AK FİNANSAL KİRALAMA A.Ş.

CONDENSED INTERIM FINANCIAL STATEMENTS AS OF 30 JUNE 2017 TOGETHER WITH INDEPENDENT AUDITOR'S REVIEW REPORT

REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

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

Introduction

1. We have reviewed the accompanying condensed interim statement of financial position of Ak Finansal Kiralama A.Ş. (the "Company") as of 30 June 2017 and the related condensed interim statements of comprehensive income, changes in equity and cash flows for six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

2. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34.

PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
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Other matter

4. The financial statements of the Company as of 31 December 2016 and for the year then ended were audited; and condensed interim financial information as of 30 June 2016 and for the six-month period then ended was reviewed by another audit firm whose audit report, dated 28 April 2017, expressed an unqualified opinion and whose review report, dated 25 August 2016, expressed a conclusion that no material non-compliance with respect to IAS 34 has come to their attention.

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

Talar Gül, SMMM
Partner

Istanbul, 23 August 2017

AK FİNANSAL KİRALAMA A.Ş.

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CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2017

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

ASSETS	Notes	30 June 2017	31 December 2016
Cash and cash equivalents	6	423,964	280,450
Finance lease receivables	7	5,464,643	5,006,565
Other assets and prepaid expenses		27,428	33,045
Derivative financial instruments	10	12,183	22,624
Assets held for sale		45,920	31,845
Property and equipment, net		369	455
Intangible assets, net		2,131	1,735
Deferred tax asset, net	11	16,270	12,225
Total assets		**5,992,908**	**5,388,944**
LIABILITIES			
Borrowings	8	2,930,175	2,696,115
Debt securities	9	1,760,713	1,627,584
Accounts payable		278,187	112,389
Advances from customers		43,667	22,116
Derivative financial instruments	10	114,014	107,477
Other liabilities		2,821	3,142
Income tax liability	11	6,910	14,627
Employment benefits		1,668	1,500
Total liabilities		**5,138,155**	**4,584,950**
EQUITY			
Share capital	12	248,400	248,400
Adjustment to share capital	12	(13,393)	(13,393)
Total paid-in share capital	12	235,007	235,007
Legal reserves		50,080	41,813
Hedge reserves		192	(5)
Retained earnings		518,912	423,458
Net profit for the period	15	50,562	103,721
Total equity		**854,753**	**803,994**
Total liabilities and equity		**5,992,908**	**5,388,944**

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

AK FİNANSAL KİRALAMA A.Ş.

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

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

	Notes	30 June 2017	30 June 2016
Interest Income			
Interest income from finance leases		192,847	156,095
Interest income on placements and transactions with banks		10,127	14,045
Total interest income		**202,974**	**170,140**
Interest Expense			
Interest expense on borrowings (-)		(62,738)	(60,255)
Interest expense on debt securities (-)		(61,529)	(30,086)
Total interest expense (-)		**(124,267)**	**(90,341)**
Net interest income		**78,707**	**79,799**
Foreign exchange gains/(losses), including net gains/(losses) from dealing in foreign currency		45,338	(7,560)
Net interest income after foreign exchange gains or losses		**124,045**	**72,239**
Net trading, hedging and fair value (loss)/income		(16,841)	20,549
Fee and commission income, net		1,378	4,524
Impairment loss on finance lease receivables (-)	7	(41,695)	(12,438)
Recoveries from impaired lease receivables	7	8,865	5,894
Other income, net		1,297	1,193
Operating expenses (-)		(13,850)	(12,033)
Net operating profit		**63,199**	**79,928**
Income before tax		**63,199**	**79,928**
Taxation on income (-)	11	(12,637)	(16,143)
Net profit for the period		**50,562**	**63,785**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Cash flow hedge (Effective portion of changes in fair value)		246	(2,776)
Tax on cash flow hedge		(49)	555
Net other comprehensive income/(expense) for the period		**197**	**(2,221)**
Total comprehensive income for the period, net of tax		**50,759**	**61,564**
Basic earnings per share (full TL)	15	0.0020	0.0026
Diluted earnings per share (full TL)		0.0020	0.0026
Basic and diluted earnings per share from continuing operations (full TL)		0.0020	0.0026

The accompanying policies and explanatory notes are an integral part of these condensed financial statements.

AK FİNANSAL KİRALAMA A.Ş.

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 3O JUNE 2017

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

	Paid in share capital						
	Share capital	**Adjustment to share capital**	**Total paid-in share capital**	**Legal reserves**	**Hedge reserves**	**Retained earnings**	**Total Equity**
Balance at 1 January 2016	**248,400**	**(13,393)**	**235,007**	**33,534**	**1,021**	**431,737**	**701,299**
Transfers	-	-	-	8,279	-	(8,279)	-
Total comprehensive income	-	-	-	-	(2,221)	63,785	61,564
- Net income for the period	-	-	-	-	-	63,785	63,785
-Other comprehensive loss, net of tax (-)	-	-	-	-	(2,221)	-	(2,221)
Balance at 30 June 2016	**248,400**	**(13,393)**	**235,007**	**41,813**	**(1,200)**	**487,243**	**762,863**
Balance at 1 January 2017	**248,400**	**(13,393)**	**235,007**	**41,813**	**(5)**	**527,179**	**803,994**
Transfers	-	-	-	8,267	-	(8,267)	-
Total comprehensive income	-	-	-	-	197	50,562	50,759
- Net income for the period	-	-	-	-	-	50,562	50,562
-Other comprehensive income, net of tax	-	-	-	-	197	-	197
Balance at 30 June 2017	**248,400**	**(13,393)**	**235,007**	**50,080**	**192**	**569,474**	**854,753**

The accompanying policies and explanatory notes are an integral part of these condensed financial statements.

CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

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

	Notes	30 June 2017	30 June 2016
Cash flows from operating activities			
Net income for the period	15	50,562	63,785
Adjustments for:			
Depreciation and amortization		541	422
Remeasurement of derivative financial instruments at fair value		16,978	(27,158)
Provision for employment termination benefits		109	589
Provision for unused vacation		88	-
Provision for legal proceedings		(139)	-
Provision for personnel performance bonus		205	682
Provision for impaired receivables	7	41,695	12,438
Deferred tax charge	11	(4,094)	(4,797)
Corporate tax charge	11	16,731	(11,346)
Interest income, net		(78,707)	(79,799)
Interest paid (-)		(108,805)	(90,341)
Interest received		187,860	168,850
Unrealized foreign currency losses		100,433	33,450
Cash flows from operating profit before changes in operating assets and liabilities		**223,457**	**66,775**
Changes in operating assets and liabilities			
Net increase in finance lease receivables (-)		(484,659)	(166,268)
Net decrease in other assets and prepaid expenses		(8,458)	5,513
Personnel performance bonus paid (-)		(900)	(970)
Employment termination benefits paid (-)		(30)	(100)
Taxes paid		(24,448)	(7,910)
Net increase in accounts payables		165,798	41,488
Net decrease in other liabilities (-)		(755)	(21,990)
Other changes in operating assets and liabilities		21,551	(19,009)
Net cash used in operating activities (-)		**(108,444)**	**(102,471)**
Cash flows from investing activities			
(Purchase)/sale of property and equipment and intangibles		(852)	782
Net cash (used in)/provided by investing activities		**(852)**	**782**
Cash flows from financing activities			
Proceeds from debt securities issued		743,725	54,022
Repayments of debt securities issued		(620,511)	-
Proceeds from borrowings		657,010	-
Repayments of borrowings		(538,361)	-
Net cash provided by financing activities		**241,863**	**54,022**
Net increase/(decrease) in cash and cash equivalents		132,567	(47,667)
Effect of foreign exchange rate changes on cash and cash equivalents		9,438	847
Cash and cash equivalents at the beginning of the period		280,450	405,285
Cash and cash equivalents at the end of the period		**422,455**	**358,465**

The accompanying policies and explanatory notes are an integral part of these condensed financial statements.

NOTE 1 - ORGANISATION AND PRINCIPAL ACTIVITIES OF THE COMPANY

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.S and as at 30 June 2017, the Company employs 74 employees (31 December 2016: 77 employees).

These financial statements as of and for the period ended 30 June 2017 have been approved on 23 August 2017. General Assembly has the authority to amend these financial statements.

NOTE 2 - BASIS OF PRESENTATION

2.1 Basis of Presentation

These interim condensed financial statements for the period ended 30 June 2017 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2016.

In preparation of the interim condensed financial statements of the Company, the same accounting policies and methods of computation have been followed as compared to the most recent annual financial statements except for the adoption of new standards and interpretations as of 1 January 2017, noted below.

The new standards, amendments and interpretations

a) Standards, amendments and interpretations applicable as at 30 June 2017

i) Amendments to IAS 7 'Statement of cash flows' on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The new disclosures will be made for the first time in the entity's annual financial statements for the year ended 31 December 2017.

ii) Amendments IAS 12 'Income Taxes', effective from annual periods beginning on or after 1 January 2017. The amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendment did not have any material impact on these financial statements.

iii) Annual improvements 2014–2016; IFRS 12,'Disclosure of interests in other entities' regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. The amendments did not have any material impact on these financial statements.

NOTE 2 - BASIS OF PRESENTATION (Continued)

b) Standards, amendments and interpretations effective after 30 June 2017

i) Amendments to IFRS 2, ‘Share based payments’ on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.

ii) IFRS 9 “Financial Instruments”, issued by the IASB in July 2014, will replace IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. It sets out the new principles for the classification and measurement of financial instruments, for impairment for credit risk on financial assets and for general hedge accounting (i.e. micro hedging). IFRS 9 is mandatory for annual periods beginning on or after 1 January 2018.

According to IFRS 9, classification and measurement of financial assets will depend on the business model and the contractual characteristics of the instruments. On initial recognition, financial assets will be measured at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss. Investments in equity instruments such as shares will be classified as instruments at fair value through profit or loss, or, as an option, as instruments at fair value through other comprehensive income. The only change introduced by IFRS 9 with respect to financial liabilities relates to recognition of changes in fair value attributable to changes in the credit risk of the liabilities designated as at fair value through profit or loss (fair value option), which will be recognised in other comprehensive income and not through profit or loss.

Application of these criteria may lead to different classification and measurement of some financial assets compared with IAS 39. The Company does not have any financial assets and so does not expect any significant impact on its financial statements for the classification and measurement phase of the standard.

IFRS 9 establishes a new credit risk impairment model based on expected losses. Under the impairment model in IAS 39, an impairment loss is recognised when there is an objective evidence of a decrease in value. Counterparties that are not individually impaired are risk-assessed on the basis of portfolios with similar characteristics and groups of counterparties which, as a result of events occurring since inception of the loans present objective indication of impairment, are subject to a portfolio-based impairment. The new impairment model under IFRS 9 requires accounting for 12-month expected credit losses (that result from the risk of default in the next 12 months) on the financial instruments issued or acquired, as of the date of initial recognition on the balance sheet. Expected credit losses at maturity (that result from the risk of default over the life of the financial instrument) must be recognised if the credit risk has increased significantly since initial recognition. This model will apply to loans and debt instruments measured at amortised cost or at fair value through other comprehensive income, to loan commitments and financial guarantees not recognised at fair value, as well as to lease receivables.

NOTE 2 - BASIS OF PRESENTATION (Continued)

b) Standards, amendments and interpretations effective after 30 June 2017

Impairment phase of the IFRS 9 is in process. At this stage, the Company focuses mainly on refining the methodology for the impairment model, key concepts and management judgements, planning the IT infrastructure and assessment of impact on the financial statements.

The focus of the Company during the remainder of 2017 will be on finalising processes, governance and controls. IFRS 9 is applied retrospectively, although comparatives are not restated, and adjustments arising from initial application in 2018 will be recognised in opening equity.

iii) IFRS 15 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

iv) Amendment to IFRS 15, 'Revenue from contracts with customers', effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. The Company does not except any significant impact on its financial statements.

v) IFRS 16 'Leases', effective from annual periods beginning on or after 1 January 2019 with earlier application permitted if IFRS 15, 'Revenue from Contracts with Customers', is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company does not except any significant impact on its financial statements.

NOTE 2 - BASIS OF PRESENTATION (continued)

b) Standards, amendments and interpretations effective after 30 June 2017

vi) Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial Instruments', effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

- give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and

- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard - IAS 39.

vii) Amendment to IAS 40, Investment property' relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

viii) Annual improvements 2014–2016;

- IFRS 1,' First-time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.

- IAS 28,'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value effective 1 January 2018.

ix) IFRIC 22, 'Foreign currency transactions and advance consideration', effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

x) IFRS 17, 'Insurance contracts', effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The new standards, amendments and interpretations which will be effective on or after 1 January 2018 are not expected to have a material impact on the Company's financial statements except adoption of IFRS 9 as discussed in Note 2.b.ii.

The preparation of condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2016.

NOTE 3 - SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE PERIOD

None.

NOTE 4 - SEGMENT REPORTING

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments and whose operation results are regularly reviewed by Board of Directors. The Company does not present segment information from the business and geographic perspective, since the Company operates in one business segment (financial lease) and one geographical area, namely Turkey.

NOTE 5 - FINANCIAL RISK MANAGEMENT

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.

a. 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.

b. 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.

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (continued)

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 30 June 2017 and 31 December 2016.

	Foreign Currency			
30 June 2017	**US$ (TL Equivalent)**	**EUR (TL Equivalent)**	**Other (TL Equivalent)**	**Total**
Assets				
Due from banks	172,260	137,025	116	309,401
Finance lease receivables	1,347,611	2,530,184	-	3,877,795
Other assets	1,708	3,218	-	4,926
Total assets	**1,521,579**	**2,670,427**	**116**	**4,192,122**
Liabilities				
Borrowings	710,344	1,723,542	-	2,433,886
Debt securities issued	1,022,233	-	9,895	1,032,128
Accounts payable	88,457	82,917	1,993	173,367
Advances from customers	4,264	16,779	42	21,085
Total liabilities	**1,825,298**	**1,823,238**	**11,930**	**3,660,466**
Net balance sheet position	**(303,719)**	**847,189**	**(11,814)**	**531,656**
Off-balance sheet derivative instruments inflow	**385,753**	**25,145**	**9,044**	**419,942**
Off-balance sheet derivative instruments outflow	**(134,992)**	**(831,889)**	**-**	**(966,881)**
Total foreign currency position	**(52,958)**	**40,445**	**(2,770)**	**(15,283)**

	Foreign Currency			
31 December 2016	**US$ (TL Equivalent)**	**EUR (TL Equivalent)**	**Other (TL Equivalent)**	**Total**
Assets				
Due from banks	153,700	88,197	13	241,910
Finance lease receivables	1,501,902	2,286,202	-	3,788,104
Other assets	1,819	4,164	-	5,983
Total assets	**1,657,421**	**2,378,563**	**13**	**4,035,997**
Liabilities				
Borrowings	745,897	1,472,412	-	2,218,309
Debt securities issued	1,024,694	-	47,423	1,072,117
Accounts payable	13,480	65,473	1,769	80,722
Advances from customers	4,128	8,020	1	12,149
Total liabilities	**1,788,199**	**1,545,905**	**49,193**	**3,383,297**
Net balance sheet position	**(130,778)**	**832,658**	**(49,180)**	**652,700**
Off-balance sheet derivative instruments inflow	**355,889**	**25,422**	**46,261**	**427,572**
Off-balance sheet derivative instruments outflow	**(224,753)**	**(856,080)**	**-**	**(1,080,833)**
Total foreign currency position	**358**	**2,000**	**(2,919)**	**(561)**

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

At 30 June 2017, assets, liabilities and off-balance sheet derivative instruments denominated in foreign currency were translated into TL by using a foreign exchange rate of TL 3.5071: US$1 and TL 4.0030: EUR1 (31 December 2016 - TL 3.5192: US$1 and 3.7099: 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)	
	2017	**2016**	**2017**	**2016**
(Loss)/Profit and Equity	(5,296)	36	4,045	200

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 repricing 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 period ended 30 June 2017 would increase/decrease by TL 13,913 (30 June 2016: increase by TL 10,707). This is mainly attributable to the Company's exposure to interest rates on its variable rate receivables and borrowings.

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

Interest rate swap contracts

Under interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the fair value of fixed rate debt issued and the cash flow exposures on the variable rate debt issued. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at reporting date and the credit risk inherent in the contract. The average interest rate is based on the outstanding balances at the start of the financial year.

The interest rate swaps settle on a quarterly basis. The Company will settle the difference between the fixed and floating interest rate on a net basis.

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.

30 June 2017	Demand and up to 3 months	3 to 12 months	Over 1 year	Total
Assets				
Due from banks	423,964	-	-	423,964
Finance lease receivables	1,727,593	870,617	2,340,117	4,938,327
Derivative financial instruments	12,183	-	-	12,183
Total assets	**2,163,740**	**870,617**	**2,340,117**	**5,374,474**
Liabilities				
Borrowings	946,782	1,001,047	982,346	2,930,175
Debt securities issued	320,521	1,163,945	276,247	1,760,713
Derivative financial instruments	114,014	-	-	114,014
Total liabilities	**1,381,317**	**2,164,992**	**1,258,593**	**4,804,902**
Net re-pricing gap	**782,423**	**(1,294,375)**	**1,081,524**	**569,572**

31 December 2016	Demand and up to 3 months	3 to 12 months	Over 1 year	Total
Assets				
Due from banks	280,450	-	-	280,450
Finance lease receivables	1,532,361	1,026,123	2,152,862	4,711,346
Derivative financial instruments	22,624	-	-	22,624
Total assets	**1,835,435**	**1,026,123**	**2,152,862**	**5,014,420**
Liabilities				
Borrowings	876,307	1,035,518	784,290	2,696,115
Debt securities issued	353,887	239,441	1,034,256	1,627,584
Derivative financial instruments	107,477	-	-	107,477
Total liabilities	**1,337,671**	**1,274,959**	**1,818,546**	**4,431,176**
Net re-pricing gap	**497,764**	**(248,836)**	**334,316**	**583,244**

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

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.

30 June 2017	**Carrying Value**	**Demand and up to 3 months**	**3 to 12 months**	**Over 1 year**	**Total**
Liabilities					
Borrowings	2,930,175	320,516	748,911	2,113,501	3,182,928
Debt securities issued	1,760,713	329,579	1,221,801	291,119	1,842,499
Accounts payable	278,187	278,187	-	-	278,187
Advances from customers	43,667	43,667	-	-	43,667
Total liabilities	**5,012,742**	**971,949**	**1,970,712**	**2,404,620**	**5,347,281**
Cash inflow from derivative financial instruments, net		250,947	360,615	346,641	958,203
Cash outflow from derivative financial instruments, net		(280,129)	(373,027)	(383,366)	(1,036,522)

31 December 2016	**Carrying Value**	**Demand and up to 3 months**	**3 to 12 months**	**Over 1 year**	**Total**
Liabilities					
Borrowings	2,696,115	237,360	714,775	1,988,098	2,940,233
Debt securities issued	1,627,584	296,190	232,167	1,228,178	1,756,535
Accounts payable	112,389	112,389	-	-	112,389
Advances from customers	22,116	22,116	-	-	22,116
Total liabilities	**4,458,204**	**668,055**	**946,942**	**3,216,276**	**4,831,273**
Cash inflow from derivative financial instruments, net		85,908	489,465	499,708	1,075,081
Cash outflow from derivative financial instruments, net		(99,056)	(508,779)	(514,563)	(1,122,398)

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

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 amortized cost:

	Carrying amount		Fair value	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Finance lease receivables	5,464,643	5,006,595	5,083,673	4,807,435
Borrowings	2,930,175	2,696,115	2,734,966	2,518,353
Debt securities issued	1,760,713	1,627,584	1,675,658	1,537,873

Expected cash flows are discounted at current market rates with similar currency and remaining maturity to determine their fair value. The credit risk is not considered when calculating the fair value lease receivables as in line with the pricing of lease receivables. The fair value hierarchy is assessed as Level 2.

The average discount rate used to calculate the fair value of USD, EUR and TL borrowings and debt securities issued as at 30 June 2017 are 3.77%, 2.72% and 11.64%, respectively (31 December 2016 was: 3.95%, 2.80% and 11.29%, respectively).

The discount rate used to calculate the fair value of US$, EUR and TL finance lease receivables as at 30 June 2017 are 6.21%, 5.42% and 14.47%, respectively. (31 December 2016 was: 6.23%, 4.98% and 13.79%, respectively).

Fair value hierarchy

Fair values of financial assets and liabilities that are carried with their fair values on the balance sheet 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: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

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.

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

30 June 2017

	Level 1	Level 2	Level 3
Derivative financial assets held for trading	-	472	-
Derivative financial assets held for hedging	-	11,711	-
Finance lease receivables (*)	-	5,083,673	-
Total assets	**-**	**5,095,856**	**-**
Derivative financial liabilities held for trading	-	75,504	-
Derivative financial liabilities held for hedging	-	38,510	-
Borrowings (*)	-	2,734,966	-
Debt securities issued (*)	-	1,675,658	-
Total liabilities	**-**	**4,524,638**	**-**

31 December 2016

	Level 1	Level 2	Level 3
Derivative financial assets held for trading	-	10,684	-
Derivative financial assets held for hedging	-	11,940	-
Finance lease receivables (*)	-	4,807,435	-
Total assets	**-**	**4,830,059**	-
Derivative financial liabilities held for trading	-	69,238	-
Derivative financial liabilities held for hedging	-	38,239	-
Borrowings (*)	-	2,518,353	-
Debt securities issued (*)	-	1,537,873	-
Total liabilities	**-**	**4,163,703**	-

(*) Carried at amortized cost in the statement of financial position.

There were no reclassification between the levels in the current and the previous period.

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 April 24, 2013, the Company is required to keep its equity in accordance with the standard set out in the regulation. According to this regulation, it is obligatory to succeed and maintain the ratio of the Company's total equity to the total assets as minimum three percent. As of 30 June 2017, the related ratio is 14% (31 December 2016: 15%). The Company complies with this requirement as of 30 June 2017 and 31 December 2016.

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

NOTE 6 - CASH AND CASH EQUIVALENTS

	30 June 2017			31 December 2016		
	FC	**TL**	**Total**	**FC**	**TL**	**Total**
Due from banks						
-demand deposits	5,697	2,397	8,094	19,350	1,494	20,844
-time deposits	303,704	112,166	415,870	222,560	37,046	259,606
Total cash and cash equivalents	**309,401**	**114,563**	**423,964**	**241,910**	**38,540**	**280,450**

For the purposes of cash flow statements, cash and cash equivalents comprise TL 422,455 and TL 280,450 at 30 June 2017 and 31 December 2016, respectively.

NOTE 7 - FINANCE LEASE RECEIVABLES, NET

	30 June 2017	**31 December 2016**
Gross finance lease receivables	5,819,840	5,567,885
Unearned finance income	(881,513)	(856,539)
	4,938,327	**4,711,346**
Invoiced lease receivables	85,910	49,783
Impaired lease receivables	150,811	153,422
Provision for impaired lease receivables	(138,731)	(118,609)
	5,036,317	**4,795,942**
Equipment to be leased	221,400	83,239
Advances to vendors	206,926	127,384
Net finance lease receivables	**5,464,643**	**5,006,565**

At 30 June 2017 and 31 December 2016 the finance lease receivables according to their interest type are as follows:

Gross finance lease receivables:	**30 June 2016**	**31 December 2016**
Fixed rate	4,090,535	3,751,437
Floating rate	1,729,305	1,816,448
	5,819,840	**5,567,885**

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

NOTE 7 - FINANCE LEASE RECEIVABLES, NET (Continued)

At 30 June 2017 and 31 December 2016 the leasing receivables have the following collection schedules:

	Finance Lease Receivables	
	Gross	**Net performing**
Period Ending	**30 June 2017**	**30 June 2017**
31 December 2017	925,867	801,330
31 December 2018	1,545,622	1,254,256
31 December 2019	1,187,036	990,262
31 December 2020	855,303	732,855
31 December 2021 and after	1,306,012	1,159,624
	5,819,840	**4,938,327**

	Finance Lease Receivables	
	Gross	**Net performing**
Year Ending	**31 December 2016**	**31 December 2016**
31 December 2016	1,601,114	1,236,514
31 December 2017	1,248,618	1,024,171
31 December 2018	932,451	780,874
31 December 2019	677,249	579,022
31 December 2020 and after	1,108,453	1,090,765
	5,567,885	**4,711,346**

Finance lease receivables can be analyzed as follows:

Period Ending	**30 June 2017**	**31 December 2016**
Neither past due nor impaired	4,938,327	4,711,346
Past due but not impaired	85,910	49,783
Impaired	150,811	153,422
Gross	**5,175,048**	**4,914,551**
Less: allowances for impairment	(138,731)	(118,609)
Finance lease receivables	**5,036,317**	**4,795,942**

As of 30 June 2017, the allowances for impaired lease receivables is TL 138,731 (31 December 2016: TL 118,609) of which TL 91,989 (31 December 2016: TL 89,222) represents allowance for individually impaired lease receivables and TL 46,742 (31 December 2016: TL 29,387) represents allowance for collectively impaired lease receivables.

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, to be converted into cash by selling the related assets.

Collaterals amounting to TL 64,574 (31 December 2016: TL 66,782) has been obtained for impaired finance lease receivables amounting to TL 150,811 (31 December 2016: TL 153,422).

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

NOTE 7 - FINANCE LEASE RECEIVABLES, NET (Continued)

The aging of past due but not impaired finance lease receivables as at 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017		31 December 2016	
	Invoiced Amount	Remaining Principal Amount	Invoiced Amount	Remaining Principal Amount
0-30 days	1,163	25,198	6,420	106,926
30-60 days	320	10,122	4,231	56,312
60 -150 days	84,427	1,008,461	39,132	283,393
	85,910	**1,043,781**	**49,783**	**446,631**

Movements in provision for impaired finance lease receivables for the periods ended 30 June 2017 and 2016 are as follows:

	30 June 2017	30 June 2016
At 1 January	118,609	81,258
Impairment expense for the period	41,695	12,438
Recoveries of amounts previously provided for	(8,865)	(5,894)
Release of provision from written-off receivables	(12,708)	-
At period end	**138,731**	**87,802**

Economic sector risk concentrations for the gross finance lease receivables as of 30 June 2017 and 31 December 2016 are as follows:

	30 June 2017	%	31 December 2016	%
Construction	1,079,816	19	938,730	17
Transportation	688,762	12	768,236	14
Steel and mining	576,484	10	556,282	10
Textile	488,148	8	493,791	9
Tourism	410,807	7	363,204	7
Production	377,889	6	322,774	6
Food and beverage	374,521	6	371,884	7
Health	304,776	5	323,248	6
Energy and natural sources	245,257	4	226,629	4
Wholesale and retail trade	129,965	3	162,054	3
Automotive	129,612	3	118,069	2
Agriculture	103,948	2	103,558	2
Petroleum and chemistry	83,475	2	81,541	1
Financial institutions	69,499	1	85,319	2
Chemistry	48,798	1	105,728	2
Printing	21,814	-	27,157	-
Technology, telecommunication, media and entertainment	16,338	-	15,727	-
Education	10,250	-	12,552	-
Other	659,681	11	491,402	8
	5,819,840	**100**	**5,567,885**	**100**

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

NOTE 7 - FINANCE LEASE RECEIVABLES, NET (Continued)

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 30 June 2017 and 31 December 2016. As of 30 June 2017, the total amount of restructured lease receivables is TL 3,070 (31 December 2016: TL 2,931).

NOTE 8 - BORROWINGS

	30 June 2017			31 December 2016		
	Effective interest rates per annum (%)	**Balance in original currency**	**TL**	**Effective interest rates per annum (%)**	**Balance in original currency**	**TL**
Domestic borrowings						
Fixed rate borrowings:						
EUR	2.09	37,238	149,067	1.75	30,027	111,399
US$	3.55	23,572	82,671	3.57	23,613	83,100
TL	11.32	382,537	382,532	10.68	380,899	350,899
Floating rate borrowings:						
EUR	2.25	33,820	135,381	2.29	36,851	136,715
US$	2.92	25,128	88,125	2.73	27,392	96,397
Total domestic borrowing			**837,776**			**778,510**
Foreign borrowings						
Fixed rate borrowings:						
EUR	2.37	161,830	647,804	2.90	128,654	477,295
US$	3.75	44,819	157,183	3.70	46,679	164,273
TL	11.79	113,757	113,757	11.88	126,907	126,907
Floating rate borrowings:						
EUR	1.75	197,674	791,290	1.84	201,354	747,003
US$	2.96	109,026	382,365	2.83	114,267	402,127
Total foreign borrowings			**2,092,399**			**1,917,605**
Total borrowings			**2,930,175**			**2,696,115**

	30 June 2017	**31 December 2016**
Short term borrowings	575,631	862,122
Long term borrowings	2,354,544	1,833,993
	2,930,175	**2,696,115**

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

NOTE 9 - DEBT SECURITIES ISSUED

	30 June 2017	31 December 2016
Debt securities issued		
Turkish Lira (*)	728,585	555,467
Foreign currency (**)	1,032,128	1,072,117
	1,760,713	**1,627,584**

(*) The Company has issued rediscounting bonds on March 21, 2017 with a nominal value of TL 50,600; on March 31, 2017 with a nominal value of TL 125,000; on May 4, 2017 with a nominal value of TL 155,000 and on June 13, 2017 with a nominal value of TL 150,000. Their maturity dates are August 23, 2017; July 4, 2017; September 27, 2017 and December 6, 2017, respectively. The average rediscount rates for these bonds are 12.25%, 12.25%, 13.20%, 13.60% and 13.70%, respectively

Along with the rediscounting bonds, the Company has issued floating rate bonds on November 16, 2016 with a nominal value of TL 75,000; on November 16, 2016 with a nominal value of TL 70,000 and on January 10, 2017 with a nominal value of 110,000. The maturity dates of these bonds are November 14, 2018; November 13, 2019 and August 3, 2018 respectively. The interest rates for the final coupon payments are 3.37%, 2.55%, 6.52 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 interest rate for the issued Eurobond is 4.1250%.

The Company established a multi-currency Global Medium Term Note Programme on December 23, 2013. Under the programme, the Company issued 28 private placements. As of June, 30 2017, the nominal outstanding amount of the issuances is HUF 700 million and USD 38,8 million in total (as of December 31, 2016, the nominal outstanding amount of the issuances is HUF 700 million, CZK 275 million and USD 38,8 million).

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS

	Contract/notional amount	Fair values Assets	Fair values Liabilities
30 June 2017			
Derivatives held for trading:			
	1,606,464	**472**	**75,504**
Foreign exchange derivatives	1,489,237	407	75,227
Interest rate derivatives	117,227	65	277
Derivatives held for hedging:	**388,261**	**11,711**	**38,510**
Derivatives designated as fair value hedges:			
Cross currency swap transactions	212,956	661	38,510
Interest rate swap transactions	81,133	197	-
Derivatives designated as cash flow hedges:			
Cross currency swap transactions	94,172	10,853	-
Total Over the Counter ("OTC")	**1,994,725**	**12,183**	**114,014**

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

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

	Contract/notional amount	Fair values Assets	Fair values Liabilities
31 December 2016			
Derivatives held for trading:			
	1,729,586	**10,684**	**69,238**
Foreign exchange derivatives	1,635,241	10,618	69,219
Interest rate derivatives	94,345	66	19
Derivatives held for hedging:	**467,893**	**11,940**	**38,239**
Derivatives designated as fair value hedges:			
Cross currency swap transactions	233,267	909	37,893
Interest rate swap transactions	89,428	229	-
Derivatives designated as cash flow hedges:			
Cross currency swap transactions	94,353	10,802	-
Interest rate swap transactions	50,845	-	346
Total Over the Counter ("OTC")	**2,197,479**	**22,624**	**107,477**

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative financial instruments are classified as held for trading, unless they are designated as hedging instruments.

Fair Value Hedge Transaction

The Company hedges certain part of its fixed rate Eurobond securities issued against fair value risk arising from the fluctuations in the market interest rates and certain part of its EUR/TL financial lease receivables from the fluctuations in the foreign exchange rates with cross currency swaps. As of June 30, 2017, fair value hedge transaction has been proven to be effective.

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.

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

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognized 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 recognized in the income statement in net trading, hedging and fair value income/loss. 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 FV hedges are 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.

NOTE 11 - TAXATION

	30 June 2017	30 June 2016
Current tax charge	(16,731)	(11,346)
Deferred tax charge	4,094	(4,797)
	(12,637)	**(16,143)**

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.

NOTE 11 - TAXATION (Continued)

Exemption for investment allowance

Investment allowance applied for several years and calculated as 40% of fixed asset acquisitions exceeding a certain amount, was abolished with law no. 5479 dated 8 April 2006. However, in accordance with temporary law no. 69 added to the Income Tax Law, corporate and income taxpayers can offset the investment allowance amounts existing as of 31 December 2005 which they could not offset against income in 2005, as follows:

a) In the scope of the investment incentive certificates prepared related to the applications before 24 April 2003, investments to be made after 1 January 2006 in the scope of the certificate for the investments started in accordance with the additional 1st, 2nd, 3rd, 4th, 5th and 6th articles prior to the abrogation of Income Tax Law No. 193, with Law No.4842, dated 9 April 2003.

b) Investment allowance amounts to be calculated in accordance with legislation effective on 31 December 2005 in relation to investments which exhibit an integrity technically and economically and which were started prior to 1 January 2006 within the scope of repealed Article 19 of the Income Tax Law numbered 193, could solely be offset against income related to the years 2006, 2007 and 2008, in accordance with the legislation current as of 31 December 2005 (including provisions related to tax rate).

Within the scope of Temporary Article 69 of the Income Tax Law (for the years of 2006, 2007 and 2008) income tax payers, and corporate taxpayers who are benefiting from investment allowance practice, had calculated their income or corporate tax base related to the aforementioned years by applying to their income for the year in which the allowance was requested the tax rate applicable as of 31 December 2005, and the tax rate of 30% stated in the Article 25 of the annulled Corporate Tax Law No. 5422, respectively.

However, it was no longer possible to benefit from the carried-forward investment allowance amount left unused as of 31 December 2008. In this respect, a lawsuit is filed against the Constitutional Court on the basis that it is against the equality and certainty in taxation which are guaranteed by the Constitution.

According to the decision of the Constitutional Court dated 15 October 2009 and numbered E:2006/95, the phrase "comprising only the years 2006, 2007 and 2008" in the Provisional Article 69 of the Income Tax Law regarding the investment incentives is revoked. Therefore, the time limitation on the use of unused investment incentives was removed. The decision of the Constitutional Court has been published in the Official Gazette on 8 January 2011. Therefore, the cancellation became effective with the publishing of the decision of the Constitutional Court at the Official Gazette.

With the 5th article of the new tax code numbered 6009 and published in the Official Gazette dated 1 August 2011 certain amendments were made with respect to the utilization of investment allowances. According to this new tax code, utilization of the investment allowances is limited to 25% of the income generated by the Company within the current year. Accordingly, companies in Turkey are obliged to pay corporate income taxes amounting to 20% of 75% of their taxable income remained after the utilization of the investment allowances. Consequently, the Company paid corporate tax for the year 2011.

As mentioned above, via the amendments made to the Corporate Tax Code on 1 August 2011 utilization of investment allowances is limited to 25% of the income generated within the current year.

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

NOTE 11 - TAXATION (Continued)

On the other hand on 9 February 2012 Constitutional Court cancelled this 25% limitation on the utilization of investment allowances during the determination of the corporate tax base and this decision of the Constitutional Court has been published on the Official Gazette on 18 February 2012.

Income tax

	30 June 2017	31 December 2016
Income taxes currently payable	16,731	33,067
Prepaid taxes (-)	(9,821)	(18,440)
Income taxes payable, net	**6,910**	**14,627**

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

	30 June 2017	30 June 2016
Profit before taxes	**63,199**	**79,928**
Theoretical tax expense with 20% tax rate	(12,640)	(15,986)
Non-deductible expenses and others	3	(157)
Current year tax expense (-)	**(12,637)**	**(16,143)**

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.

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

NOTE 11 - TAXATION (Continued)

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

	Cumulative timing differences 30 June 2017	31 December 2016	Deferred assets / (liabilities) 30 June 2017	31 December 2016
Valuation of derivative financial instruments	114,014	107,477	22,803	21,495
Provision for leasing receivables	46,159	24,376	9,232	4,875
Other	3,808	4,100	762	820
Total	**163,981**	**135,953**	**32,797**	**27,190**
Finance lease accruals	(69,673)	(51,031)	(13,935)	(10,206)
Valuation of derivative financial instruments	(12,183)	(22,624)	(2,437)	(4,525)
Other	(774)	(1,173)	(155)	(234)
Total	**(82,630)**	**(74,828)**	**(16,527)**	**(14,965)**
Net			**16,270**	**12,225**

NOTE 12 - SHARE CAPITAL

At 30 June 2017 the Company's authorized share capital consists of TL 24,840,000,000 shares with a par value of Kr 1 each (31 December 2016: TL 24,840,000,000 shares with a par value of Kr 1 each). There is no privilege assigned to shares.

At 30 June 2017 and 31 December 2016, the share capital is as follows:

	30 June 2017		31 December 2016	
	Share (%)	Amount TL	Share (%)	Amount TL
Akbank T.A.Ş	99.985	248,363	99.985	248,363
Hacı Ömer Sabancı Holding A.Ş.	0.005	12	0.005	12
Tursa Sabancı Turizm ve Yatırım Hizm. A.Ş.	0.005	12	0.005	12
Bimsa Bilgi İşlem A.Ş.	0.003	9	0.003	9
Ak Yatırım Menkul Değerler A.Ş.	0.002	4	0.002	4
	100.000	**248,400**	**100.000**	**248,400**
Inflation adjustment to share capital		(13,393)		(13,393)
		235,007		**235,007**

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

NOTE 13 - 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. The Company is controlled by Akbank T.A.Ş. and ultimate parent of the Company is Hacı Ömer Sabancı Holding A.Ş.

In the normal course of its business, the Company conducted various business transactions with related parties on normal commercial terms and conditions. The significant outstanding balances and transactions with related parties at period-ends and relating expense and income for the period are as follows:

Related party balances

	30 June 2017	31 December 2016
Due from banks		
Akbank T.A.Ş. (Shareholder)	299,758	202,683
	299,758	**202,683**
Net finance lease receivables, (Leasing transaction)		
CarrefourSA Carrefour Sabancı Ticaret Merkezi A.Ş.	70,556	85,596
Akbank T.A.Ş. (Shareholder)	16,260	30,236
Bimsa Uls. Bilgi Ve Yönetim Sist. A.Ş.	4,670	2,577
	91,486	**118,409**
Other receivables		
Akbank T.A.Ş. (Shareholder)	-	2,500
	-	**2,500**
Borrowings		
Akbank T.A.Ş. (Shareholder)	477,696	415,159
Akbank A.G.	60,084	149,184
	537,780	**564,343**
Trade payables		
Ak Sigorta A.Ş.	9,586	7,748
Akçansa Çimento Sanayi ve Ticaret A.Ş.	77	77
Brisa Bridgestone Sabancı Lastik Sanayi ve Tic. A.Ş.	17	17
Bimsa Uls. Bilgi ve Yönetim Sist. A.Ş.	8	4
	9,688	**7,846**

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

NOTE 13 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Related party transactions

Interest income from finance leases

	1 January - 30 June 2017	1 January - 30 June 2016
CarrefourSA Carrefour Sabancı Ticaret Merkezi A.Ş.	1,828	2,067
Akbank T.A.Ş. (Shareholder)	1,488	4,585
Bimsa Uls. Bilgi Ve Yönetim Sist. A.Ş.	163	294
	3,479	**6,946**

Interest income on bank deposits

Akbank T.A.Ş. (Shareholder)	8,108	9,604
	8,108	**9,604**

Interest expense on borrowings

Akbank T.A.Ş. (Shareholder)	20,710	22,876
Akbank A.G.	1,898	1,569
	22,608	**24,445**

Commission income

Aksigorta A.Ş.	1,272	1,554
Bimsa Uls. Bilgi Ve Yönetim Sist. A.Ş.	3	5
	1,275	**1,559**

Commission expense

Ak Yatırım Menkul Değerler A.Ş.	1,369	684
Akbank T.A.Ş. (Shareholder)	115	140
	1,484	**824**

Rent and service expenses (other operating expenses)

Akbank T.A.Ş. (Shareholder)	58	60
	58	**60**

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

NOTE 13 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	1 January - 30 June 2017	1 January - 30 June 2016
Rent expenses (operating expenses)		
Hacı Ömer Sabancı Holding A.Ş. (Shareholder)	595	503
Akbank T.A.Ş. (Shareholder)	70	17
	665	**520**
Gains on derivative instruments		
Akbank T.A.Ş. (Shareholder)	116,713	51,806
	116,713	**51,806**
Losses on derivative instruments		
Akbank T.A.Ş. (Shareholder)	135,881	46,664
	135,881	**46,664**
Remuneration of top management		
Remuneration of top management	1,521	1,186
	1,521	**1,186**

Contingent assets and liabilities

	30 June 2017	31 December 2016
Guarantee letters obtained from		
Akbank T.A.Ş. (Shareholder)	191,846	205,572
Finance lease commitments		
Akbank T.A.Ş. (Shareholder)	-	1,044
Total	**191,846**	**206,616**

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

NOTE 13 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Derivative financial instruments

	30 June 2017	31 December 2016
Derivative financial instruments held for trading:		
Interest rate swap transactions		
Akbank T.A.Ş. (Shareholder)	31,598	38,984
Currency swap transactions		
Akbank T.A.Ş. (Shareholder)	1,292,482	1,299,121
Derivative financial instruments held for fair value hedges:		
Akbank T.A.Ş. (Shareholder)	194,913	216,520
Derivative financial instruments held for cash flow hedges:		
Akbank T.A.Ş. (Shareholder)	94,172	94,353
Total	**1,613,165**	**1,648,978**

NOTE 14 - 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 30 June 2017 and 31 December 2016:

Commitments under derivative instruments

	30 June 2017		31 December 2016	
	Nominal Original amount	Nominal TL	Nominal Original amount	Nominal TL
Forward and Swap Purchase Transactions				
TL	538,261	538,261	647,509	647,509
USD	109,992	385,753	101,128	355,889
EURO	6,281	25,145	6,853	25,422
HUF	700,000	9,044	700,000	8,407
CZK	-	-	275,000	37,854
Total Purchase		**958,203**		**1,075,081**
Forward and Swap Sale Transactions				
EURO	207,816	831,889	230,756	856,080
USD	38,491	134,992	63,865	224,753
TL	69,641	69,641	41,565	41,565
Total Sales		**1,036,522**		**1,122,398**
Grand Total		**1,994,725**		**2,197,479**

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Legal Proceedings

The Company has provided for a total provision of TL 457 against 26 certain open reemployment lawsuits as of 30 June 2017 (31 December 2016: TL 457).

Guarantees given

The Company has given letter of credit and guarantee amounting to TL 615,990 (31 December 2016: TL 464,402) 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 177,953 (31 December 2016: TL 192,749) and the amount of aircrafts mortgaged is amounting to TL 147,936 (31 December 2016: TL 173,501). The Company has letters of credit in the amount of TL 97,464 (31 December 2016: TL 94,892) and finance lease commitments in the amount of TL 1,277,214 (31 December 2016: TL 435,583) 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.

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.

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

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Tax penalty notifications, determined in accordance with the abovementioned reports, have been declared to the Company in July 2010. In this context, the Company has been notified of original corporate tax charge amounting to TL7,358 and related tax loss penalty amounting to TL20,240, excluding the overdue interest.

The Company requested a settlement for the principle tax and tax penalties communicated to the Company, however, a settlement could not be arranged as of October 30, 2014, in responses, the Company filed a lawsuit in the tax court on November 7, 2014 for corresponding case.

The lawsuit has been resulted in the Company's favour, (as "can be appealed"), with the decisions of Istanbul 9. Tax Court that have been made on 18 May 2015 with decision numbers of 2015/1149 and 2015/1152. As the defendant parties appealed the decision of first degree court, the related lawsuits are being investigated by the Council of State. Since the Company management foresees that the appeal of the lawsuit will also result in the favour of Company, no provision has been recorded in the financial statements as of 30 June 2017 and 31 December 2016 with respect to the abovementioned tax penalties.

NOTE 15 - EARNINGS PER SHARE

Basic earnings per share (EPS) are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from profit reserves such as retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Company, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares, which are shown in the table below:

	30 June 2017	**30 June 2016**
Net income for the period	50,562	63,785
Weighted average number of ordinary shares with a nominal value of Kr 1	24,840,000,000	24,840,000,000
Earnings per share (full TL)	**0.0020**	**0.0026**

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

NOTE 16 - SUBSEQUENT EVENTS

None.

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