognised immediately in profit or loss, as interest income when positive and as impairment losses when negative by directly reducing the carrying amount of the loan.

Financial assets measured at fair value

These assets are measured at fair value through profit or loss and changes therein, including any interest or dividend income, are recognised in profit or loss. However, for investments in equity instruments that are not held for trading, the Group may elect at initial recognition to present gains and losses in OCI. For such investments measured at fair value through OCI, gains and losses are never reclassified to profit or loss, and no impairment is recognised in profit or loss. Dividends earned from such investments are recognised in profit or loss, unless the dividend clearly represents a repayment of part of the cost of the investment. The Group does not have any financial assets measured at fair value.

2. Basis of presentation and significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.3 Explanations on forward and options contracts and derivative instruments

The Group applies cash flow hedge accounting using interest rate swap transactions, in order to hedge its TL floating rate bonds issued and other borrowings.

As permitted by IFRS 9, the Group continues to apply hedge accounting in accordance with “IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”).

Within the scope of cash flow hedge accounting, change in fair value of the hedging instrument, being positive or negative, is accounted in "Derivative financial assets measured at fair value through other comprehensive income" or "Derivative financial liabilities at fair value through other comprehensive income", respectively, in the balance sheet. The Group implements effectiveness tests at the balance sheet dates for hedge accounting; the effective parts are accounted as defined in IAS 39, in financial statements under equity “accumulated other comprehensive income or expense to be reclassified to profit or loss” whereas the amount concerning ineffective parts is recognised in profit or loss statement. The changes recognized in shareholders’ equity is removed and included in profit or loss statement in the same period when the hedged cash flows effect the income or loss.

Effectiveness tests are performed at the beginning of the hedge accounting period and at each reporting period. The effectiveness tests are carried out using the “Dollar off-set model” and the hedge accounting is applied as long as the test results are between the ranges of 80%-125% of effectiveness.

The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. When discontinuing fair value hedge accounting, the cumulative fair value changes in carrying value of the hedged item arising from the hedged risk are amortised to profit or loss statement under trading account income/loss caption over the maturity of the hedged item from that date of the hedge accounting is discontinued. While expiring, sale, discontinuing cash flow hedge accounting or when no longer effective the cumulative gains/losses recognised in shareholders’ equity until the cash flows of the hedged item are realized and presented under “accumulated other comprehensive income or expense to be reclassified to profit or loss” are continued to be kept in this account.

When the cash flows of hedged item incur, the gain/losses accounted for under shareholders’ equity are recognised in statement of profit or loss and other comprehensive income considering the original maturity.

2.5.4 Bonds issued and other borrowings

Financial instruments issued by the Group are classified as liabilities under “Bonds issued and other borrowings”, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder. Bonds issued and other borrowings are recognized initially at fair value, net of directly attributable transaction costs.

After initial recognition, bonds issued and other borrowings are subsequently measured at amortized cost using the effective interest rate (EIR) method. Gains and losses are recognized in the statement of profit or loss and other comprehensive income when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance expense in the statement of profit or loss and other comprehensive income.

2. Basis of presentation and significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.5 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

2.5.6 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquire. For each business combination, the Group elects whether it measures the non-controlling interest in the acquire either at fair value or at the proportionate share of the acquirer's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquire.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

2. Basis of presentation and significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.7 Intangible assets

Intangible assets are measured initially at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets mainly comprise of expenditures to acquire software licenses and amortized by using the straight-line method over their estimated useful lives of 3 or 15 years.

There is no impairment recorded related to intangible assets.

2.5.8 Property and equipment

All property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated over the cost of property and equipment by using the straight-line method to write down the cost of each asset to their residual values over their estimated useful life as follows:

Furniture	2-50 years
Vehicles	5 years
Leasehold Improvements	2-6 years

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Impairment losses are recognized in the income statement. There is no impairment recorded related to property and equipment.

2.5.9 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statement of profit or loss and other comprehensive income under operating expense.

2.5.10 Contingent assets and liabilities

Contingent liabilities are not recognized but disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

2.5.11 Subsequent events

Post period-end events that provide additional information about the Group's position at the reporting date (adjusting events), are reflected in the financial statements. Post period-end events that are not adjusting events are disclosed in the notes when material.

2. Basis of presentation and significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.12 Income from purchased or originated credit-impaired financial assets

Income from purchased or originated credit-impaired financial assets are recognized in the statement of profit or loss and other comprehensive income for purchased or originated credit-impaired financial assets measured at amortized cost using the credit - adjusted effective interest rate.

Interest from purchased or originated credit-impaired financial assets are recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the purchased or originated credit-impaired financial assets.

The carrying amount of the purchased or originated credit-impaired financial assets are adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the increase and decrease in carrying amount is recorded as "Income from purchased or originated credit-impaired financial assets".

2.5.13 Foreign currency transactions

Transactions denominated in foreign currencies are recorded in Turkish lira (TRY) at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss and other comprehensive income under finance income / expense.

2.5.14 Assets held for sale

The assets that meet the criteria for being classified as assets held for sale are measured at the lower of their carrying amount or fair value less costs to be incurred for sale. In order for an asset to be classified as an asset held for sale, the related asset (or the asset group to be disposed) should be ready to be sold at once in the circumstances of usual conditions and should have a high possibility to be sold. Besides, the asset (or the asset group to be disposed) should be marketed actively with a price in accordance with its "fair market value". Assets held for sale by the Group are mainly land, buildings and vehicles possessed in relation to purchased or originated credit-impaired financial assets.

2.5.15 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements; therefore, the related assets and liabilities are presented gross in the statements of financial position.

2.5.16 Share capital and dividends

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the shareholders. Dividends that are declared after the reporting date are disclosed in the post balance sheet events note.

2.5.17 Reserve for employment termination benefits

The Group has both defined benefit and defined contribution plans as described below:

(a) Defined benefit plans:

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

(b) Defined contribution plans:

The Group pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

2. Basis of presentation and significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.18 Income taxes

a. Current Income Tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position dated*.*

b. Deferred income taxes

Deferred income tax is provided on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax liabilities and assets are recognized when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Bank. Deferred income tax assets resulting from temporary differences, carry forward tax losses and unused tax credits are recognized to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilized (Note 14). Deferred tax related to fair value remeasurement of financial assets at fair value through other comprehensive income, which are recognized in other comprehensive income, is also recognized in the other comprehensive income. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority

2.5.19 Leases - Group as a lessee

The Company has started to apply IFRS 16 Leases standard as of 1 January 2019.

The Company recognizes the right of use and the lease liabilities on the financial statements at the effective date of the lease. The right of use is measured initially at cost value and subsequently measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for the re-measurement of the lease obligation. IAS 36 Impairment of Assets is applied in order to determine whether the real estates that are entitled to use have been impaired and to recognize the impairment loss.

With the "IFRS 16 Leases" standard which became effective as of 1 January 2019, the difference between the operating lease and financial lease was removed and the lease transactions were started to be recognised under "Tangible Assets" as an asset (tenure) and under "Liabilities from Leasing" as a liability.

IFRS 16 introduces a single leasing accounting model for lessees. As a result, the Company, as a lessee, has acquired the lease rights representing the lease rights representing the right to use the underlying asset and the lease payments to the financial statements. Accounting for the lessor is similar to the previous accounting policies.

Right of use asset

The right of use asset is first recognized by cost method and includes:

- The initial measurement amount of the lease obligation,

- The amount obtained by deducting all the rental incentives received from all lease payments made at or before the beginning of the lease;

- All initial direct costs incurred by the Company

When applying the cost method, the Company measures the right of use asset:

- by deducting accumulated depreciation and accumulated impairment losses and

- on the cost adjusted for remeasurement of the lease liability.

The Company applies depreciation provisions in IAS 16 Property, Plant and Equipment while depreciating the right of use assets.

2. Basis of presentation and significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.19 Leases - Group as a lessee (continued)

The lease obligations:

At the effective date of the lease, the Company measures its leasing liability at the present value of the lease payments not paid at that time. Lease payments are discounted using the interest rate implied on the lease if this rate can be determined easily. If this rate cannot be determined easily, the Company uses its alternative borrowing interest rate.

The lease payments included in the measurement of the lease liability consist of the payments to be made for the right of use during the lease term of the underlying asset and the unpaid payments at the effective date of the lease.

After the effective date of the lease, the Company measures the leasing liability as follows:

- Increase the book value to reflect the interest on the lease obligation

- Reduces the book value to reflect the lease payments made and

- The book value is measured to reflect reassessments and restructuring or reflect to fixed lease payments as of revised nature.

The interest on the lease liability for each period in the lease period is the amount calculated by applying a fixed periodic interest rate to the remaining balance of the lease liability.

2.5.20 Interest expense

Interest expense is recognized in the statement of profit or loss and other comprehensive income for all interest-bearing financial instruments using the effective interest method.

2.5.21 Related parties

For the purposes of these consolidated financial statements, shareholders, key management personnel and Board of Directors' members, in each case together with their families and companies controlled by/or affiliated with them, associated companies and other companies within Vector Holdings S.a.r.l. group companies and EBRD are considered and referred to as related parties.

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

(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.

2. Basis of presentation and significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

2.5.21 Related parties (continued)

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

- (iv) 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).
- (v) 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).
- (vi) both entities are joint ventures of the same third party.
- (vii) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (viii) 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.
- (ix) the entity is controlled or jointly controlled by a person identified in (a).
- (x) 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.

(Amounts expressed in thousands of Turkish Lira (“TRY”), unless otherwise indicated.)

2. Basis of presentation and significant accounting policies (continued)

2.6 Earnings per share

Earnings per share disclosed in the consolidated statement of profit or loss are determined by dividing net income by the weighted average number of shares outstanding during the period concerned.

	December 31, 2020	December 31, 2019
Net profit for the period	18,676	41,920
Weighted average number of ordinary shares in issue (thousand)	185,000	185,000
Basic earnings per thousand share (expressed in full TL)	**0,1010**	**0.2266**

The Group do not have diluted shares.

2.7 Purchased or originated credit-impaired financial assets

At the reporting date, the Group shall only recognise the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets. At each reporting date, the Group shall recognise in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. The Group shall recognize favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

2.8 Assets measured at fair value through other comprehensive income

A gain or loss on a financial asset measured at fair value through other comprehensive income shall be recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. If the financial asset is reclassified out of the fair value through other comprehensive income measurement category, the entity shall account for the cumulative gain or loss that was previously recognised in other comprehensive income. If a financial asset is measured at fair value through other comprehensive income, the amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if the financial asset had been measured at amortised cost.

3. Financial risk management

a) Market risk

Market risks arise from changes in interest rates, foreign exchange rates and prices of equities, all of which are exposed to general and specific market movements. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining the conservative risk profile of the Group.

The Board of Directors evaluates the probable risks and accordingly determines limits. Those limits are revised periodically in line with the strategies of the Group. The Board of Directors ensures that the Group has taken necessary precautions to identify, evaluate, control and manage risks faced.

a.1) Currency risk

Foreign currency (FC) risk is a result of the Group’s assets and liabilities denominated in foreign currencies. The Group has a foreign currency position as a result of its operations. Since the Group does not prefer to hold foreign currency assets and liabilities, the Group’s exposure to currency risk is at minimum levels.

(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

3. Financial risk management (continued)

a) Market risk (continued)

a.1) Currency risk (continued)

Foreign currency denominated assets and liabilities of the Group are as follows:

	EUR	USD	GBP	Total
December 31, 2020				
Assets				
Cash and cash equivalents	16	21	11	48
Other assets	73	575	-	648
Total assets	**89**	**596**	**11**	**696**
Liabilities				
Other liabilities	-	250	-	250
Total liabilities	**-**	**250**	**-**	**250**
Net balance sheet position	**89**	**346**	**11**	**446**

	EUR	USD	GBP	Total
December 31, 2019				
Assets				
Cash and cash equivalents	70	81	4	155
Other assets	-	466	-	466
Total assets	**70**	**547**	**4**	**621**
Liabilities				
Other liabilities	-	833	5	838
Total liabilities	**-**	**833**	**5**	**838**
Net balance sheet position	**70**	**(286)**	**(1)**	**(217)**

(Amounts expressed in thousands of Turkish Lira (“TRY”), unless otherwise indicated.)

3. Financial risk management (continued)

a) Market risk (continued)

a.1) Currency risk (continued)

At December 31, 2020, assets and liabilities denominated in foreign currency were translated into TRY by using a foreign exchange rate of and TRY 7.3405=USD1 and TRY 9.0079=EUR1 (December 31, 2019: TRY 5.9402 =USD1 and TRY 6.6506 =EUR1).

The table below shows the Group’s sensitivity against 10% depreciation of TRY against USD and EUR in the statement of profit or loss and other comprehensive income. In this analysis it has been assumed that all other variables, especially interest rates, are being held constant.

		Increasing / (decreasing) effect on profit
	December 31, 2020	**December 31, 2019**
EUR	9	7
USD	35	(29)
GBP	1	-

In the case of appreciation of TRY against USD, EUR and other foreign currencies by 10%, total amounts shown above would have equal and opposite effect on profit.

a.2) Interest rate risk

Interest rate risk is the exposure to movements in market interest rates, which will affect future cash flows or fair values of financial instruments of the Group. In the scenario of a 500 basis points increase in the TRY interest rates with all other variables being constant, the effect on profit or loss for the period, based on assets and liabilities which are sensitive to interest rates are disclosed below:

		Increasing / (decreasing) effect on profit
	December 31, 2020	**December 31, 2019**
Floating interest bearing borrowings	(1,528)	(22,369)

(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

3. Financial risk management (continued)

a) Market risk (continued)

a.2) Interest rate risk (continued)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the reporting date to the re-pricing or contractual dates whichever is earlier.

December 31, 2020	Demand and up to 3 months	3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	62,233	-	-	62,223
Purchased or originated credit-impaired financial assets (*)	94,643	254,654	865,960	1,215,257
Derivative financial assets	1,086	1,008	34	2,128
Total assets	**157,952**	**255,662**	**865,994**	**1,279,608**
Liabilities				
Bonds issued and other borrowings	106,135	322,538	197,794	626,467
Lease payables	-	3,835	-	3,835
Total liabilities	**106,135**	**326,373**	**197,794**	**630,302**
Net repricing surplus / (gap)	**51,817**	**(70,711)**	**668,200**	**649,306**

December 31, 2019	Demand and up to 3 months	3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	80,688	-	-	80,688
Purchased or originated credit-impaired financial assets (*)	97,116	249,838	935,525	1,282,479
Total assets	**177,804**	**249,838**	**935,525**	**1,363,167**
Liabilities				
Bonds issued and other borrowings	151,345	345,474	241,734	738,553
Lease payables	1,060	2,688	2,985	6,733
Total liabilities	**152,405**	**348,162**	**244,719**	**745,286**
Net repricing surplus / (gap)	**25,399**	**(98,324)**	**690,806**	**617,881**

(*) Loan values are presented according to estimated collection dates.

(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

3. Financial risk management (continued)

a) Market risk (continued)

a.3) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To hedge against this risk, management has been measuring and managing its cash flow commitments on a daily basis, and maintains liquid assets, which it judges sufficient to meet its commitments.

The following table presents the contractual undiscounted cash flows payable by the Group based on remaining contractual maturities at the reporting date.

	Contractual cash flows				Carrying amount
Non-derivate financial liabilities December 31, 2020	**Up to 3 months**	**3 to 12 months**	**Over 1 year**	**Total**	**Total**
Liabilities					
Borrowings	101,216	197,264	247,163	545,643	451,007
Bonds issued	7,187	166,312	25,004	198,503	175,460
Other liabilities	6,856	33,844	4,151	44,851	44,851
Lease payables	1,107	3,410	-	4,517	3,835
Total liabilities	**116,366**	**400,830**	**276,318**	**793,514**	**675,153**
December 31, 2019	**Up to 3 months**	**3 to 12 months**	**Over 1 year**	**Total**	**Total**
Liabilities					
Borrowings	71,991	196,097	316,228	584,316	459,472
Bonds issued	83,057	191,772	33,738	308,567	279,081
Other liabilities	2,998	8,056	31,642	42,696	42,696
Lease payables	1,095	3,061	4,342	8,498	6,733
Total liabilities	**159,141**	**398,986**	**385,950**	**944,077**	**787,982**
Derivative financial liabilities					
Interest rate swaps used for hedging					
Outflow	**20,260**	**19,436**	**3,637**	**43,333**	
Inflow	**(18,144)**	**(19,345)**	**(3,616)**	**(41,105)**	(2,128)
	2,116	**91**	**20**	**2,227**	**(2,128)**

b) Credit risk

Financial instruments contain an element of risk that the counterparty may be unable to meet the terms of the agreements. This risk is managed by limiting the aggregate risk to any individual counterparty and financial institution. The Group's exposure to credit risk is concentrated in Turkey where the majority of the activities are carried out. The credit risk is generally diversified due to the large number of entities comprising the customer bases and their dispersion across different industries. The Group manages the credit risk with comprehensive analysis of its loan portfolios with experienced asset managers and legal staff.

Maximum exposure to credit risk

	December 31, 2020	December 31, 2019
Credit risk exposures relating to items on the statement of financial position:		
Cash at banks	62,223	80,688
Purchased or originated credit-impaired financial assets	1,215,257	1,282,479
Derivative financial assets	2,128	-
Other assets (*)	9,594	6,773

(*) Includes receivables from execution offices, personnel and law offices.

(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

3. Financial risk management (continued)

b) Credit risk (continued)

The collateral held by the Group comprise real estates and other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Group's reporting schedule on a quarterly basis.

Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, and other independent sources.

c) Fair value presentation of asset and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation techniques.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

The table below shows the fair values and carrying values of the financial assets and liabilities, which are not presented at fair value in the accompanying financial statements of the Group.

	Carrying value	Fair value	Carrying value	Fair value
	December 31, 2020	December 31, 2020	December 31, 2019	December 31, 2019
Financial assets				
Cash and cash equivalents	62,223	62,223	80,688	80,688
Purchased or originated credit-impaired financial assets	1,215,257	1,474,964	1,282,479	1,500,806
Derivative financial assets	2,128	2,128	--	
Financial liabilities				
Borrowings	451,007	445,494	459,472	457,442
Bonds	175,460	171,554	279,081	278,883
Other liabilities	44,851	44,851	42,696	42,696

Since the cash and cash equivalents are short term, it is assumed that carrying value approximates fair value.

The Group has measured the fair value of the purchased or originated credit-impaired financial assets in accordance with IFRS 13 "Fair Value Measurement" standard. The Group applies "discounted cash flow approach" which converts the future projected cash flows into discounted amounts, for fair value measurement.

The fair value of the borrowings and bonds is calculated by discounting the contractual payment plan using market interest rate at the reporting date.

Fair value hierarchy

The distribution of financial assets and debt items, which are reflected in the financial statements with fair values as of December 31, 2020 according to their fair value levels, are given in the tables below.

Current Year	1. level	2. level	3. level	Total
Total assets				
Derivative financial assets	-	2,128	-	**2,128**

(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

3. Financial risk management (continued)

d) Segment reporting

"Finance income" and "Finance costs" are allocated to operating segments based on the segmental distribution of the balance sheet item "Purchased or originated credit-impaired financial assets".

January, 1- December 31, 2020	Secured	Unsecured	Total
Income from purchased or originated credit-impaired financial assets	101,741	161,210	262,951
Other operating income	3,385	7,149	10,534
Total revenue	**105,126**	**168,359**	**273,485**
Operating expenses	(49,818)	(75,674)	(125,492)
Operating profit	**55,308**	**92,685**	**147,993**
Interest income from banks	3,890	4,295	8,185
Interest income from derivative assets	165	165	330
Foreign exchange losses	(50)	(55)	(105)
Interest expense on bond issued and other borrowings	(57,387)	(63,359)	(120,746)
Fee and commission expense	(5,568)	(7,259)	(12,827)
Profit/(loss) before tax	**(3,643)**	**26,473**	**22,830**

January, 1- December 31, 2019	Secured	Unsecured	Total
Income from purchased or originated credit-impaired financial assets	148,331	235,031	383,362
Other operating income	2,819	5,953	8,772
Total revenue	**151,150**	**240,984**	**392,134**
Operating expenses	(62,005)	(105,807)	(167,812)
Operating profit	**89,145**	**135,177**	**224,322**
Interest income from banks	4,626	5,108	9,734
Foreign exchange losses	(52)	(57)	(109)
Interest expense on bond issued and other borrowings	(82,982)	(91,617)	(174,599)
Fee and commission expense	(3,276)	(4,273)	(7,549)
Profit/(loss) before tax	**7,461**	**44,338**	**51,799**

The segmental distribution of balance sheet items "Purchased or originated credit-impaired financial assets" and "Assets held for sale" are presented below, since they are monitored on a segment basis.

December 31, 2020	Secured	Unsecured	Total
Purchased or originated credit-impaired financial assets	304,741	910,516	1,215,257
Assets held for sale	8,114	-	8,114

December 31, 2019	Secured	Unsecured	Total
Purchased or originated credit-impaired financial assets	609,531	672,948	1,282,479
Assets held for sale	11,966	-	11,966

4. Critical accounting estimates and judgments

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances; Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary on significant accounting policies (Note 2) and financial risk management (Note 3). Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Purchased or originated credit-impaired financial assets:

The cash flow projections in estimating the amortized cost and impairment of purchased or originated credit-impaired financial assets are disclosed in Note 6.

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized, judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

(Amounts expressed in thousands of Turkish Lira (“TRY”), unless otherwise indicated.)

5. Cash and cash equivalents

	December 31, 2020			December 31, 2019		
	FC	TRY	Total	FC	TRY	Total
Cash on hand	2	-	2	8	-	8
Cash at banks	46	62,175	62,221	147	80,533	80,680
Demand deposits	46	3,325	3,371	147	3,321	3,468
Time deposits	-	58,850	58,850	-	77,212	77,212
Total cash and cash equivalents	**48**	**62,175**	**62,223**	**155**	**80,533**	**80,688**

The interest rates of the time deposits are as follows:

	December 31, 2020	December 31, 2019
TRY	15.25 –19.00 %	8.00 –12.20 %
USD		-

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	December 31, 2020	December 31, 2019
	Amount (TRY)	Amount (TRY)
Cash on hand	2	8
Cash at banks	62,157	80,677
Subtotal	**62,159**	**80,685**
Interest accruals on cash	64	3
As at the period end	**62,223**	**80,688**

6. Purchased or originated credit-impaired financial assets

The Group makes future collection projections for relevant periods for the acquired purchased or originated credit-impaired financial assets and accounts for the purchased or originated credit-impaired financial assets involving risk, benefit and control transfer at amortized cost through discounting these collection projections by using the effective interest rates calculated at purchase date. The positive and negative valuation differences and interest on the assets are recorded as interest income in the statement of profit or loss and other comprehensive income.

The movement for the purchased or originated credit-impaired financial assets has been presented below:

	December 31, 2020	December 31, 2019
	Amount (TRY)	Amount (TRY)
January 1	1,282,479	1,134,672
Portfolios acquired during the period	17,310	159,902
Collections in the period	(330,189)	(395,457)
Income from purchased or originated credit-impaired financial assets	245,657	383,362
As at the period end	**1,215,257**	**1,282,479**

As of December 31, 2020, total purchased or originated credit-impaired financial assets balance before allowance is TL 1,278,698 (December 31, 2019 – TL 1,330,168). The Group has booked allowance for purchased or originated credit-impaired financial assets amounting to TL 63,441 as at December 31, 2020 (December 31, 2019 – TL 47,689).

6. Purchased or originated credit-impaired financial assets(continued)

The movement for the allowance for purchased or originated credit-impaired financial assets has been presented below:

	December 31, 2020 Amount (TRY)	December 31, 2019 Amount (TRY)
January 1	(47,689)	(54,106)
Current year reversal / (charge)	(15,752)	6,417
Allowance for purchased or originated credit-impaired financial assets	**(63,441)**	**(47,689)**

Merkez Alacak Yönetim A.Ş. which is a consolidated subsidiary of Dünya Varlık, manages non-financial receivables.

Portfolios by acquisition year	Purchase year		Principal amount of purchased portfolios (TRY)	Purchase price	Carrying value as of December 31, 2020 (TRY)	Carrying value as of December 31, 2019 (TRY)
DÜNYA VARLIK						
2008 Portfolios	2008	TRY	804,651	121,750	27,677	42,547
2008 Portfolios (*)	2008	USD	4,631	6,850	58,785	38,517
2009 Portfolios	2009	TRY	183,223	18,000	18,483	19,403
2010 Portfolios	2010	TRY	1,125,046	96,544	56,775	58,017
2011 Portfolios	2011	TRY	836,263	76,626	46,244	51,619
2012 Portfolios	2012	TRY	1,440,069	148,535	138,721	170,189
2013 Portfolios	2013	TRY	1,036,830	119,666	103,804	116,515
2014 Portfolios	2014	TRY	1,524,999	181,149	158,187	177,618
2015 Portfolios	2015	TRY	734,068	61,581	59,923	71,135
2016 Portfolios	2016	TRY	1,785,708	167,353	157,439	162,263
2017 Portfolios	2017	TRY	1,452,467	107,130	112,574	114,893
2018 Portfolios	2018	TRY	1,876,356	93,147	109,735	116,909
2019 Portfolios	2019	TRY	1,705,278	159,902	136,344	125,950
2020 Portfolios	2020	TRY	185,540	17,310	17,750	-
MERKEZ ALACAK						
2018 Portfolios	2018	TRY	201,694	21,081	12,816	16,904
					1,215,257	**1,282,479**

(*) Portfolios acquired in foreign currency are expressed in thousands of USD.

	December 31, 2020 Amount (TRY)	December 31, 2019 Amount (TRY)
Current	349,297	346,954
Non-current	865,960	935,525
Total	**1,215,257**	**1,282,479**

(Amounts expressed in thousands of Turkish Lira (“TRY”), unless otherwise indicated.)

7. Property and equipment

The movement of property and equipment and accumulated depreciation are as follows:

	Property and equipment
January 1, 2019 net book value	4,144
Recognition of right-of-use asset on initial application of IFRS 16	9,741
Additions	2,181
Disposals	(318)
Depreciation	(6,289)
Net book value as of December 31, 2019	**9,459**
January 1, 2020 net book value	**9,459**
Additions	8,078
Disposals	(4,618)
Depreciation	(5,673)
Net book value as of December 31, 2020	**7,246**

	December 31, 2020	December 31, 2019
Property and equipment		
Cost	30,357	26,897
Accumulated depreciation	(23,111)	(17,438)
Net book value	**7,246**	**9,459**

(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

8. Intangible assets and goodwill

The movement of intangible assets and accumulated amortization are as follows:

	Rights
January 1, 2020 net book value	**11,817**
Recognition of right-of-use asset on initial application of IFRS 16	395
Additions	3,394
Amortization	(4,106)
Net book value as of December 31, 2020	**11,500**
January 1, 2019 net book value	10,343
Recognition of right-of-use asset on initial application of IFRS 16	162
Additions	6,033
Amortization	(4,721)
Net book value as of December 31, 2019	**11,817**

	December 31, 2020	**December 31, 2019**
Intangible assets		
Cost	28,595	24,806
Accumulated amortization	(17,095)	(12,989)
Net book value	**11,500**	**11,817**

9. Other assets and assets held for sale

As of December 31, 2020 and December 31, 2019 other assets are as follows:

	December 31, 2020	**December 31, 2019**
Miscellaneous receivables (*)	25,252	22,172
Prepaid taxes	654	1,463
Total other assets	**25,906**	**23,635**

(*) Miscellaneous receivables amounting to 25,252 consist of prepaid commissions, receivables from execution offices, prepaid insurance expenses (December 31, 2019 - TRY 22,172).

As of December 31, 2020 and December 31, 2019 the movement of assets held for sale are as follows:

	December 31, 2020
January 1, 2020	**11,966**
Additions	3,717
Disposals	(7,569)
Net book value	**8,114**

	December 31, 2019
January 1, 2019	**8,908**
Additions	8,120
Disposals	(5,062)
Net book value	**11,966**

(Amounts expressed in thousands of Turkish Lira (“TRY”), unless otherwise indicated.)

10. Derivative financial assets

As of December 31, 2020 breakdown of the derivative transactions used in cash flow hedges financial assets are as follows (December 31, 2019:None).

Financial risk hedging tool	Hedged item	Exposed risk	Hedging instrument fair value	Other accumulated comprehensive income that will not be reclassfied in profit and loss	Other accumulated comprehensive income that will be reclassfied in profit and loss
Interest swap transactions	Variable rate loans/bonds	Interest rate risk	2,128	1,798	330

	Contract Amount	Assets	Liabilities
Interest swap transactions	259,500	2,128	-

11. Bonds issued and other borrowings

As of December 31, 2020 and December 31, 2019 bonds issued and other borrowings are as follows:

	December 31, 2020 Balance in original currency (TRY)	December 31, 2019 Balance in original currency (TRY)
Domestic borrowings		
Fixed rate borrowings	366,930	278,300
Floating rate borrowings	21,531	89,691
Bonds issued	175,460	279,081
Total domestic borrowings	**563,921**	**647,072**
Foreign borrowings		
Floating rate borrowings	62,546	91,481
Total foreign borrowings	**62,546**	**91,481**
Total borrowings	**626,467**	**738,553**

	December 31, 2020		December 31, 2019	
	TRY	FC	TRY	FC
Short term portion of medium and long term borrowings	428,673	-	496,819	-
Medium and long term borrowings	197,794	-	241,734	-
Total	**626,467**	**-**	**738,553**	**-**

	December 31, 2020 Amount (TRY)	December 31, 2019 Amount (TRY)
Current	428,673	496,819
Non-current	197,794	241,734
Total	**626,467**	**738,553**

(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

11. Bonds issued and other borrowings (continued)

As of December 31, 2020, the reconciliation of movements of liabilities to cash flows arising from financing activities are as follows:

	Borrowings	Bonds issued	Total
Proceeds from funds borrowed and securities issued	404,474	140,998	545,471
Repayment of funds borrowed and securities issued	(416,315)	(242,099)	(658,414)
Interest paid	(91,805)	(34,276)	(126,081)
Net cash from financing activities	**(103,646)**	**(135,377)**	**(239,024)**

Annual bond issues and the carrying values as of December 31, 2020 and December 31, 2019 are presented below:

Maturity	2018	2019	2020	Carrying value as of December 31, 2020 (TRY)	Carrying value as of December 31, 2019 (TRY)
3 years	-	-	-	-	6,349
3 years	-	-	-	-	56,480
27 months	-	-	-	-	30,829
3 years	31,000	-	-	31,385	31,296
6 months	-	-	-	-	33,911
3 months	-	-	-	-	9,939
12 months	-	-	-	-	60,253
6 months	-	-	-	-	50,024
2 years	-	-	25,000	20,937	-
12 months	-	-	40,000	40,090	-
12 months	-	-	29,000	29,153	-
12 months	-	-	52,500	53,895	-
TOTAL	**31,000**	**-**	**146,500**	**175,460**	**279,081**

The average interest rates of the Group loans as of December 31, 2020 and December 31, 2019 are presented below:

	December 31, 2020		December 31, 2019	
	TRY %	FC %	TRY %	FC %
Medium and long term	19.72	-	29.50	-

12. Other liabilities

	December 31, 2020	December 31, 2019
Payables for shared portfolios	27,573	29,533
Sundry creditors	7,716	6,722
Taxes payable	3,273	2,683
Reserve for unused vacations	1,867	1,392
Bonus accruals	4,407	1,335
Social security premiums payable	15	1,031
Total	**44,851**	**42,696**

(Amounts expressed in thousands of Turkish Lira (“TRY”), unless otherwise indicated.)

13. Reserve for employment termination benefits

In accordance with the current Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed over one year of service, whose employment is terminated due to retirement or for reasons other than resignation or misconduct, The indemnity is one month’s salary for each working year, limited to full TRY 7,638 at December 31, 2020 (December 31, 2019 – full TRY 6,380).

The Group management, based upon factors derived from past experiences, discounted the termination benefits of the personnel being eligible to receive retirement pay in accordance with IAS 19 by using the government bond rates at the reporting date and reflected the discounted amounts to the financial statements, the actuarial assumptions used are:

	December 31, 2020	December 31, 2019
Discount rate	14%	14%
Expected rates of salary/limit increase	8.5%	9.5%

	December 31, 2020	December 31, 2019
Reserve for employment termination benefits	2,494	1,963

The movement of provisions for employment termination benefits:

	December 31, 2020	December 31, 2019
Beginning balance	1,963	1,566
Current period service cost	242	254
Interest cost	1,459	2,463
Paid compensation	(1,123)	(2,308)
Actuarial gain/(loss) (*)	(47)	(12)
Ending balance	**2,494**	**1,963**

(*) Actuarial gain /loss is accounted under profit and loss.

(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

14. Taxation

While the corporate tax rate was at the rate of 20%, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%. This rate is applied to tax base which is calculated by adding certain non deductable expenses for tax purposes and deducting certain exemptions (like dividend income) and other deductions on accounting income. If there is no dividend distribution, no further tax charges are made.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital is not considered as a profit distribution.

Corporations are required to pay advance corporation tax quarterly on their corporate income. Advance tax declaration is made by the 14th day and payable by the 17th day of the second month following each calendar quarter end by companies. Advance tax paid by corporations is credited against the annual corporation tax liability. If, despite offsetting, there remains a paid advance tax amount, it may be refunded or offset against other liabilities to the government.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate.

Tax returns are open for 5 years from the beginning of the year that follows the date of filing for the tax authorities' review who have the right to audit tax returns, and the related accounting records on which they are based, and they may issue re-assessments based on their findings.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis.

Details of taxation income for the year ended December 31, 2020 and December 31, 2019 are as follows:

	December 31, 2020	**December 31, 2019**
Corporate tax expense	-	(268)
Deferred tax expense	(4,154)	(9,611)
Tax expense	**(4,154)**	**(9,879)**

(Amounts expressed in thousands of Turkish Lira (“TRY”), unless otherwise indicated.)

14. Taxation (continued)

Reconciliation of tax expense between IFRS and statutory tax financials with statutory tax rate:

	December 31, 2020	December 31, 2019
Profit (loss) before taxes	22,830	51,799
Theoretical tax expense with 22% tax rate (December 31, 2019: 22%)	(4,566)	(11,396)
Non-deductible expenses and permanent differences, net	412	1,517
Tax expense	**(4,154)**	**(9,879)**

Deferred taxes:

While the corporate tax rate was at the rate of 20%, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%. This rate is applied to tax base which is calculated by adding certain non deductable expenses for tax purposes and deducting certain exemptions (like dividend income) and other deductions on accounting income. If there is no dividend distribution, no further tax charges are made.

Under IAS 12, which deals with income taxes, deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilized and deferred tax assets should be reduced to the extent that it is no longer probable that the related tax benefit will be realized. The deferred tax assets and deferred tax liabilities have been calculated on a separate-entity basis and have been netted off in these financial statements to the extent they relate to the same entity. Details of cumulative temporary differences and the resulting deferred income tax assets and liabilities provided as of December 31, 2020 and December 31, 2019 are as follows:

	Cumulative temporary differences		Deferred income tax assets/(liabilities)	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
Provision for personnel unused vacation	1,867	1,392	373	306
Provision for employment termination benefits	2,494	1,963	499	432
Bonus accrual	4,407	1,335	881	295
Statutory tax losses	-	27,323	-	6,011
Difference between carrying value and tax base of property and equipment and intangibles	719	-	144	-
Deferred income tax assets	**9,487**	**32,013**	**1,897**	**7,044**
Reversal of statutory provisions and amortized cost differences of purchased or originated credit-impaired financial assets (*)	(470,927)	(429,418)	(94,186)	(94,472)
Difference between carrying value and tax base of property and equipment and intangibles	-	(514)	-	(113)
Valuation difference on borrowings	(1,031)	(1,368)	(206)	(301)
Deferred commission	(6,162)	(8,173)	(1,232)	(1,798)
Deferred tax effect of derivative financial assets	(2,128)		(426)	
Deferred income tax liabilities	**(480,248)**	**(439,473)**	**(96,050)**	**(96,684)**
Deferred tax liabilities, net	**(470,761)**	**(407,460)**	**(94,153)**	**(89,640)**

(*) According to the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061 mentioned above, deferred income tax effect is calculated with 22% for the years 2018, 2019, and 2020, and with 20% for the remaining period.

Movement of the net deferred tax liabilities is as follows:

	December 31, 2020	December 31, 2019
At January 1	**89,640**	**80,029**
Deferred tax charge for the period	4,154	9,611
Other comprehensive income	359	-
At the reporting date	**94,153**	**89,640**

(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

15. Share capital, share premium and other capital reserves

The Company has 185.000.008 shares (December 31, 2019 – 185.000.004 shares) with a par value of full TRY 1, each.

	December 31, 2020	December 31, 2019
Vector Holdings S,à,r,l,	50.131126%	50.131127%
Vector Investments Holdings S,à,r,l,	37.600000%	37.600000%
EBRD (European Bank for Reconstruction and Development)	12.268866%	12.268866%
Hilmi Güvenal	0.000002%	0.000001%
Türker Tekten	0.000002%	0.000001%
Mehmet Murat Çavuşoğlu	0.000002%	0.000001%
İsak Antika	0.000002%	0.000001%
Peter Morris Franklin	0.000002%	0.000001%
Total	**100.00%**	**100.00%**

By the decision taken on the General Assembly Meeting held on September 23, 2011 the share capital of the Group has been increased from TRY 10,000 to TRY 35,754 through other capital reserves.

By the decision taken on the General Assembly Meeting held on September 30, 2011 the share capital of the Group has been increased from TRY 35,754 to TRY 40,754 through cash injected by EBRD.

By the decision taken on the General Assembly Meeting held on April 8, 2015 the share capital of the Company has been increased from TRY 40,754 to TRY 185,000 through cash injected by shareholders.

	December 31, 2020	December 31, 2019
Legal reserves	14,340	14,340
Retained earnings	342,696	324,020

Share premium amounting to TRY 17,099 relates to capital payment made on October 14, 2011 by EBRD.

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code, the Group is required to create the following legal reserves from appropriation of earnings, which are available for distribution only in the event of liquidation or losses:

a) First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.

b) Second legal reserve, appropriated at the rate of at least 10% of distribution in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

After deducting taxes and setting aside the legal reserves as discussed above, the remaining balance of net profit is available for distribution to shareholders.

16. Income from purchased or originated credit-impaired financial assets

	December 31, 2020	December 31, 2019
Collections in the period	330,189	395,457
Portfolio amortization and revaluation	(67,238)	(12,095)
Income from purchased or originated credit-impaired financial assets	**262,951**	**383,362**

(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

17. Other operating income

	December 31, 2020	December 31, 2019
Gain from sales of assets held for sale	6,372	477
Other (*)	4.162	8,295
Total	**10,534**	**8,772**

(*) Consists of treasury promotions and other consultancy income.

18. Other operating expenses

	December 31, 2020	December 31, 2019
Personnel expenses	60,998	57,383
Depreciation of fixed assets	5,673	6,289
Amortization of intangible assets(*)	4,106	4,721
Employment termination benefits	531	397
Other operating expenses	**54,184**	**99,022**
Legal and court expenses	19,784	49,642
Banking & insurance transaction tax	11,863	17,087
Consultancy expenses	4,699	11,552
IT expenses	3,509	3,174
Non-deductible expenses	2,626	1,156
Subscription fees	1,313	1,194
Communication expenses	1,083	939
Loss on sales of assets	470	2,416
Vehicle expenses	385	1,115
Representation expenses	358	374
Stationery expenses	274	360
Repair and maintenance expenses	195	231
Marketing and advertisement expenses	6	75
Other expenses (**)	7,619	9,707
Total	**125,492**	**167,812**

(*) Depreciation of the rights of use is recognized by IFRS 16 amounting to TL 2,708 is presented in the property and equipment depreciation expense account.

(**) Other expenses amounting to TL 7,619 consist of refreshment expenses, accommodation expenses, archive management expenses, insurance expenses and other sundry expenses (December 31, 2019 – TRY 9,707).

19. Finance income and expense

a) Finance income

	December 31, 2020	December 31, 2019
Interest income from banks	8,185	9,734
Income from derivatives	330	-
Foreign exchange gains/(losses), net	(105)	(109)
Total	**8,410**	**9,625**

(Amounts expressed in thousands of Turkish Lira ("TRY"), unless otherwise indicated.)

19. Finance income and expense (continued)

b) Finance expense

	December 31, 2020	December 31, 2019
Interest expense on bond issued and other borrowings	(120,746)	(174,599)
Fee and commission income /(expense), net	(12,827)	(7,549)
Total	**(133,573)**	**(182,148)**

19. Transactions and balances with the related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

European Bank for Reconstruction and Development (shareholder)	December 31, 2020	December 31, 2019
Funds borrowed	62,546	91,481

The balance consists of the borrowings and their interest accruals obtained from European Bank for Reconstruction and Development.

European Bank for Reconstruction and Development (shareholder)	December 31, 2020	December 31, 2019
Interest expense	13,728	10,276

The total short- term benefits provided to the key management personnel (CEO and direct reports) of the Group amounts to TRY 4,188 (December 31, 2019 – TRY 5,125).

	December 31, 2020	December 31, 2019
Short- term benefits	4,188	5,125

20. Commitments and contingent liabilities

In the normal course of activities, the Group undertakes commitments and incurs certain contingent liabilities that are not presented in these financial statements. The following is a summary of significant commitments and contingent liabilities.

Letter of guarantees amounting to TRY 283,041 (December 31, 2019 - TRY 56,141) were given to banks for the sales Purchased or originated credit-impaired financial assets Custody and pledged assets amounting to TRY 165,048 (December 31, 2019 - None).It consists of mortgage amounts.

Due to the nature of the operations of the Company, the purchased or originated credit-impaired financial assets are doubtful. As a result, there are on-going lawsuits between the Company and its debtors for collection of these purchased or originated credit-impaired financial assets. The total amount of the lawsuits against the Group is TRY 2,313 as of December 31, 2020 (December 31, 2019 – TRY 2,760). The lawsuits initiated by the debtors are in essence defendant cases against the lawsuits initiated by the Group for collection of amounts due from debtors. According to the legal advisor, it is the debtor's responsibility, which has an amount due on the current account or which has obtained a short, medium or long-term loan, to prove that there is no outstanding debt obligation, as a result the possibility of losing these lawsuits for the Company is low. Therefore, the Company does not record a loss provision for these lawsuits.

20. Commitments and contingent liabilities (continued)

The Group has undergone a tax inspection for the financial years of 2014, 2015 and 2016. Banking and Insurance Transaction Tax ("BITT"), Resource Utilization Support Fund ("RUSF"), Stamp Tax and duties have been levied with the issued Tax Inspection Reports.

The total amount of RUSF that was levied is TRY 51,823, the tax base being TRY 29,292 and the penal interest being TRY 22,531. The total amount of the BITT is TRY 4,366, the tax base being TRY 2,183 and the tax loss being TRY 2,183. Total Stamp Tax amount is TRY 1,274, the tax base being TRY 637 and the tax loss penalty being TRY 637.

A lawsuit has been filed to the Tax Court on RUSF, and a settlement request has been made to the Revenue Administration on BITT and Stamp Tax issues. The Company reserves the right to file a lawsuit in the event of a disagreement in terms of BITT and Stamp Duty.

KKDF cases were resulted in favor before the administrative court and accrual slips issued against the company were cancelled.

As it is stated in the examinations and reports prepared by the legal experts, the tax assessment and penalty suggestions are against the law and the relevant legislation. The reports suggest that the ongoing process will be concluded in favour of the Company. For this reason, no provision has been booked in the accompanying financial statements.

21. Subsequent events

Regarding to Turkish Trade Registry Gazette numbered 31462 dated April 22, 2021, with the amendment made, the corporate Tax Rate for the 2021 calendar year will be applied as 25% and for the 2022 calendar will be applied as 23%.