

AK FİNANSAL KİRALAMA A.Ş.

**FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2015
TOGETHER WITH INDEPENDENT
AUDITORS' REPORT**

Independent auditor's report

To the Board of Directors of Ak Finansal Kiralama A.Ş.

We have audited the accompanying financial statements of Ak Finansal Kiralama A.Ş. ("the Company") which comprise the statement of financial position as at 31 December 2015 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing ("ISA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

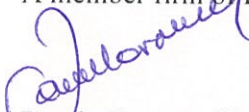
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ak Finansal Kiralama A.Ş. as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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



Damla Harman, SMMM
Partner

February 29, 2016
Istanbul, Turkey

AK FİNANSAL KİRALAMA A.Ş.

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AK FİNANSAL KİRALAMA A.Ş.

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2015

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

ASSETS	Notes	31 December 2015	31 December 2014
Cash and cash equivalents	5	405,285	132,697
Finance lease receivables	6	4,033,860	3,800,066
Other assets and prepaid expenses	8	26,841	13,883
Derivative financial instruments	7	6,658	7,637
Assets held for sale	10	329	358
Property and equipment, net	9	538	756
Intangible assets, net	9	598	545
Deferred tax asset, net	16	5,179	-
Total assets		4,479,288	3,955,942
LIABILITIES			
Borrowings	11	2,415,891	2,216,351
Debt securities issued	12	1,182,418	1,051,087
Accounts payable	13	91,680	87,198
Advances from customers	13	22,654	19,170
Derivative financial instruments	7	56,576	12,183
Other liabilities	14	2,609	14,864
Income tax liability	16	4,583	4,193
Employment benefits	15	1,578	1,164
Deferred tax liability, net	16	-	4,278
Total liabilities		3,777,989	3,410,488
EQUITY			
Share capital	17	248,400	188,400
Adjustment to share capital	17	(13,393)	(13,393)
Total paid-in share capital	17	235,007	175,007
Legal reserves	18	33,534	30,948
Hedge reserves		1,021	-
Retained earnings		336,913	259,395
Net profit/(loss) for current year		94.824	80.104
Total equity		701,299	545,454
Total liabilities and equity		4,479,288	3,955,942

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

AK FİNANSAL KİRALAMA A.Ş.**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

	Notes	31 December 2015	31 December 2014
Interest income from direct finance leases		304,543	245,616
Interest income on placements and transactions with banks		12,365	9,253
Total interest income		316,908	254,869
Interest expense on borrowings		(116,298)	(119,703)
Interest expense on debt securities issued		(61,864)	(41,813)
Net interest income		138,746	93,353
Foreign exchange gains(losses), including net gains or losses from dealing in foreign currency		48,075	(18,015)
Net interest income after foreign exchange gains or losses		186,821	75,338
Net trading, hedging and fair value income/(loss)		(35,634)	49,906
Fee and commission income/(expenses), net		5,612	6,473
Impairment loss on finance lease receivables	6	(21,715)	(19,862)
Recoveries from impaired lease receivables	6	4,247	5,188
Other income/(expenses), net		1,694	635
Operating expenses	19	(22,796)	(17,491)
Operating profit		118,229	100,187
Income before tax		118,229	100,187
Taxation on income	16	(23,405)	(20,083)
Net income for the year		94,824	80,104
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Cash flow hedge income/(expenses)		1,276	-
Tax on cash flow hedge		(255)	-
Net other comprehensive income/(expense) for the period		1,021	-
Total comprehensive income		95,845	80,104

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

AK FİNANSAL KİRALAMA A.Ş.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

	Notes	Paid in share capital					Retained earnings	Total Equity
		Share Capital	Adjustment to share capital	Total paid-in share capital	Legal reserves	Hedge reserves		
Balance at 1 January 2014		138,400	(13,393)	125,007	26,345	-	263,998	415,350
Transfers		-	-	-	4,603	-	(4,603)	-
Capital increase		50,000	-	50,000	-	-	-	50,000
Total comprehensive income		-	-	-	-	-	80,104	80,104
- <i>Net income for the year</i>		-	-	-	-	-	80,104	80,104
- <i>Other Comprehensive Income</i>		-	-	-	-	-	-	-
Balance at 31 December 2014		188,400	(13,393)	175,007	30,948	-	339,499	545,454
Balance at 1 January 2015		188,400	(13,393)	175,007	30,948	-	339,499	545,454
Transfers		-	-	-	2,586	-	(2,586)	-
Capital increase	17	60,000	-	60,000	-	-	-	60,000
Total comprehensive income		-	-	-	-	1,021	94,824	95,845
- <i>Net income for the year</i>		-	-	-	-	-	94,824	94,824
- <i>Other Comprehensive Income</i>		-	-	-	-	1,021	-	1,021
Balance at 31 December 2015		248,400	(13,393)	235,007	33,534	1,021	431,737	701,299

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

AK FİNANSAL KİRALAMA A.Ş.**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

	Notes	31 December 2015	31 December 2014
Cash flows from operating activities			
Net income for the year		94,824	80,104
Adjustments for:			
Depreciation and amortization	9,19	713	741
Re-measurement of derivative financial instruments at fair value	7	(49,918)	(47,682)
Unrealized fair value loss on hedged items	7, 16	(2,822)	1,299
Provision for employment termination benefits	15	478	248
Provision for legal proceedings	14	(457)	(35)
Provision for personnel performance bonus	15	1,500	1,200
Provision for impaired receivables	6	21,715	19,862
Deferred tax charge	16	9,712	9,739
Corporate tax charge	16	(33,117)	10,344
Taxes paid	16	(32,727)	(10,754)
Interest income and foreign exchange gain/(loss), net		(138,746)	(93,353)
Net increase/(decrease) in borrowings		197,232	362,243
Interest paid		(178,162)	(161,516)
Interest received		312,540	264,042
Unrealized foreign currency gains/(losses)		(80,320)	(11,013)
Cash flows from operating profit before changes in operating assets and liabilities		122,445	63,226
Changes in operating assets and liabilities			
Net decrease/(increase) in finance lease receivables		(335,417)	(514,271)
Net decrease/(increase) in other assets and prepaid expenses		(44,030)	102,179
Personnel performance bonus paid	14	(1,375)	(1,200)
Employment termination benefits paid	15	(382)	(97)
Net increase in accounts payables		(137,054)	(108,420)
Net (increase)/decrease in advances from customers		-	(3,288)
Net (decrease)/increase in other liabilities		(12,255)	6,151
Net cash (used in)/provided by operating activities		(408,068)	(455,720)
Cash flows from investing activities			
Purchase of property and equipment and intangibles	9	(555)	(559)
Sales of property and equipment	9	-	442
Net cash (used in)/ provided by investing activities		(555)	(117)
Cash flows from financing activities			
Debt securities issued		129,664	-
Capital increase		60,000	50,000
Net cash provided by/(used in) financing activities		189,664	412,243
Net increase/(decrease) in cash and cash equivalents		(218,959)	(43,594)
Effect of foreign exchange rate changes on cash and cash equivalents		491,731	4,513
Cash and cash equivalents at the beginning of the year	5	132,513	171,594
Cash and cash equivalents at the end of the year	5	405,285	132,513

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

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 1 - GENERAL INFORMATION

Ak Finansal Kiralama A.Ş., (“the Company”) was established in İstanbul, Turkey on 14 November 1988, with the name BNP-AK-DRESDNER Finansal Kiralama A.Ş. pursuant to the licence obtained from the Undersecretariat of Treasury for the purpose of financial leasing as permitted by law number 3226. At 26 January 2005, the shares of the Company, held by the BNP Paribas Group and Dresdner Bank A.G. were purchased by Akbank T.A.Ş. Pursuant to the sales, the Company’s name is changed to Ak Finansal Kiralama A.Ş. The registered office address of the Company is Sabancı Center Kule: 2 Kat: 8-9. 4.Levent İstanbul, Turkey.

The parent of the Company is Akbank T.A.Ş. and ultimate parent of the Company is Hacı Ömer Sabancı Holding A.Ş. and as at 31 December 2015, the Company employs 86 employees (31 December 2014: 72 employees).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adapted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 BASIS OF PRESENTATION

Accounting standards

These financial statements are prepared in accordance with the International Financial Reporting Standards (“IFRS”), including the International Accounting Standards (“IAS”) issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Company maintains its books of account and prepares its statutory financial statements in thousands of Turkish Lira (“TL”) which is the Company’s functional and presentation currency, in accordance with communiqué “Uniform Chart of Accounts, Disclosures and Form and Nature of Financial Statements to be Issued By Leasing, Factoring and Consumer Finance Companies”(“Financial Statement’s Communiqué”) issued by the Banking Regulation and Supervision Agency (“BRSA”), Turkish Commercial Code, Leasing Law and tax legislation.

The financial statements are based on the historical cost convention, except for the derivative instruments which are stated at their fair values. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet 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 realize the asset and settle the liability simultaneously.

Going concern

The Company prepared its financial statements on the going concern basis.

Functional and presentation currency

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

2.2. CHANGES IN ACCOUNTING POLICIES

2.2.1 Changes in accounting policy and disclosures

The accounting policies adopted in preparation of the financial statements as at December 31, 2015 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2015. The effects of these standards and interpretations on the Company’s financial position and performance have been disclosed in the related paragraphs.

- i) **The new standards, amendments and interpretations which are effective as at 1 January 2015 are as follows:**

IAS 19 Defined Benefit Plans: Employee Contributions (Amendment)

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The amendment did not have an impact on the financial statements of the Company.

Annual Improvements to IAS/IFRSs

In December 2013, IASB issued the below amendments to the standards in relation to “Annual Improvements - 2010–2012 Cycle” and “Annual Improvements - 2011–2013 Cycle.”

Annual Improvements - 2010–2012 Cycle

IFRS 2 Share-based Payment:

Definitions relating to performance and service conditions which are vesting conditions are clarified. The amendment is effective prospectively.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 3 Business Combinations

The amendment clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39 (or IFRS 9, as applicable). The amendment is effective for business combinations prospectively.

IFRS 8 Operating Segments

The changes are as follows: i) An entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'. ii) The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments are effective retrospectively.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment to IAS 16.35(a) and IAS 38.80(a) clarifies that revaluation can be performed, as follows:

i) Adjust the gross carrying amount of the asset to market value or ii) determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value. The amendment is effective retrospectively.

IAS 24 Related Party Disclosures

The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. . In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment is effective retrospectively.

Annual Improvements – 2011–2013 Cycle

IFRS 3 Business Combinations

The amendment clarifies that: i) Joint arrangements are outside the scope of IFRS 3, not just joint ventures ii) The scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is effective prospectively.

IFRS 13 Fair Value Measurement

The portfolio exception in IFRS13 can be applied to financial assets, financial liabilities and other contracts within the scope of IAS 39 (or IFRS 9, as applicable). The amendment is effective prospectively.

IAS 40 Investment Property

The amendment clarifies the interrelationship of IFRSIFRS 3 and IAS 40 in determining whether the transaction is the purchase of an asset or business combination. The amendment is effective prospectively.

Above amendments did not have a significant impact on the financial statements of the Company.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

IFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

IFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in this IFRS. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Company.

IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 and IAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Company.

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amendment) – Bearer Plants

IAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in IAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of IAS 41, measured at fair value less costs to sell. Entities are required to apply the amendments for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendment is not applicable for the Company and will not have an impact on the financial position or performance of the Company.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

IAS 27 Equity Method in Separate Financial Statements (Amendments to IAS 27)

In August 2014, IASB issued an amendment to IAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity’s separate financial statements. Therefore, an entity must account for these investments either:

- At cost
 - In accordance with IFRS 9,
- Or
- Using the equity method defined in IAS 28

The entity must apply the same accounting for each category of investments. The amendment is effective for annual periods beginning on or after January 1, 2016. The amendments must be applied retrospectively. Early application is permitted and must be disclosed. The amendment is not applicable for the Company and will not have an impact on the financial position or performance of the Company..

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

In September 2014, amendments were issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors’ interests in that former subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. An entity shall apply those amendments prospectively. The amendment is not applicable for the Company and will not have an impact on the financial position or performance of the Company. .

IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)

In December 2014, amendments were issued to IFRS 10, IFRS 12 and IAS 28, to address the issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments are applicable for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendment is not applicable for the Company and will not have an impact on the financial position or performance of the Company.

IAS 1: Disclosure Initiative (Amendments to IAS 1)

In December 2014, amendments were issued to IAS 1 that include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. The amendments are applicable for annual periods beginning on or after January 1, 2016. Earlier application is permitted. These amendments are not expected have significant impact on the notes to the financial statements of the Company.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Annual Improvements to IFRSs - 2012-2014 Cycle

In September 2014, IASB issued , Annual Improvements to IFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan

IFRS 7 Financial Instruments: Disclosures – clarifies that i) a servicing contract that includes a fee can constitute continuing involvement in a financial asset and thus the nature of the fee and the arrangement must be assessed against the guidance for continuing involvement in IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required ; ii) the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report

IAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located

IAS 34 Interim Financial Reporting –clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report

The amendments are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Company is in the process of assessing the impact of the amendments on financial position or performance of the Company.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 original effective date was January 1, 2017. However, in September 2015, IASB decided to defer the effective date to reporting periods beginning on or after January 1, 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. IFRS 15 scopes out(a) lease contracts within the scope of IAS 17(IFRS 16) Leases;(b) insurance contracts within the scope of IFRS 4 Insurance Contracts;(c) financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures; consequently the Company estimates that the impact of the standard on its financial position or performance will not be significant .

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 9 Financial Instruments - Final standard (2014)

In July 2014 the IASB published the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. However, the Standard is available for early application. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

IFRS 16 Leases

In January 2016, the IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

In January 2016, the IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Company applies this relief, it shall disclose that fact. The Company is in the process of assessing the impact of the amendments on financial position or performance of the Company

IAS 7 'Statement of Cash Flows (Amendments)

In January 2016, the IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. When the Company first applies those amendments, it is not required to provide comparative information for preceding periods. The Company is in the process of assessing the impact of the amendments on financial position or performance of the Company.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

For the purposes of cash flows statement, cash and cash equivalents comprise cash and due from banks with less than 90 days original maturity.

Related parties

For the purpose of these financial statements, the shareholders of the Company, key management personnel and Board members and their close family members, the Sabancı Group, Akbank and the companies controlled by or affiliated with them are considered and referred to as related parties (Note 20).

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

(i) As lessor

When assets are sold under a finance lease, the present value of the lease payments is recognized as a receivable. All costs that are directly attributable to the investment in direct finance lease are capitalized at initial recognition as part of the investment in direct finance lease and amortized via effective interest rate method. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return. The profit recognized on sale of leased assets is recorded as gain on liquidation of investments.

Future gross lease rentals receivable, net of unearned future lease income, are classified as the net investment in direct finance leases. Gross rentals due but not received at the balance sheet date are classified as receivables from outstanding lease payments. Receivables from outstanding lease payments are carried at net realizable value. To date, the Company has not entered into operating leases over company assets.

(ii) Operating lease as lessee

Leases that do not transfer to the company substantially all of the risks and incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense on a straight line basis over the lease term.

Allowance for impairment of lease receivables

A credit risk provision for impairment of the investment in direct finance leases and accounts receivables is established if there is objective evidence that the Company will not be able to collect all amounts due as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the receivables. The amount of the provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including the amount recoverable from guarantees and collateral, discounted based on the interest rate at inception.

The provision also covers losses where there is objective evidence that probable losses are present in components of the portfolio at the balance sheet date. These have been estimated based upon historical loss experience which is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The provision made during the year is charged against the income for the year.

Investment in direct finance leases and accounts receivables that cannot be recovered are written off and charged against the allowance for impairment of lease and accounts receivables. Such receivables are written off after all the necessary legal proceedings have been completed and the amount of the loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction from provision for impairment of lease and accounts receivables for the year (Note 6).

Derivative financial instruments

The major derivative instruments utilized by the Company are currency and interest rate swaps, cross currency swaps, and currency forwards.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company classifies its derivative instruments as “Held-for-hedging” or “Held-for-trading” in accordance with “International Accounting Standard for Financial Instruments: Recognition and Measurement” (“IAS 39”). Although certain derivative transactions provide effective economic hedges under the Bank’s risk management position, in accordance with IAS 39 they are treated as derivatives “Held-for-trading”.

Derivative instruments are remeasured at fair value after initial recognition, if the fair value of a derivative financial instrument is positive, it is accounted for as “derivative financial instruments-assets”; if the fair value difference is negative, it is accounted for as derivative financial instruments-liabilities”. Differences in the fair value of derivative instruments are accounted as income/loss from derivative financial transactions under “net trading, hedging and fair value income/(loss)” item in the income statement. The fair values of the derivative financial instruments are calculated using quoted market prices or by using discounted cash flow models.

Fair Value Hedge and Cash Flow Hedge Transactions

Fair value hedge

The Company hedges its fixed rate HUF Eurobond security issued against fair value risk arising from the fluctuations in the market interest rates and certain part of its EUR financial lease transactions from the fluctuations in the foreign exchange rates with cross currency swaps.

The Company hedges its fixed rate TL borrowings against fair value risk arising from the fluctuations in the market interest rates and certain part of its EUR financial lease transactions from the fluctuations in the foreign exchange rates with cross currency swaps.

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the income statement in “net trading, hedging and fair value income / (loss)”. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the income statement in net trading, hedging and fair value income/(loss).

Cash flow hedge

Fair value gains or losses associated with the effective portion of a derivative designated as a cash flow hedge are recognized initially in other comprehensive income and subsequently recycled to income statement when the cash flows relating to hedged item affect the income statement. The ineffective portion of the gain or loss on the hedging instrument is recognized in “net trading, hedging and fair value income/(loss)”.

Hedge effectiveness testing

Prospective tests are performed regularly at the inception of the hedge relationship and both prospective and retrospective tests are performed at each reporting period-end regularly by using “Dollar off-set method”. In this method, changes in the fair value of the hedged item and changes in the fair value of the hedging instruments between the designation date and each reporting period-end are compared and effectiveness ratio is calculated. In the determination of the fair values of hedging instruments and hedged item, market yield curves are used. Hedge accounting principles are applied by assessing the calculated effectiveness ratio within the scope of IAS 39.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

When the hedging instrument expires, or is executed, sold, revoked or the hedge relationship has become ineffective as a result of the effectiveness test; adjustments made to the carrying amount of the hedged item in is amortized to profit and loss over the remaining term of the original hedge by using the recalculated effective interest rate.

Hedge relationship is ceased when the hedged item is derecognized and fair value adjustments made to the carrying amount of hedged item is accounted in income statement.

Property and equipment

Property and equipment is measured at its cost when initially recognized and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. Subsequently, property and equipment is carried at cost less accumulated depreciation and provision for value decrease.

Depreciation is calculated over the cost of property and equipment using the straight-line method over estimated useful lives. The estimated useful lives are stated below:

Furniture and fixtures	5-10 years
Office equipment and motor vehicles	2 - 10 years
Leasehold improvements	Shorter of lease period or useful lives

Where the carrying amount of an asset is greater than its estimated recoverable amount (“higher of net selling price” and “value in use”), it is written down immediately to its recoverable amount. The recoverable amount of the impaired property and equipment represents fair value less costs to sell.

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.

Intangible assets

Intangible assets comprise computer software costs and are carried at cost less accumulated amortization. Intangible assets are amortized on a straight-line basis over 3-5 years.

Assets held for sale

The assets sustaining the criteria of being classified under assets held for sale are measured with the lower of their carrying amounts and 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) shall 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) shall be traded actively with a price in concordance with its “fair market value”. As of December 31, 2015 assets held for sale are stated at their carrying amounts. Assets are not depreciated or amortized once classified as held for sale.

Borrowing costs

If an asset needs to be classified as construction-in-progress for a significant time, in order to be available for sale or available to use, borrowing costs related to the purchase and additional construction expenses are capitalized within the cost of asset. If there is an investment income related to the unconsumed part of the loans, it will be deducted from the capitalized interest expense.

All other finance expenses will be expensed during the period incurred.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Financial liabilities including borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequently, financial liabilities are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the financial liability using the effective yield method.

Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The rates enacted, or substantively enacted, at the balance sheet date are used to determine deferred income tax.

The principal temporary differences arise from the unused investment allowances, provision for impaired lease receivables, derivative financial instruments, provisions for employment termination benefits and personnel bonus (Note 16).

Deferred tax liabilities are recognized for all resulting temporary differences whereas deferred tax assets resulting from temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Employment termination benefits

Defined Benefit Plans:

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

Under the Turkish Labor Law, the Company is required to pay a specific amount to the employees who have retired or whose employment is terminated other than for the reasons specified in the Turkish Labor Law. Employment termination benefits represent the estimated present value of the total reserve of the future probable obligation of the Company arising in the case of the retirement of the employees in accordance with this Law and is calculated using the projected unit credit method (Note 15).

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Defined Contribution Plans:

The Company also has to pay contributions to the Social Security Institution (Institution) for its employees within the contribution margin decided by the law. The Company does not have other liabilities to its employees or to the Institution other than the contribution for its employees. Those contributions are expensed on the date of accrual.

Short Term Plans:

The Company also provides for short-term employee benefits such as vacation rights and bonuses in accordance with IAS 19.

Revenue recognition

Direct financing leases consist of full-payout leases for various types of equipment. The excess of aggregate contract lease rentals, plus the nominal residual value, over the original cost of the related equipment represents the total revenue to be recognized over the term of the lease. The revenue is recognized in order to provide a constant periodic rate of return on the net investment remaining in each lease.

Interest income and expense

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price.

Contingent assets and liabilities

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company are not included in the financial statements and treated as contingent assets or liabilities.

Foreign currency transactions

Transactions denominated in foreign currencies are recorded in TL 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 income statement.

Subsequent events

Subsequent events cover any events which arise between the date of the statement of financial position and the date of approval of the financial statements, even if they occurred after any declaration of the net profit for the period or specific financial information publicly disclosed. The Company adjusts its financial statements if such subsequent events require an adjustment to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 3 - FINANCIAL RISK MANAGEMENT

a. Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

The Company treasury identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. For specific treasury transactions, the opinion of Funding Committee, which was established by the approval of Board of Directors, is asked. Depending on the instrument and transaction amount, the approval of Board of Directors is also required.

b. Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company adopts a detailed and thorough credit analysis, assessment and approval process. It works with selected and creditworthy counterparties and obtains sufficient and where appropriate additional collateral as a means of mitigating the risk of financial loss from defaults. A diversified portfolio by sector and asset and focus on assets with deep secondary market and higher residual value is achieved. The Company regularly monitors the ability of the counterparties to pay amounts in full when due, analyzes the financial position of the counterparties and monitors the condition of the leased assets. The Company's risk limits are continuously measured and monitored.

The table below summarizes the geographic distribution of the Company's assets and liabilities at 31 December 2015 and 2014.

December 31, 2015	Assets	%	Liabilities	%
Turkey	4,440,862	99	1,386,452	37
European countries	6,457	0	2,003,940	53
Other	31,969	1	387,597	10
	4,479,288	100	3,777,989	100
December 31, 2014	Assets	%	Liabilities	%
Turkey	3,930,001	99	1,158,787	34
European countries	8,699	0	1,825,601	54
Other	17,242	1	426,100	12
	3,955,942	100	3,410,488	100

Maximum exposure to credit risk

	December 31, 2015	December 31, 2014
Credit risk exposures relating to balance sheet items:		
Lease receivables, net	4,033,860	3,800,066
Due from banks	405,285	132,697
Derivative financial instruments	6,658	7,637

Further credit risk related disclosures are provided in Note 6.

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

c. Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate risk and currency risk, including interest rate swaps, currency swaps, cross currency swaps and forwards.

There has been no major change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

i) Currency risk

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed with asset-liability balancing transactions and derivatives. Currency risk is managed and reviewed by using clearly defined, approved and carefully monitored risk limit of foreign exchange position on a monthly basis.

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date is disclosed below. Portfolio provision for leasing receivables in the balance sheet is considered as Turkish Lira in the calculation of the Net Currency Position.

The table below summarizes the Company's exposure to foreign currency exchange rate risk at 31 December 2015 and 2014.

December 31, 2015	US\$	Foreign Currency		Total
	(TL Equivalent)	EUR (TL Equivalent)	Other (TL Equivalent)	
Assets				
Due from banks	115,275	202,820	496	318,591
Finance lease receivables (*)	1,471,201	1,486,348	283	2,957,832
Other assets	2,550	4,749	15	7,314
Total assets	1,589,026	1,693,917	794	3,283,737
Liabilities				
Borrowings	717,874	1,265,596	-	1,983,470
Debt securities issued	895,595	-	81,603	977,198
Accounts payable	32,961	19,980	1,502	54,443
Advances from customers	6,585	8,394	16	14,995
Total liabilities	1,653,015	1,293,970	83,121	3,030,106
Net balance sheet position	(63,989)	399,947	(82,327)	253,631
Off-balance sheet derivative instruments net notional position	42,989	(392,082)	80,650	(268,443)
Total net balance sheet position (**)	(21,000)	7,865	(1,677)	(14,812)

(*) Foreign currency follow-up loans that are not subject to evaluation amounting to TL 24.899 are not presented in the currency risk.

(**) Foreign currency exchange differences resulting from payments made to vendors are later charged to lessees. When the effect of the payments to the vendors is eliminated, the net foreign currency position shown on the table above will be for US\$ -TL (4.298), for EUR -TL 3,107 and for other currency TL (177) which is in total of TL (1,368).

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

December 31, 2014	US\$	Foreign Currency		Total
	(TL Equivalent)	EUR (TL Equivalent)	Other (TL Equivalent)	
Assets				
Due from banks	76,935	19,843	271	97,049
Finance lease receivables	1,333,444	1,436,263	408	2,770,115
Other assets	2,919	4,599	-	7,518
Total assets	1,413,298	1,460,705	679	2,874,682
Liabilities				
Borrowings	558,309	1,132,170	-	1,690,479
Debt securities issued	884,062	-	34,925	918,987
Accounts payable	37,646	34,166	1,200	73,012
Advances from customers	7,538	9,214	-	16,752
Total liabilities	1,487,555	1,175,550	36,125	2,699,230
Net balance sheet position	(74,257)	285,155	(35,446)	175,452
Off-balance sheet derivative instruments net notional position	68,495	(282,970)	34,267	(180,208)
Total net balance sheet position (**)	(5,762)	2,185	(1,179)	(4,756)

(*) Foreign currency follow-up loans that are not subject to evaluation amounting to TL 14.623 are not presented in the currency risk.

(**) Foreign currency exchange differences resulting from payments made to vendors are later charged to lessees. When the effect arisen from the payments to the vendors is eliminated, the net foreign currency position shown on the table above will be for US\$ TL 552, for EUR TL 3,194 and for other currency TL 20 which is in total of TL 3,766.

At 31 December 2015, assets, liabilities and off-balance sheet derivative instruments denominated in foreign currency were translated into TL by using a foreign exchange rate of TL 2.9076=US\$1 and TL 3.1776=EUR1 (2014 – TL 2.3189=US\$1 and 2.8207=EUR1).

Foreign currency sensitivity

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro.

The following table details the Company's sensitivity to a 10% increase and decrease in the TL against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss where the TL weakens against the relevant currency.

	US Dollar Impact (TL Equivalent)		EURO Impact (TL Equivalent)	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Profit and Loss	(2,100)	(576)	787	219

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

ii) Interest rate risk

The Company is exposed to interest rate risk due to borrowings and finance lease receivables at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings and finance lease receivables, by the use of derivatives such as interest rate swap contracts and cross currency swaps. Hedging activities are regularly evaluated regularly to ensure optimal hedging strategies are applied. Interest rate is managed and reviewed by using clearly defined, approved and carefully monitored risk limits such as re-pricing maturity gap analysis and economic value change analysis (stress tests).

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate assets and liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.5% higher/lower and related interest rate swaps and all other variables were held constant, the Company's:

- Profit for the year ended 31 December 2015 would decrease by TL 2,985(2014 –increase by TL 3,850). This is mainly attributable to the Company's exposure to interest rates on its variable rate receivables and borrowings.

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

December 31, 2015	Demand and up to 3 months	3 to 12 months	Over 1 year	Total
Assets				
Due from banks	405,285	-	-	405,285
Finance lease receivables	1,474,727	671,090	1,667,440	3,813,257
Derivative financial instruments	6,658	-	-	6,658
Total assets	1,886,670	671,090	1,667,440	4,225,200
Liabilities				
Borrowings	803,615	969,301	642,975	2,415,891
Debt securities issued	189,590	172,995	819,833	1,182,418
Derivative financial instruments	56,576	-	-	56,576
Total liabilities	1,049,781	1,142,296	1,462,808	3,654,885
Net re-pricing gap	836,889	(471,206)	204,632	570,315

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

December 31, 2014	Demand and up to 3 months	3 to 12 months	Over 1 year	Total
Assets				
Due from banks	132,695	-	-	132,695
Finance lease receivables	1,261,219	624,913	1,760,810	3,646,942
Derivative financial assets	2,938	1,367	3,332	7,637
Total assets	1,396,852	626,280	1,764,142	3,787,274
Liabilities				
Borrowings	622,782	788,785	804,784	2,216,351
Debt securities issued	263,074	145,642	642,371	1,051,087
Derivative financial liabilities held for trading	70	643	11,133	11,846
Derivative financial liabilities held for hedging	-	-	337	337
Total liabilities	885,926	935,070	1,458,625	3,279,621
Net re-pricing gap	510,926	(308,790)	305,517	507,653

d) *Liquidity risk*

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

The Company makes a detailed and complete analysis of the projected cash inflows (mainly lease installments) and cash outflows (mainly bank loan payments and payments to suppliers according to leasing transactions) and determines the exact cash requirements. A diversified funding base is used and stringent risk limits are utilized to manage and review liquidity risk.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

December 31, 2015	Demand and up to 3 months	3 to 12 months	Over 1 year	Total
Liabilities				
Borrowings	285,743	798,993	1,536,798	2,621,534
Debt securities issued	93,139	262,149	930,491	1,285,779
Accounts payable	91,680	-	-	91,680
Advances from customers	22,654	-	-	22,654
Total liabilities	493,216	1,061,142	2,467,289	4,021,647
Cash inflow / (outflow) from derivative financial instruments, net	5,241	(3,230)	2,591	4,602

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

December 31, 2014	Demand and up to 3 months	3 to 12 months	Over 1 Year	Total
Liabilities				
Borrowings	270,709	475,767	1,697,209	2,443,685
Debt securities issued	55,968	275,574	829,386	1,160,928
Accounts payable	87,198	-	-	87,198
Advances from customers	19,170	-	-	19,170
Total liabilities	433,045	751,341	2,526,595	3,710,981
Cash inflow / (outflow) from derivative financial instruments, net	4,778	11,689	14,217	30,684

e. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Company 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 Company could realize in a current market exchange.

The fair values of certain financial assets and liabilities excluding finance lease receivables, debt securities issued and borrowings are considered to approximate their respective carrying values due to their short-term nature.

The table below indicates the fair values of the financial assets and financial liabilities which are stated at their carrying amounts:

	Carrying amount		Fair value	
	2015	2014	2015	2014
Finance lease receivables	4,033,860	3,800,066	3,918,192	3,725,358
Borrowings	2,415,891	2,216,351	2,259,896	2,044,251
Debt securities issued	1,182,418	1,051,087	1,101,948	953,159

The fair value of finance lease receivables and borrowings and debt securities issued carried at amortized cost are estimated based on discounted cash flows using prevailing market interest rates

The discount rate used to calculate the fair value of US\$, EUR and TL borrowings and debt securities issued as at 31 December 2015 are %3.61, %2.96 and %11.04, respectively. (31 December 2014 was: %3.52, %3.40 and %10.66, respectively).

The discount rate used to calculate the fair value of US\$, EUR and TL finance lease receivables as at 31 December 2015 are %6.09, %5.31 and %13.98, respectively. (31 December 2014 was: %5.86, %6.00 and %13.01, respectively).

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

Fair value hierarchy

Fair values of financial assets and liabilities are determined as follows:

Level 1: Financial assets and liabilities are valued at the quoted prices (unadjusted) in an active market for identical assets and liabilities.

Level 2: Financial assets and liabilities are valued with the inputs used to determine a directly or indirectly observable price other than the quoted market price of the relevant asset or liability mentioned in Level 1.

Level 3: Financial assets and liabilities are valued with inputs that cannot be based on data observable in the market and used to determine the fair value of the asset or liability.

There are not any significant transfers between Level 1 and Level 2 of the fair value hierarchy.

According to these classification principles stated, the Company's classification of financial assets and liabilities carried at their fair value and carried at amortized cost but for which fair values are disclosed are as follows:

December 31, 2015

	Level 1	Level 2	Level 3
Derivative financial assets held for trading	-	2,288	-
Derivative financial assets held for hedging	-	4,370	-
Finance lease receivables	-	3,918,192	-
Total assets	-	3,924,850	-

Derivative financial liabilities held for trading	-	32,697	-
Derivative financial liabilities held for hedging	-	23,879	-
Borrowings	-	2,259,896	-
Debt securities issued	-	1,101,948	-
Total liabilities	-	3,418,420	-

December 31, 2014

	Level 1	Level 2	Level 3
Derivative financial assets held for trading	-	4,427	-
Derivative financial assets held for hedging	-	3,210	-
Finance lease receivables	-	3,725,358	-
Total assets	-	3,732,995	-

Derivative financial liabilities held for trading	-	11,846	-
Derivative financial liabilities held for hedging	-	337	-
Borrowings	-	2,044,251	-
Debt securities issued	-	953,159	-
Total liabilities	-	3,009,593	-

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

f. Capital risk management

In accordance with Article 12 of the "Regulation on Establishment and Operation Principles of Financial leasing, Factoring and Financing Companies" published in the Official Gazette dated December 24, 2013, the Company is required to keep its equity in accordance with the standard set out in the regulation. The Company complies with this requirement as of December 31, 2015 and 2014.

NOTE 4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Critical accounting estimates and assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of finance lease receivables

A credit risk provision for impairment of the investment in finance leases and accounts receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The estimates used in evaluating the adequacy of the provision for impairment of finance lease receivables are based on the aging of these receivable balances and the trend of collection performance. (Note 6)

Deferred taxation

Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by Management and extrapolated results thereafter. The business plan is based on Management expectations that are believed to be reasonable under the circumstances.

NOTE 5 – DUE FROM BANKS

	December 31, 2015			December 31, 2014		
	Foreign currency	TL	Total	Foreign currency	TL	Total
Due from banks						
-demand deposits	20,080	3,594	23,674	11,436	4,017	15,453
-time deposits	298,511	83,100	381,611	85,613	31,629	117,242
Total due from banks	318,591	86,694	405,285	97,049	35,646	132,695

For the purposes of cash flow statements, cash and cash equivalents comprise TL 404,863 and TL 132,511 at December 31, 2015 and 2014, respectively.

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

NOTE 6 - FINANCE LEASE RECEIVABLES, NET

	December 31, 2015	December 31, 2014
Gross finance lease receivables	4,542,385	4,402,741
Unearned finance income	(729,128)	(755,799)
	3,813,257	3,646,942
Invoiced lease receivables	33,300	18,332
Impaired lease receivables	114,268	82,287
Provision for impaired lease receivables	(81,258)	(63,790)
	3,879,567	3,683,771
Equipments to be leased	65,010	44,635
Advances to vendors	89,283	71,660
Net finance lease receivables	4,033,860	3,800,066

At 31 December 2015 and 2014 the finance lease receivables according to their interest type are as follows:

Gross finance lease receivables:	December 31, 2015	December 31, 2014
Fixed rate	2,970,089	3,034,561
Floating rate	1,572,296	1,368,180
	4,542,385	4,402,741

At 31 December 2015 and 2014 the leasing receivables have the following collection schedules:

Year Ending	Finance Lease Receivables	
	Gross December 31, 2015	Net performing December 31, 2015
31 December 2016	1,294,603	1,060,962
31 December 2017	1,019,747	832,075
31 December 2018	784,339	656,898
31 December 2019	550,798	468,864
31 December 2020 and after	892,898	794,458
	4,542,385	3,813,257

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

NOTE 6 - FINANCE LEASE RECEIVABLES, NET (Continued)

Year Ending	Finance Lease Receivables	
	Gross December 31, 2014	Net performing December 31, 2014
31 December 2015	1,152,906	930,472
31 December 2016	951,690	763,515
31 December 2017	720,227	589,226
31 December 2018	557,480	468,697
31 December 2019 and after	1,020,438	895,032
	4,402,741	3,646,942

Finance lease receivables can be analyzed as follows:

Year Ending	December 31, 2015	December 31, 2014
Neither past due nor impaired	3,813,257	3,646,942
Past due but not impaired	33,300	18,332
Impaired	114,268	82,287
Gross	3,960,825	3,747,561
Less: allowances for impairment	(81,258)	(63,790)
Net finance lease receivables	3,879,567	3,683,771

The total impairment provision for finance lease receivables at December 31, 2015 is TL 81,258 (2014 – TL 63,790) of which TL 63,928 (2014 – TL 51,805) represents the individually impaired loans and of which TL 17,330 (2014 – TL 11,985) represents the portfolio provision in the performing portfolio.

The Company obtains transfer of rights of receivables, mortgages, pledged securities, blocked deposits and guarantee letters as collateral from its customers. Collaterals repossessed by the Company are transferred to assets held for sale (Note 10), to be converted into cash by selling the related assets.

Collateral in the form of mortgages on property amounting to TL 61,963 (December 31, 2014: TL 25,092) has been obtained for impaired finance lease receivables amounting to TL 114,268 (December 31, 2014 – TL 82,287).

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

NOTE 6 - FINANCE LEASE RECEIVABLES, NET (Continued)

The aging of past due but not impaired finance lease receivables as at 31 December 2015 and 2014 are as follows:

	December 31, 2015		December 31, 2014	
	Invoiced Amount	Remaining Principal Amount	Invoiced Amount	Remaining Principal Amount
0-30 days	9,741	150,787	8,821	312,669
30-60 days	1,632	16,477	807	25,454
60 -150 days	21,927	161,327	8,704	79,665
	33,300	328,591	18,332	417,788

Movements in provision for impaired finance lease receivables for the years ended 31 December 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
At 1 January	63,790	49,116
Impairment expense during the year	21,715	19,862
Recoveries of amounts previously provided for	(4,247)	(5,188)
At 31 December	81,258	63,790

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 6 - FINANCE LEASE RECEIVABLES, NET (Continued)

Economic sector risk concentrations for the gross finance lease receivables as of 31 December 2015 and 2014 are as follows:

	December 31, 2015	%	December 31, 2014	%
Transportation	628,812	14	594,694	14
Construction	568,909	13	620,320	14
Steel and mining	459,075	10	312,251	7
Textile	420,622	9	483,192	11
Food and beverage	383,837	8	321,004	7
Health	342,774	8	289,537	7
Tourism	298,595	7	274,114	6
Energy and natural sources	222,582	5	237,254	5
Production	206,715	5	346,548	8
Wholesale and retail trade	190,294	4	88,523	2
Automotive	120,828	3	127,511	3
Agriculture	113,637	3	125,464	3
Financial institutions	93,877	2	133,218	3
Chemistry	52,877	1	40,498	1
Petroleum and chemistry	41,704	1	51,958	1
Technology, telecommunication, media and entertainment	40,039	1	48,584	1
Printing	30,351	1	24,185	1
Education	14,383	-	14,701	-
Other	312,474	5	269,185	6
	4,542,385	100	4,402,741	100

Minimum financial lease receivables consist of rentals receivable over the terms of leases. As per the lease agreements made with lessees, the ownership of the items leased is transferred to the lessees at the end of the lease term.

Depending on the customers' inability to repay its obligations arising from financial leases or other similar economic factors, the Company may cancel some of the lease contracts signed with its customers. These related assets may be re-leased to the same customer or to the other customers or; may be sold to the third parties, depending upon circumstances.

The Company has no finance lease payables as at 31 December 2015 and 2014.

As of 31 December 2015, the restructured lease receivables amounted to TL 3,839 (2014 – TL 2,603).

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

	Contract/notional amount	Fair values	
		Assets	Liabilities
December 31, 2015			
Derivatives held for trading:			
Foreign exchange derivatives	659,783	2,288	32,697
Forward and currency swap transactions	518,724	2,189	32,406
Interest rate derivatives			
Interest rate swap transactions	141,059	99	291
Derivatives held for hedging:	709,329	4,370	23,879
<i>Derivatives designated as fair value hedges:</i>			
Cross currency swap transactions	260,006	527	22,447
Interest rate swap transactions	86,666	47	-
<i>Derivatives designated as cash flow hedges:</i>			
Cross currency swap transactions	311,849	3,796	1,249
Interest rate swap transactions	50,808	-	183
Total Over the Counter ("OTC")	1,369,112	6,658	56,576
December 31, 2014			
Derivatives held for trading:			
Foreign exchange derivatives	755,697	4,427	11,846
Forward and currency swap transactions	575,822	4,305	11,232
Interest rate derivatives			
Interest rate swap transactions	179,875	122	614
Derivatives held for hedging	215,455	3,210	337
<i>Derivatives designated as fair value hedges:</i>			
Cross currency swap transactions	215,455	3,210	337
Total Over the Counter ("OTC")	971,152	7,637	12,183

Derivative financial instruments are further analyzed as a part of the balance sheet in the notes: commitments and contingent liabilities (Note 21) and financial risk management (Note 3).

As at 31 December 2015 derivative financial instruments held for hedging are summarized below:

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Information regarding fair value hedge accounting:

The Company has entered into fair value hedge transaction in order to hedge fair risk of its fixed rate issued debt securities with its cross currency swaps. Fair value change of hedged item is TL (448) (December 31, 2014: TL (275)).

Within the subject of currency risk management, the Company has decided to implement fair value hedge strategy in order to take protection via USD buy-leg of cross-currency swap transaction against the fair value risk that might occur due to the change in USD/TL currency rate on USD financial lease receivables Cumulative fair value change of financial lease receivables which is the hedged item is TL 3.363 from the beginning of hedge (December 31, 2014: TL (1,024)).

Fixed rate financial leasing transaction of the Company is entreated to accounting hedge with interest swap transaction against fair value changes sourcing from changes in market interest rates. Fair value change of fixed rate financial leasing transaction which is the hedged item is TL (93) following the beginning of accounting hedge (December 31, 2014: None).

Information regarding cash flow hedge:

Within the subject of interest rate and currency risk management, the Company has decided to implement cash flow hedge strategy in order to take protection via cross-currency swap transaction against the cash flow risk that might occur due to both change in market interest rates and currency rates for foreign currency borrowings. Cumulative gain/(loss) recognized under other comprehensive income since the beginning of hedge amounts to TL (1.830) (December 31, 2014: None).

Within the subject of interest rate and currency risk management, the Company has decided to implement cash flow hedge strategy in order to take protection via cross-currency swap transaction against the cash flow risk that might occur due to both change in market interest rates and currency rates for issued Eurobond; at the same time, change in currency rates onto financial lease receivables these are booked under assets. Cumulative gain/(loss) recognized under other comprehensive income since the beginning of hedge amounts to TL 478 (December 31, 2014: None).

Floating rate foreign currency borrowings of the Company is subject to hedge accounting by interest swap transaction against cash flow changes sourcing from changes in market interest rates. Cumulative gain/(loss) recognized under other comprehensive income from the beginning of hedge amounts to TL76 (December 31, 2014: None).

AK FİNANSAL KİRALAMA A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015**

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

All hedges have been found to be effective as of December 31, 2015.

During 2015, the Company discontinued fair value hedge accounting for debt securities with cross-currency swap against the fair value changes sourcing from changes in market interest rates. As of December 31, 2015 unamortized portion of fair value adjustments on the hedged item is TL 616 (December 31, 2014: None).

NOTE 8 - OTHER ASSETS AND PREPAID EXPENSES

	31 December 2015	31 December 2014
Prepaid expenses	734	818
Insurance, notary and other receivables	13,194	11,938
Deferred VAT	11,747	-
Other	1,166	1,127
	26,841	13,883

NOTE 9 - PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS**Property and equipment:**

	1 January 2015	Additions	Disposals	Transfer	31 December 2015
<u>Cost</u>					
Land improvements	-	-	-	-	-
Furniture and fixtures	498	15	-	-	513
Leasehold improvements	727	-	-	-	727
Office equipment and motor vehicles	499	116	(26)	-	589
	1,724	131	(26)	-	1,829
<u>Accumulated depreciation</u>					
Land improvements	-	-	-	-	-
Furniture and fixtures	275	96	-	-	371
Leasehold improvements	419	146	-	-	565
Office equipment and motor vehicles	274	100	(19)	-	355
	968	342	(19)	-	1,291
Net book value	756	(211)	(7)	-	538

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 9 - PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

	1 January 2014	Additions	Disposals	Transfer	31 December 2014
<u>Cost</u>					
Land improvements	257	-	(257)	-	-
Furniture and fixtures	467	31	-	-	498
Leasehold improvements	664	63	-	-	727
Office equipment and motor vehicles	620	64	(185)	-	499
	2,008	158	(442)	-	1,724
<u>Accumulated depreciation</u>					
Land improvements	12	-	(12)	-	-
Furniture and fixtures	183	92	-	-	275
Leasehold improvements	279	140	-	-	419
Office equipment and motor vehicles	369	80	(175)	-	274
	843	312	(187)	-	968
Net book value	1,165	(154)	(255)	-	756

Intangible assets

	1 January 2015	Additions	Disposals	31 December 2015
<u>Cost</u>				
Rights	1,797	424	-	2,221
	1,797	424	-	2,221
<u>Accumulated amortization</u>				
Rights	1,252	371	-	1,623
	1,252	371	-	1,623
Net book value	545	53	-	598

AK FİNANSAL KİRALAMA A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015**

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

NOTE 9 - PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

	1 January 2014	Additions	Disposals	31 December 2014
Cost				
Rights	1,396	401	-	1,797
	1,396	401	-	1,797
Accumulated amortization				
Rights	823	429	-	1,252
	823	429	-	1,252
Net book value	573	(28)	-	545

NOTE 10 - ASSETS HELD FOR SALE

	31 December 2015	31 December 2014
Foreclosure assets	329	358
	329	358

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 11 - BORROWINGS

	December 31, 2015			December 31, 2014		
	Interest rates per annum (%)	Balance in original currency	TL	Interest rates per annum (%)	Balance in original currency	TL
Domestic borrowings						
Fixed rate borrowings:						
EUR	2.78	67,670	201,806	3.22	87,226	246,037
US\$	4.28	18,044	52,463	4.12	37,949	87,999
TL	10.63	456,414	456,414	10.42	482,555	482,555
Floating rate borrowings:						
EUR	2.51	32,593	97,199	2.68	27,486	77,529
US\$	2.15	112,144	326,071	2.72	29,363	68,089
Total domestic borrowing			1,133,953			962,209
Foreign borrowings						
Fixed rate borrowings:						
EUR	3.30	141,249	421,262	3.65	133,690	377,099
US\$	2.50	21,568	58,180	2.79	26,447	61,330
TL	-	-	-	10.67	43,317	43,317
Floating rate borrowings:						
EUR	1.76	175,471	523,289	2.08	152,979	431,507
US\$	2.39	103,937	279,207	2.09	147,004	340,889
Total foreign borrowings			1,281,938			1,254,142
Total borrowings			2,415,891			2,216,351
				31 December 2015	31 December 2014	
Short Term Borrowings				1,062,554	729,557	
Long Term Borrowings				1,353,337	1,486,794	
				2,415,891	2,216,351	

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 12 –DEBT SECURITIES ISSUED

	31 December 2015	31 December 2014
Debt securities issued (*)	205,220	136,073
Eurobond (**)	977,198	915,014
	1,182,418	1,051,087

(*) As of December 31, 2015 debt securities issued comprise discount bonds at nominal amounts of 65.000TRY issued on August 18, 2014, 107.174. TRY issued on March 13, 2015, 14.130. TRY issued on 30 June 2015, and 26.000. TRY issued on 6 October 2015 and the maturities of the aforementioned bonds are August 15, 2016, May 13, 2016, August 1, 2016 and April 1 2016 respectively.

(**) The Company issued a Eurobond amounting to nominal USD 250 million on April 17, 2013 with the maturity date of April 17, 2018.

The Company established Global Medium Term Note Programme providing opportunity for making export in different currencies on 23 December 2013. 26 export transactions were made under the programme as of 31 December 2015 having balances of HUF 700 million, CZK 625 million and USD 55.6 million (nominal amounts of balances were HUF 700 million, CZK 275 million and USD 128.6 million as of 31 December 2014).

NOTE 13 - ACCOUNTS PAYABLE AND ADVANCES RECEIVED

Accounts payable comprise mainly amounts due to suppliers in relation to assets purchased to be leased under finance lease agreements. Accounts payable with respect to new financial leasing agreements at 31 December 2015 amount to TL 91,680 (2014 – TL 87,198).

Advances received are related with the amounts received from customers regarding the financial leasing agreements. Advances received with respect to new financial leasing agreements at 31 December 2015 amount to TL 22,654 (2014 – TL 19,170).

NOTE 14 - OTHER LIABILITIES

	31 December 2015	31 December 2014
Accrual for personnel performance bonus	1,500	1,200
Withholding taxes and duties payable	627	13,259
Provision for lawsuit	457	325
Other	25	80
	2,609	14,864

NOTE 15 - EMPLOYMENT BENEFITS

	31 December 2015	31 December 2014
Provision for unused vacation	928	610
Reserve for employment termination benefits	650	554
	1,578	1,164

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 15 - EMPLOYMENT BENEFITS (Continued)

Under the Turkish Labor Law, the Company is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL 3,828.37 (31 December 2014 – TL 3,438.22) (in full "TL" amount) for each year of service.

The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of its employees.

IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability as at 31 December 2015 and 2014:

	December 31, 2015	December 31, 2014
Discount rate (%)	3.62	3.62
Turnover rate to estimate the probability of retirement (%)	92.50	92.50

The principal assumption is that the maximum liability for each year service will increase in line with inflation. As the maximum liability is revised semi-annually the maximum amount of TL 4,092.53 (in full "TL" amount) which is effective as of January 1, 2016 has been taken into consideration in calculating the provision for employment termination benefits of the Company (TL 3,438.22 (in full "TL" amount) which was effective from 1 January 2015 as of 31 December 2014).

Movement of the reserve for employment termination benefits for the year is as follows:

	31 December 2015	31 December 2014
At 1 January	554	403
Paid during the year	(382)	(97)
Increase during the year	478	248
At 31 December	650	554

NOTE 16 - TAXATION

	31 December 2015	31 December 2014
Current tax charge	(33,117)	(10,344)
Deferred tax charge	9,712	(9,739)
	(23,405)	(20,083)

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 16 - TAXATION (Continued)

Corporate Tax Law numbered 5422 was altered by Law No.5520 on 13 June 2006 which is published at the Official Gazette numbered 26205 and dated 21 June 2006 and many of its articles have become effective retrospectively starting from 1 January 2006. Corporation tax rate in Turkey starting from 1 January 2006 is 20%. Corporation tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption and investment allowance, etc) and corporate income tax deductions (like research and development expenditures deduction). No further tax is payable unless the profit is distributed (except withholding tax at the rate of 19.8% on an investment incentive allowance utilized within the scope of Income Tax Law transitional article 61).

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 at the rate of 20% 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 offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

Income tax

	31 December 2015	31 December 2014
Income taxes currently payable	33,117	10,344
Prepaid taxes	(28,534)	(6,151)
Income taxes payable / (asset)	4,583	4,193

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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NOTE 16 - TAXATION (Continued)

Reconciliation of current year tax expense and calculated theoretical tax expense with statutory tax rate by the Company:

	December 31, 2015	December 31, 2014
Profit before taxes	118,229	100,187
Theoretical tax expense with 20% tax rate	(23,646)	(20,037)
Non-deductible expenses and others	241	(46)
Current year tax (expense)	(23,405)	(20,083)

Deferred taxes:

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 asset and deferred tax liability have been netted of in these financial statements.

The breakdown of deductible and taxable temporary differences is as follows:

	Cumulative timing differences		Deferred assets / (liabilities)	
	2015	2014	2015	2014
Provision for leasing receivables	16,061	6,232	3,212	1,246
Valuation of derivative financial instruments	56,576	12,183	11,315	2,437
Provision for personnel bonus	1,500	1,200	300	240
Provision for unused vacation	928	610	186	122
Provision for employment termination benefits	650	554	130	111
Fair value differences of hedged items, net	-	1,299	-	260
Provision for legal proceedings	457	324	91	65
Total	76,172	22,402	15,234	4,481
Finance Lease Accruals	(39,774)	(35,018)	(7,955)	(7,004)
Valuation of derivative financial instruments	(6,658)	(7,637)	(1,332)	(1,527)
Fair value differences of hedged items, net	(2,822)	-	(564)	-
Valuation of financial liabilities	(599)	(542)	(120)	(108)
Other	(420)	(598)	(84)	(120)
Total	(50,273)	(43,795)	(10,055)	(8,759)
Net	25,899	(21,393)	5,179	(4,278)

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NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 17 - SHARE CAPITAL

At 31 December 2015 the Company's authorized share capital consists of TL 24,840,000,000 shares with a par value of Kr 1 each (2014 – TL 18,840,000,000 shares with a par value of Kr 1 each). There is no privilege assigned to shares.

At 31 December 2015 and 2014, the share capital is as follows:

	31 December 2015		31 December 2014	
	Shares (%)	TL	Shares (%)	TL
Akbank T.A.Ş	99,985	248,363	99,985	188,372
Hacı Ömer Sabancı Holding A.Ş.	0,005	12	0,005	9
Tursa Sabancı Turizm ve Yatırım Hizm A.Ş.	0,005	12	0,005	9
Bimsa Bilgi İşlem A.Ş.	0,003	9	0,003	7
Ak Yatırım Menkul Değerler A.Ş.	0,002	4	0,002	3
	100.00	248,400	100.00	188,400
Adjustment to share capital		(13,393)		(13,393)
		235,007		175,007

In the General Assembly meeting held on April 9, 2015, the Company increased its share capital by cash amounting to TL 60,000. This General Assembly resolution was registered by Istanbul Trade Registry on April 10, 2015 and announced in the Trade Registry Gazette of Turkey on April 16, 2015.

NOTE 18 - RETAINED EARNINGS AND LEGAL RESERVES

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

At 31 December 2015 and 2014 reserves held by the Company in the statutory financial statements which were adjusted for the effects of inflation in accordance with tax law is as follows:

	31 December 2015	31 December 2014
Legal reserves	33,534	30,948

Inflation adjustment to shareholders' equity can only be netted-off against prior years' losses and used as an internal source in capital increase whereas extraordinary reserves can be netted-off against prior years' losses, used in distribution of bonus shares and distributions of dividends to shareholders.

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 19 - OPERATING EXPENSES

	December 31, 2015	December 31, 2014
Staff costs	14,163	11,289
Legal proceedings and lawyer expense	2,506	1,291
Rent expenses	1,047	956
Office management expenses	825	681
Depreciation and amortization expense (Note 9)	713	741
Audit and consultancy expenses	478	342
Taxes and duties other than on income	184	326
Communication expenses	145	148
Travel expenses	70	128
Advertisement expenses	22	124
Other	2,643	1,465
	22,796	17,491

NOTE 20 - TRANSACTIONS AND BALANCES WITH 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. A number of transactions were entered into with related parties in the normal course of business.

a) Balances with related parties

Assets

	December 31, 2015	December 31, 2014
Due from banks		
Akbank T.A.Ş. (Shareholder)	391,576	62,795
	391,576	62,795
Net finance lease receivables – (Leasing transaction)		
<i>Shareholder</i>		
Akbank T.A.Ş.	86,410	114,304
<i>Other related parties</i>		
CarrefourSA Carrefour Sabancı Ticaret Merkezi A.Ş.	93,645	-
Bimsa Uls. Bilgi Ve Yönetim Sist. A.Ş.	4,347	5,890
	184,402	120,194

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 20 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Liabilities

Borrowings

	December 31, 2015	December 31, 2014
Akbank T.A.Ş. (Shareholder)	616,735	546,893
Akbank A.G.	80,075	71,106
	696,810	617,999

Trade payables

	December 31, 2015	December 31, 2014
Akbank T.A.Ş. (Shareholder)	-	8
<i>Other related parties:</i>		
Bimsa Uls. Bilgi ve Yönetim Sist. A.Ş.	3	3,259
Brisa Bridgestone Sabancı Lastik Sanayi ve Tic. A.Ş.	17	17
Akçansa Çimento Sanayi ve Ticaret A.Ş.	77	77
Ak Sigorta A.Ş.	6,955	7,786
	7,052	11,147

b) Transactions with related parties

Interest income from direct finance leases

	December 31, 2015	December 31, 2014
<i>Shareholder</i>		
Akbank T.A.Ş.	10,033	10,312
<i>Other related parties</i>		
Bimsa Uls. Bilgi Ve Yönetim Sist. A.Ş.	766	875
CarrefourSA Carrefour Sabancı Ticaret Merkezi A.Ş.	351	-
	11,150	11,187

Interest income on bank deposits

Akbank T.A.Ş. (Shareholder)	10,567	8,455
	10,567	8,455

AK FİNANSAL KİRALAMA A.Ş.**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015**

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

NOTE 20 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	December 31, 2015	December 31, 2014
Commission income		
Akbank T.A.Ş. (Shareholder)	15	79
Ak Sigorta A.Ş. (Other related parties)	1,937	1,899
Other	-	10
	1,952	1,988
Commission expense		
Akbank T.A.Ş. (Shareholder)	508	652
Ak Yatırım Menkul Değerler A.Ş.(other related parties)	781	113
	1.289	765
Interest expense on borrowings		
Akbank T.A.Ş. (Shareholder)	49,524	43,337
Akbank A.G. (Other related parties)	3,019	2,022
	52,543	45,359
Personnel expense		
Akbank T.A.Ş. (Shareholder)	93	89
	93	89
Rent and service expenses (operating expenses)		
Hacı Ömer Sabancı Holding A.Ş. (Shareholder)	980	874
Akbank T.A.Ş. (Shareholder)	182	186
	1,162	1,060
Gain on derivative instruments		
Akbank T.A.Ş. (Shareholder)	38,335	27,022
	38,335	27,022
Losses on derivative instruments		
Akbank T.A.Ş. (Shareholder)	60,232	6,378
	60,232	6,378
Remuneration of top management		
Remuneration of top management	2,260	1,850

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 20 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Contingent liabilities

Guarantee letters obtained from

Akbank T.A.Ş. (Shareholder)	195,992	185,711
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Letter of credit obtained from

Akbank T.A.Ş. (Shareholder)	-	11,779
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Finance lease commitments

Akbank T.A.Ş. (Shareholder)	21,603	4,753
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	Contract/notional amount	Fair values Assets	Liabilities
December 31, 2015			
<i>Derivative financial instruments held for trading:</i>			
Forward transaction			
Akbank T.A.Ş. (Shareholder)	-	-	-
Interest rate swap transactions			
Akbank T.A.Ş. (Shareholder)	62,620	-	(268)
Currency swap transactions			
Akbank T.A.Ş. (Shareholder)	113,817	-	(8,060)
<i>Derivative financial instruments held for fair value hedges:</i>			
Cross currency swap transaction			
Akbank T.A.Ş. (Shareholder)	245,570	-	(22,448)
<i>Derivative financial instruments held for cash flow hedges:</i>			
Cross currency swap transaction			
Akbank T.A.Ş. (Shareholder)	85,179	1,861	-
Total	507,186	1,861	(30,776)

	Contract/notional Amount	Fair values Assets	Liabilities
December 31, 2014			
<i>Derivative financial instruments held for trading:</i>			
Forward transaction			
Akbank T.A.Ş. (Shareholder)	20,934	49	-
Interest rate swap transactions			
Akbank T.A.Ş. (Shareholder)	76,413	2	596
Currency swap transactions			
Akbank T.A.Ş. (Shareholder)	212,624	1,710	70
<i>Derivative financial instruments held for fair value hedges:</i>			
Cross currency swap transaction			
Akbank T.A.Ş. (Shareholder)	202,843	2,805	337
Total	512,814	4,566	1,003

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 21 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of activities, the Company 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 at December, 31 2015 and 2014.

Legal Proceedings

The Company has provided for a total provision of TL 457 against certain open legal cases as of December 31, 2015 (December 31, 2014: TL 325).

Commitments under derivative instruments

	31 December 2015		31 December 2014	
	Nominal Original amount	Nominal TL	Nominal Original amount	Nominal TL
Forward and Swap Purchase Transactions				
USD	95,737	278,364	99,190	230,011
EURO	10,972	34,864	5,838	16,468
TL	271,348	271,348	203,715	203,715
CZK	625,000	73,538	275,000	27,995
HUF	700,000	7,112	700,000	6,272
Total Purchase		665,226		484,461
Forward and Swap Sale Transactions				
USD	44,132	235,375	69,652	161,516
EURO	124,919	426,946	106,157	299,438
TL	18,000	41,565	25,737	25,737
Total Sales		703,886		486,691
Grand Total		1,369,112		971,152

Guarantees given

The Company has given letter of credit and guarantee amounting to TL 380,878 (2014 – TL 365,651) to courts, customs, banks for Hermes covered loans; this amount also covers the aircrafts mortgaged to US Exim and EDC on asset based structured finance transactions. The guarantees given for Hermes covered loans is TL 193,263 (2014 – TL 184,766) and the amount of aircrafts mortgaged is amounting to TL 184,457 (2014 – TL 178,125). The Company has letters of credit in the amount of TL 48,869 (2014 – TL 50,786) and finance lease commitments in the amount of TL 229,824 (2014 – TL 98,873) for the leased asset imports.

Contingent liabilities

With the temporary article 69 added to the Income Tax Code by the Code 5479, a regulation was introduced stating that the investment allowance amounts calculated within the scope of investment expenses realized until the date 31 December 2005 can be deducted from 2006, 2007 and 2008 earnings only. Therefore, investment allowance right not used as at 31 December 2008 were not to be transferred to and utilized in following years.

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2015

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

NOTE 21 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Because of the fact that retrospective rights of the Company had been cancelled with temporary article 69, the Company filed the first advance tax return of 2009 through reservation by claiming that they should be allowed to benefit from investment incentive allowance, and initiated a tax case at tax court within this scope. On 30 March 2011, Republic of Turkey Istanbul 2nd Tax Court ruled (with reference to the Constitutional Court decision mentioned below) that the investment incentive allowance, which the Company could not use within 2008 due to their insufficient profit, can be transferred to the following years and used within the scope of deduction, and the tax amount levied by rejecting the mentioned declaration through reservation is not in compliance with the laws. Furthermore, according to the decision of Istanbul Tax Court dated on 30 November 2012 related to 2009 second advance tax, litigation process finalized in favor of the Company and the Company requested refund of 2009 second advance tax from Tax Office.

With the decision numbered 2006/95 E and 2009/144 K; and dated 15 October 2009 of the Constitutional Court promulgated in the Official Gazette dated 8 January 2011, the time limitation was repealed with regard to the investment incentive allowances which have been already granted.

In 2009 third and fourth advance tax returns and 2009 annual corporate tax return, the Company benefited from investment incentive allowance practice.

In tax inspection reports issued within the scope of tax inspection conducted at the Company within 2010, it is explained that the Decision of Constitutional Court became effective upon being promulgated in the Official Gazette dated 8 January 2010; therefore, investment incentive allowance cannot be utilized in 2009 third and fourth advance tax returns and 2009 annual corporate tax return.

The Company requested a settlement for the principal tax and tax penalties communicated to the Company; however, a settlement could not be arranged as of October 30, 2014. In response, the Company filed a lawsuit in the Tax Court on November 7, 2014 for the corresponding case.

The Company management foresees that; considering the related annulment decision of the Constitutional Court, decision of Istanbul Tax Office taken with regard to 2009 first and second advance tax period of the Company and the decision of the Constitutional Court dated 9 February 2012 and numbered E:2011/93, K. 2012/20 which was published on the Official Gazette on 18 February 2012, if litigation is initiated against the tax penalty notifications issued with regard to the year 2009, the litigation process will be finalized in favor of the Company. Accordingly, no provision has been recorded into the financial statements as of 31 December 2015 and 2014 related to the abovementioned tax issue.

NOTE 22 - SUBSEQUENT EVENTS

None.