**AK FİNANSAL KİRALAMA A.Ş.**

**FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2018**
**TOGETHER WITH**
**INDEPENDENT AUDITOR'S REPORT**

**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 2018 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 2018;
- 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 judgement, 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 in accordance with IFRS 9**<br><br>The Company recognised a provision of TL 488,791 thousand for finance lease receivables of TL 6,406,130 thousand, which represents a significant portion of the Company's total assets in its financial statements as at 31 December 2018. Explanations and notes related to the provision for impairment of finance lease receivables are presented in Notes 2 and 8 in the financial statements.<br><br>As of 1 January 2018, the Company started to recognize a provision for impairment of finance lease receivables in accordance with expected credit loss model required by IFRS 9, "Financial Instruments" ("IFRS 9") rather than previously used incurred loss model. IFRS 9 is a new and complex accounting standard which requires considerable judgement and interpretation. These judgements are key in the development of the financial models built to measure the expected credit losses on finance lease receivables recorded at amortized cost. | Within our audit procedures, we assessed policies and procedures established by the Company with respect to classification of finance lease receivables and estimation of impairment in accordance with the IFRS 9 framework.<br><br>Together with our modelling specialists, we have evaluated the methodologies used in building impairment models in line with the requirement of IFRS 9. Regarding the expected credit losses models; we have assessed appropriateness of the segmentation, lifetime probability of default and loss given default calculations, and approaches in relation to projection of macroeconomic expectations with our modelling specialists.<br><br>We have carried credit review on a selected sample of finance lease receivables with the objective to identify whether the classification of finance lease receivables is performed appropriately, whether the loss event had occurred and whether the provision for impairment has been recognized in a timely manner. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Impairment allowances are calculated on a collective basis for portfolios of finance lease receivables of a similar nature and on individual basis for significant finance lease receivables taking into account management's best estimate at the reporting date.<br>Our audit was focused on this area due to existence of complex estimates and information used in the impairment assessment such as macro-economic expectations, current conditions, historical loss experiences; the significance of the finance lease receivables balances; the classification of finance lease receivables as per their credit risk (staging) and the importance of determination of the associated impairment allowances. Timely and correctly identification of loss event and level of judgements and estimations made by the management have significant impacts on the amount of impairment provision for finance lease receivables. Therefore, this area is considered as key audit matter. | In addition, we tested individually assessed finance lease receivables on a sampling basis and checked the management's calculations by testing the forecasts of future cash flows, and we assessed the reasonableness of the assumptions and compared estimates to external evidence where available.<br><br>We have evaluated the adequacy of the financial statements disclosures with respect to finance lease receivables and related impairment provision.<br><br>We also checked the appropriateness of adjustments related to the first time application of IFRS 9 and the related disclosures. |

**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 judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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

İstanbul, 19 March 2019

**AK FİNANSAL KİRALAMA A.Ş.**

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**FOR THE YEAR ENDED 31 DECEMBER 2018**

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## AK FİNANSAL KİRALAMA A.Ş.

## STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018
(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

| **ASSETS** | **Notes** | **31 December 2018** |
|---|---|---|
| Cash and cash equivalents | 7 | 395,676 |
| Finance lease receivables | 8 | 5,917,339 |
| Other assets and prepaid expenses | 10 | 58,230 |
| Assets held for sale | 12 | 161,689 |
| Property and equipment, net | 11 | 1,420 |
| Intangible assets, net | 11 | 1,807 |
| Derivative financial instruments | 9 | 10,970 |
| Income tax asset | 18 | 11,869 |
| Deferred tax asset, net | 18 | 97,999 |
| **Total assets** | | **6,656,999** |
| **LIABILITIES** | | |
| Borrowings | 13 | 4,610,591 |
| Debt securities issued | 14 | 901,636 |
| Accounts payable | 15 | 111,173 |
| Advances from customers | 15 | 82,684 |
| Derivative financial instruments | 9 | 210,088 |
| Other liabilities | 16 | 11,280 |
| Provision for employment benefits | 17 | 2,387 |
| **Total liabilities** | | **5,929,839** |
| **EQUITY** | | |
| Share capital | 19 | 248,400 |
| Adjustment to share capital | 19 | (13,393) |
| Total paid-in share capital | 19 | 235,007 |
| Legal reserves | 20 | 57,737 |
| Hedge reserves | | (2,008) |
| Retained earnings | | 490,954 |
| Net loss for the current period | | (54,530) |
| **Total equity** | | **727,160** |
| **Total liabilities and equity** | | **6,656,999** |

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

## STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

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

| ASSETS | Notes | 31 December 2017 |
|---|---|---|
| Cash and cash equivalents | 7 | 589,082 |
| Finance lease receivables | 8 | 5,813,093 |
| Other assets and prepaid expenses | 10 | 73,745 |
| Assets held for sale | 12 | 75,995 |
| Property and equipment, net | 11 | 421 |
| Intangible assets, net | 11 | 2,004 |
| Derivative financial instruments | 9 | 19,540 |
| Deferred tax asset, net | 18 | 35,862 |
| **Total assets** | | **6,609,742** |
| **LIABILITIES** | | |
| Borrowings | 13 | 3,559,941 |
| Debt securities issued | 14 | 1,771,598 |
| Accounts payable | 15 | 221,733 |
| Advances from customers | 15 | 49,681 |
| Derivative financial instruments | 9 | 121,453 |
| Other liabilities | 16 | 3,427 |
| Income tax liability | 18 | 12,990 |
| Provision for employment benefits | 17 | 2,200 |
| **Total liabilities** | | **5,743,023** |
| **EQUITY** | | |
| Share capital | 19 | 248,400 |
| Adjustment to share capital | 19 | (13,393) |
| Total paid-in share capital | 19 | 235,007 |
| Legal reserves | 20 | 50,080 |
| Hedge reserves | | 166 |
| Retained earnings | | 518,912 |
| Net profit for the current period | | 62,554 |
| **Total equity** | | **866,719** |
| **Total liabilities and equity** | | **6,609,742** |

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Due to the impracticality, 2017 financial statements are presented separately.

## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2018

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

| | Notes | 31 December 2018 |
|---|---|---|
| Interest and similar income from direct finance leases | | 512,852 |
| Interest income on placements and transactions with banks | | 32,584 |
| **Total interest and similar income** | | **545,436** |
| Interest expense on borrowings (-) | | (204,549) |
| Interest expense on debt securities issued (-) | | (189,778) |
| **Net interest income** | | **151,109** |
| Foreign exchange gains, including net gains or losses from dealing in foreign currency, net | 22 | 96,366 |
| **Net interest income after foreign exchange gains or losses** | | **247,475** |
| Net trading, hedging and fair value loss (-) | | (105,645) |
| Provision expense on finance lease receivables (-) | 8 | (218,853) |
| Recoveries from impaired lease receivables | 8 | 48,303 |
| Other income, net | | 5,240 |
| Operating expenses (-) | 21 | (48,841) |
| **Operating loss (-)** | | **(72,321)** |
| **Loss before income tax (-)** | | **(72,321)** |
| Taxation on income | 18 | 17,791 |
| **Loss for the period (-)** | | **(54,530)** |
| **Other comprehensive loss** | | |
| **Items that may be reclassified to profit or loss** | | |
| Cash flow hedges | | (2,780) |
| Tax on cash flow hedges | | 606 |
| **Net other comprehensive loss for the period (-)** | | **(2,174)** |
| **Total comprehensive loss (-)** | | **(56,704)** |
| **Loss for the period:** | | |
| Basic earnings per share (full TL) | 26 | (0.0022) |
| Diluted earnings per share (full TL) | 26 | (0.0022) |

## 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 |
|---|---|---|
| Interest and similar income from direct finance leases | | 419,659 |
| Interest income on placements and transactions with banks | | 20,433 |
| **Total interest and similar income** | | **440,092** |
| Interest expense on borrowings (-) | | (133,624) |
| Interest expense on debt securities issued (-) | | (133,306) |
| **Net interest income** | | **173,162** |
| Foreign exchange gains, including net gains or losses from dealing in foreign currency, net | 22 | 69,299 |
| **Net interest income after foreign exchange gains or losses** | | **242,461** |
| Net trading, hedging and fair value loss (-) | | (15,107) |
| Impairment loss on finance lease receivables (-) | 8 | (136,558) |
| Recoveries from impaired lease receivables | 8 | 19,464 |
| Other income, net | | 1,155 |
| Operating expenses (-) | 21 | (34,255) |
| **Operating profit** | | **77,160** |
| **Profit before income tax** | | **77,160** |
| Taxation on income (-) | 18 | (14,606) |
| **Profit for the period** | | **62,554** |
| **Other comprehensive income** | | |
| **Items that may be reclassified to profit or loss** | | |
| Cash flow hedges | | 214 |
| Tax on cash flow hedge | | (43) |
| **Net other comprehensive income for the period** | | **171** |
| **Total comprehensive income** | | **62,725** |
| **Profit for the period:** | | |
| Basic earnings per share (full TL) | 26 | 0.0025 |
| Diluted earnings per share (full TL) | 26 | 0.0025 |

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Due to the impracticality, 2017 financial statements are presented separately.

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2018 AND 2017

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

| | Paid in share capital | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share Capital** | **Adjustment to share capital** | **Total paid-in share capital** | **Legal reserves** | **Hedge reserves** | **Retained earnings** | **Total Equity** |
| **Balance at 1 January 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, net* | - | - | - | - | 171 | - | 171 |
| **Balance at 31 December 2017** | **248,400** | **(13,393)** | **235,007** | **50,080** | **166** | **581,466** | **866,719** |

| | Paid in share capital | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share Capital** | **Adjustment to share capital** | **Total paid-in share capital** | **Legal reserves** | **Hedge reserves** | **Retained earnings** | **Total Equity** |
| **Balance at 31 December 2017** | **248,400** | **(13,393)** | **235,007** | **50,080** | **166** | **581,466** | **866,719** |
| First time adoption impact of IFRS 9, net | - | - | - | - | - | (82,855) | (82,855) |
| **Balance at 1 January 2018** | **248,400** | **(13,393)** | **235,007** | **50,080** | **166** | **498,611** | **783,864** |
| Transfers to legal reserves | - | - | - | 7,657 | - | (7,657) | - |
| Total comprehensive loss (-) | - | - | - | - | (2,174) | (54,530) | (56,704) |
| *- Net loss for the year (-)* | - | - | - | - | - | (54,530) | (54,530) |
| *- Other comprehensive loss, net (-)* | - | - | - | - | (2,174) | - | (2,174) |
| **Balance at 31 December 2018** | **248,400** | **(13,393)** | **235,007** | **57,737** | **(2,008)** | **436,424** | **727,160** |

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Due to the impracticality 2017 financial statements are presented separately.

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

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2018

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

| | Notes | 31 December 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss for the period (-) | | (54,530) |
| **Adjustments for:** | | |
| Depreciation and amortization | 21 | 1,399 |
| Re-measurement of derivative financial instruments at fair value | | 97,205 |
| Provision for employment termination benefits | 17 | 415 |
| Provision for unused vacation | | 200 |
| Provision for legal proceedings | | 671 |
| Provision for personnel performance bonus | 16 | 2,130 |
| Provision for impaired receivables | 8 | 218,853 |
| Provision for impaired asset held for sale | 21 | 12,390 |
| Provision for cash and cash equivalents | 7 | 53 |
| Deferred tax income (-) | 18 | (40,816) |
| Corporate tax charge | 18 | 23,025 |
| Interest income, net (-) | | (151,109) |
| Net foreign exchange loss related to cash and funds borrowed | | 1,207,144 |
| **Cash flows from operating profit before changes in operating assets and liabilities** | | **1,317,030** |
| **Changes in operating assets and liabilities** | | |
| Net increase in finance lease receivables (-) | | (459,818) |
| Net increase in other assets and prepaid expenses (-) | | (82,569) |
| Net decrease in accounts payables (-) | | (110,560) |
| Net increase in advances from customers | | 33,003 |
| Net increase in other liabilities | | 7,853 |
| Personnel performance bonus paid (-) | | (3,059) |
| Employment termination benefits paid (-) | 17 | (428) |
| Interest received | | 576,985 |
| Interest paid (-) | | (381,557) |
| Taxes paid (-) | | (47,884) |
| **Net cash provided by operating activities** | | **848,996** |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment and intangible assets (-) | 11 | (2,201) |
| Sale of property and equipment and intangible assets | 11 | 7 |
| **Net cash used in investing activities (-)** | | **(2,194)** |
| **Cash flows from financing activities** | | |
| Proceeds from debt securities issued | | 2,192,952 |
| Repayments of debt securities issued (-) | | (3,379,574) |
| Proceeds from borrowings | | 2,633,950 |
| Repayments of borrowings (-) | | (2,511,755) |
| **Net cash used in financing activities (-)** | | **(1,064,427)** |
| **Net decrease in cash and cash equivalents (-)** | | **(217,625)** |
| Effect of foreign exchange rate changes on cash and cash equivalents | | 25,201 |
| Cash and cash equivalents at the beginning of the period | 7 | 587,846 |
| **Cash and cash equivalents at the end of the period** | **7** | **395,422** |

The accompanying policies and explanatory notes are 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 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net profit for the year | | 62,554 |
| | | |
| **Adjustments for:** | | |
| Depreciation and amortization | 21 | 1,202 |
| Re-measurement of derivative financial instruments at fair value | | 17,060 |
| Provision for employment termination benefits | 17 | 741 |
| Provision for unused vacation | | 198 |
| Provision for legal proceedings | | (85) |
| Provision for personnel performance bonus | 16 | 1,845 |
| Provision for impaired receivables | 8 | 136,558 |
| Deferred tax income (-) | 18 | (23,680) |
| Corporate tax charge | 18 | 38,286 |
| Interest income, net (-) | | (173,162) |
| Net foreign exchange loss related to cash and funds borrowed | | 340,343 |
| | | |
| **Cash flows from operating profit before changes in operating assets and liabilities** | | **401,860** |
| | | |
| **Changes in operating assets and liabilities** | | |
| Net increase in finance lease receivables (-) | | (936,496) |
| Net increase in other assets and prepaid expenses (-) | | (84,850) |
| Net increase in accounts payables | | 109,344 |
| Net increase in advances from customers | | 27,565 |
| Net increase in other liabilities | | 285 |
| Personnel performance bonus paid (-) | | (1,691) |
| Employment termination benefits paid (-) | 17 | (239) |
| | | |
| Interest received | | 432,411 |
| Interest paid (-) | | (248,973) |
| Taxes paid (-) | | (39,923) |
| | | |
| **Net cash used in operating activities (-)** | | **(340,707)** |
| | | |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment and intangibles (-) | 11 | (1,437) |
| | | |
| **Net cash used in investing activities (-)** | | **(1,437)** |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from debt securities issued | | 1,423,200 |
| Repayments of debt securities issued (-) | | (1,387,500) |
| Proceeds from borrowings | | 1,690,903 |
| Repayments of borrowings (-) | | (1,121,100) |
| | | |
| **Net cash provided by financing activities** | | **605,503** |
| | | |
| **Net increase in cash and cash equivalents** | | **263,359** |
| Effect of foreign exchange rate changes on cash and cash equivalents | | 44,037 |
| Cash and cash equivalents at the beginning of the year | | 280,450 |
| | | |
| **Cash and cash equivalents at the end of the year** | **7** | **587,846** |

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Due to the impracticality, 2017 financial statements are presented separately.

The accompanying policies and explanatory notes are 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 2018, the Company employs 63 employees (31 December 2017: 72 employees).

These financial statements as of and for the year ended 31 December 2018 have been approved on 19 March 2019 by the Company management.

## 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)

### 2.1 Basis of Presentation (Continued)

**Comparatives and changes in presentation of prior periods' financial statements**

A number of new or amended standards became applicable for the current reporting period and the Company had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 9, "Financial Instruments" ("IFRS 9"). The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. The impact of the adoption of this standard and the new accounting policies are disclosed below in Note 4. The other new standards did not have any significant impact on the Company's accounting policies.

### 2.2 Critical Accounting Judgements 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 judgement 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 judgements and estimates have been made may in reality be different from those estimates. This may have a material effect on the financial statements.

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

***a) Impairment of lease receivables in accordance with IFRS 9***

"Expected credit loss model" defined in IFRS 9, "Financial Instruments" superseded the "incurred credit loss model" in IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") which was effective prior to 1 January 2018.

Provisioning rules applicable as at 31 December 2017 under the IAS 39 have changed with the application of expected credit loss model under IFRS 9 together with the rules on classification of lease receivables as per their credit risk (staging). IFRS 9 is a new and complex accounting standard which requires considerable judgement and interpretation. These judgements are key in the development of the financial models built to measure the expected credit losses on lease receivables recorded at amortized cost. In addition, the operation of the models require large data inputs that are generated through more than one system and the accuracy and completeness of the data are key in the determination of expected credit loss on lease receivables. Impairment allowances are calculated on a collective basis for portfolios of lease receivables of a similar nature and on individual basis for significant lease receivables taking into account management's best estimate at the balance sheet date and historical losses incurred.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Critical Accounting Judgements and Estimates (Continued)

***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.

### 2.3 New and Revised International Financial Reporting Standards

***a) Standards, amendments and interpretations applicable as at 31 December 2018:***

- **IFRS 9, 'Financial instruments';** 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.

  *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.

- **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.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

- **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.

- **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.

- **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.

***b) Standards, amendments and interpretations that are issued but not effective as at 31 December 2018:***

- **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.

- **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.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

- **IFRS 16, 'Leases';** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in IAS 17 and is a 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 apply this standard on 1 January 2019, which is the mandatory date of implementation. The Company plans to use modified retrospective implementation and not to change comparable figures for the year before the first application.

- **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.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

- **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.

- **Amendments to IAS 1 and IAS 8 on the definition of material;** effective from Annual periods beginning on or after 1 January 2020. These amendments to IAS 1, 'Presentation of financial statements',and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:
    i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
    ii) clarify the explanation of the definition of material; and
    iii) incorporate some of the guidance in IAS 1 about immaterial information.

- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

The new standards, amendments and interpretations which will be effective after 1 January 2019 are not expected to have a material impact on the Company's financial statements.

### 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.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

**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 24).

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.

**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.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

*(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.

**Financial Assets**

The Company classifies and recognizes its financial assets as "Financial Assets at Fair Value Through Profit or Loss", "Financial Assets Measured at Fair Value Through Other Comprehensive Income" or "Financial Assets Measured at Amortised Cost". The financial assets are recognized or derecognized in accordance with the "Recognition and Derecognition" principles defined in the section below related to the classification and measurement of financial instruments of "IFRS 9 Financial Instruments". At initial recognition, financial assets are measured at fair value. In the case if financial assets are not measured at fair value through profit or loss, transaction costs are added or deducted to/from their fair value.

The Company recognizes a financial asset in the financial statements when, and only when, the Company becomes a party to the contractual provisions of the instrument. When the Company first recognizes a financial asset, the business model and the characteristics of contractual cash flows of the financial asset are considered by management. When the business model determined by the Company's management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments are made to earnings, losses or interest that were previously recorded in the financial statements.

*Financial Assets at Fair Value through Profit or Loss*

"Financial assets at fair value through profit/loss" are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short-term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

Equity securities classified as financial assets at fair value through profit or loss are carried at fair value.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

*Financial Assets at Fair Value through Other Comprehensive Income*

In addition to financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income are initially recognized at their fair value plus transaction costs, if any. Financial assets at fair value through other comprehensive income are subsequently measured at their fair value. The interest income on debt instruments at fair value through other comprehensive income that is calculated using the effective interest method is reflected in the statement of income. The difference between the fair value of the debt instruments at fair value through other comprehensive income and the amortized cost of the financial assets, net of expected loss impairment allowance, i.e. "Unrealized gains and losses", is not recognized in the statement of income until the realization of the financial asset, i.e. the sale of the asset or its other disposal.

Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

During initial recognition, the Company can choose in an irrevocable way to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

*Financial Assets Measured at Amortised Cost*

A financial asset is classified as a financial asset measured at amortized cost when it is held within a business model to collect contractual cash flows and the terms give rise to cash flows that are solely payments of principal or interest.

Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs, if any, which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is accounted in income statement.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

**Derivative financial instruments and hedge accounting**

The major derivative instruments utilized by the Company are foreign 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”.

Although IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and hedge accounting. The Company continues to apply IAS 39 for hedge accounting according to the permission set out in IFRS 9 standard.

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 judgement is not incorporated.

*Fair Value Hedge and Cash Flow Hedge Transactions*

<u>Fair value hedge</u>

The Company hedges its fixed rate Hungarian Forint Eurobond security issued against fair value risk arising from the fluctuations in the market interest rates and certain part of its Euro 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 Euro 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”.

<u>Cash flow hedge</u>

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”.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

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.

***Recognition and Derecognition of Financial Instruments***

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

The Company recognizes all regular way purchases and sales of financial assets on the settlement date i.e. the date that the asset is delivered. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost; change in value is not recognized.

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)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

***Impairment of Financial Assets***

As of 1 January 2018, a loss allowance for expected credit losses is provided for all financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income, all financial assets, which are not measured at fair value through profit or loss, finance lease commitments and financial guarantee contracts in accordance with IFRS 9 principles. Equity instruments are not subject to impairment assessment as they are measured at fair value.

Measurement of the expected credit losses reflects:

- Time value of money
- Reasonable and supportable information on past events, current conditions and forecasts of future economic conditions at the reporting date

The Company has changed its credit calculation method with the expected credit loss model as of 1 January 2018. Expected credit losses include an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions and the time value of money. The financial assets is divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

The Company allocates impairment for expected loss on financial assets measured at amortized cost and measured at fair value through other comprehensive income.

- 12-month expected credit losses ('Stage 1'): If at the reporting date, the credit risk of the financial instrument has not increased significantly since its initial recognition, this instrument is impaired at an amount equal to 12-month expected credit losses (resulting from the risk of default within the next 12 months).

- Lifetime expected credit losses for non-impaired assets ('Stage 2'): The loss allowance is measured at an amount equal to the lifetime expected credit losses if the credit risk of the financial instrument has increased significantly since initial recognition, but the financial asset is not credit impaired.

- Lifetime expected credit losses for credit-impaired financial assets ('Stage 3'): when an asset is "credit-impaired", the loss allowance is also measured for an amount equal to the lifetime expected credit losses.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

**Definition of Default:**

The definition of default is consistent with the definition used for internal credit risk management purposes for the finance lease receivables and aligned with the IFRS 9 default definition, with a rebuttable presumption that the default occurs no later than 90 days past-due. The definition of default is used consistently for assessing the increase in credit risk and measuring expected credit losses.

**Write-off policy:**

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 finance lease receivables. Subsequent recoveries of amounts previously written off are included in statement of comprehensive income.

**Significant increase in credit risk:**

Significant increase in credit risk is assessed on an individual basis taking into account all reasonable and supportable information and comparing the risk of default of the financial instrument at the reporting date with the risk of default of the financial instrument at the date of initial recognition.

According to the standard, a rebuttable presumption that the credit risk of an instrument has significantly increased since initial recognition when the contractual payments are more than 30 days past due.

**Expected Credit Loss ("ECL")**

The Company allocates impairment for expected loss on financial assets measured at amortized cost and measured at fair value through other comprehensive income.

As of 1 January 2018, the Company recognize provisions for impairment in accordance with IFRS 9 "Financial Instruments", issued by the IASB in July 2014, replaced IAS 39, related to the classification and measurement of financial instruments. The ECL estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

The Company has also evaluated the calculated ECL amount for its customers of which total exposure is TL5,000 and classified as Stage 2 and Stage 3 by individual assessment. With respect to this evaluation process, the Company management has decided whether any additional provision is needed or not. In this context, the Company has booked an additional ECL provision of TL61,506 as a result of the individual assessment.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

**Expected Credit Loss Calculation – Input and Forecasting Methodologies:**

Expected Credit Loss is calculated as 12 months or lifetime, depending on whether there is a significant increase in credit risk after initial recognition or whether an asset is considered as a credit loss. Expected Credit Loss is calculated by using the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) components.

- Probability of Default (PD): PD indicates the probability of default due to inability of the borrower to meet its debt obligations. It has been calculated for 12 months or lifetime depends on increase on borrower's credit risk.

- Loss Given Default (LGD): In case of default of the borrower, Loss Given Default has been calculated as dividing Expected Credit Loss to Exposure at Default (EAD). LGD models includes data such as product type, customer segment, collateral structure, customer repayment performance. Calculated LGD remains constant until its overdue.

- Exposure at Default: Specifies the amount of risk that the borrower should pay in case of default. It is kept in the system by constantly calculated until the maturity of the borrower. The amount of extra risk that can be incurred in the event of default is included in the calculations by using the credit conversion rate (CCR) calculated for the irrevocable commitment products.

Expected Credit Loss is calculated over the remaining maturity using the PD, LGD and EAD components. Calculated values are discounted on a monthly basis using the original effective interest rate or an approximate value of the discount rate. The expected credit loss value is calculated for all customers over the maturity period. However, for those who do not have a significant increase in credit risk, the 12-month ECL is taken into account, and for those with a significant increase in credit risk, the ECL value calculated over the remaining period is taken into account.

Macro-economic indicators are taken into account in determining the PD component in the expected credit loss calculation. Macro-economic indicators vary on a product-by-product basis for individual products and on a segment basis for commercial products. Future macroeconomic forecasts are reflected in the ECLs using more than one scenario.

The ECL calculations are reviewed once a year. After the last review during the reporting period;

- There is no update in the assumptions in the estimation techniques.
- Model risk parameters and macroeconomic estimation models have been updated with recent data.
- Expected Credit Loss calculation has been made with using multi-scenario structure by using updated macroeconomic model scenarios.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

Macro-economic indicators are taken into account in determining the PD component in the expected credit loss calculation. Macro-economic indicators vary on a product-by-product basis for individual products and on a segment basis for commercial products. Future macroeconomic forecasts are reflected in the ECLs using more than one scenario.

The risk parameters used in the IFRS 9 calculations include prospective macroeconomic information. While macroeconomic information is included, models and estimates reflecting the relationships between model risk parameters and macroeconomic variables are taken into consideration. The main macroeconomic indicators of these estimation models are the Gross Domestic Product (GDP) and the policy interest rate. Macroeconomic estimation models include more than one scenario and the related scenarios are taken into account in the expected credit loss calculations.

Within the scope IFRS 9, macroeconomic expectations directly affect provisions (Expected Credit Loss-ECL). Related impact is realized when the default ratio of the Company moves the default rate calculated for each maturity up or down. The main parameters of default ratio model are "Growth Rate" and "Policy Interest". Therefore, the calculated provisions can change when the macroeconomic expectations are taken into consideration.

The prospective expectations have been determined based on 2 scenarios, base scenario and negative scenario. Each scenario has predetermined weights. Final allowances are calculated by weighting the probability given to the scenarios.

**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 |
| Vehicles | 5 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.

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

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

**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:

| | |
|---|---|
| Rights | 3- 5 years |

**Assets held for sale**

The assets sustaining the criteria of being classified under assets held for sale are measured with the lower of their carrying amounts and fair value less costs to be incurred for sale. In order for an asset to be classified as an asset held for sale, the related asset (or the asset group to be disposed) shall be ready to be sold at once in the circumstances of usual conditions and should have a high possibility to be sold. Besides, the asset (or the asset group to be disposed) shall be traded actively with a price in concordance with its "fair market value".

**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.

**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 has started to be applied as 22% for the year 2018 and will also be applied as 22% for the years 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.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

#### 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 18).

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 judgement, 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.

#### 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.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

**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 17).

***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 2018 is TL1,908 (2017: TL5,428) which is included in the statement of comprehensive income under the interest and similar income.

**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.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 New and Revised International Financial Reporting Standards (Continued)

**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 - CHANGES IN THE ACCOUNTING POLICIES

### 3.1 Explanations on Prior Period Accounting Policies not Valid for the Current Period

***Allowance for impairment of lease receivables***

In determining whether an impairment loss should be recorded in the statement of income, the Company makes judgements 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 income.

## NOTE 3 - CHANGES IN THE ACCOUNTING POLICIES

### 3.1 Explanations on Prior Period Accounting Policies not Valid for the Current Period (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.

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.

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.

## NOTE 4 - IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9

"IFRS 9 Financial Instruments", which is effective from 1 January 2018 has been applied. The aim of the standard is to determine the financial reporting principles on financial assets and financial liabilities. The Company has applied the classification, measurement and impairment requirements by adjusting the opening balance sheet and opening equity at 1 January 2018, without restatement of the comparative financial statements.

IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and hedge accounting. IFRS 9 permits not to apply the standard's principles on hedge accounting and to continue to apply hedge accounting principles of IAS 39. The Company continues to comply with all principles of IAS 39 for hedge accounting based on the analyses made so far.

The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Due to the impracticality, 2017 financial statements are presented separately.

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

## NOTE 4 - IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 (Continued)

### a) Classification and measurement of financial instruments

According to IFRS 9, each financial asset will be classified as either amortized cost, fair value through profit or loss ("FVPL"), 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.

| | **Before IFRS 9** | | **After IFRS 9** | |
|---|---|---|---|---|
| | **Basis of Measurement** | **Book value** | **Basis of Measurement** | **Book value** |
| **Financial Assets** | | **31 December 2017** | | **1 January 2018** |
| Cash and cash equivalents | Amortised cost | 589,082 | Amortised cost | 589,082 |
| Finance lease receivables, net | Amortised cost | 5,813,093 | Amortised cost | 5,709,525 |

### b) Financial statement confirmation of financial assets at IFRS 9 transition:

| | **Book Value Before IFRS 9** | **Reclassifications** | **Remeasurement** | **Book Value After IFRS 9** |
|---|---|---|---|---|
| **Financial Assets** | **31 December 2017** | | | **1 January 2018** |
| **Cash and cash equivalents** | | | | |
| Book value in accordance with IAS 39 | 589,082 | | | |
| Remeasurement effects | | - | | |
| Book value in accordance with IFRS 9 | | | - | 589,082 |
| **Finance lease receivables** | | | | |
| Book value in accordance with IAS 39 | 5,813,093 | | | |
| Remeasurement effects | | - | (103,568) | |
| Book value in accordance with IFRS 9 | | | | 5,709,525 |

### c) Reconciliation of the opening balance of the provisions for impairment at IFRS 9 transition

The following table presents the reconciliation between provisions for impairment of the Company as of 31 December 2017 and the provision provided for expected credit losses measured in accordance with IFRS 9 expected loss model as of 1 January 2018.

| | **Book value before IFRS 9** | **Remeasurement** | **Book value after IFRS 9** |
|---|---|---|---|
| | **31 December 2017 (*)** | | **1 January 2018** |
| **Finance lease receivables** | **214,679** | **103,568** | **318,247** |
| Stage 1 | - | 22,981 | 22,981 |
| Stage 2 | 53,425 | 9,422 | 62,847 |
| Stage 3 | 161,254 | 71,165 | 232,419 |

(*) Since there was no differentiation between stages before the application of IFRS 9, provision for collectively impaired lease receivables amounting to TL53,425 has been presented in the line "Stage 2" and provision for individually assessed lease receivables amounting to TL161,254 has been presented as "Stage 3".

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

## NOTE 4 - IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 (Continued)

### d) Equity impacts of IFRS 9 transition

In accordance with IFRS 9, "Financial Instruments", it is not compulsory to restate previous period information at initial application of IFRS 9 and if the previous period information is not restated, the differences between the book values of 1 January 2018, the date of initial application, should be reflected in the opening balance of equity. The explanations about the initial application effects of IFRS 9, amounting to TL82,855 decrease on equity are presented below:

| | |
|---|---|
| Equity at 31 December 2017 before the application of IFRS 9 | 866,719 |
| Less: Increase in the provision for finance lease receivables (-) (*) | (103,568) |
| Add: Deferred tax asset recognized on IFRS 9 adjustments above (**) | 20,713 |
| First time adoption impact of IFRS 9, net (-) | (82,855) |
| **Equity at 1 January 2018 after the application of IFRS 9** | **783,864** |

(*) The negative difference amounting to TL103,568 between provisions for impairment provided in accordance with IAS 39 and provisions provided for the expected credit losses measured in accordance with the IFRS 9 expected loss model as of 1 January 2018, has been adjusted under "Retained earnings" in the equity.

(**) Deferred tax asset amounting to TL20,713 has been calculated with respect to abovementioned increase in the provision for finance lease receivables as of 1 January 2018 and the related amount has been adjusted under "Retained earnings" in the equity.

## NOTE 5 - 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 6 - 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 6 - FINANCIAL RISK MANAGEMENT

### *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 2018 and 2017.

| **31 December 2018** | **Assets** | **%** | **Liabilities** | **%** |
|---|---|---|---|---|
| Turkey | 6,640,506 | 100 | 2,507,953 | 42 |
| European countries | 11,946 | - | 2,814,616 | 47 |
| Other | 4,547 | - | 607,270 | 11 |
| | **6,656,999** | **100** | **5,929,839** | **100** |

| **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** |

**Maximum exposure to credit risk**

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Credit risk exposures relating to balance sheet items: | | |
| Lease receivables, net | 5,917,339 | 5,813,093 |
| Cash and cash equivalents | 395,676 | 589,082 |
| Derivative financial instruments | 10,970 | 19,540 |

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

## NOTE 6 - FINANCIAL RISK MANAGEMENT

### *a. Credit risk (Continued)*

The table below shows the maximum exposure to credit risk for the components of the financial statements:

| Gross maximum exposure | 31 December 2018 |
|---|---|
| Cash and cash equivalents (excluding cash on hand) | 395,674 |
| Financial assets at fair value through profit and loss | 9,820 |
| - Derivative financial instruments | 9,820 |
| Derivative used for hedging purposes | 1,150 |
| Financial assets at amortised cost | 5,917,339 |
| - Lease receivables | 5,917,339 |
| Other assets and prepaid expenses | 58,230 |
| **Total** | **6,382,213** |
| Commitments | 521,023 |
| **Total** | **521,023** |
| **Total credit risk exposure** | **6,903,236** |

| Gross maximum exposure | 31 December 2017 |
|---|---|
| Cash and cash equivalents (excluding cash on hand) | 589,080 |
| Financial assets at fair value through profit or loss | 3,238 |
| Derivative used for hedging purposes | 16,302 |
| Lease receivables | 5,813,093 |
| Other assets and prepaid expenses | 73,745 |
| **Total** | **6,495,458** |
| Commitments | 228,798 |
| **Total** | **228,798** |
| **Total credit risk exposure** | **6,724,256** |

Credit quality per class of financial assets as of 31 December 2018 and 2017 are as follows;

| 31 December 2018 | Stage 1 | Stage 2 | Stage 3 | Total allowance for impairment (Stage 1+2+3) | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | 395,727 | - | - | (53) | 395,674 |
| Derivatives used for hedging purposes | 1,150 | - | - | - | 1,150 |
| Financial assets at amortised cost | 5,300,014 | 505,709 | 600,407 | (488,791) | 5,917,339 |
| - Lease receivables from customers | 5,300,014 | 505,709 | 600,407 | (488,791) | 5,917,339 |
| Other assets and prepaid expenses | 58,230 | - | - | - | 58,230 |
| **Total** | **5,755,121** | **505,709** | **600,407** | **(488,844)** | **6,372,393** |

| 31 December 2017 | Neither past due nor impaired | Past due but not impaired | Impaired receivables | Allowance for collective impairment | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | 589,080 | - | - | - | 589,080 |
| Derivative financial instruments held for hedging | 16,302 | - | - | - | 16,302 |
| Lease receivables from customers | 5,283,316 | 89,793 | 287,070 | (214,679) | 5,445,500 |
| **Total** | **5,888,698** | **89,793** | **287,070** | **(214,679)** | **6,050,882** |

Further credit risk related disclosures are provided in Note 8.

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

## NOTE 6 - FINANCIAL RISK MANAGEMENT (Continued)

### *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.

### *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 2018 and 2017.

| | **Foreign Currency** | | | |
|---|---|---|---|---|
| **31 December 2018** | **US$ (TL Equivalent)** | **Euro (TL Equivalent)** | **Other (TL Equivalent)** | **Total** |
| **Assets** | | | | |
| Due from banks | 215,197 | 150,835 | 228 | 366,260 |
| Finance lease receivables | 1,029,714 | 3,562,903 | - | 4,592,617 |
| **Total assets** | **1,244,911** | **3,713,738** | **228** | **4,958,877** |
| **Liabilities** | | | | |
| Borrowings | 1,531,381 | 2,834,693 | - | 4,366,074 |
| Debt securities issued | - | - | 14,354 | 14,354 |
| Accounts payable | 13,112 | 74,820 | 2,855 | 90,787 |
| Advances from customers | 24,243 | 38,327 | 2 | 62,572 |
| **Total liabilities** | **1,568,736** | **2,947,840** | **17,211** | **4,533,787** |
| **Net balance sheet position** | **(323,825)** | **765,898** | **(16,983)** | **425,090** |
| Off-balance sheet derivative instruments - net notional position | 254,075 | (475,647) | - | (221,572) |
| Off-balance sheet derivatives used for hedging purposes - net notional position | (41,336) | (70,900) | 13,138 | (99,098) |
| **Total net balance sheet position** | **(111,086)** | **219,351** | **(3,845)** | **104,420** |

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

## NOTE 6 - FINANCIAL RISK MANAGEMENT (Continued)

| | Foreign Currency | | | |
|---|---|---|---|---|
| **31 December 2017** | **US$ (TL Equivalent)** | **Euro (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 | 917,663 | 2,283,838 | - | 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** | **1,998,581** | **2,370,821** | **13,762** | **4,383,164** |
| **Net balance sheet position** | **(498,569)** | **805,590** | **(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** | **(43,284)** | **45,007** | **(3,069)** | **(1,346)** |

At 31 December 2018, assets, liabilities and off-balance sheet derivative instruments denominated in foreign currency were translated into TL by using a foreign exchange rate of TL 5.2609: US$1 and TL 6.028: Euro1 (31 December 2017: TL 3.7719: US$1 and 4.5155: Euro1).

***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 2018** | **31 December 2017** | **31 December 2018** | **31 December 2017** |
| Profit or loss | (11,109) | (4,328) | 21,935 | 4,501 |

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

## NOTE 6 - FINANCIAL RISK MANAGEMENT (Continued)

### *ii) Interest rate risk*

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

### *Interest rate sensitivity*

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

If interest rates had been 0.5% higher/lower and related interest rate swaps and all other variables were held constant, the Company's loss for the year ended 31 December 2018 would decrease/increase by TL8,807 (2017: profit increase/decrease by TL11,261). This is mainly attributable to the Company's exposure to interest rates on its variable rate receivables and borrowings.

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

| **31 December 2018** | **Up to 3 months** | **3 to 12 months** | **Over 1 year** | **Demand** | **Total** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 376,470 | - | - | 19,206 | 395,676 |
| Finance lease receivables | 1,488,370 | 1,190,258 | 2,802,746 | 435,965 | 5,917,339 |
| Derivative financial instruments | - | - | - | 10,970 | 10,970 |
| **Total assets** | **1,864,840** | **1,190,258** | **2,802,746** | **466,141** | **6,323,985** |
| **Liabilities** | | | | | |
| Borrowings | 1,491,722 | 1,640,190 | 1,478,679 | - | 4,610,591 |
| Debt securities issued | 801,515 | 100,121 | - | - | 901,636 |
| Derivative financial instruments | - | - | - | 210,088 | 210,088 |
| **Total liabilities** | **2,293,237** | **1,740,311** | **1,478,679** | **210,088** | **5,722,315** |
| **Net re-pricing gap** | **(428,397)** | **(550,053)** | **1,324,067** | **256,053** | **601,670** |

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

## NOTE 6 - FINANCIAL RISK MANAGEMENT (Continued)

| 31 December 2017 | Up to 3 months | 3 to 12 months | Over 1 year | Demand | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 574,716 | - | - | 14,366 | 589,082 |
| Finance lease receivables | 1,593,019 | 1,053,507 | 2,624,984 | 541,583 | 5,813,093 |
| Derivative financial instruments | - | - | - | 19,540 | 19,540 |
| **Total assets** | **2,167,735** | **1,053,507** | **2,624,984** | **575,489** | **6,421,715** |
| **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** | **1,395,169** | **2,446,860** | **1,489,510** | **121,453** | **5,452,992** |
| **Net re-pricing gap** | **772,566** | **(1,393,353)** | **1,135,474** | **454,036** | **968,723** |

### *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 2018 | Demand and up to 3 months | 3 to 12 months | Over 1 year | Total |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Borrowings | 326,263 | 1,108,939 | 3,546,592 | 4,981,794 |
| Debt securities issued | 801,517 | 139,986 | - | 941,503 |
| Accounts payable | 111,173 | - | - | 111,173 |
| Advances from customers | 82,684 | - | - | 82,684 |
| Other liabilities | 11,280 | - | - | 11,280 |
| **Total liabilities** | **1,332,917** | **1,248,925** | **3,546,592** | **6,128,434** |
| Cash inflow from derivative financial instruments | 311,532 | 329,196 | 217,907 | 858,635 |
| Cash (outflow) from derivative financial instruments | (359,335) | (372,842) | (308,188) | (1,040,365) |
| **Cash inflow/(outflow), net** | **(47,803)** | **(43,646)** | **(90,281)** | **(181,730)** |

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

## NOTE 6 - FINANCIAL RISK MANAGEMENT (Continued)

| 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)** |

### *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, judgement 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 | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Cash and cash equivalents | 395,676 | 589,082 | 395,676 | 589,082 |
| Finance lease receivables | 5,917,339 | 5,813,093 | 5,700,427 | 5,931,376 |
| Borrowings | 4,610,591 | 3,559,941 | 4,226,799 | 3,321,298 |
| Debt securities issued | 901,636 | 1,771,598 | 896,595 | 1,737,883 |

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$, Euro and TL finance lease receivables as at 31 December 2018 are 7.11%, 4.83% and 18.61% respectively (31 December 2017 are 6.54%, 4.81% and 15.09% respectively).

The discount rate used to calculate the fair value of US$, Euro and TL borrowings and debt securities issued as at 31 December 2018 are 5.50%, 3.15% and 23.73% respectively (31 December 2017 are 4.21%, 3.05% and 13.40%, respectively).

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

## NOTE 6 - FINANCIAL RISK MANAGEMENT (Continued)

### *Fair value hierarchy*

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

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

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

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

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 2018** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Financial assets at fair value through profit and loss | | | |
| derivative financial assets held for trading | - | 9,820 | - |
| Derivatives used for hedging purposes | - | 1,150 | - |
| **Total assets** | **-** | **10,970** | **-** |
| Financial liabilities at fair value through profit and loss | | | |
| derivatives held-for-trading | - | 56,528 | - |
| Derivatives used for hedging purposes | - | 153,560 | - |
| **Total liabilities** | **-** | **210,088** | **-** |

| **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** | **-** |

### *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 24 December 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 2018 and 2017.

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

## NOTE 7 - CASH AND CASH EQUIVALENTS

| | **31 December 2018** |
|---|---|
| Cash on hand | 2 |
| Due from banks | 395,727 |
| *-demand deposits* | *19,256* |
| *-time deposits* | *376,471* |
| Less: Expected credit loss due from banks | (53) |
| **Total cash and cash equivalents** | **395,676** |

At 31 December 2018, the Company's cash and cash equivalents in the statement of cash flows are as follows:

| | **31 December 2018** |
|---|---|
| Cash on hand | 2 |
| Due from banks | 395,727 |
| *-demand deposits* | *19,256* |
| *-time deposits* | *376,471* |
| Less: Interest accruals | (307) |
| **Cash and cash equivalents in the statements of cash flow** | **395,422** |

| | **31 December 2017** |
|---|---|
| | **Total** |
| Cash on hand | 2 |
| Due from banks | 589,080 |
| *-demand deposits* | *14,364* |
| *-time deposits* | *574,716* |
| **Total due from banks** | **589,082** |
| Less: Interest accruals | (1,236) |
| **Cash and cash equivalents in the statements of cash flows** | **587,846** |

At 31 December 2018, the Company's time deposit maturities are shorter than three months and the effective interest rates on time deposits denominated US Dollar, Euro and TL are 3.72%, 1.25% and 23.06% respectively (31 December 2017: Time deposit maturities are shorter than three months and the effective interest rates on time deposits denominated US Dollar, Euro and TL are 4.03%, 1.36% and 14.85%, respectively).

As of 31 December 2018 and 2017, there is no restriction on bank deposits.

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

## NOTE 8 - FINANCE LEASE RECEIVABLES, NET

| | 31 December 2018 |
|---|---|
| Gross finance lease receivables | 6,234,240 |
| Invoiced lease receivables | 104,710 |
| Unearned finance income (-) | (801,299) |
| | **5,537,651** |
| Impaired lease receivables | 600,407 |
| Provision for lease receivables (-) | (488,791) |
| | **5,649,267** |
| Leasing contracts in progress (*) | 203,154 |
| Advances to vendors | 64,918 |
| **Net finance lease receivables** | **5,917,339** |

| | 31 December 2017 |
|---|---|
| Gross finance lease receivables | 6,159,725 |
| Invoiced lease receivables | 89,793 |
| Unearned finance income (-) | (876,409) |
| | **5,373,109** |
| Impaired lease receivables | 287,070 |
| Provision for lease receivables (-) | (214,679) |
| | **5,445,500** |
| Leasing contracts in progress (*) | 185,346 |
| Advances to vendors | 182,247 |
| **Net finance lease receivables** | **5,813,093** |

(*) 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 2018 and 2017, 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 8 - FINANCE LEASE RECEIVABLES, NET (Continued)

At 31 December 2018 and 2017 the finance lease receivables according to their interest type are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Fixed rate | 4,936,512 | 4,555,476 |
| Floating rate | 1,297,728 | 1,604,249 |
| | **6,234,240** | **6,159,725** |

At 31 December 2018 and 2017 the finance lease receivables have the following collection schedules:

| | Finance Lease Receivables (*) | |
|---|---|---|
| **Year Ending** | **Gross 31 December 2018** | **Net 31 December 2018** |
| 31 December 2019 | 2,206,958 | 1,901,318 |
| 31 December 2020 | 1,568,621 | 1,341,508 |
| 31 December 2021 | 1,135,859 | 999,785 |
| 31 December 2022 | 643,898 | 575,053 |
| 31 December 2023 and after | 783,614 | 719,987 |
| | **6,338,950** | **5,537,651** |

| | 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** |

(*) 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 2018, the Company's performing finance lease receivables amount to TL6,338,950 (31 December 2017: TL6,249,518) and all these finance lease receivables are secured by the leased equipment. The nominal amount of mortgages received for finance lease receivables is TL1,428,128 (31 December 2017: TL1,384,393).

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

## NOTE 8 - FINANCE LEASE RECEIVABLES, NET (Continued)

Finance lease receivables can be analyzed as follows:

| 31 December 2018 | Gross exposure | Loss Provision | Net exposure |
|---|---|---|---|
| Stage 1 | 5,300,014 | 56,070 | 5,243,944 |
| Stage 2 | 505,709 | 103,604 | 402,105 |
| Stage 3 | 600,407 | 329,117 | 271,290 |
| **Total** | **6,406,130** | **488,791** | **5,917,339** |

| | 31 December 2017 |
|---|---|
| Neither past due nor impaired | 5,283,316 |
| Past due but not impaired | 89,793 |
| Impaired | 287,070 |
| **Gross** | **5,660,179** |
| Less: allowances for impairment (-) | (214,679) |
| **Finance lease receivables** | **5,445,500** |

| | 31 December 2017 | |
|---|---|---|
| | Invoiced Amount | Remaining Principal |
| 0-30 days | 24,194 | 168,007 |
| 30-60 days | 2,861 | 37,753 |
| 60 days and over | 62,738 | 360,175 |
| | **89,793** | **565,935** |

As of 31 December 2018, the allowances for finance lease receivables is TL488,791 of which TL219,252 represents allowance for individually assessed lease receivables and TL269,539 represents expected credit loss according to staging criteria.

As of 31 December 2017, the allowances for impaired lease receivables is TL214,679 of which TL161,254 represents allowance for individually assessed lease receivables and TL53,425 represents allowance for collectively impaired lease receivables.

As of 31 December 2018, outstanding lease receivable amount for sell and leaseback transactions is TL1,108,626 (31 December 2017: TL1,318,711).

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 TL317,045 (31 December 2017: TL161,778) has been obtained for impaired finance lease receivables amounting to TL544,417 (31 December 2017: TL287,070).

As of 31 December 2018, no lease receivable has been restructured after being impaired in prior periods (31 December 2017: TL3,619).

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

## NOTE 8 - FINANCE LEASE RECEIVABLES, NET (Continued)

Movements in provision for finance lease receivables for the years ended 31 December 2018 and 2017 are as follows:

| | **2018** |
|---|---|
| Provision amount at 31 December 2017 before application of IFRS 9 | 214,679 |
| Impact of adopting IFRS 9 | 103,568 |
| At 1 January | 318,247 |
| Provision expense for the period | 218,853 |
| Recoveries of amounts previously provided for | (48,303) |
| Release of provision from written-off receivables | (6) |
| **At 31 December** | **488,791** |

| | **2017** |
|---|---|
| At 1 January | 118,609 |
| Impairment expense for the period | 136,558 |
| Recoveries of amounts previously provided for | (19,464) |
| Release of provision from written-off receivables | (21,024) |
| **At 31 December** | **214,679** |

Economic sector risk concentrations for the gross finance lease receivables as of 31 December 2018 and 2017 are as follows:

| | **31 December 2018** | **%** | **31 December 2017** | **%** |
|---|---|---|---|---|
| Construction | 1,295,603 | 21 | 1,186,147 | 19 |
| Energy and natural resources | 673,433 | 11 | 475,422 | 8 |
| Transportation | 629,657 | 10 | 701,766 | 11 |
| Steel and mining | 627,779 | 10 | 603,165 | 10 |
| Production | 553,511 | 9 | 452,612 | 7 |
| Textile | 516,526 | 8 | 494,979 | 8 |
| Health | 307,407 | 5 | 322,521 | 5 |
| Food and beverage | 307,159 | 5 | 348,110 | 6 |
| Tourism | 227,824 | 4 | 280,263 | 5 |
| Chemistry | 127,762 | 2 | 72,336 | 1 |
| Automotive | 117,780 | 2 | 129,395 | 2 |
| Petroleum and related chemistry | 104,317 | 2 | 92,131 | 1 |
| Agriculture | 88,749 | 1 | 94,380 | 2 |
| Financial institutions | 63,339 | 1 | 50,109 | 1 |
| Wholesale and retail trade | 62,861 | 1 | 109,451 | 2 |
| Technology, telecommunication, media and entertainment | 27,950 | - | 39,141 | 1 |
| Education | 22,186 | - | 7,866 | - |
| Printing | 17,883 | - | 16,018 | - |
| Other | 462,514 | 8 | 683,913 | 11 |
| | **6,234,240** | **100** | **6,159,725** | **100** |

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

## NOTE 8 - FINANCE LEASE RECEIVABLES, NET (Continued)

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

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

The Company has no finance lease payables as at 31 December 2018 and 2017.

| Finance Lease Receivables | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|---|
| 31 December 2017 (*) | - | 53,425 | 161,254 | 214,679 |
| Impact of adopting IFRS 9 at 1 January 2018 | 22,981 | 9,422 | 71,165 | 103,568 |
| Transfers; | (432) | 10,168 | 115,912 | 125,648 |
| - Transfer from Stage 1 to Stage 2 | (2,082) | 51,277 | - | 49,195 |
| - Transfer from Stage 1 to Stage 3 | (551) | - | 2,686 | 2,135 |
| - Transfer from Stage 2 to Stage 3 | - | (31,974) | 113,226 | 81,252 |
| - Transfer from Stage 2 to Stage 1 | 2,201 | (9,135) | - | (6,934) |
| New financial assets originated or purchased and recoveries | 36,840 | 31,010 | (16,427) | 51,423 |
| Financial assets derecognised during the period other than write-offs | (3,319) | (421) | (2,781) | (6,521) |
| Write-offs | - | - | (6) | (6) |
| **Loss allowance as at 31 December 2018** | **56,070** | **103,604** | **329,117** | **488,791** |

(*) Since there was no differentiation between stages before the application of IFRS 9, provision for collectively impaired lease receivables amounting to TL53,425 has been presented in the line "Stage 2" and provision for individually assessed lease receivables amounting to TL161,254 has been presented as "Stage 3".

## NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS

***Derivatives held-for-trading:***

| | | Fair Values | |
|---|---|---|---|
| **31 December 2018** | **Contract/Notional Amount** | **Assets** | **Liabilities** |
| Forward contracts | 320,635 | - | (33,013) |
| Currency swap contracts | 838,364 | 9,678 | (23,191) |
| Interest rate swap contracts | 94,955 | 142 | (324) |
| **Total** | **1,253,954** | **9,820** | **(56,528)** |

| | | Fair Values | |
|---|---|---|---|
| **31 December 2017** | **Contract/Notional Amount** | **Assets** | **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)** |

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

## NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

***Derivatives used for hedging purposes:***

| | | Fair Values | |
|---|---|---|---|
| **31 December 2018** | **Contract/Notional Amount** | **Assets** | **Liabilities** |
| *Derivatives used for fair value hedging purposes:* | | | |
| Currency swap contracts | 170,769 | 337 | (59,790) |
| Interest rate swap contracts | 83,999 | 813 | - |
| *Derivatives used for cash flow hedging purposes:* | | | |
| Currency swap contracts | 390,278 | - | (93,770) |
| **Total** | **645,046** | **1,150** | **(153,560)** |

| | | Fair Values | |
|---|---|---|---|
| **31 December 2017** | **Contract/Notional Amount** | **Assets** | **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)** |

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

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

## NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

**Derivative financial assets held for hedging:**

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | TRY | Foreign Currency | TRY | Foreign Currency |
| Fair value hedges | - | 1,150 | - | 1,430 |
| Cash flow hedges | - | - | 14,872 | - |
| | **-** | **1,150** | **14,872** | **1,430** |

**Derivative financial liabilities held for hedging:**

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | TRY | Foreign Currency | TRY | Foreign Currency |
| Fair value hedges | - | 59,790 | - | 45,353 |
| Cash flow hedges | - | 93,770 | - | - |
| | **-** | **153,560** | **-** | **45,353** |

Information regarding to hedge accounting as of 31 December 2018 and 2017 are summarized below;

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

As at 31 December 2018 and 2017 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(434) (31 December 2017: TL(594)).

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.

All fair value hedged transactions have been found to be effective as of 31 December 2018.

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

## NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The Company has decided to implement fair value hedging strategy in order to provide hedging through fixed interest US Dollar purchase part of cross currency swap transaction against fair value risk which shall arise due to changes in US Dollar/TL exchange rate changes in US Dollar 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 borrowed, which are hedged items, is TL2,848 (31 December 2017: TL1,514).

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(497) following the beginning of accounting hedge (31 December 2017: TL(281)).

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

None (31 December 2017: None).

- **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 TL2,572 (31 December 2017: TL234).

## NOTE 10 - OTHER ASSETS AND PREPAID EXPENSES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Insurance, notary and other receivables | 54,255 | 30,037 |
| Prepaid expenses | 813 | 579 |
| Deferred VAT | - | 42,122 |
| Other | 3,162 | 1,007 |
| | **58,230** | **73,745** |

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

## NOTE 11 - PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

**Property and equipment:**

| | 1 January 2018 | Additions | Disposals | Transfer | 31 December 2018 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Furniture and fixture | 524 | 6 | (7) | - | 523 |
| Vehicles | - | 1,047 | - | - | 1,047 |
| Leasehold improvements | 737 | 21 | - | - | 758 |
| Office equipment | 1,048 | 170 | - | - | 1,218 |
| | **2,309** | **1,244** | **(7)** | **-** | **3,546** |
| **Accumulated depreciation (-)** | | | | | |
| Furniture and fixture | 489 | 22 | (7) | - | 504 |
| Vehicles | - | 17 | - | - | 17 |
| Leasehold improvements | 709 | 21 | - | - | 730 |
| Office equipment | 690 | 185 | - | - | 875 |
| | **1,888** | **245** | **(7)** | **-** | **2,126** |
| **Net book value** | **421** | | | | **1,420** |

| | 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** |

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

## NOTE 11 - PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

### Intangible assets

| | 1 January 2018 | Additions | Disposals | 31 December 2018 |
|---|---|---|---|---|
| **Cost** | | | | |
| Rights | 5,145 | 957 | - | 6,102 |
| | **5,145** | **957** | **-** | **6,102** |
| **Accumulated amortization (-)** | | | | |
| Rights | 3,141 | 1,154 | - | 4,295 |
| | **3,141** | **1,154** | **-** | **4,295** |
| **Net book value** | **2,004** | | | **1,807** |

| | 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** |

## NOTE 12 - ASSETS HELD FOR SALE

| | 31 December 2018 |
|---|---|
| Assets held for resale | 174,079 |
| Less: Impairment of assets held for resale (Note 21) | (12,390) |
| | **161,689** |

| | 31 December 2017 |
|---|---|
| Assets held for resale | 75,995 |
| | **75,995** |

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

## NOTE 13 - BORROWINGS

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Interest rates per annum (%) | Balance in original currency | TL | Interest rates per annum (%) | Balance in original currency | TL |
| **Domestic borrowings** | | | | | | |
| Fixed rate borrowings: | | | | | | |
| Euro | 3.26 | 15,782 | 95,129 | 3.51 | 7,223 | 32,616 |
| US$ | 5.43 | 32,201 | 169,404 | 4.80 | 29,959 | 113,002 |
| TL | 11.17 | 165,568 | 165,568 | 11.46 | 308,912 | 308,912 |
| Floating rate borrowings: | | | | | | |
| Euro | 2.00 | 36,704 | 221,249 | 2.23 | 31,179 | 140,789 |
| US$ | 5.12 | 100,979 | 531,243 | - | - | - |
| **Total domestic borrowing** | | | **1,182,593** | | | **595,319** |
| **Foreign borrowings** | | | | | | |
| Fixed rate borrowings: | | | | | | |
| Euro | 2.12 | 222,057 | 1,338,561 | 2.13 | 231,857 | 1,046,950 |
| US$ | 4.23 | 49,099 | 258,303 | 4.11 | 52,949 | 199,720 |
| TL | 20.02 | 78,949 | 78,949 | 12.40 | 49,528 | 49,528 |
| Floating rate borrowings: | | | | | | |
| Euro | 2.06 | 195,713 | 1,179,755 | 1.95 | 235,529 | 1,063,531 |
| US$ | 5.43 | 108,808 | 572,430 | 3.79 | 160,368 | 604,893 |
| **Total foreign borrowings** | | | **3,427,998** | | | **2,964,622** |
| **Total borrowings** | | | **4,610,591** | | | **3,559,941** |

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Short term borrowings | 1,227,364 | 906,449 |
| Long term borrowings | 3,383,227 | 2,653,492 |
| | **4,610,591** | **3,559,941** |

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

## NOTE 14 - DEBT SECURITIES ISSUED

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Debt securities issued (*) | 887,282 | 793,963 |
| Eurobond (**) | 14,354 | 977,635 |
| | **901,636** | **1,771,598** |

(*) The Company has issued rediscounting bonds on 3 August 2018 with a nominal value of TL100,000; on 5 December 2018 with a nominal value of TL47,990; on 5 December 2018 with a nominal value of TL162,000; on 17 December 2018 with a nominal value of TL91,088; on 17 December 2018 with a nominal value of TL109,000; on 22 October 2018 with a nominal value of TL138,500 and on 14 November 2018 with a nominal value of TL160,000. Their maturity dates are 15 January 2019; 11 February 2019; 5 March 2019; 11 February 2019; 5 March 2019; 15 January 2019 and 11 February 2019, respectively. The average rediscount rates for these bonds are 20.00%; 23.25%; 23.50%; 22.67%; 23.50%; 27.50% and 25.25% respectively.

Along with the rediscounting bonds, the Company has issued floating rate bond on 16 November 2016 with a nominal value of TL70,000. The maturity date of this bond is 13 November 2019. The interest rate for the final coupon payment is 6.54% (yearly real coupon rate, indexed to CPI).

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

The Company established a multi-currency Global Medium Term Note Programme on 23 December 2013. Under the programme, the Company issued 28 private placements. As of 31 December 2018, the nominal outstanding amount of the issuances is Hungarian Forint 700 million in total (as of 31 December 2017, the nominal outstanding amount of the issuances is Hungarian Forint 700 million and US Dollar 4 million).

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

| | Funds Borrowed | Debt securities issued |
|---|---|---|
| Balance as at 1 January 2018 | 3,559,941 | 1,771,598 |
| Cash flows | 122,195 | (1,186,622) |
| Foreign exchange adjustments | 924,259 | 308,086 |
| Other non-cash movements | 4,196 | 8,574 |
| **Balance as at 31 December 2018** | **4,610,591** | **901,636** |

| | 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 15 - ACCOUNTS PAYABLE AND ADVANCES RECEIVED

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade payables (*) | 111,173 | 221,733 |
| Advances received (**) | 82,684 | 49,681 |
| | **193,857** | **271,414** |

(*) Trade payables mainly consist of debts to domestic and foreign suppliers due to the purchase of properties and equipments in the name of lessees according to leasing agreements. As of 31 December 2018, total of trade payables is TL111,173 (31 December 2017: TL221,733).

(**) Advances received consists of collections from lessees over the invoiced amount or early payments for lease receivables.

As of 31 December 2018 and 2017, all trade payables have maturity of less than one year.

## NOTE 16 - OTHER LIABILITIES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Withholding taxes and duties payable | 8,089 | 1,051 |
| Provision for personnel performance bonus | 2,130 | 1,845 |
| Provision for lawsuit | 1,046 | 375 |
| Other | 15 | 156 |
| | **11,280** | **3,427** |

## NOTE 17 - EMPLOYMENT BENEFITS

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Provision for unused vacation | 1,239 | 1,039 |
| Provision for employment termination benefits | 1,148 | 1,161 |
| | **2,387** | **2,200** |

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 TL5,434.42 (31 December 2017: TL4,732.48) (in full "TL" amount) for each year of service.

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

## NOTE 17 - 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 2018 and 2017:

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Discount rate (%) | 5.73 | 4.00 |
| Turnover rate to estimate the probability of retirement (%) | 94.43 | 93.85 |

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 TL6,017.60 (in full "TL" amount) which is effective as of 1 January 2019 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:

| | **2018** | **2017** |
|---|---|---|
| At 1 January | 1,161 | 659 |
| Paid during the year | (428) | (239) |
| Increase during the year | 415 | 741 |
| **At 31 December** | **1,148** | **1,161** |

## NOTE 18 - TAXATION

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Current tax charge (-) | (23,025) | (38,286) |
| Deferred tax income | 40,816 | 23,680 |
| | **17,791** | **(14,606)** |

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 was 20%. However, the corporate income tax rate is applied as 22% for the year 2018 and will also be applied as 22% for the years 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. Corporation tax is payable at a rate of 22% 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 18 - TAXATION (Continued)

Corporations are required to pay advance corporation tax quarterly at the rate of 22% 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. The advance corporate income tax rate is applied as 22% for the year 2018 and will also be applied as 22% for the years 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 2018 | 31 December 2017 |
|---|---|---|
| Income tax liability | 23,025 | 38,286 |
| Prepaid taxes (-) | (34,894) | (25,296) |
| **Total** | **(11,869)** | **12,990** |

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

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| (Loss)/Income before tax | (72,321) | 77,160 |
| Effective tax rate | 22% | 20% |
| Theoretical tax income/(expense) | 15,911 | (15,432) |
| Effect of tax rate change | - | 830 |
| Effects of disallowable income and expenses | 1,880 | (4) |
| **Current year tax income/(expense)** | **17,791** | **(14,606)** |

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

## NOTE 18 - 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) | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Provision for lease receivables | 319,833 | 131,944 | 63,967 | 26,390 |
| Impairment provision for assets held for sale | 12,390 | - | 2,478 | - |
| Valuation of derivative financial instruments | 210,088 | 121,453 | 46,219 | 26,720 |
| Other | 6,350 | 4,554 | 1,397 | 957 |
| **Total** | | | **114,061** | **54,067** |
| Finance lease interest accruals | (57,548) | (61,399) | (12,661) | (13,508) |
| Valuation of derivative financial instruments | (10,970) | (19,540) | (2,413) | (4,299) |
| Other | (4,491) | (1,852) | (988) | (398) |
| **Total** | | | **(16,062)** | **(18,205)** |
| **Deferred tax assets, net** | | | **97,999** | **35,862** |

Movement of the deferred tax assets for the years 2018 and 2017 are as follows:

| | **2018** |
|---|---|
| Deferred tax assets at 31 December 2017 | 35,862 |
| First time adoption impact of IFRS 9, net | 20,715 |
| Deferred tax assets at 1 January 2018 | 56,577 |
| Recognized under profit or loss | 40,816 |
| Recognized under other comprehensive income | 606 |
| **Deferred tax assets at 31 December 2018** | **97,999** |

| | **2017** |
|---|---|
| At 1 January 2017 | 12,225 |
| Recognized under profit or loss | 23,680 |
| Recognized under other comprehensive income | (43) |
| **At 31 December 2017** | **35,862** |

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

## NOTE 19 - SHARE CAPITAL

At 31 December 2018 the Company's authorized share capital consists of 24,840,000,000 shares with a par value of Kr 1 each (2017: 24,840,000,000 shares with a par value of Kr 1 each). There is no privilege assigned to shares. At 31 December 2018 and 2017, the share capital is as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | **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 20 - 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 2018 and 2017 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 2018 | 31 December 2017 |
|---|---|---|
| Legal reserves | 57,737 | 50,080 |
| | **57,737** | **50,080** |

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 21 - OPERATING EXPENSES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Staff costs | 19,208 | 17,293 |
| Provision for impaired asset held for sale (Note 12) | 12,390 | - |
| Legal proceedings and lawyer expense | 6,124 | 3,414 |
| Audit and consultancy expenses | 1,566 | 952 |
| Rent expenses | 1,441 | 1,220 |
| Depreciation and amortization expense (Note 11) | 1,399 | 1,202 |
| Office management expenses | 754 | 718 |
| Taxes and duties other than on income | 661 | 213 |
| Advertisement expenses | 652 | 774 |
| Communication expenses | 483 | 331 |
| Cancellation of the interest accrual from impaired lease receivables | 223 | 5,334 |
| Provision for expected credit loss on due from banks | 53 | - |
| Travel expenses | 51 | 51 |
| Other | 3,836 | 2,753 |
| | **48,841** | **34,255** |

## NOTE 22 - FOREIGN EXCHANGE GAINS/LOSSES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Foreign exchange gains on finance lease receivables | 1,328,718 | 572,978 |
| Foreign exchange losses on borrowings and debt securities issued | (1,232,345) | (384,380) |
| Other foreign exchange losses, net (-) | (7) | (119,299) |
| **Foreign exchange gains, net** | **96,366** | **69,299** |

## NOTE 23 - NET TRADING, HEDGING AND FAIR VALUE LOSS

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trading, hedging and fair value gains | 193,802 | 187,524 |
| Trading, hedging and fair value losses (-) | (299,447) | (202,631) |
| | **(105,645)** | **(15,107)** |

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

## NOTE 24 - 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 2018 | 31 December 2017 |
|---|---|---|
| **Due from banks** | | |
| *Shareholders* | | |
| Akbank T.A.Ş. | 333,320 | 509,559 |
| | **333,320** | **509,559** |
| **Net finance lease receivables** | | |
| *Shareholders* | | |
| Akbank T.A.Ş. | 25,048 | 6,379 |
| Hacı Ömer Sabancı Holding A.Ş. | 4 | 635 |
| *Other group companies* (*) | | |
| CarrefourSA Carrefour Sabancı Ticaret Merkezi A.Ş. | 42,970 | 59,799 |
| Sabancı Dijital Tek. Hizm. A.Ş. | 1,550 | 3,928 |
| | **69,572** | **70,741** |
| **Borrowings** | | |
| *Shareholders* | | |
| Akbank T.A.Ş. | 291,744 | 347,164 |
| *Other group companies* (*) | | |
| Akbank A.G. | 132,768 | 67,781 |
| | **424,512** | **414,945** |
| **Trade payables** | | |
| *Other group companies* (*) | | |
| Aksigorta A.Ş. | 48,609 | 27,069 |
| Brisa Bridgestone Sabancı Lastik Sanayi ve Tic. A.Ş. | 17 | 17 |
| Sabancı Dijital Tek. Hizm. A.Ş. | 4 | 2 |
| | **48,630** | **27,088** |

(*) "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 24 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

### b) Transactions with related parties

**Interest income from finance leases**

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---|---|
| *Shareholders* | | |
| Akbank T.A.Ş. | 2,823 | 2,104 |
| Hacı Ömer Sabancı Holding A.Ş. | 33 | 53 |
| *Other group companies* (*) | | |
| CarrefourSA Carrefour Sabancı Ticaret Merkezi A.Ş. | 2,729 | 3,385 |
| Sabancı Dijital Tek. Hizm. A.Ş. | 400 | 497 |
| | **5,985** | **6,039** |

**Interest income on bank deposits**

| | | |
|---|---|---|
| *Shareholders* | | |
| Akbank T.A.Ş. | 28,578 | 15,172 |
| | **28,578** | **15,172** |

**Interest expense on borrowings**

| | | |
|---|---|---|
| *Shareholders* | | |
| Akbank T.A.Ş. | 46,722 | 40,138 |
| *Other group companies* (*) | | |
| Akbank A.G. | 2,593 | 2,803 |
| | **49,315** | **42,941** |

**Commission income**

| | | |
|---|---|---|
| *Shareholders* | | |
| Akbank T.A.Ş. | - | 6 |
| Hacı Ömer Sabancı Holding A.Ş. | - | 4 |
| *Other group companies* (*) | | |
| Aksigorta A.Ş. | 2,980 | 1,804 |
| Sabancı Dijital Tek. Hizm. A.Ş. | - | 3 |
| | **2,980** | **1,817** |

**Commission expense**

| | | |
|---|---|---|
| *Shareholders* | | |
| Akbank T.A.Ş. | 316 | 206 |
| *Other group companies* (*) | | |
| Ak Yatırım Menkul Değerler A.Ş. | 6,077 | 3,182 |
| | **6,393** | **3,388** |

(*) "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 24 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---|---|
| **Personnel expense** | | |
| *Shareholders* | | |
| Akbank T.A.Ş. | 115 | 140 |
| | **115** | **140** |
| **Rent and service expenses** | | |
| *Shareholders* | | |
| Hacı Ömer Sabancı Holding A.Ş. | 1,240 | 1,050 |
| Akbank T.A.Ş. | 295 | 311 |
| | **1,535** | **1,361** |
| **Gain on derivative instruments** | | |
| *Shareholders* | | |
| Akbank T.A.Ş. | 155,644 | 148,175 |
| | **155,644** | **148,175** |
| **Losses on derivative instruments** | | |
| *Shareholders* | | |
| Akbank T.A.Ş. | 283,564 | 160,699 |
| | **283,564** | **160,699** |
| **Remuneration of top management** | | |
| Remuneration of top management | 2,204 | 2,797 |
| | **2,204** | **2,797** |

**Off-balance sheet items**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Guarantee obtained from** | | |
| *Shareholders* Akbank T.A.Ş. | | |
| Obtained for the purpose of using for borrowings from other banks | 218,444 | 193,902 |
| Obtained for the purpose of using for law courts | 9,970 | 30,704 |
| | **228,414** | **224,606** |
| **Finance lease commitments** | | |
| *Shareholders* | | |
| Akbank T.A.Ş. | 27 | - |
| | **27** | **-** |

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

## NOTE 24 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

### Derivative Financial Instruments

| **31 December 2018** | **Contract/notional amount** | **Assets** | **Fair values Liabilities** |
|---|---|---|---|
| ***Derivative financial instruments held for trading:*** | | | |
| **Forward transactions** | | | |
| Akbank T.A.Ş. (Shareholder) | 320,635 | - | (33,013) |
| **Interest rate swap transactions** | | | |
| Akbank T.A.Ş. (Shareholder) | 15,191 | 36 | - |
| **Currency swap transactions** | | | |
| Akbank T.A.Ş. (Shareholder) | 679,470 | 9,031 | (22,728) |
| ***Derivative financial instruments held for fair value hedges:*** | | | |
| **Cross currency swap transaction** | | | |
| Akbank T.A.Ş. (Shareholder) | 144,079 | - | (59,790) |
| ***Derivative financial instruments held for cash flow hedges:*** | | | |
| **Cross currency swap transaction** | | | |
| Akbank T.A.Ş. (Shareholder) | 390,278 | - | (93,770) |
| **Total** | **1,549,653** | **9,067** | **(209,301)** |

| **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)** |

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

## NOTE 25 - 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 31 December 2018 and 2017.

### *Legal Proceedings*

The Company has provided for a total provision of TL1,046 against certain open legal cases as of 31 December 2018 (31 December 2017: TL375).

### *Commitments under derivative instruments*

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | **Nominal Original amount** | **Nominal TL** | **Nominal Original amount** | **Nominal TL** |
| **Forward and Swap Purchase Transactions** | | | | |
| US Dollar | 73,468 | 386,506 | 152,696 | 575,956 |
| Euro | 23,139 | 139,485 | 5,710 | 25,786 |
| TL | 319,506 | 319,506 | 438,923 | 438,923 |
| Hungarian Forint | 700,000 | 13,138 | 700,000 | 10,220 |
| **Total Purchase** | | **858,635** | | **1,050,885** |
| **Forward and Swap Sale Transactions** | | | | |
| US Dollar | 33,030 | 173,767 | 31,992 | 120,671 |
| Euro | 113,808 | 686,032 | 174,149 | 786,368 |
| TL | 180,566 | 180,566 | 218,155 | 218,155 |
| **Total Sales** | | **1,040,365** | | **1,125,194** |
| **Grand Total** | | **1,899,000** | | **2,176,079** |

### *Guarantees given*

The Company has collateral and given letters of guarantees amounting to TL363,362 (31 December 2017: TL877,499) 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 2018, the Company has given the letters of guarantee amounting to TL218,444 (31 December 2017: TL193,902) which had been obtained from Akbank and the aircrafts mortgaged amounting to TL134,947 (2017: TL132,127) 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 TL693,220 (2017: TL519,283). The Company has letters of credit for import of the equipment subject to finance leases in the amount of TL87,835 (2017: TL190,724) and finance lease commitments in the amount of TL521,023 (2017: TL228,798) for the leased asset imports.

## NOTE 25 - 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 2$^{nd}$ 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 30 October 2014. In response, the Company filed a lawsuit in the Tax Court on 7 November 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. On 15 November 2018, objection has been denied by Council of State and the lawsuit has been resulted in the Company's favour with a final decision.

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

## NOTE 26 - 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 2018 | 31 December 2017 |
|---|---|---|
| Net (loss)/income for current year | (54,530) | 62,554 |
| Weighted average number of ordinary shares with a nominal value of Kr 1 | 24,840,000,000 | 24,840,000,000 |
| **(Losses)/Earnings per share (full TL)** | **(0.0022)** | **0.0025** |

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 27 - SUBSEQUENT EVENTS

None.

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