

AK FİNANSAL KİRALAMA A.Ş.

**CONDENSED INTERIM FINANCIAL STATEMENTS
AS OF 30 JUNE 2019 TOGETHER WITH
INDEPENDENT AUDITOR'S REVIEW REPORT**

REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

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

Introduction

1. We have reviewed the accompanying condensed interim statement of financial position of Ak Finansal Kiralama A.Ş. (the “Company”) as of 30 June 2019 and the related condensed interim statements of comprehensive income, changes in equity and cash flows for six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

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

Conclusion

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

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

Talar Gül, SMMM
Partner

Istanbul, 8 August 2019

AK FİNANSAL KİRALAMA A.Ş.

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AS OF 30 JUNE 2019 AND FOR THE SIX-MONTH PERIOD THEN ENDED**

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AK FİNANSAL KİRALAMA A.Ş.**CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019**

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

ASSETS	Notes	30 June 2019	31 December 2018
Cash and cash equivalents		591,319	395,676
Finance lease receivables	7	5,441,268	5,917,339
Other assets and prepaid expenses		50,415	58,230
Assets held for sale		142,727	161,689
Property and equipment, net		2,187	1,420
Intangible assets, net		1,244	1,807
Derivative financial instruments	10	3,365	10,970
Income tax asset		-	11,869
Deferred tax asset, net		91,431	97,999
Total assets		6,323,956	6,656,999
LIABILITIES			
Borrowings	8	4,419,717	4,610,591
Debt securities issued	9	616,162	901,636
Accounts payable		112,773	111,173
Advances from customers		81,889	82,684
Derivative financial instruments	10	159,666	210,088
Lease liabilities		1,037	-
Other liabilities		16,911	11,280
Income tax liability		8,333	-
Provision for employment benefits		2,433	2,387
Total liabilities		5,418,921	5,929,839
EQUITY			
Share capital		373,400	248,400
Adjustment to share capital		(13,393)	(13,393)
Total paid-in share capital		360,007	235,007
Legal reserves		57,737	57,737
Hedge reserves		(1,467)	(2,008)
Retained earnings		436,324	490,954
Net profit/(loss) for the current period		52,434	(54,530)
Total equity		905,035	727,160
Total liabilities and equity		6,323,956	6,656,999

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

AK FİNANSAL KİRALAMA A.Ş.

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019**

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

	Notes	30 June 2019	30 June 2018
Interest and similar income from direct finance leases		251,044	243,445
Interest income on placements and transactions with banks		17,256	16,775
Total interest and similar income		268,300	260,220
Interest expense on borrowings (-)		(122,800)	(97,539)
Interest expense on debt securities issued (-)		(66,999)	(73,048)
Net interest income		78,501	89,633
Foreign exchange (losses)/gains, including net gains or losses from dealing in foreign currency, net		(19,204)	71,599
Net interest income after foreign exchange gains or losses		59,297	161,232
Net trading, hedging and fair value gain/(loss)		35,749	(64,904)
Impairment loss on finance lease receivables (-)	7	(72,100)	(47,729)
Recoveries from impaired lease receivables	7	55,707	20,738
Other income, net		8,506	3,822
Operating expenses (-)		(19,808)	(28,254)
Operating profit		67,351	44,905
Profit before income tax		67,351	44,905
Taxation on income (-)		(14,917)	(8,084)
Profit for the period		52,434	36,821
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges		693	(417)
Tax on cash flow hedge		(152)	83
Net other comprehensive profit/(loss) for the period		541	(334)
Total comprehensive income		52,975	36,487
Profit for the period:			
Basic earnings per share (full TL)	13	0.0016	0.0015
Diluted earnings per share (full TL)	13	0.0016	0.0015

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

AK FİNANSAL KİRALAMA A.Ş.

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019**

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

	Paid in share capital			Legal reserves	Hedge reserves	Retained earnings	Total Equity
	Share capital	Adjustment to share capital	Total paid-in share capital				
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 income	-	-	-	-	(334)	36,821	36,487
- <i>Net profit for the period</i>	-	-	-	-	-	36,821	36,821
- <i>Other comprehensive loss, net (-)</i>	-	-	-	-	(334)	-	(334)
Balance at 30 June 2018	248,400	(13,393)	235,007	57,737	(168)	527,775	820,351
	Paid in share capital			Legal reserves	Hedge reserves	Retained earnings	Total Equity
	Share capital	Adjustment to share capital	Total paid-in share capital				
Balance at 31 December 2018	248,400	(13,393)	235,007	57,737	(2,008)	436,424	727,160
First time adoption impact of IFRS 16, net	-	-	-	-	-	(100)	(100)
Balance at 1 January 2019	248,400	(13,393)	235,007	57,737	(2,008)	436,324	727,060
Transfers to legal reserves	-	-	-	-	-	-	-
Capital increase	125,000	-	125,000	-	-	-	125,000
Total comprehensive income	-	-	-	-	541	52,434	52,975
- <i>Net profit for the period</i>	-	-	-	-	-	52,434	52,434
- <i>Other comprehensive profit, net (-)</i>	-	-	-	-	541	-	541
Balance at 30 June 2019	373,400	(13,393)	360,007	57,737	(1,467)	488,758	905,035

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

AK FİNANSAL KİRALAMA A.Ş.

CONDENSED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

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

	Notes	30 June 2019	30 June 2018
Cash flows from operating activities			
Net profit for the period		52,434	36,821
Adjustments for:			
Depreciation and amortization		1,437	654
Re-measurement of derivative financial instruments at fair value		(42,817)	61,787
Provision for employment termination benefits		(15)	184
Provision for unused vacation		60	256
Provision for legal proceedings		(479)	(84)
Provision for personnel performance bonus		1,200	1,065
Provision for impaired receivables	7	72,100	47,729
Provision for impaired asset held for sale		-	12,390
Provision for cash and cash equivalents		181	-
Deferred tax expense/(income)		6,426	(5,704)
Corporate tax charge		8,491	13,788
Interest income, net		(78,501)	(89,633)
Net foreign exchange loss related to cash and funds borrowed		368,981	597,791
Cash flows from operating profit before changes in operating assets and liabilities		389,498	677,044
Changes in operating assets and liabilities			
Net decrease/(increase) in finance lease receivables		447,933	(338,422)
Net decrease/(increase) in other assets and prepaid expenses		38,646	(72,929)
Net increase/(decrease) in accounts payables		1,600	(66,189)
Net (decrease)/increase in advances from customers		(795)	23,814
Net increase/(decrease) in other liabilities		6,768	(325)
Personnel performance bonus paid (-)		(1,719)	(1,107)
Employment termination benefits paid (-)		(475)	(9)
Interest received		223,976	255,946
Interest paid (-)		(185,832)	(167,056)
Taxes paid (-)		(158)	(17,838)
Net cash provided by operating activities		919,442	292,929
Cash flows from investing activities			
Purchase of property and equipment and intangibles (-)		(45)	(557)
Net cash used in investing activities (-)		(45)	(557)
Cash flows from financing activities			
Proceeds from debt securities issued		1,125,391	921,315
Repayments of debt securities issued (-)		(1,505,211)	(1,780,840)
Proceeds from borrowings		101,092	1,290,150
Repayments of borrowings (-)		(575,621)	(753,994)
Capital increase in cash		125,000	-
Net cash used in financing activities (-)		(729,349)	(323,369)
Net increase/(decrease) in cash and cash equivalents		190,048	(30,997)
Effect of foreign exchange rate changes on cash and cash equivalents		5,053	24,901
Cash and cash equivalents at the beginning of the period		395,422	587,846
Cash and cash equivalents at the end of the period		590,523	581,750

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

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

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

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 30 June 2019, the Company employs 60 employees (31 December 2018: 63 employees).

These financial statements as of and for the period ended 30 June 2019 have been approved on 8 August 2019 by the Company management.

NOTE 2 - BASIS OF PRESENTATION

2.1 Basis of Presentation

These interim condensed financial statements for the period ended 30 June 2019 have been prepared in accordance with IAS 34, “Interim Financial Reporting”. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 December 2018. The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

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

The Company which is incorporated in Turkey maintains 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.

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 16, “Leases”. The prior period financial statements and related disclosures are not restated as permitted by IFRS 16 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.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019**

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

NOTE 2 - BASIS OF PRESENTATION (Continued)

2.2 New and Revised International Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 30 June 2019:

- i) **Amendment to IFRS 9, 'Financial instruments'**; effective from annual periods beginning on or after 1 January 2019. This amendment confirmed two points: (1) that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cash flows that are principal and interest and (2) 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. Refer to the Section 2.2 for new accounting policies based on IFRS 9.
- ii) **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.
- iii) **IFRS 16, 'Leases'**; effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15 'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019**

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

NOTE 2 - BASIS OF PRESENTATION (Continued)

2.3 New and Revised International Financial Reporting Standards (Continued)

- iv) **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.
- v) **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.
- vi) **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 remainder 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.
- b) Standards, amendments and interpretations that are issued but not effective as at 30 June 2019:*
- i) **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.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019**

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

NOTE 2 - BASIS OF PRESENTATION (Continued)

2.3 New and Revised International Financial Reporting Standards (Continued)

- ii) **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.
- iii) **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 3 - SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE PERIOD

None.

**NOTE 4 - IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME
ADOPTION OF IFRS 16**

The Company has implemented accounting policy changes resulting from the initial implementation of the "IFRS 16 Leases" standard from the new standard, amendments and interpretations effective from 1 January 2019 in accordance with the transitional provisions of the relevant standard.

The Company - lessee:

The Company assesses whether the contract has the quality of a lease or whether the lease includes the transaction at the beginning of a contract. In case the contract is transferred for a certain period of time to control the use of the asset defined for a price, it is either leased or includes a lease. The Company reflects the existence of a right of use and a lease liability to the financial statements at the effective date of the lease.

Right of use assets:

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

- a) The initial measurement amount of the lease obligation,
- b) the amount obtained by deducting all the rental incentives received from all lease payments made at or before the beginning of the lease;
- c) all initial direct costs incurred by the Company and

When applying the cost method, the existence of the right to use:

- a) accumulated depreciation and accumulated impairment losses are deducted and
- b) Measures the restatement of the lease obligation at the restated cost.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019**

(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 16 (Continued)**

The Lease Obligations:

At the effective date of the lease, the Company measures its leasing liability at the present value of the lease payments not paid at that time. Lease payments are discounted using the Company's average borrowing interest rates.

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

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

- a) Increase the book value to reflect the interest on the lease obligation
- b) Reduces the book value to reflect the lease payments made and
- c) The book value is measured to reflect reassessments and restructuring, or reflect to fixed lease payments as of revised nature.

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

Effects of first transition to IFRS 16

“IFRS 16 Leases” Standard was promulgated in Official Gazette No. 29826, dated 16 April 2018 to be applied in the accounting period starting on 31 December 2018. The Company applied IFRS 16 “Leasing” standard, which replaced TAS 17 “Leasing”, as of 1 January 2019, the date of first implementation. The impact of the said transition on the equities were classified under “Retained Earnings” in expense equities amounting TL124. Within this scope, deferred tax asset amounting TL24 was reflected in the financial figures of 30 June 2019 and classified under “Retained Earnings” in equities. The Company re-arranged the comparable amounts for the previous year by using the retrospective mixed transition practice. With this method, all tenure assets were measured based on the leasing debts (which are adjusted according to leasing costs paid in cash or accrued) in the transition period. Right and liability to use the asset pertaining to the lease, which were previously classified as financial leasing, were measured based on the carrying amount of the said assets before the transition.

Current period effects of IFRS 16

Related with the leasing agreements in the context of IFRS 16, the Company booked depreciation expense and interest expense instead of operational leasing expense. For the period that ended 30 June 2019, the Company booked TL669 of depreciation expense and TL103 interest expense.

During the first implementation, the Company recognised lease liability concerning the lease which were previously recognised as operational leasing as per TAS 17. These liabilities were measured based on the discounted current value by using the alternative borrowing rate of interest of remaining lease payments on 1 January 2019.

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

(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 16 (Continued)

Details based on the asset with regard to the recognised right of use is as follows:

	30 June 2019	1 January 2019
Real estate	3,033	3,028
Total right of use asset	3,033	3,028

Details of depreciation expense based on the asset with regard to the recognised asset tenure is as follows:

	30 June 2019	1 January 2019
Real estate	2,101	1,432
Total right of use asset depreciation expense	2,101	1,432

Lease agreements for vehicles, which are determined as low value by the Company with short-term lease agreements with a duration of 12 months or less, have been evaluated within the scope of the exemption granted by the standard. Within this scope, TL165 has been paid in the relevant period.

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.

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

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

NOTE 6 - FINANCIAL RISK MANAGEMENT (Continued)

a. Foreign currency sensitivity

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

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

	US Dollar Impact (TL Equivalent)		EURO Impact (TL Equivalent)	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Profit or Loss/Equity	(11,802)	(11,109)	22,478	21,935

b. Fair value of financial instruments

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

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

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

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

	Carrying amount		Fair value	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Cash and cash equivalents	591,319	395,676	591,319	395,676
Finance lease receivables	5,441,268	5,917,339	5,032,283	5,700,427
Borrowings	4,419,717	4,610,591	4,102,471	4,226,799
Debt securities issued	616,162	901,636	597,551	896,595

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 Dollar, Euro and TL finance lease receivables as at 30 June 2019 are 7.98%, 5.32% and 20.37%, respectively (31 December 2018: 7.11%, 4.83% and 18.61% respectively).

The discount rate used to calculate the fair value of US Dollar, Euro and TL borrowings and debt securities issued as at 30 June 2019 are 5.47%, 2.72% and 21.02%, respectively. (31 December 2018: 5.50%, 3.15% and 23.73%, respectively).

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

NOTE 6 - FINANCIAL RISK MANAGEMENT (Continued)

c. 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 and; at amortized cost but for which fair values are disclosed are as follows:

30 June 2019	Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss			
derivative financial assets held for trading	-	3,063	-
Derivatives used for hedging purposes	-	302	-
Total assets	-	3,365	-
Financial liabilities at fair value through profit and loss			
derivatives held-for-trading	-	323	-
Derivatives used for hedging purposes	-	159,343	-
Total liabilities	-	159,666	-
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	-

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

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

NOTE 7 - FINANCE LEASE RECEIVABLES, NET

	30 June 2019	31 December 2018
Gross finance lease receivables	5,681,199	6,234,240
Invoiced lease receivables	101,804	104,710
Unearned finance income (-)	(713,114)	(801,299)
	5,069,889	5,537,651
Expected credit loss - Stage 1 (-)	(46,962)	(56,070)
Expected credit loss - Stage 2 (-)	(126,483)	(103,604)
Total finance lease receivables	4,896,444	5,377,977
Impaired lease receivables	612,409	600,407
Expected credit loss - Stage 3 (-)	(331,739)	(329,117)
	5,177,114	5,649,267
Leasing contracts in progress (*)	173,782	203,154
Advances to vendors	90,372	64,918
Net finance lease receivables	5,441,268	5,917,339

(*) 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 30 June 2019 and 31 December 2018, leasing contracts in progress balance includes the total amount paid for these machinery and equipment but not charged to the lessees, yet.

At 30 June 2019 and 31 December 2018 the finance lease receivables according to their interest type are as follows:

	30 June 2019	31 December 2018
Fixed rate	4,594,868	4,936,512
Floating rate	1,086,331	1,297,728
	5,681,199	6,234,240

At 30 June 2019 and 31 December 2018 the leasing receivables have the following collection schedules:

Year Ending	Finance Lease Receivables (*)	
	Gross 30 June 2019	Net 30 June 2019
31 December 2019	1,245,831	1,105,927
31 December 2020	1,718,079	1,452,831
31 December 2021	1,201,915	1,046,373
31 December 2022	731,243	650,172
31 December 2023 and after	885,935	814,586
	5,783,003	5,069,889

(*) 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.

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NOTE 7 - FINANCE LEASE RECEIVABLES, NET (Continued)

Year Ending	Finance Lease Receivables (*)	
	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

(*) 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 30 June 2019, the Company’s performing finance lease receivables amount to TL5,783,003 (31 December 2018: TL6,338,950) and all these finance lease receivables are secured by the leased equipment. The nominal amount of mortgages received for finance lease receivables is TL1,525,901 (31 December 2018: TL1,428,128).

Finance lease receivables can be analyzed as follows:

30 June 2019	Gross exposure	Loss Provision (-)	Net exposure
Stage 1	4,727,285	(46,962)	4,680,323
Stage 2	606,758	(126,483)	480,275
Stage 3	612,409	(331,739)	280,670
Total	5,946,452	(505,184)	5,441,268

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

The Company has 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 TL47,247 as a result of the individual assessment.

As of 30 June 2019, outstanding lease receivable amount for sell and leaseback transactions is TL945,786 (31 December 2018: TL1,108,626).

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.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

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

NOTE 7 - FINANCE LEASE RECEIVABLES, NET (Continued)

Collaterals amounting to TL346,681 (31 December 2018: TL317,045) has been obtained for impaired finance lease receivables amounting to TL612,409 (31 December 2018: TL600,407).

As of 30 June 2019 and 31 December 2018, no lease receivable has been restructured after being impaired in prior periods.

Movements in provision for impaired finance lease receivables for the periods ended 30 June 2019 and 2018 are as follows:

	2019	2018
Provision amount at 31 December before the application of IFRS 9	488,791	214,679
Impact of adopting IFRS 9	-	103,568
At 1 January	488,791	318,247
Impairment expense for the period	72,100	47,729
Recoveries of amounts previously provided for	(55,707)	(20,738)
Release of provision from written-off receivables	-	(5)
At 30 June	505,184	345,233

Economic sector risk concentrations for the gross finance lease receivables as of 30 June 2019 and 31 December 2018 are as follows:

	30 June 2019	%	31 December 2018	%
Construction	1,187,316	21	1,295,603	21
Energy and natural resources	620,439	11	673,433	11
Steel and mining	617,741	11	627,779	10
Production	493,684	9	553,511	9
Transportation	456,879	8	629,657	10
Textile	444,762	8	516,526	8
Health	255,949	5	307,407	5
Food and beverage	255,592	4	307,159	5
Tourism	124,086	2	227,824	4
Chemistry	109,558	2	127,762	2
Automotive	108,318	2	117,780	2
Petroleum and related chemistry	90,728	2	104,317	2
Agriculture	79,866	1	88,749	1
Wholesale and retail trade	45,106	1	62,861	1
Financial institutions	35,595	1	63,339	1
Technology, telecommunication, media and entertainment	32,815	1	27,950	-
Printing	19,633	-	17,883	-
Education	18,654	-	22,186	-
Other	684,478	11	462,514	8
	5,681,199	100	6,234,240	100

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

NOTE 7 - FINANCE LEASE RECEIVABLES, NET (Continued)

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

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

The Company has no finance lease payables as at 30 June 2019 and 31 December 2018.

Movements in expected credit loss for the periods ended 30 June 2019 and 31 December 2018 are as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Expected Credit Loss				
31 December 2018	56,070	103,604	329,117	488,791
Transfers;				
- Balance change in Stage 1	(2,986)	-	-	(2,986)
- Transfer from Stage 1 to Stage 2	(6,358)	4,967	-	(1,391)
- Transfer from Stage 1 to Stage 3	(5)	-	451	446
- Balance change in Stage 2	-	17,311	-	17,311
- Transfer from Stage 2 to Stage 1	2,476	(1,353)	-	1,123
- Transfer from Stage 2 to Stage 3	-	(1,047)	1,117	70
- Balance change in Stage 3	-	-	1,083	1,083
New financial assets originated or purchased and recoveries	1,143	3,166	7	4,316
Financial assets derecognised during the period other than write-offs	(3,378)	(165)	(36)	(3,579)
Loss allowance as at 30 June 2019	46,962	126,483	331,739	505,184

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Expected Credit Loss				
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;				
- Balance change in Stage 1	31,524	-	-	31,524
- 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
- Balance change in Stage 2	-	28,633	-	28,633
- Transfer from Stage 2 to Stage 1	2,201	(9,135)	-	(6,934)
- Transfer from Stage 2 to Stage 3	-	(31,974)	113,226	81,252
- Balance change in Stage 3	-	-	(19,541)	(19,541)
New financial assets originated or purchased and recoveries	5,316	2,377	3,114	10,807
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”.

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**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
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NOTE 8 - BORROWINGS

	30 June 2019			31 December 2018		
	Interest rates per annum (%)	Balance in original currency	TL	Interest rates per annum (%)	Balance in original currency	TL
Domestic borrowings						
Fixed rate borrowings:						
Euro	3.16	15,752	103,187	3.26	15,782	95,129
US Dollar	5.36	19,667	113,185	5.43	32,201	169,404
TL	15.95	255,163	255,163	11.17	165,568	165,568
Floating rate borrowings:						
Euro	2.08	33,348	218,450	2.00	36,704	221,249
US Dollar	-	-	-	5.12	100,979	531,243
Total domestic borrowing			689,985			1,182,593
Foreign borrowings						
Fixed rate borrowings:						
Euro	2.05	198,400	1,299,659	2.12	222,057	1,338,561
US Dollar	4.30	47,154	271,375	4.23	49,099	258,303
TL	21.55	55,205	55,205	20.02	78,949	78,949
Floating rate borrowings:						
Euro	2.07	167,395	1,096,555	2.06	195,713	1,179,755
US Dollar	5.42	174,964	1,006,938	5.43	108,808	572,430
Total foreign borrowings			3,729,732			3,427,998
Total borrowings			4,419,717			4,610,591

	30 June 2019	31 December 2018
Short term borrowings	1,399,037	1,227,364
Long term borrowings	3,020,680	3,383,227
	4,419,717	4,610,591

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NOTE 9 - DEBT SECURITIES ISSUED

	30 June 2019	31 December 2018
Debt securities issued (*)	616,162	887,282
Eurobond	-	14,354
	616,162	901,636

(*) The Company has issued rediscounting bonds on 15 April 2019 with a nominal value of TL100,000; on 19 April 2019 with a nominal value of TL137,650; on 29 April 2019 with a nominal value of TL110,148; on 29 May 2019 with a nominal value TL75,739; on 17 June 2019 with a nominal value of TL100,823. Their maturity dates are 9 July 2019, 9 July 2019, 24 July 2019, 7 August 2019, 6 September 2019, respectively. The average rediscount rates for these bonds are 22.76%, 22.60%, 22.50%, 23.62%, 23.62%, respectively.

Along with the rediscounting bonds, the Company has issued floating rate bonds 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 3,37% (yearly real coupon rate, indexed to CPI).

Movements in funds borrowed and debt securities issued for the periods ended 30 June 2019 and 31 December 2018 are as follows:

	Funds Borrowed	Debt securities issued
Balance as at 1 January 2019	4,610,591	901,636
Cash flows	(474,529)	(379,820)
Foreign exchange adjustments	280,525	93,508
Other non-cash movements	3,130	838
Balance as at 30 June 2019	4,419,717	616,162

	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

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
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(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives held-for-trading:

30 June 2019	Contract/Notional Amount	Fair Values	
		Assets	Liabilities
Forward contracts	11,540	3	-
Currency swap contracts	266,283	3,023	-
Interest rate swap contracts	69,934	38	(324)
Total	347,757	3,064	(324)

31 December 2018	Contract/Notional Amount	Fair Values	
		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)

Derivatives used for hedging purposes:

30 June 2019	Contract/Notional Amount	Fair Values	
		Assets	Liabilities
<i>Derivatives used for fair value hedging purposes:</i>			
Currency swap contracts	117,683	-	(51,704)
Interest rate swap contracts	77,472	301	-
<i>Derivatives used for cash flow hedging purposes:</i>			
Currency swap contracts	387,726	-	(107,638)
Total	582,881	301	(159,342)

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

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NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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

Derivative financial assets held for hedging:

	30 June 2019		31 December 2018	
	TRY	Foreign Currency	TRY	Foreign Currency
Fair value hedges	-	301	-	1,150
	-	301	-	1,150

Derivative financial liabilities held for hedging:

	30 June 2019		31 December 2018	
	TRY	Foreign Currency	TRY	Foreign Currency
Fair value hedges	-	51,704	-	59,790
Cash flow hedges	-	107,638	-	93,770
	-	159,342	-	153,560

Information regarding to hedge accounting as of 30 June 2019 and 31 December 2018 are summarized below;

- Information regarding fair value hedge accounting:

Information regarding fair value hedge accounting as at 30 June 2019 and 31 December 2018 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. As of 30 June 2019, Eurobond has matured and been removed from financials (31 December 2018: Fair value change of hedged item which is issued Eurobond since the start of the hedge accounting is TL(434)).

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 30 June 2019.

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 TL1,109 (31 December 2018: TL2,848).

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NOTE 10 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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(47) following the beginning of accounting hedge (31 December 2018: TL(497)).

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

None (31 December 2018: 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 TL1,877 (31 December 2018: TL2,572).

NOTE 11 - 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**

	30 June 2019	31 December 2018
Due from banks		
<i>Shareholders</i>		
Akbank T.A.Ş.	530,028	333,320
	530,028	333,320
Net finance lease receivables		
<i>Shareholders</i>		
Akbank T.A.Ş.	6,359	25,048
Hacı Ömer Sabancı Holding A.Ş.	-	4
<i>Other group companies</i> (*)		
CarrefourSA Carrefour Sabancı Ticaret Merkezi A.Ş.	35,087	42,970
Sabancı Dijital Tek. Hizm. A.Ş.	2,353	1,550
	43,799	69,572
Borrowings		
<i>Shareholders</i>		
Akbank T.A.Ş.	385,844	291,744
<i>Other group companies</i> (*)		
Akbank A.G.	45,944	132,768
	431,788	424,512

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

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NOTE 11 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)**Trade payables**

	30 June 2019	31 December 2018
<i>Other group companies</i> (*)		
Aksigorta A.Ş.	40,505	48,609
Brisa Bridgestone Sabancı Lastik Sanayi ve Tic. A.Ş.	17	17
Sabancı Dijital Tek. Hizm. A.Ş.	-	4
	40,522	48,630

b) Transactions with related parties**Interest income from finance leases**

	1 January - 30 June 2019	1 January - 30 June 2018
<i>Shareholders</i>		
Akbank T.A.Ş.	1,478	65
Hacı Ömer Sabancı Holding A.Ş.	-	24
<i>Other group companies</i> (*)		
CarrefourSA Carrefour Sabancı Ticaret Merkezi A.Ş.	941	1,347
Sabancı Dijital Tek. Hizm. A.Ş.	144	237
	2,563	1,673

Interest income on bank deposits

<i>Shareholders</i>		
Akbank T.A.Ş.	16,505	13,905
	16,505	13,905

Interest expense on borrowings

<i>Shareholders</i>		
Akbank T.A.Ş.	28,380	25,374
<i>Other group companies</i> (*)		
Akbank A.G.	2,263	1,086
	30,643	26,460

Commission income

<i>Other group companies</i> (*)		
Aksigorta A.Ş.	1,265	1,498
Bimsa Uls. Bilgi ve Yönetim Sist. A.Ş.	1	-
	1,266	1,498

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

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NOTE 11 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	1 January - 30 June 2019	1 January - 30 June 2018
Commission expense		
<i>Shareholders</i>		
Ak Yatırım Menkul Değerler A.Ş.	3,601	2,537
Akbank T.A.Ş. (Shareholder)	179	142
	3,780	2,679

	1 January - 30 June 2019	1 January - 30 June 2018
Personnel expense		
<i>Shareholders</i>		
Akbank T.A.Ş.	72	48
	72	48

Rent and service expenses		
<i>Shareholders</i>		
Hacı Ömer Sabancı Holding A.Ş.	-	611
Akbank T.A.Ş.	-	183
	-	794

Gains on derivative instruments		
<i>Shareholders</i>		
Akbank T.A.Ş.	204,535	125,579
	204,535	125,579

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NOTE 11 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	1 January - 30 June 2019	1 January - 30 June 2018
Losses on derivative instruments		
<i>Shareholders</i>		
Akbank T.A.Ş. (Shareholder)	203,457	197,093
	203,457	197,093
Remuneration of top management		
Remuneration of top management	1,409	1,245
	1,409	1,245
Off-balance sheet items		
	30 June 2019	31 December 2018
Guarantee obtained from		
<i>Shareholders Akbank T.A.Ş.</i>		
Obtained for the purpose of using for borrowings from other banks	214,905	218,444
Obtained for the purpose of using for law courts	6,392	9,970
	221,297	228,414
Finance lease commitments		
<i>Shareholders</i>		
Akbank T.A.Ş.	-	27
Total	-	27

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019

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

NOTE 11 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

30 June 2019	Contract/notional amount	Fair values	
		Assets	Liabilities
<i>Derivative financial instruments held for trading:</i>			
Forward transactions			
Akbank T.A.Ş. (Shareholder)	11,540	3	-
Interest rate swap transactions			
Akbank T.A.Ş. (Shareholder)	4,243	6	-
Currency swap transactions			
Akbank T.A.Ş. (Shareholder)	93,029	869	-
<i>Derivative financial instruments held for fair value hedges:</i>			
Cross currency swap transaction			
Akbank T.A.Ş. (Shareholder)	117,683	-	(51,704)
<i>Derivative financial instruments held for cash flow hedges:</i>			
Cross currency swap transaction			
Akbank T.A.Ş. (Shareholder)	387,726	-	(107,639)
Total	614,221	878	(159,343)

31 December 2018	Contract/notional amount	Fair values	
		Assets	Liabilities
<i>Derivative financial instruments held for trading:</i>			
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)
<i>Derivative financial instruments held for fair value hedges:</i>			
Cross currency swap transaction			
Akbank T.A.Ş. (Shareholder)	144,079	-	(59,790)
<i>Derivative financial instruments held for cash flow hedges:</i>			
Cross currency swap transaction			
Akbank T.A.Ş. (Shareholder)	390,278	-	(93,770)
Total	1,549,653	9,067	(209,301)

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

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

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of activities, the Company undertakes commitments and incurs certain contingent liabilities that are not presented in these financial statements. The following is a summary of significant commitments and contingent liabilities at 30 June 2019 and 31 December 2018:

Legal Proceedings

The Company has provided for a total provision of TL567 against certain open legal cases of 30 June 2019 (31 December 2018: TL1,046).

Commitments under derivative instruments

	30 June 2019		31 December 2018	
	Nominal Original amount	Nominal TL	Nominal Original amount	Nominal TL
Forward and Swap Purchase Transactions				
US Dollar	32,761	188,542	73,468	386,506
Euro	3,997	26,185	23,139	139,485
TL	178,416	178,416	319,506	319,506
Hungarian Forint	-	-	700,000	13,138
Total Purchase		393,143		858,635
Forward and Swap Sale Transactions				
US Dollar	26,717	153,758	33,030	173,767
Euro	57,696	377,952	113,808	686,032
TL	5,785	5,785	180,566	180,566
Total Sales		537,495		1,040,365
Grand Total		930,638		1,899,000

Guarantees given

The Company has collateral and given letters of guarantees amounting to TL302,669 (31 December 2018: TL367,036) 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 30 June 2019, the Company has given the letters of guarantee amounting to TL214,905 (31 December 2018: TL218,445) which had been obtained from Akbank and the aircrafts mortgaged amounting to TL76,391 (2018: TL148,591) 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 TL753,331 (2018: TL693,220). The Company has letters of credit for import of the equipment subject to finance leases in the amount of TL214,681 (2018: TL87,835) and finance lease commitments in the amount of TL534,195 (2018: TL521,023) for the leased asset imports.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

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

NOTE 13 - 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.

The Company has increased their capital in cash by TL125,000 from TL248,400 to TL373,400 with the decision of General Assembly dated 20 March 2019.

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

	30 June 2019	30 June 2018
Net income for the period	52,434	36,821
Weighted average number of ordinary shares with a nominal value of Kr 1	31,923,333,333	24,840,000,000
Earnings per share (full TL)	0.0016	0.0015

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 14 - SUBSEQUENT EVENTS

None

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