AK FİNANSAL KİRALAMA A.Ş.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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

Our Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ak Finansal Kiralama A.Ş. (the "Company") as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), "Independence Audit by-Law" published by the Public Oversight Accounting and Auditing Standards Authority ("POA") and independent auditing requirements referred to in Article 400 of the Turkish Commercial Code ("TCC") (collectively referred to as "Turkish Local Independence Rules"). We have fulfilled our other ethical responsibilities in accordance with IESBA Code and Turkish Local Independence Rules.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of finance lease receivables The Company recognised a provision of TL 214,679 thousands for finance lease receivables of TL 6,027,772 thousand, which represents a significant portion of the Company's total assets in its financial statements as at 31 December 2017. Explanations and notes related to the provision for impairment of finance lease receivables are presented in Note 2 and 6 in the financial statements. We focused on this area due to the size of the finance lease receivables and the level of management's judgement and estimations in determining timing of recognition of impairment, historical probability of default and loss given default rates.	During our audit we performed the following procedures : • We have carried out a credit review on a selected sample of finance lease receivables with the objective of identifying whether the loss event had occurred and whether the provision for impairment was recognized in a timely manner. • We tested individually impaired finance lease receivables on a sample basis and checked management's calculations. • Where impairment was calculated on a modelled basis for collectively assessed portfolios, we understood and assessed the methodology and models used to calculate the provision. Our testing was varied by portfolio, but typically included assessment of parameters and assumptions in the models, re-performance of calculations on a sampling basis.

Other Matter

The financial statements of the Company as of 31 December 2016 and for the year then ended were audited by another audit firm whose audit report dated 28 April 2017 expressed an unqualified opinion on those statements.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

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

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

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

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

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

Talar Gül, SMMM
Partner

Istanbul, 26 March 2018
except as to Note 2.1, which is as of 5 April 2018

AK FİNANSAL KİRALAMA A.Ş.

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FOR THE YEAR ENDED 31 DECEMBER 2017

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STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

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

ASSETS	Notes	31 December 2017	31 December 2016
Cash and cash equivalents	5	589,082	280,450
Finance lease receivables	6	5,813,093	5,006,565
Other assets and prepaid expenses	8	73,745	33,045
Assets held for sale	10	75,995	31,845
Property and equipment, net	9	421	455
Intangible assets, net	9	2,004	1,735
Derivative financial instruments	7	19,540	22,624
Deferred tax asset, net	16	35,862	12,225
Total assets		**6,609,742**	**5,388,944**
LIABILITIES			
Borrowings	11	3,559,941	2,696,115
Debt securities issued	12	1,771,598	1,627,584
Accounts payable	13	221,733	112,389
Advances from customers	13	49,681	22,116
Derivative financial instruments	7	121,453	107,477
Other liabilities	14	3,427	3,142
Income tax liability	16	12,990	14,627
Employment benefits	15	2,200	1,500
Total liabilities		**5,743,023**	**4,584,950**
EQUITY			
Share capital	17	248,400	248,400
Adjustment to share capital	17	(13,393)	(13,393)
Total paid-in share capital	17	235,007	235,007
Legal reserves	18	50,080	41,813
Hedge reserves		166	(5)
Retained earnings		518,912	423,458
Net profit for the current year		62,554	103,721
Total equity		**866,719**	**803,994**
Total liabilities and equity		**6,609,742**	**5,388,944**

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 2017

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

	Notes	31 December 2017	31 December 2016
Interest and similar income from direct finance leases		419,659	337,166
Interest income on placements and transactions with banks		20,433	20,893
Total interest and similar income		**440,092**	**358,059**
Interest expense on borrowings		(133,624)	(121,556)
Interest expense on debt securities issued		(133,306)	(74,430)
Net interest income		**173,162**	**162,073**
Foreign exchange gains, including net gains or losses from dealing in foreign currency, net	20	69,299	62,238
Net interest income after foreign exchange gains or losses		**242,461**	**224,311**
Net trading, hedging and fair value loss (-)	21	(15,107)	(32,692)
Impairment loss on finance lease receivables (-)	6	(136,558)	(45,008)
Recoveries from impaired lease receivables	6	19,464	7,657
Other income, net		1,155	1,001
Operating expenses (-)	19	(34,255)	(25,270)
Operating profit		**77,160**	**129,999**
Profit before income tax		**77,160**	**129,999**
Taxation on income (-)	16	(14,606)	(26,278)
Profit for the period		**62,554**	**103,721**
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Cash flow hedges		214	(1,283)
Tax on cash flow hedge		(43)	257
Net other comprehensive income/(expense) for the year		**171**	**(1,026)**
Total comprehensive income		**62,725**	**102,695**
Profit for the period:			
Basic earnings per share (full TL)	24	0.0025	0.0042
Diluted earnings per share (full TL)	24	0.0025	0.0042

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 2017

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

		Paid in share capital						
	Notes	**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 to legal reserves		-	-	-	8,279	-	(8,279)	-
Total comprehensive income		-	-	-	-	(1,026)	103,721	102,695
- Net income for the year		-	-	-	-	-	103,721	103,721
-Other comprehensive loss (-)		-	-	-	-	(1,026)	-	(1,026)
Balance at 31 December 2016		**248,400**	**(13,393)**	**235,007**	**41,813**	**(5)**	**527,179**	**803,994**
Balance at 1 January 2017		**248,400**	**(13,393)**	**235,007**	**41,813**	**(5)**	**527,179**	**803,994**
Transfers to legal reserves		-	-	-	8,267	-	(8,267)	-
Total comprehensive income		-	-	-	-	171	62,554	62,725
- Net income for the year		-	-	-	-	-	62,554	62,554
-Other comprehensive income		-	-	-	-	171	-	171
Balance at 31 December 2017		**248,400**	**(13,393)**	**235,007**	**50,080**	**166**	**581,466**	**866,719**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	31 December 2017	31 December 2016
Cash flows from operating activities			
Net profit for the year		62,554	103,721
Adjustments for:			
Depreciation and amortization	19	1,202	913
Re-measurement of derivative financial instruments at fair value		17,060	34,935
Provision for employment termination benefits	15	741	255
Provision for unused vacation		198	(87)
Provision for legal proceedings		(85)	3
Provision for personnel performance bonus	14	1,845	1,618
Provision for impaired receivables	6	136,558	45,008
Deferred tax charge	16	(23,680)	(6,789)
Corporate tax charge	16	38,286	33,067
Interest income, net		(173,162)	(162,073)
Net foreign exchange loss related to cash and funds borrowed		340,343	285,415
Cash flows from operating profit before changes in operating assets and liabilities		**401,860**	**335,986**
Changes in operating assets and liabilities			
Net increase in finance lease receivables (-)		(936,496)	(1,004,989)
Net increase in other assets and prepaid expenses (-)		(84,850)	(37,720)
Net increase in accounts payables		109,344	20,709
Net increase/(decrease) in advances from customers		27,565	(538)
Net increase in other liabilities		285	533
Personnel performance bonus paid		(1,691)	(970)
Employment termination benefits paid	15	(239)	(246)
Interest received		432,411	343,401
Interest paid (-)		(248,973)	(192,725)
Taxes paid		(39,923)	(23,023)
Net cash used in operating activities (-)		**(340,707)**	**(559,582)**
Cash flows from investing activities			
Purchase of property and equipment and intangibles (-)	9	(1,437)	(1,967)
Net cash used in investing activities (-)		**(1,437)**	**(1,967)**
Cash flows from financing activities			
Proceeds from debt securities issued		1,423,200	666,010
Repayments of debt securities issued		(1,387,500)	(303,767)
Proceeds from borrowings		1,690,903	1,077,453
Repayments of borrowings		(1,121,100)	(1,042,295)
Net cash provided by financing activities		**605,503**	**397,401**
Net increase/(decrease) in cash and cash equivalents		**263,359**	**(164,148)**
Effect of foreign exchange rate changes on cash and cash equivalents		44,037	39,313
Cash and cash equivalents at the beginning of the year		280,450	405,285
Cash and cash equivalents at the end of the year	**5**	**587,846**	**280,450**

The accompanying notes form an integral part of these 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. ("Akbank") 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 and ultimate parent of the Company is Hacı Ömer Sabancı Holding A.Ş. and as at 31 December 2017, the Company employs 72 employees (31 December 2016: 77 employees).

These financial statements as of and for the year ended 31 December 2017 have been approved on 26 March 2018 by the Company management, except for the Note 2.1 as amended and approved on 5 April 2018.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board ("IASB").

These financial statements have been prepared under the historical cost convention, except for derivative financial assets and liabilities measured at fair value. The Company prefers to present a liquidity-based statement of financial position as the Company does not supply services within a clearly identifiable operating cycle of one year.

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

The Company which is incorporated in Turkey maintain its books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations. Functional currency of the Company is the Turkish Lira ("TL"), being the currency of economic environment in which the Company operates. The financial statements have been prepared in accordance with IFRS and presented in TL. For the purpose of fair presentation in accordance with IFRS, certain adjustments and reclassifications have been made to the statutory financial statements, which mainly comprise the effects of deferred taxation and reserve for impairment of finance lease receivables.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparatives and changes in presentation of prior periods' financial statements

The Company's current financial statements are prepared in comparison with the previous period to allow the determination of the financial position and performance trends. The comparative information are restated or classified when necessary in terms of ensuring compliance with the presentation of current period statement of comprehensive income.

In order to conform to changes in presentation in the current period financial statements as of 31 December 2017, the Company has reclassified cash flows related to funds borrowed from banks from operating activities to financing activities in the statement of cash flows as of 31 December 2016. As a result of this reclassification, cash flows from operating activities increase and cash flows from financing activities decrease by TL47,765 as of 31 December 2016 presented as comparatives to the statement of cash flows as of 31 December 2017.

This disclosure was amended on 5 April 2018 to replace previously disclosed phrase (issued on 26 March 2018) which stated inadvertently that "cash flows from investing activities (rather than financing activities) decrease by TL47,765 as of 31 December 2016 presented as comparatives to the statement of cash flows as of 31 December 2017."

2.2 Critical Accounting Judgments and Estimates

The preparation of the financial statements in accordance with IFRS, requires management to make estimates and assumptions that are reflected in the measurement of income and expenses in the statement of comprehensive income and in the carrying value of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the financial statements. Managers do exercise judgment and make use of information available at the date of the preparation of the financial statements in making these estimates. The actual future results of operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the financial statements.

The judgments and estimates that may have a significant effect on amounts recognized in the financial statements are discussed in the relevant sections below.

a) Allowance for impairment of finance lease receivables

In determining whether an impairment loss should be recorded in the statement of comprehensive, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of lease receivables and individual lease receivables.

Finance lease receivables with principal and/or interest overdue for more than 150 days are considered as impaired and individually assessed.

If there is objective evidence that an impairment loss on finance lease receivables has been incurred, the amount of the loss is measured based on the difference between the carrying amount and the estimated recoverable amount of the finance lease receivables. The estimated recoverable amount of a collateralized finance lease receivables is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the statement of comprehensive income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company first assesses whether objective evidence for impairment exists individually for finance lease receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence for impairment exists for an individually assessed finance lease receivables, whether significant or not, the asset is included in a group of finance lease receivables with similar credit risk characteristics and that group of finance lease receivables is collectively assessed for impairment. Finance lease receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The total net carrying value of such finance lease receivables as of 31 December 2017 is TL5,813,093 (31 December 2016: TL5,006,565) with the impairment allowance of TL214,679 (31 December 2016: TL118,609) (Note 6).

b) 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.

2.2. New and Revised International Financial Reporting Standards

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at 31 December 2017 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2017. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

a) Standards, amendments and interpretations applicable as at 31 December 2017:

- 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.

- Amendments IAS 12, 'Income Taxes'; effective from annual periods beginning on or after 1 January 2017. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarify certain other aspects of accounting for deferred tax assets.

- 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. This amendment clarifies that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Standards, amendments and interpretations effective after 1 January 2018:

- IFRS 9, 'Financial instruments' is effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

  The aim of the standard is to determine the financial reporting principles on financial assets and financial liabilities. The Company will apply the classification, measurement and impairment requirements by adjusting the opening balance sheet and opening equity at 1 January 2018.

  According to IFRS 9, each financial asset will be classified as either fair value through profit or loss ("FVTPL"), amortized cost or fair value through other comprehensive income ("FVOCI") in accordance with the business model and the contractual cash flow characteristics. The business model is determined by the Company in terms of the manner in which assets are managed and their performance is reported. As the requirements under IFRS 9 are different than the assessments under the existing IAS 39 rules, the classification and measurement of financial liabilities remain largely unchanged under IAS 39.

  Compared to the classification under IAS 39, the combined application of the contractual cash flow characteristics and business models as at 1 January 2018 will not have a material effect on the Company's equity.

  As of 1 January 2018, the Company will change the method of provisions for impairment by applying the expected credit loss model under IFRS 9. These financial assets will be divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

  Stage 1:

  For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk will be recorded in the amount of 12-month expected credit losses.

  Stage 2:

  In the event of a significant increase in credit risk since initial recognition, the financial asset will be transferred to Stage 2. Impairment for credit risk will be determined on the basis of the instrument's lifetime expected credit losses.

  Stage 3:

  Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount.

  The Company will recognize an adjustment to opening retained earnings at 1 January 2018, to reflect the application of the new requirements at the adoption date. Along with the on-going works on expected credit losses under IFRS 9, it is assumed that the effect of the credit losses and related deferred tax will cause a decrease of approximately 3% on equity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Hedge Accounting

IFRS 9 permits not to practice the standard's amendments on hedge accounting and to continue to practice hedge accounting principles of IAS 39. The Company will continue to comply with all principles of IAS 39 for hedge accounting based on the analyses made so far.

- 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.

- 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.

- 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.

- 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.

- 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Annual improvements 2014-2016; effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

  - 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,

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

- Amendment to IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

- 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.

- Amendment to IAS 28, 'Investments in associates and joint venture'; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.

- IFRS 16, 'Leases'; effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in IAS 17 and is a farreaching 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 will not have a material effect on its financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- IFRIC 23, 'Uncertainty over income tax treatments'; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

- 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.

- Annual improvements 2015-2017; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

  - IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
  - IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
  - IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
  - IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

- Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement'; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

  - use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
  - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 above.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these 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.

Cash and cash equivalents

For the purposes of cash flows statement, cash and cash equivalents comprise cash and due from banks with an original maturity of three months or less.

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 22).

The definition of a related party includes the following persons and entities:

(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 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

(i) As lessor

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. A lease receivable is recognized when there is a contractual right to be the asset's cash flow and derecognized when all contractual rights and obligations expire. Amounts due from leases under finance leases are recorded as receivables at the amount of the net investment in the leases. 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.

Gross rental payments due but not received at the balance sheet date are classified as receivables from outstanding lease payments. Receivables from outstanding lease payments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment as discussed below.

(ii) Operating lease as lessee

Leases that do not transfer to the company substantially all of the risks and incidentals 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

In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of lease receivables and individual lease receivables.

Finance lease receivables with principal and/or interest overdue for more than 150 days are considered as impaired and individually assessed.

If there is objective evidence that an impairment loss on finance lease receivables has been incurred, the amount of the loss is measured based on the difference between the carrying amount and the estimated recoverable amount of the finance lease receivables. The estimated recoverable amount of a collateralized finance lease receivables is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the statement of comprehensive income.

The Company first assesses whether objective evidence for impairment exists individually for finance lease receivables that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence for impairment exists for an individually assessed finance lease receivables, whether significant or not, the asset is included in a group of finance lease receivables with similar credit risk characteristics and that group of finance lease receivables is collectively assessed for impairment. Finance lease receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in statement of comprehensive income, to the extent that the carrying value of the finance lease receivables does not exceed its amortized cost at the reversal date.

A write off is made when all or part of a finance lease receivables is deemed uncollectible or in the case of debt forgiveness. Such finance lease receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts previously written off are included in statement of comprehensive income.

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The total net carrying value of such finance lease receivables as of 31 December 2017 is TL5,813,093 (31 December 2016: TL5,006,565) with the impairment allowance of TL214,679 (31 December 2016: TL118,609) (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.

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 Company's risk management position, in accordance with IAS 39 they are treated as derivatives "Held-for-trading".

Derivative instruments are re-measured 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 statement of comprehensive income. The fair values of the derivative financial instruments are calculated by using discounted cash flow models and any significant judgment is not incorporated.

Fair Value Hedge and Cash Flow Hedge Transactions

<u>Fair value hedge</u>

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 recognized in the statement of profit or loss 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 statement of comprehensive income in "net trading, hedging and fair value income/loss".

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the statement of profit or loss when the cash flows relating to hedged item affect the statement of profit or loss. 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.

When the hedging instrument expires, or is executed, sold, revoked or the hedge relationship has become ineffective as a result of the effectiveness test, then hedge accounting is discontinued prospectively and; 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 the statement of profit or loss.

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 fixture	4 - 10 years
Office equipment	3 - 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 the estimated useful lives as stated below:

Software	3- 5 years

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 31 December 2017 assets held for sale are stated at their carrying amounts. Assets are not depreciated or amortized once classified as held for sale.

Borrowing costs

All borrowing costs are expensed in the statement of comprehensive income during the period incurred.

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 statement of comprehensive income over the period of the financial liability using the effective interest method.

Recognition and derecognition of financial instruments

The Company recognizes a financial asset or financial liability in the balance sheet only when it becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have substantially expired; or while retaining the right to receive cash flows from the asset the Company has also assumed an obligation to pay them in full without material delay to a third party; or the Company has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

The Company does not have any assets where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset that is recognized to the extent of the Company's continuing involvement in the asset.

The Company derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

According to the Article 32 of the Corporate Tax Law No. 5520, announced in the Official Gazette dated 21 June 2006, the corporate tax rate is 20% in Turkey. However, the corporate income tax rate will be applied as 22% for the years 2018, 2019 and 2020 regarding to the "Law on Amendment of Certain Tax Laws and Some Other Laws" numbered 7061 and published in the Official Gazette on 5 December 2017.

Deferred tax

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 provision for impaired lease receivables, derivative financial instruments and finance lease accruals (Note 16).

The deferred tax is calculated using the enacted tax rates that are valid as of the balance sheet date in accordance with the tax legislation in force. According to the Law, which was approved in the Grand National Assembly on 28 November 2017 and published in the Official Gazette dated 5 December 2017, the rate of Corporate Tax for the years 2018, 2019 and 2020 was increased from 20% to 22%. Therefore, deferred tax assets and liabilities are measured at the tax rate of 22% that are expected to apply to these periods when the assets is realised or the liability is settled, based on the Law that have been enacted. For the periods 2021 and after, the reversals of temporary differences are measured by 20%.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or directly in equity and not in the statement of profit or loss. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

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.

Income and expense recognition

Interest income and expenses are recognized in the statement of comprehensive income for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, throughout the period to the next repricing date. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees paid or received between parties in the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commission income with respect to finance lease transactions is recognized over the period of the finance lease contracts using effective interest rate. Fee and commission income as of 31 December 2017 is TL5,428 (2016: TL7,146) which is included in the statement of comprehensive income under the interest and similar income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income for all interest bearing instruments whose cash inflows and outflows are known or can be estimated on an accrual basis using the effective interest method.

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 statement of profit or loss.

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.

NOTE 3 - 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 4 - 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 program 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.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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.

The table below summarizes the geographic distribution of the Company's assets and liabilities at 31 December 2017 and 2016.

31 December 2017	**Assets**	**%**	**Liabilities**	**%**
Turkey	6,598,981	100	2,866,495	50
European countries	4,245	-	2,436,172	42
Other	6,516	-	440,356	8
	6,609,742	**100**	**5,743,023**	**100**

31 December 2016	**Assets**	**%**	**Liabilities**	**%**
Turkey	5,358,947	99	2,567,509	56
European countries	5,926	-	1,542,701	34
Other	24,071	1	474,740	10
	5,388,944	**100**	**4,584,950**	**100**

Maximum exposure to credit risk

	31 December 2017	**31 December 2016**
Credit risk exposures relating to balance sheet items:		
Lease receivables, net	5,813,093	5,006,565
Due from banks	589,082	280,450
Derivative financial instruments	19,540	22,624

Further credit risk related disclosures are provided in Note 6.

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 4 - 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 amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are 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 2017 and 2016.

	Foreign Currency			
31 December 2017	**US$ (TL Equivalent)**	**EUR (TL Equivalent)**	**Other (TL Equivalent)**	**Total**
Assets				
Due from banks	304,811	132,113	473	437,397
Finance lease receivables	1,192,508	3,026,918	-	4,219,426
Other assets	2,693	17,380	-	20,073
Total assets	**1,500,012**	**3,176,411**	**473**	**4,676,896**
Liabilities				
Borrowings	917,615	2,283,886	-	3,201,501
Debt securities issued	966,508	-	11,431	977,939
Accounts payable	105,602	68,146	2,284	176,032
Advances from customers	8,808	18,837	47	27,692
Total liabilities	**1,998,533**	**2,370,869**	**13,762**	**4,383,164**
Net balance sheet position	**(498,521)**	**805,542**	**(13,289)**	**293,732**
Off-balance sheet derivative instruments - net notional position	496,596	(681,959)	-	(185,363)
Off-balance sheet derivatives used for hedging purposes - net notional position	(41,311)	(78,624)	10,220	(109,715)
Total net balance sheet position (*)	**(43,236)**	**44,959**	**(3,069)**	**(1,346)**

(*) 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 would be TL (28,797) for US$, TL 42,175 for EUR and TL (788) for other currency which is in total of TL 12,590.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

	Foreign Currency			
31 December 2016	**US$ (TL Equivalent)**	**EUR (TL Equivalent)**	**Other (TL Equivalent)**	**Total**
Assets				
Due from banks	153,700	88,197	11	241,908
Finance lease receivables (*)	1,501,902	2,286,202	-	3,788,104
Other assets	1,819	4,162	-	5,981
Total assets	**1,657,421**	**2,378,561**	**11**	**4,035,993**
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)**	**832,656**	**(49,182)**	**652,696**
Off-balance sheet derivative instruments - net notional position	179,735	(708,516)	37,854	(490,927)
Off-balance fair value hedge - net notional position	(48,598)	(122,142)	8,407	(162,333)
Total net balance sheet position (*)	**359**	**1,998**	**(2,921)**	**(564)**

(*) 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 TL 8,578 for US$, TL (885) for EUR and TL (1,154) for other currency which is in total of TL 6,539.

At 31 December 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 3.7719: US$1 and TL 4.5155: EUR1 (31 December 2016: TL 3.5192: US$1 and 3.7099: EUR1).

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Foreign currency sensitivity

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollar and 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)	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Profit or loss	(4,324)	36	4,496	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 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 2017 would increase/decrease by TL 11,261 (2016: increase/decrease 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 4 - FINANCIAL RISK MANAGEMENT (Continued)

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.

31 December 2017	Demand and up to 3 months	3 to 12 months	Over 1 year	Total
Assets				
Due from banks	589,082	-	-	589,082
Finance lease receivables	1,604,825	1,053,507	2,624,984	5,283,316
Derivative financial instruments	19,540	-	-	19,540
Total assets	**2,213,447**	**1,053,507**	**2,624,984**	**5,891,938**
Liabilities				
Borrowings	1,171,144	987,006	1,401,791	3,559,941
Debt securities issued	224,025	1,459,854	87,719	1,771,598
Derivative financial instruments	121,453	-	-	121,453
Total liabilities	**1,516,622**	**2,446,860**	**1,489,510**	**5,452,992**
Net re-pricing gap	**696,825**	**(1,393,353)**	**1,135,474**	**438,946**

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 4 - FINANCIAL RISK MANAGEMENT (Continued)

c) 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 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.

31 December 2017	Demand and up to 3 months	3 to 12 months	Over 1 year	Total
Liabilities				
Borrowings	211,709	774,024	2,866,942	3,852,675
Debt securities issued	234,055	1,285,942	300,242	1,820,239
Accounts payable	221,733	-	-	221,733
Advances from customers	49,681	-	-	49,681
Total liabilities	**717,178**	**2,059,966**	**3,167,184**	**5,944,328**
Cash inflow from derivative financial instruments	175,242	631,761	243,882	1,050,885
Cash (outflow) from derivative financial instruments	(188,490)	(634,418)	(302,286)	(1,125,194)
Cash inflow/(outflow), net	**(13,248)**	**(2,657)**	**(58,404)**	**(74,309)**

31 December 2016	Demand and up to 3 months	3 to 12 months	Over 1 year	Total
Liabilities				
Borrowings	237,360	714,775	1,988,098	2,940,233
Debt securities issued	296,190	232,167	1,228,178	1,756,535
Accounts payable	112,389	-	-	112,389
Advances from customers	22,116	-	-	22,116
Total liabilities	**668,055**	**946,942**	**3,216,276**	**4,831,273**
Cash inflow from derivative financial instruments	85,908	489,465	499,708	1,075,081
Cash outflow from derivative financial instruments (-)	(99,056)	(508,779)	(514,563)	(1,122,398)
Cash inflow/(outflow), net	**(13,148)**	**(19,314)**	**(14,855)**	**(47,317)**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

d. 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	
	2017	**2016**	**2017**	**2016**
Cash and cash equivalents	589,082	280,450	589,082	280,450
Finance lease receivables	5,813,093	5,006,565	5,931,376	5,018,058
Borrowings	3,559,941	2,696,115	3,321,298	2,518,353
Debt securities issued	1,771,598	1,627,584	1,737,883	1,537,873

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 finance lease receivables as at 31 December 2017 are 6.54%, 4.81% and 15.09% respectively. (31 December 2016 are 6.23%, 4.98% and 13.79% respectively).

The discount rate used to calculate the fair value of US$, EUR and TL borrowings and debt securities issued as at 31 December 2017 are 4.21%, 3.05% and 13.40%, respectively. (31 December 2016 are 3.95%, 2.80% and 11.29%, respectively).

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.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

According to these classification principles stated, the Company's classification of financial assets and liabilities carried at their fair value are as follows:

31 December 2017	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit and loss			
Derivative financial assets held for trading	-	3,238	-
Derivatives used for hedging purposes	-	16,302	-
Total assets	**-**	**19,540**	**-**
Financial liabilities at fair value through profit and loss			
Derivatives held-for-trading	-	76,100	-
Derivatives used for hedging purposes	-	45,353	-
Total liabilities	**-**	**121,453**	**-**

31 December 2016	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit and loss			
Derivative financial assets held for trading	-	10,684	-
Derivatives used for hedging purposes	-	11,940	-
Total assets	**-**	**22,624**	**-**
Financial assets at fair value through profit and loss			
Derivative financial assets held for trading	-	69,238	-
Derivatives used for hedging purposes	-	38,239	-
Total liabilities	**-**	**107,477**	**-**

e. 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 31 December 2017 and 2016.

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

NOTE 5 - CASH AND CASH EQUIVALENTS

	31 December 2017			31 December 2016		
	Foreign currency	**TL**	**Total**	**Foreign currency**	**TL**	**Total**
Due from banks						
-demand deposits	11,588	2,778	14,366	19,348	1,496	20,844
-time deposits	425,809	148,907	574,716	222,560	37,046	259,606
Total due from banks	**437,397**	**151,685**	**589,082**	**241,908**	**38,542**	**280,450**
Less: Interest accruals			(1,236)			-
Cash and cash equivalents in the statements of cash flows			**587,846**			**280,450**

At 31 December 2017, the Company's time deposit maturities are shorter than three months and the effective interest rates on time deposits denominated USD, EUR and TL are 4,03%, 1.36% and 14.85%, respectively (31 December 2016: Time deposit maturities are shorter than three months and the effective interest rates on time deposits denominated USD, EUR and TL are 3.27%, 1.54% and 10.63%, respectively). As of 31 December 2017 and 2016; there is no restriction on bank deposits.

NOTE 6 - FINANCE LEASE RECEIVABLES, NET

	31 December 2017	**31 December 2016**
Gross finance lease receivables	6,159,725	5,567,885
Invoiced lease receivables	89,793	49,783
Unearned finance income (-)	(876,409)	(856,539)
	5,373,109	**4,761,129**
Impaired lease receivables	287,070	153,422
Provision for impaired lease receivables (-)	(214,679)	(118,609)
	5,445,500	**4,795,942**
Leasing contracts in progress (*)	185,346	83,239
Advances to vendors	182,247	127,384
Net finance lease receivables	**5,813,093**	**5,006,565**

(*) The Company purchases machinery and equipment from domestic and foreign suppliers on behalf of the lessees on the basis of the leasing contracts terms. As of 31 December 2017 and 31 December 2016, leasing contracts in progress balance includes the total amount paid for these machinery and equipment but not charged to the lessees, yet.

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

NOTE 6 - FINANCE LEASE RECEIVABLES, NET (Continued)

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

	31 December 2017	31 December 2016
Fixed rate	4,555,476	3,751,437
Floating rate	1,604,249	1,816,448
	6,159,725	**5,567,885**

At 31 December 2017 and 2016 the finance lease receivables have the following collection schedules:

	Finance Lease Receivables (*)	
Year Ending	Gross 31 December 2017	Net 31 December 2017
31 December 2018	1,971,057	1,667,866
31 December 2019	1,477,983	1,237,783
31 December 2020	1,069,115	919,838
31 December 2021	750,792	661,511
31 December 2022 and after	980,571	886,111
	6,249,518	**5,373,109**

	Finance Lease Receivables (*)	
Year Ending	Gross 31 December 2016	Net 31 December 2016
31 December 2017	1,650,897	1,286,297
31 December 2018	1,248,618	1,024,171
31 December 2019	932,451	780,874
31 December 2020	677,249	579,022
31 December 2021 and after	1,108,453	1,090,765
	5,617,668	**4,761,129**

(*) Leasing contracts in progress and advance to vendors' balances are not included in the maturity analysis as they have not been scheduled to payment plans, yet.

As of 31 December 2017, the Company's performing finance lease receivables amount to TL 6,249,518 (31 December 2016: TL 5,617,668) and all these finance lease receivables are secured by the leased equipment. The nominal amount of mortgages received for finance lease receivables is TL 1,384,393 (31 December 2016: TL 525,490).

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

NOTE 6 - FINANCE LEASE RECEIVABLES, NET (Continued)

Finance lease receivables can be analyzed as follows:

	31 December 2017	31 December 2016
Neither past due nor impaired	5,283,316	4,711,346
Past due but not impaired	89,793	49,783
Impaired	287,070	153,422
Gross	**5,660,179**	**4,914,551**
Less: allowances for impairment	(214,679)	(118,609)
Finance lease receivables	**5,445,500**	**4,795,942**

As of 31 December 2017, the allowances for impaired lease receivables is TL 214,679 (31 December 2016: TL 118,609) of which TL 161,254 (31 December 2016: TL 89,222) represents allowance for individually impaired lease receivables and TL 53,425 (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 161,778 (31 December 2016: TL 62,695) has been obtained for impaired finance lease receivables amounting to TL 287,070 (31 December 2016: TL 153,422).

As of 31 December 2017, the total amount of restructured lease receivables is TL 3,619 (2016: TL 2,931).

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

	31 December 2017		31 December 2016	
	Past due but not impaired	Remaining Principal Amount	Past due but not impaired	Remaining Principal Amount
0-30 days	24,194	168,007	6,420	106,926
30-60 days	2,861	37,753	4,231	56,312
60-150 days	62,738	360,175	39,132	283,393
	89,793	**565,935**	**49,783**	**446,631**

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

NOTE 6 - FINANCE LEASE RECEIVABLES, NET (Continued)

Movements in provision for impaired finance lease receivables for the years ended 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
At 1 January	118,609	81,258
Impairment expense for the period	136,558	45,008
Recoveries from amounts previously provided for	(19,464)	(7,657)
Provisions related to written-off receivables in the period	(21,024)	-
At period end	**214,679**	**118,609**

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

	31 December 2017	%	31 December 2016	%
Construction	1,186,147	19	938,730	17
Transportation	701,766	11	768,236	14
Steel and mining	603,165	10	556,282	10
Textile	494,979	8	493,791	9
Energy and natural resources	475,422	8	226,629	4
Production	452,612	7	322,774	6
Food and beverage	348,110	6	371,884	7
Health	322,521	5	323,248	6
Tourism	280,263	5	363,204	7
Automotive	129,395	2	118,069	2
Wholesale and retail trade	109,451	2	162,054	3
Agriculture	94,380	2	103,558	2
Petroleum and related chemistry	92,131	1	81,541	1
Chemistry	72,336	1	105,728	2
Financial institutions	50,109	1	85,319	2
Technology, telecommunication, media and entertainment	39,141	1	15,727	-
Printing	16,018	-	27,157	-
Education	7,866	-	12,552	-
Other	683,913	11	491,402	8
	6,159,725	**100**	**5,567,885**	**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 2017 and 31 December 2016.

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives held-for-trading:

31 December 2017	Contract/Notional Amount	Fair Values Assets	Fair Values Liabilities
Forward contracts	501,469	-	(9,774)
Currency swap contracts	1,204,961	3,114	(66,043)
Interest rate swap contracts	94,110	124	(283)
Total	**1,800,540**	**3,238**	**(76,100)**

31 December 2016	Contract/Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency swap contracts	1,635,241	10,618	(69,219)
Interest rate swap contracts	94,345	66	(19)
Total	**1,729,586**	**10,684**	**(69,238)**

Derivatives used for hedging purposes:

31 December 2017	Contract/Notional Amount	Fair Values Assets	Fair Values Liabilities
Derivatives used for fair value hedging purposes:			
Currency swap contracts	198,934	947	(45,353)
Interest rate swap contracts	78,461	483	-
Derivatives used for cash flow hedging purposes:			
Currency swap contracts	98,144	14,872	-
Total	**375,539**	**16,302**	**(45,353)**

31 December 2016	Contract/Notional Amount	Fair Values Assets	Fair Values Liabilities
Derivatives used for fair value hedging purposes:			
Currency swap contracts	233,267	909	(37,893)
Interest rate swap contracts	89,428	229	-
Derivatives used for cash flow hedging purposes:			
Currency swap contracts	94,353	10,802	-
Interest rate swap contracts	50,845	-	(346)
Total	**467,893**	**11,940**	**(38,239)**

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Currency information of the Company’s derivative financial instruments are presented in the table below:

Derivative financial assets held for hedging:

	31 December 2017		31 December 2016	
	TRY	**Foreign Currency**	**TRY**	**Foreign Currency**
Fair value hedges	-	1,430	-	1,138
Cash flow hedges	14,872	-	10,802	-
	14,872	**1,430**	**10,802**	**1,138**

Derivative financial liabilies held for hedging:

	31 December 2017		31 December 2016	
	TRY	**Foreign Currency**	**TRY**	**Foreign Currency**
Fair value hedges	-	45,353	-	37,893
Cash flow hedges	-	-	-	346
	-	**45,353**	**-**	**38,239**

Information regarding to hedge accounting as of 31 December 2017 and 2016 are summarized below;

- **Information regarding fair value hedge accounting:**

As at 31 December 2017 and 2016 information regarding fair value hedge accounting are summarized below:

The Company has entered into fair value hedge transaction in order to hedge fair risk of its fixed rate issued debt securities (Eurobond) with its cross currency swaps. Fair value change of hedged item which is issued Eurobond since the start of the hedge accounting is TL (594) (31 December 2016: TL (649)).

The Company has decided to implement fair value hedging strategy in order to provide hedging through fixed interest TL sales part of cross currency swap transaction (Cross Currency IRS) against fair value risk which shall arise due to changes in market interests of long term principal payment TL fixed interest credit included in its liabilities in scope of interest rate risk management.

The Company has decided to implement fair value hedging strategy in order to provide hedging through fixed interest USD purchase part of cross currency swap transaction against fair value risk which shall arise due to changes in USD/TL exchange rate changes in USD financial leasing receivables included in its assets in scope of exchange rate risk management. Fair value change following the commencement of hedge accounting of loans, which are hedged items, is TL 1,514 (31 December 2016: TL 849).

Fixed rate financial leasing transaction of the Company is entreated to hedge accounting with interest swap transaction against fair value changes related to changes in market interest rates. Fair value change of fixed rate financial leasing transaction which is the hedged item is TL (281) following the beginning of accounting hedge (31 December 2016: TL (246)).

All fair value hedged transactions have been found to be effective as of 31 December 2017.

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

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

- **Information regarding cash flow hedge:**

Within the scope 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 gains recognized under other comprehensive income since the beginning of hedge amounts to TL 441 (31 December 2016: TL 274).

All cash flow hedge transactions have been found to be effective as of 31 December 2017.

Information on transactions, whose hedge accounting do not continue since the hedging instrument is expired, realized, sold or the hedge accounting is terminated or the effectiveness test is not effective, is as follows:

- **Information regarding fair value hedge accounting:**

None. (During 2016, the Company discontinued fair value hedge accounting for debt securities with cross-currency swap against the fair value changes resulting from changes in market interest rates. As of 31 December 2016 unamortized portion of fair value adjustments on the hedged item is TL 255).

- **Information regarding cash flow hedge:**

The Company discontinued cash flow hedge for floating rate foreign currency borrowings with interest swap transaction against the cash flow changes resulting from changes in market interest rates. Cumulative gain/(loss) recognized under other comprehensive income from the beginning of hedge amounts to TL (234) (31 December 2016: TL (281)).

NOTE 8 - OTHER ASSETS AND PREPAID EXPENSES

	31 December 2017	**31 December 2016**
Deferred VAT	42,122	18,334
Insurance, notary and other receivables	30,037	12,818
Prepaid expenses	579	587
Other	1,007	1,306
	73,745	**33,045**

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

NOTE 9 - PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Property and equipment:

	1 January 2017	Additions	Disposals	Transfer	31 December 2017
Cost					
Furniture and fixture	521	3	-	-	524
Leasehold improvements	737	-	-	-	737
Office equipment	883	165	-	-	1,048
	2,141	**168**	**-**	**-**	**2,309**
Accumulated depreciation (-)					
Furniture and fixture	459	30	-	-	489
Leasehold improvements	690	19	-	-	709
Office equipment	537	153	-	-	690
	1,686	**202**	**-**	**-**	**1,888**
Net book value	**455**				**421**

	1 January 2016	Additions	Disposals	Transfer	31 December 2016
Cost					
Furniture and fixture	513	8	-	-	521
Leasehold improvements	727	10	-	-	737
Office equipment	589	294	-	-	883
	1,829	**312**	**-**	**-**	**2,141**
Accumulated depreciation (-)					
Furniture and fixture	371	88	-	-	459
Leasehold improvements	565	125	-	-	690
Office equipment	355	182	-	-	537
	1,291	**395**	**-**	**-**	**1,686**
Net book value	**538**				**455**

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

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

Intangible assets

	1 January 2017	Additions	Disposals	31 December 2017
Cost				
Rights	3,876	1,269	-	5,145
	3,876	**1,269**	**-**	**5,145**
Accumulated amortization (-)				
Rights	2,141	1,000	-	3,141
	2,141	**1,000**	**-**	**3,141**
Net book value	**1,735**			**2,004**

	1 January 2016	Additions	Disposals	31 December 2016
Cost				
Rights	2,221	1,655	-	3,876
	2,221	**1,655**	**-**	**3,876**
Accumulated amortization (-)				
Rights	1,623	518	-	2,141
	1,623	**518**	**-**	**2,141**
Net book value	**598**			**1,735**

NOTE 10 - ASSETS HELD FOR SALE

	31 December 2017	31 December 2016
Assets held for resale	75,995	31,845
	75,995	**31,845**

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

NOTE 11 - BORROWINGS

	31 December 2017			31 December 2016		
	Interest rates per annum (%)	**Balance in original currency**	**TL**	**Interest rates per annum (%)**	**Balance in original currency**	**TL**
Domestic borrowings						
Fixed rate borrowings:						
EUR	3.51	7,223	32,616	1.75	30,027	111,399
US$	4.80	29,959	113,002	3.57	23,613	83,100
TL	11.46	308,912	308,912	10.68	350,899	350,899
Floating rate borrowings:						
EUR	2.23	31,179	140,789	2.29	36,851	136,715
US$	-	-	-	2.73	27,392	96,397
Total domestic borrowing			**595,319**			**778,510**
Foreign borrowings						
Fixed rate borrowings:						
EUR	2.13	231,857	1,046,950	2.90	128,654	477,295
US$	4.11	52,949	199,720	3.70	46,679	164,273
TL	12.40	49,528	49,528	11.88	126,907	126,907
Floating rate borrowings:						
EUR	1.95	235,529	1,063,531	1.84	201,354	747,003
US$	3.79	160,368	604,893	2.83	114,267	402,127
Total foreign borrowings			**2,964,622**			**1,917,605**
Total borrowings			**3,559,941**			**2,696,115**

	31 December 2017	**31 December 2016**
Short Term Borrowings	906,449	862,122
Long Term Borrowings	2,653,492	1,833,993
	3,559,941	**2,696,115**

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

NOTE 12 - DEBT SECURITIES ISSUED

	31 December 2017	**31 December 2016**
Debt securities issued (*)	793,963	556,936
Eurobond (**)	977,635	1,070,648
	1,771,598	**1,627,584**

(*) The Company has issued rediscounting bonds on 23 August 2017 with a nominal value of TL 150,000; on 27 September 2017 with a nominal value of TL 65,000; on 6 December 2017 with a nominal value of TL 158,350 and on 25 December 2017 with a nominal value of TL 175,000. Their maturity dates are 3 August 2018; 14 February 2018;21 March 2018 and 7 May 2018, respectively. The average rediscount rates for these bonds are 13.90%, 13.75%, 14.40% and 14.60%, respectively.

Along with the rediscounting bonds, the Company has issued floating rate bonds on 16 November 2016 with a nominal value of TL 75,000; on 16 November 2016 with a nominal value of TL 70,000 and on 10 January 2017 with a nominal value of 110,000. The maturity dates of these bonds are 14 November 2018; 13 November 2019 and 3 August 2018 respectively. The interest rates for the final coupon payments are 15.28%, 4.74% (yearly real coupon rate, indexed to CPI) and 14.91% respectively.

(**) The Company issued a Eurobond amounting to nominal USD 250 million on April 17, 2013 with the maturity date of 17 April 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 31 December 2017, the nominal outstanding amount of the issuances is HUF 700 million and USD 4 million in total (as of 31 December 2016, the nominal outstanding amount of the issuances is HUF 700 million, CZK 275 million and USD 38,8 million).

The movement of funds borrowed and debt securities issued is as follows:

	Funds Borrowed	**Debt securities issued**
Balance as at 1 January 2017	2,696,115	1,627,584
Cash flows	569,803	35,700
Foreign exchange adjustments	288,285	96,095
Other non-cash movements	5,738	12,219
Balance as at 31 December 2017	**3,559,941**	**1,771,598**

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

NOTE 13 - ACCOUNTS PAYABLE AND ADVANCES RECEIVED

	31 December 2017	31 December 2016
Trade payables (*)	221,733	112,389
Advances received (**)	49,681	22,116
	271,414	**134,505**

(*) Trade payables mainly consist of debts to domestic and foreign suppliers that has been occured by the purchase of properties and equipments in the name of lessees according to leasing agreements. As of 31 December 2017, total of trade payables is TL 221,733 (31 December 2016: TL 112,389).
(**) Advances received consists of collections from lessees over the invoiced amount or early payments for lease receivables.

As of 31 December 2017 and 2016, all trade payables have maturity of less than one year.

NOTE 14 - OTHER LIABILITIES

	31 December 2017	31 December 2016
Provision for personnel performance bonus	1,845	1,618
Withholding taxes and duties payable	1,051	928
Provision for lawsuit	375	460
Other	156	136
	3,427	**3,142**

NOTE 15 - EMPLOYMENT BENEFITS

	31 December 2017	31 December 2016
Reserve for employment termination benefits	1,161	659
Provision for unused vacation	1,039	841
	2,200	**1,500**

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 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement.

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

The amount payable consists of one month's salary limited to a maximum of TL 4,732.48 (31 December 2016: TL 4,297.21) (in full "TL" amount) for each year of service.

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

NOTE 15 - EMPLOYMENT BENEFITS (Continued)

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 2017 and 2016:

	31 December 2017	31 December 2016
Discount rate (%)	4.00	4.23
Turnover rate to estimate the probability of retirement (%)	93.85	92.86

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 5,001.76 (in full "TL" amount) which is effective as of 1 January 2018 has been taken into consideration in calculating the provision for employment termination benefits of the Company.

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

	2017	2016
At 1 January	659	650
Paid during the year	(239)	(246)
Increase during the year	741	255
At 31 December	**1,161**	**659**

NOTE 16 - TAXATION

	31 December 2017	31 December 2016
Current tax charge	(38,286)	(33,067)
Deferred tax charge	23,680	6,789
	(14,606)	**(26,278)**

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).

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

NOTE 16 - TAXATION (Continued)

According to the Article 32 of the Corporate Tax Law No. 5520, announced in the Official Gazette dated 21 June 2006, the corporate tax rate is 20% in Turkey. However, the corporate income tax rate will be applied as 22% for the years 2018, 2019 and 2020 regarding to the "Law on Amendment of Certain Tax Laws and Some Other Laws" numbered 7061 and published in the Official Gazette on 5 December 2017.

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, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was 20% for 2017 (2016: 20%). The advance corporate income tax rate will be applied as 22% for the years 2018, 2019 and 2020.

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.

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 2017	31 December 2016
Income tax liability	38,286	33,067
Prepaid taxes (-)	(25,296)	(18,440)
Total	**12,990**	**14,627**

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

	31 December 2017	31 December 2016
Income before tax	77,160	129,999
Theoretical tax expense with 20% tax rate	(15,432)	(26,000)
Effect of tax rate change	830	-
Effects of disallowable expenses	(4)	(278)
Current year tax expense (-)	**(14,606)**	**(26,278)**

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

NOTE 16 - TAXATION (Continued)

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 off in these financial statements.

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

	Cumulative timing differences		Deferred assets / (liabilities)	
	2017	**2016**	**2017**	**2016**
Provision for lease receivables	131,944	24,376	26,390	4,875
Valuation of derivative financial instruments	121,453	107,477	26,720	21,495
Other	4,554	4,101	957	820
Total			**54,067**	**27,190**
Finance lease interest accruals	(61,399)	(51,031)	(13,508)	(10,206)
Valuation of derivative financial instruments	(19,540)	(22,624)	(4,299)	(4,525)
Other	(1,852)	(1,171)	(398)	(234)
Total			**(18,205)**	**(14,965)**
Net			**35,862**	**12,225**

Movement of the deferred tax assets for the year is as follows:

	2017	**2016**
At 1 January	12,225	5,179
Recognized under profit or loss	23,680	6,789
Recognized under other comprehensive income	(43)	257
At 31 December	**35,862**	**12,225**

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

NOTE 17 - SHARE CAPITAL

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

	31 December 2017		31 December 2016	
	Shares (%)	TL	Shares (%)	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
Exsa Export Sanayi Mamul. Şatış ve Araş. 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**
Adjustment to share capital		(13,393)		(13,393)
		235,007		**235,007**

NOTE 18 - 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 2017 and 2016 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 2017	31 December 2016
Legal reserves	50,080	41,813
	50,080	**41,813**

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.

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

NOTE 19 - OPERATING EXPENSES

	31 December 2017	31 December 2016
Staff costs	17,293	15,466
Cancellation of the interest accrual from impaired lease receivables	5,334	-
Legal proceedings and lawyer expense	3,414	1,668
Rent expenses	1,220	1,158
Depreciation and amortization expense (Note 9)	1,202	913
Audit and consultancy expenses	952	895
Advertisement expenses	774	622
Office management expenses	718	856
Communication expenses	331	257
Taxes and duties other than on income	213	143
Travel expenses	51	69
Other	2,753	3,223
	34,255	**25,270**

NOTE 20 - FOREIGN EXCHANGE GAINS/LOSSES

	31 December 2017	31 December 2016
Foreign exchange gains on finance lease receivables	572,978	559,106
Foreign exchange losses on borrowings and debt securities issued	(384,380)	(324,728)
Other foreign exchange losses, net	(119,299)	(172,140)
Foreign exchange gains, net	**69,299**	**62,238**

NOTE 21 - NET TRADING, HEDGING AND FAIR VALUE LOSS

	31 December 2017	31 December 2016
Trading, hedging and fair value gains	187,524	135,184
Trading, hedging and fair value losses (-)	(202,631)	(167,876)
	(15,107)	**(32,692)**

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

NOTE 22 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

A number of transactions were entered into with related parties in the normal course of business.

a) Balances with related parties

	31 December 2017	31 December 2016
Due from banks		
Shareholders		
Akbank T.A.Ş.	509,559	202,683
	509,559	**202,683**
Net finance lease receivables		
Shareholders		
Akbank T.A.Ş.	6,379	30,236
Hacı Ömer Sabancı Holding A.Ş.	635	-
Other group companies (*)		
CarrefourSA Carrefour Sabancı Ticaret Merkezi A.Ş.	59,799	85,596
Bimsa Uls. Bilgi Ve Yönetim Sist. A.Ş.	3,928	2,577
	70,741	**118,409**
Other receivables		
Shareholders		
Akbank T.A.Ş.	-	2,500
	-	**2,500**
Borrowings		
Shareholders		
Akbank T.A.Ş.	347,164	415,159
Other group companies (*)		
Akbank A.G.	67,781	149,184
	414,945	**564,343**
Trade payables		
Other group companies (*)		
Aksigorta A.Ş.	27,069	7,748
Brisa Bridgestone Sabancı Lastik Sanayi ve Tic. A.Ş.	17	17
Bimsa Uls. Bilgi ve Yönetim Sist. A.Ş.	2	4
Akçansa Çimento Sanayi ve Ticaret A.Ş.	-	77
	27,088	**7,846**

(*) "Other group companies" consist of Akbank T.A.Ş. and Hacı Ömer Sabancı Holding A.Ş. group companies.

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

NOTE 22 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

b) Transactions with related parties

Interest income from finance leases

	1 January - 31 December 2017	1 January - 31 December 2016
Shareholders		
Akbank T.A.Ş.	2,104	7,413
Hacı Ömer Sabancı Holding A.Ş.	53	-
Other group companies (*)		
CarrefourSA Carrefour Sabancı Ticaret Merkezi A.Ş.	3,385	4,062
Bimsa Uls. Bilgi ve Yönetim Sist. A.Ş.	497	527
	6,039	**12,002**

Interest income on bank deposits

Shareholders		
Akbank T.A.Ş.	15,172	15,650
	15,172	**15,650**

Interest expense on borrowings

Shareholders		
Akbank T.A.Ş.	40,138	42,057
Other group companies (*)		
Akbank A.G.	2,803	4,049
	42,941	**46,106**

Commission income

Shareholders		
Akbank T.A.Ş.	6	-
Hacı Ömer Sabancı Holding A.Ş.	4	-
Other group companies (*)		
Aksigorta A.Ş.	1,804	2,591
Bimsa Uls. Bilgi Yönetim Sist. A.Ş.	3	5
	1,817	**2,596**

Commission expense

Shareholders		
Akbank T.A.Ş.	206	211
Ak Yatırım Menkul Değerler A.Ş.	3,182	1,597
	3,388	**1,808**

(*) "Other group companies" consist of Akbank T.A.Ş. and Hacı Ömer Sabancı Holding A.Ş. group companies.

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

NOTE 22 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expense		
Shareholders		
Akbank T.A.Ş.	140	112
	140	**112**
Rent and service expenses		
Shareholders		
Hacı Ömer Sabancı Holding A.Ş.	1,050	1,015
Akbank T.A.Ş.	311	229
	1,361	**1,244**
Gain on derivative instruments		
Shareholders		
Akbank T.A.Ş.	148,175	86,391
	148,175	**86,391**
Losses on derivative instruments		
Shareholders		
Akbank T.A.Ş.	160,699	132,908
	160,699	**132,908**
Remuneration of top management		
Remuneration of top management	2,797	2,058
	2,797	**2,058**

Off-balance sheet items

	31 December 2017	31 December 2016
Guarantee obtained from		
Shareholders		
Akbank T.A.Ş.	224,606	205,572
	224,606	**205,572**
Finance lease commitments		
Shareholders		
Akbank T.A.Ş.	-	1,044
	-	**1,044**

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

NOTE 22 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

31 December 2017	**Contract/notional amount**	**Assets**	**Fair values Liabilities**
Derivative financial instruments held for trading:			
Forward transactions			
Akbank T.A.Ş. (Shareholder)	385,715	-	(8,858)
Interest rate swap transactions			
Akbank T.A.Ş. (Shareholder)	25,946	58	-
Currency swap transactions			
Akbank T.A.Ş. (Shareholder)	748,046	2,395	(17,346)
Cross-currency swap transactions			
Akbank T.A.Ş. (Shareholder)	210,017	-	(38,766)
Derivative financial instruments held for fair value hedges:			
Cross currency swap transaction			
Akbank T.A.Ş. (Shareholder)	178,563	-	(45,353)
Derivative financial instruments held for cash flow hedges:			
Cross currency swap transaction			
Akbank T.A.Ş. (Shareholder)	98,144	14,872	-
Total	**1,646,431**	**17,325**	**(110,323)**

31 December 2017	**Contract/notional amount**	**Assets**	**Fair values Liabilities**
Derivative financial instruments held for trading:			
Forward transaction			
Akbank T.A.Ş. (Shareholder)	-	-	-
Interest rate swap transactions			
Akbank T.A.Ş. (Shareholder)	38,984	4	(19)
Currency swap transactions			
Akbank T.A.Ş. (Shareholder)	1,299,121	4,972	(53,070)
Derivative financial instruments held for fair value hedges:			
Cross currency swap transaction			
Akbank T.A.Ş. (Shareholder)	216,520	-	(37,893)
Derivative financial instruments held for cash flow hedges:			
Cross currency swap transaction			
Akbank T.A.Ş. (Shareholder)	94,353	10,802	-
Total	**1,648,978**	**15,778**	**(90,982)**

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

NOTE 23 - 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 2017 and 2016.

Legal Proceedings

The Company has provided for a total provision of TL 375 against certain open legal cases as of 31 December 2017 (31 December 2016: TL 460).

Commitments under derivative instruments

	31 December 2017		31 December 2016	
	Nominal Original amount	Nominal TL	Nominal Original amount	Nominal TL
Forward and Swap Purchase Transactions				
USD	152,696	575,956	101,128	355,889
EURO	5,710	25,786	6,853	25,422
TL	438,923	438,923	647,509	647,509
CZK	-	-	275,000	37,854
HUF	700,000	10,220	700,000	8,407
Total Purchase		**1,050,885**		**1,075,081**
Forward and Swap Sale Transactions				
USD	31,992	120,671	63,865	224,753
EURO	174,149	786,368	230,756	856,080
TL	218,155	218,155	41,565	41,565
Total Sales		**1,125,194**		**1,122,398**
Grand Total		**2,176,079**		**2,197,479**

Guarantees given

The Company has collateral and given letters of guarantees amounting to TL 877,499 (31 December 2016: TL 464,402) to courts, customs, banks for borrowings from Hermes; this amount also covers the aircrafts mortgaged to US Exim and Export Development Canada on structured finance transactions.

As of 31 December 2017, the Company has given the letters of guarantee amounting to TL 193,902 (31 December 2016: TL 192,749) which had been obtained from Akbank and the aircrafts mortgaged amounting to TL 132,127 (2016: TL 173,501) had been given as collateral. The letter of guarantee and aircrafts mortgaged were given with respect to borrowings from Hermes.

The external guarantee provided for the borrowings from Europe Investment Bank is amounting to TL 519,283. The Company has letters of credit for import of the equipment subject to finance leases in the amount of TL 190,724 (2016: TL 94,892) and finance lease commitments in the amount of TL 228,798 (2016: TL 435,583) for the leased asset imports.

NOTE 23 - COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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 2010, 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 2011 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 2010, 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.

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 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 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. Due to the appeal of tax authority, lawsuit is being investigated by 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 31 December 2017 and 31 December 2016 with respect to the abovementioned tax penalties.

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

NOTE 24 - 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:

	31 December 2017	31 December 2016
Net income for current year	62,554	103,721
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)	**0.0025**	**0.0042**

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 25 - SUBSEQUENT EVENTS

None.

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