

AK FİNANSAL KİRALAMA A.Ş.

**CONDENSED INTERIM FINANCIAL STATEMENTS
AS OF 30 JUNE 2020 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 2020 and the related condensed interim statements of comprehensive income, changes in equity and cash flows for six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

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

Conclusion

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

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

Talar Gül, SMMM
Partner

Istanbul, 14 August 2020

AK FİNANSAL KİRALAMA A.Ş.

INDEX TO THE CONDENSED INTERIM FINANCIAL STATEMENTS AS OF 30 JUNE 2020 AND FOR THE SIX-MONTH PERIOD THEN ENDED

CONTENTS	PAGE
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION	1
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME.....	2
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY	3
CONDENSED INTERIM STATEMENT OF CASH FLOWS.....	4
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS.....	5-24
NOTE 1 ORGANISATION AND PRINCIPAL ACTIVITIES OF THE COMPANY.....	5
NOTE 2 BASIS OF PRESENTATION.....	5-8
NOTE 3 SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE PERIOD.....	8
NOTE 4 SEGMENT REPORTING.....	9
NOTE 5 FINANCIAL RISK MANAGEMENT.....	9-11
NOTE 6 FINANCE LEASE RECEIVABLES, NET.....	11-15
NOTE 7 BORROWINGS.....	15-16
NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS.....	16-18
NOTE 9 TRANSACTIONS AND BALANCES WITH RELATED PARTIES.....	19-22
NOTE 10 COMMITMENTS AND CONTINGENT LIABILITIES.....	23
NOTE 11 EARNINGS PER SHARE.....	24
NOTE 12 SUBSEQUENT EVENTS.....	24

AK FİNANSAL KİRALAMA A.Ş.

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2020

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

ASSETS	Notes	30 June 2020	31 December 2019
Cash and cash equivalents		819,088	685,278
Finance lease receivables	6	5,021,728	4,992,526
Other financial assets measured at amortized cost		40,216	-
Other assets and prepaid expenses		50,148	37,184
Assets held for sale		91,277	30,049
Property and equipment, net		2,078	1,449
Intangible assets, net		1,280	1,333
Derivative financial instruments	8	1,379	874
Income tax asset		645	9,971
Deferred tax asset, net		59,117	75,676
Total assets		6,086,956	5,834,340
LIABILITIES			
Borrowings	7	4,784,690	4,590,391
Accounts payable		91,516	117,961
Advances from customers		106,000	75,040
Derivative financial instruments	8	68,783	83,126
Lease liabilities		1,212	421
Other liabilities		22,775	16,809
Provision for employment benefits		3,235	2,699
Total liabilities		5,078,211	4,886,447
EQUITY			
Share capital		373,400	373,400
Adjustment to share capital		(13,393)	(13,393)
Total paid-in share capital		360,007	360,007
Legal reserves		57,737	57,737
Hedge reserves		(1,182)	(1,323)
Retained earnings		531,472	436,324
Net profit for the current period		60,711	95,148
Total equity		1,008,745	947,893
Total liabilities and equity		6,086,956	5,834,340

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 2020**

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

	Notes	30 June 2020	30 June 2019
Interest and similar income from direct finance leases		214,293	251,044
Interest income on placements and transactions with banks		10,137	17,256
Total interest and similar income		224,430	268,300
Interest expense on borrowings (-)		(116,503)	(122,800)
Interest expense on debt securities issued (-)		-	(66,999)
Net interest income		107,927	78,501
Foreign exchange gains/(losses), including net gains or losses from dealing in foreign currency, net		9,695	(19,204)
Net interest income after foreign exchange gains or losses		117,622	59,297
Net trading, hedging and fair value gains		4,193	35,749
Impairment loss on finance lease receivables (-)	6	(91,112)	(72,100)
Recoveries from impaired lease receivables	6	66,459	55,707
Other (expense)/income, net		(3,502)	8,506
Operating expenses (-)		(16,430)	(19,808)
Operating profit		77,230	67,351
Profit before income tax		77,230	67,351
Taxation on income (-)		(16,519)	(14,917)
Profit for the period		60,711	52,434
Other comprehensive income			
Items that may be reclassified to profit or loss			
Cash flow hedges		181	693
Tax on cash flow hedge		(40)	(152)
Net other comprehensive profit for the period		141	541
Total comprehensive income		60,852	52,975
Profit for the period:			
Basic earnings per share (full TL)	11	0.0016	0.0016
Diluted earnings per share (full TL)	11	0.0016	0.0016

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 2020**

(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 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
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
	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 1 January 2020	373,400	(13,393)	360,007	57,737	(1,323)	531,472	947,893
Total comprehensive income	-	-	-	-	141	60,711	60,852
- <i>Net profit for the period</i>	-	-	-	-	-	60,711	60,711
- <i>Other comprehensive profit, net</i>	-	-	-	-	141	-	141
Balance at 30 June 2020	373,400	(13,393)	360,007	57,737	(1,182)	592,183	1,008,745

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 2020

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

	Notes	30 June 2020	30 June 2019
Cash flows from operating activities			
Net profit for the period		60,711	52,434
Adjustments for:			
Depreciation and amortization		1,463	1,437
Re-measurement of derivative financial instruments at fair value		(14,848)	(42,817)
Provision for employment termination benefits		200	(15)
Provision for unused vacation		334	60
Provision for legal proceedings		(158)	(479)
Provision for personnel performance bonus		783	1,200
Provision for impaired receivables	6	91,112	72,100
Provision for cash and cash equivalents		79	181
Deferred tax expense		16,519	6,426
Corporate tax charge		-	8,491
Interest income, net		(107,825)	(78,501)
Net foreign exchange loss related to cash and funds borrowed		533,140	368,981
Cash flows from operating profit before changes in operating assets and liabilities		581,510	389,498
Changes in operating assets and liabilities			
Net (increase)/decrease in finance lease receivables		(117,717)	447,933
Net (increase)/decrease in other assets and prepaid expenses		(105,082)	38,646
Net (decrease)/increase in accounts payables		(26,445)	1,600
Net increase/(decrease) in advances from customers		30,960	(795)
Net (decrease)/increase in other liabilities		5,966	6,768
Personnel performance bonus paid (-)		(1,839)	(1,719)
Employment termination benefits paid (-)		(7)	(475)
Interest received		223,699	223,976
Interest paid (-)		(126,263)	(185,832)
Taxes paid (-)		-	(158)
Net cash provided by operating activities		464,782	919,442
Cash flows from investing activities			
Purchase of property and equipment and intangibles (-)		(1,994)	(45)
Net cash used in investing activities (-)		(1,994)	(45)
Cash flows from financing activities			
Proceeds from borrowings		1,297,533	101,092
Repayments of borrowings (-)		(1,636,755)	(575,621)
Proceeds from debt securities issued		-	1,125,391
Repayments of debt securities issued (-)		-	(1,505,211)
Capital increase in cash		-	125,000
Payments of leases (-)		(1,099)	-
Net cash used in financing activities (-)		(340,321)	(729,349)
Net increase/(decrease) in cash and cash equivalents		122,467	190,048
Effect of foreign exchange rate changes on cash and cash equivalents		11,130	5,053
Cash and cash equivalents at the beginning of the period		685,366	395,422
Cash and cash equivalents at the end of the period		818,963	590,523

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 2020

(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 2020, the Company employs 57 employees (31 December 2019: 59 employees).

The main activity of the Company is to carry out domestic financial leasing within the framework of the legislations and to conduct leasing transactions of any kinds.

These financial statements as of and for the period ended 30 June 2020 have been approved on 14 August 2020 by the Company management. The General Assembly and regulatory bodies have the right to change the approved financial statements.

NOTE 2 - BASIS OF PRESENTATION

2.1 Basis of Presentation

These interim condensed financial statements for the period ended 30 June 2020 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 2019. 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.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2020**

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

NOTE 2 - BASIS OF PRESENTATION (Continued)

2.1 Basis of Presentation (Continued)

The COVID-19 pandemic caused serious effects on health systems and the global economy as the virus spread to the world in the first quarter of 2020. Widespread closure of businesses and unprecedented constraints in social interactions have significantly affected economic activity. Countries have taken measures to slow the spread of the pandemic, such as testing and treating patients, applying travel restrictions, quarantining citizens and canceling large meetings. Along with these social measures, comprehensive financial measures were taken simultaneously to reduce the negative effects on the economic outlook. Similarly, Turkey has many citizens' health and safety measures, as well as to ensure that companies and regulators to support the households in these challenging circumstances, fiscal and monetary actions have been implemented. Additional measures are being announced to tackle adverse impacts on companies and certain sectors. On the other hand, estimations and assumptions used to reflect COVID-19 impacts on 30 June 2020 financial statements of the Company are explained in the relevant footnotes.

Due to COVID-19, The Company has provided opportunity to postpone the principal, interest and installment payments of its individual and corporate customers with the existing conditions and has started to apply the postponement within this scope.

Comparatives and changes in presentation of prior periods' financial statements

The Company's financial statements are prepared in comparison with the previous period in order to allow the determination of financial status and performance trends. The Company prepared its condensed balance sheet as of 30 June 2020 and as of 31 December 2019 and the condensed statement of comprehensive income, condensed equity movement and condensed cash flow statement for the interim period between 1 January - 30 June 2019.

Significant changes in accounting policies are applied retrospectively and prior period financial statements are restated. The Company has prepared its condensed financial statements for the interim period ended 30 June 2020, consistent with the accounting policies valid on 31 December 2019, except for the significant estimates and assumptions used for the effects of COVID-19.

2.2 New and Revised International Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 30 June 2020:

- **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.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2020**

(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 (Continued)

- **Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform;** effective from Annual periods beginning on or after 1 January 2020. These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.
 - **Amendment to IFRS 16, ‘Leases’ – Covid-19 related rent concessions;** effective from Annual periods beginning on or after 1 June 2020. As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.
- a) *Standards, amendments and interpretations that are issued but not effective as at 30 June 2020:*
- **IFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2023. 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.
 - **Amendments to IAS 1, Presentation of financial statements’ on classification of liabilities;** effective from 1 January 2022. These narrow-scope amendments to IAS 1, ‘Presentation of financial statements’, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability.
 - **A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16;** effective from Annual periods beginning on or after 1 January 2022.
 - **Amendments to IFRS 3, ‘Business combinations’** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. .
 - **Amendments to IAS 16, ‘Property, plant and equipment’** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
 - **Amendments to IAS 37, ‘Provisions, contingent liabilities and contingent assets’** specify which costs a company includes when assessing whether a contract will be loss-making.

Annual improvements make minor amendments to IFRS 1, ‘First-time Adoption of IFRS’, IFRS 9, ‘Financial instruments’, IAS 41, ‘Agriculture’ and the Illustrative Examples accompanying IFRS 16, ‘Leases’.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2020**

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

NOTE 2 - BASIS OF PRESENTATION (Continued)

2.3 Critical Accounting Judgements and Estimates

In the preparation of the financial statements, the Company management make assumptions and estimates that will affect the assets and liabilities and determine the liabilities and commitments likely to occur as of the balance sheet date and the income and expense amounts as of the reporting period. Although these estimates and assumptions are based on Company management's best knowledge of current events and transactions, actual results may differ from those estimates. Estimates are regularly reviewed, necessary adjustments are made and reflected in the income statement of the period they occur.

The Company has revised its important assumptions and estimates and reflected in the default estimation methodology for the default definition, in order to reflect the negative effects of the COVID-19 outbreak on the interim period ended 30 June 2020.

Definition of Default:

The definition of default is based on the criteria that the debt is overdue by more than 90 days. In addition, if the borrower deemed to be unable to fulfil the debt obligations, borrower should be considered as defaulted whether there is an overdue payment or number of days.

However, due to COVID-19, the “more than 90 days past due” condition used in the definition of default for the classification of finance lease receivables has started to be applied as “more than 180 days past due” as of 19 March 2020 in accordance with the decision of BRSA. This application will be valid until 31 December 2020. In accordance with the related amendment, the Company has made provision for financial lease receivables with a delay of 91-180 days according to its own risk policies and models, where the conditions of the borrower are also evaluated.

Expected Credit Loss Calculation (“ECL”) - Input and Forecasting Methodologies:

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.

In forward-looking expectations, 3 scenarios are being used: the base scenario, the bad scenario and the good scenario. Each scenario has predetermined weights. Within the scope of COVID-19 impact to the ECL, the macroeconomic data (growth rate and policy interest rate) used in the scenarios as of 30 June 2020 have been updated in line with the estimates of the Economic Research Unit which is owned by the Parent Bank. Also among these three scenario types, the weight of the bad scenarios were increased by reducing the weight of the base scenarios. As of 30 June 2020, the effects of COVID-19 on the finance lease receivables that are assessed individually were taken into account by updating the expected cash flows.

NOTE 3 - SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE PERIOD

None.

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 4 - SEGMENT REPORTING

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

NOTE 5 - FINANCIAL RISK MANAGEMENT

Financial risk factors

The Company’s activities expose it to a variety of financial risks: market risk (including currency risk, and interest rate risk), credit risk and liquidity risk. The Company’s overall risk management 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.

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 2020	31 December 2019	30 June 2020	31 December 2019
Profit or Loss/Equity	(4,515)	(1,851)	2,788	4,085

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

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 2020	31 December 2019	30 June 2020	31 December 2019
Cash and cash equivalents	819,088	685,278	819,088	685,278
Finance lease receivables	5,021,728	4,992,526	4,979,225	4,947,749
Borrowings	4,784,690	4,590,391	4,439,323	4,260,070

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 2020 are 7.60%, 5.90% and 19.60%, respectively (31 December 2019: 7.94%, 5.78% and 21.85% respectively).

The discount rate used to calculate the fair value of US Dollar, Euro and TL borrowings as at 30 June 2019 are 4.60%, 2.90% and 9.10%, respectively. (31 December 2019: 5.27%, 2.95% and 13.85%, respectively).

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.

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 5 - FINANCIAL RISK MANAGEMENT (Continued)

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 2020	Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss			
derivative financial assets held for trading	-	1,379	-
Total assets	-	1,379	-
Financial liabilities at fair value through profit and loss			
derivatives held-for-trading	-	44,997	-
Derivatives used for hedging purposes	-	23,786	-
Total liabilities	-	68,783	-
31 December 2019	Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss			
derivative financial assets held for trading	-	742	-
Derivatives used for hedging purposes	-	132	-
Total assets	-	874	-
Financial liabilities at fair value through profit and loss			
derivatives held-for-trading	-	48,275	-
Derivatives used for hedging purposes	-	34,851	-
Total liabilities	-	83,126	-

NOTE 6 - FINANCE LEASE RECEIVABLES, NET

	30 June 2020	31 December 2019
Gross finance lease receivables	4,954,045	5,064,138
Invoiced lease receivables	105,351	130,986
Unearned finance income (-)	(559,244)	(628,271)
	4,500,152	4,566,853
Expected credit loss - Stage 1 (-)	(47,741)	(46,066)
Expected credit loss - Stage 2 (-)	(44,508)	(63,171)
Total finance lease receivables	4,407,903	4,457,616
Impaired lease receivables	592,238	573,466
Expected credit loss - Stage 3 (-)	(290,323)	(292,474)
	4,709,818	4,738,608
Leasing contracts in progress (*)	122,081	136,583
Advances to vendors	189,829	117,335
Net finance lease receivables	5,021,728	4,992,526

(*) 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 2020 and 31 December 2019, leasing contracts in progress balance includes the total amount paid for these machinery and equipment but not charged to the lessees, yet.

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 6 - FINANCE LEASE RECEIVABLES, NET (Continued)

At 30 June 2020 and 31 December 2019 the finance lease receivables according to their interest type are as follows:

	30 June 2020	31 December 2019
Fixed rate	3,985,212	4,076,641
Floating rate	968,833	987,497
	4,954,045	5,064,138

At 30 June 2020 and 31 December 2019 the leasing receivables have the following collection schedules:

Year Ending	Finance Lease Receivables (*)	
	Gross 30 June 2020	Net 30 June 2020
31 December 2020	1,154,557	1,046,230
31 December 2021	1,556,126	1,347,217
31 December 2022	977,551	862,448
31 December 2023	564,121	500,788
31 December 2024 and after	807,041	743,469
	5,059,396	4,500,152

(*) 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.

Year Ending	Finance Lease Receivables (*)	
	Gross 31 December 2019	Net 31 December 2019
31 December 2020	2,012,951	1,761,924
31 December 2021	1,304,131	1,120,195
31 December 2022	822,528	722,396
31 December 2023	477,484	426,311
31 December 2024 and after	578,030	536,027
	5,195,124	4,566,853

(*) 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.

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 6 - FINANCE LEASE RECEIVABLES, NET (Continued)

Finance lease receivables can be analyzed as follows:

30 June 2020	Gross exposure	Loss Provision	Net exposure
Stage 1	4,404,460	(47,741)	4,356,719
Stage 2	407,602	(44,508)	363,094
Stage 3	592,238	(290,323)	301,915
Total	5,404,300	(382,572)	5,021,728

31 December 2019	Gross exposure	Loss Provision	Net exposure
Stage 1	4,336,312	(46,066)	4,290,246
Stage 2	484,459	(63,171)	421,288
Stage 3	573,466	(292,474)	280,992
Total	5,394,237	(401,711)	4,992,526

As of 30 June 2020, the Company’s performing finance lease receivables amount to TL 5,059,396 (31 December 2019: TL 5,195,124) and all these finance lease receivables are secured by the leased equipment. The nominal amount of mortgages received for finance lease receivables is TL 1,253,100 (31 December 2019: TL 1,286,108).

The Company has evaluated the calculated ECL amount for its customers of which total exposure is TL 5,000 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 a decrease in ECL provision of TL 27,044 as a result of the individual assessment. (31 December 2019: TL 10,028)

As of 30 June 2020, outstanding lease receivable amount for sell and leaseback transactions is TL 647,851 (31 December 2019: TL 880,046).

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

Collaterals amounting to TL 365,530 (31 December 2019: TL 305,886) has been obtained for impaired finance lease receivables amounting to TL 592,238 (31 December 2019: TL 573,466).

Movements in provision for impaired finance lease receivables for the periods ended 30 June 2020 and 2019 are as follows:

	2020	2019
At 1 January	401,711	488,791
Impairment expense for the period	91,112	72,100
Recoveries of amounts previously provided for	(66,459)	(55,707)
Release of provisions from written-off receivables (-)	(43,792)	-
At 30 June	382,572	505,184

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 6 - FINANCE LEASE RECEIVABLES, NET (Continued)

Economic sector risk concentrations for the gross finance lease receivables as of 30 June 2020 and 31 December 2019 are as follows:

	30 June 2020	%	31 December 2019	%
Steel and mining	930,740	19	776,634	15
Construction	898,762	18	967,170	19
Energy and natural resources	722,678	15	616,763	12
Textile	477,958	10	405,970	8
Transportation	362,076	7	380,581	8
Production	343,317	7	448,807	9
Food and beverage	200,946	4	218,151	4
Health	144,123	3	203,878	4
Tourism	106,174	2	227,156	4
Automotive	96,344	2	93,188	2
Agriculture	85,728	2	70,429	1
Petroleum and related chemistry	77,146	2	81,220	2
Chemistry	55,240	1	62,268	1
Wholesale and retail trade	44,902	1	38,980	1
Technology, telecommunication, media and entertainment	34,523	1	39,214	1
Printing	25,724	1	23,074	1
Education	16,386	-	20,954	1
Financial institutions	15,186	-	15,998	-
Other	316,092	5	373,703	7
	4,954,045	100	5,064,138	100

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

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

The Company has no finance lease payables as at 30 June 2020 and 31 December 2019.

Movements in expected credit loss for the periods ended 30 June 2020 and 31 December 2019 are as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Expected Credit Loss				
31 December 2019	46,066	63,171	292,474	401,711
Transfers;				
- Balance change in Stage 1	(1,844)	-	-	(1,844)
- Transfer from Stage 1 to Stage 2	(119)	2,632	-	2,513
- Transfer from Stage 1 to Stage 3	-	-	-	-
- Balance change in Stage 2	-	7,582	-	7,582
- Transfer from Stage 2 to Stage 1	810	(583)	-	227
- Transfer from Stage 2 to Stage 3	-	(26,239)	27,663	1,424
- Balance change in Stage 3	-	-	13,313	13,313
New financial assets originated or purchased and recoveries	3,834	41	1,748	5,623
Provisions no longer required (except for balance changes)	(1,006)	(2,096)	(1,083)	(4,185)
Release of provision from written-off receivables	-	-	(43,792)	(43,792)
Loss allowance as at 30 June 2020	47,741	44,508	290,323	382,572

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 6 - FINANCE LEASE RECEIVABLES, NET (Continued)

Expected Credit Loss	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
1 January 2019	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 derecognized 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

NOTE 7 - BORROWINGS

	30 June 2020			31 December 2019		
	Interest rates per annum (%)	Balance in original currency	TL	Interest rates per annum (%)	Balance in original currency	TL
Domestic borrowings						
Fixed rate borrowings:						
Euro	2.27	60,336	465,082	2.54	45,601	303,277
US Dollar	5.39	13,624	93,219	5.39	16,304	96,847
TL	8.67	723,254	723,254	12.69	725,401	725,401
Floating rate borrowings:						
Euro	2.00	23,675	182,489	2.01	28,512	189,624
US Dollar	3.75	100,717	689,129	-	-	-
Total domestic borrowings			2,153,173			1,315,149
Foreign borrowings						
Fixed rate borrowings:						
Euro	2.10	173,720	1,339,072	2.09	191,677	1,274,766
US Dollar	4.66	11,171	76,435	4.45	14,843	88,173
TL	-	1,278	1,278	-	1,213	1,213
Floating rate borrowings:						
Euro	1.78	104,008	801,713	2.05	136,207	905,859
US Dollar	4.52	60,363	413,019	4.81	169,225	1,005,231
Total foreign borrowings			2,631,517			3,275,242
Total borrowings			4,784,690			4,590,391

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 7 - BORROWINGS (Continued)

	30 June 2020	31 December 2019
Short term borrowings	1,881,528	1,820,357
Long term borrowings	2,903,162	2,770,034
	4,784,690	4,590,391

Movements in funds borrowed for the periods ended 30 June 2020 and 31 December 2019 are as follows:

	Funds Borrowed
Balance as at 1 January 2020	4,590,391
Cash flows	(339,222)
Foreign exchange adjustments	544,270
Other non-cash movements	(10,749)
Balance as at 30 June 2020	4,784,690

	Funds Borrowed
Balance as at 1 January 2019	4,610,591
Cash flows	(474,529)
Foreign exchange adjustments	280,525
Other non-cash movements	3,130
Balance as at 30 June 2019	4,419,717

NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives held-for-trading:

30 June 2020	Contract/Notional Amount	Fair Values	
		Assets	Liabilities
Forward contracts	270,792	25	(2,276)
Currency swap contracts	1,087,141	1,354	(42,492)
Interest rate swap contracts	49,483	-	(229)
Total	1,407,416	1,379	(44,997)

31 December 2019	Contract/Notional Amount	Fair Values	
		Assets	Liabilities
Forward contracts	292,113	162	(668)
Currency swap contracts	791,818	572	(47,358)
Interest rate swap contracts	64,728	8	(249)
Total	1,148,659	742	(48,275)

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivatives used for hedging purposes:

30 June 2020	Contract/Notional Amount	Fair Values	
		Assets	Liabilities
<i>Derivatives used for fair value hedging purposes:</i>			
Currency swap contracts	46,850	-	(23,579)
Interest rate swap contracts	56,575	-	(207)
Total	103,425	-	(23,786)

31 December 2019	Contract/Notional Amount	Fair Values	
		Assets	Liabilities
<i>Derivatives used for fair value hedging purposes:</i>			
Currency swap contracts	80,570	-	(34,851)
Interest rate swap contracts	64,724	132	-
Total	145,294	132	(34,851)

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

Derivative financial assets held for hedging:

	30 June 2020		31 December 2019	
	TL	Foreign Currency	TL	Foreign Currency
Fair value hedges	-	-	-	132
	-	-	-	132

Derivative financial liabilities held for hedging:

	30 June 2020		31 December 2019	
	TL	Foreign Currency	TL	Foreign Currency
Fair value hedges	-	23,786	-	34,851
Cash flow hedges	-	-	-	-
	-	23,786	-	34,851

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2020**

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

NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Information regarding to hedge accounting as of 30 June 2020 and 31 December 2019 are summarized below;

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

Information regarding fair value hedge accounting as at 30 June 2020 and 31 December 2019 are summarized below:

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

The Company has decided to implement fair value hedging strategy in order to provide hedging through fixed interest 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 TL 1,267 (31 December 2019: TL 1,213).

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 317 following the beginning of accounting hedge (31 December 2019: TL 35).

All fair value hedged transactions have been found to be effective as of 30 June 2020.

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

None (31 December 2019: None).

Information regarding the cases when the hedging instrument expires, is executed or sold and when the hedge relationship becomes ineffective or is discontinued as a result of the hedge relationship being revoked are given below:

- **Information regarding cash flow hedge:**

None (31 December 2019: None).

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 9 - 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 2020	31 December 2019
Due from banks		
<i>Shareholders</i>		
Akbank T.A.Ş.	642,190	532,427
	642,190	532,427
Net finance lease receivables		
<i>Shareholders</i>		
Akbank T.A.Ş.	49	49
<i>Other group companies</i> (*)		
CarrefourSA Carrefour Sabancı Ticaret Merkezi A.Ş.	14,775	24,140
Sabancı Dijital Tek. Hizm. A.Ş.	4,186	5,281
	19,010	29,470
Borrowings		
<i>Shareholders</i>		
Akbank T.A.Ş.	967,090	727,418
<i>Other group companies</i> (*)		
Akbank A.G.	132,306	113,282
	1,099,396	840,700
Trade payables		
<i>Other group companies</i> (*)		
Aksigorta A.Ş.	28,155	31,654
Brisa Bridgestone Sabancı Lastik Sanayi ve Tic. A.Ş.	17	17
Sabancı Dijital Tek. Hizm. A.Ş.	4	22
	28,176	31,693

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

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

b) Transactions with related parties

Interest income from finance leases

	1 January - 30 June 2020	1 January - 30 June 2019
<i>Shareholders</i>		
Akbank T.A.Ş.	-	1,478
<i>Other group companies(*)</i>		
CarrefourSA Carrefour Sabancı Ticaret Merkezi A.Ş.	491	941
Sabancı Dijital Tek. Hizm. A.Ş.	634	144
	1,125	2,563

Interest income on bank deposits

<i>Shareholders</i>		
Akbank T.A.Ş.	8,716	16,505
	8,716	16,505

Interest expense on borrowings

<i>Shareholders</i>		
Akbank T.A.Ş.	36,355	28,380
<i>Other group companies(*)</i>		
Akbank A.G.	2,190	2,263
	38,545	30,643

Commission income

<i>Other group companies(*)</i>		
Aksigorta A.Ş.	2,454	1,265
Sabancı Dijital Tek. Hizm. A.Ş.	-	1
	2,454	1,266

Commission expense

<i>Shareholders</i>		
Akbank T.A.Ş. (Shareholder)	73	179
<i>Other group companies(*)</i>		
Ak Yatırım Menkul Değerler A.Ş.	31	3,601
	104	3,780

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

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	1 January - 30 June 2020	1 January - 30 June 2019
Personnel expense		
<i>Shareholders</i>		
Akbank T.A.Ş.	34	72
	34	72
Gains on derivative instruments		
<i>Shareholders</i>		
Akbank T.A.Ş.	103,398	204,535
	103,398	204,535
Losses on derivative instruments		
<i>Shareholders</i>		
Akbank T.A.Ş. (Shareholder)	79,117	203,457
	79,117	203,457
Remuneration of top management		
Remuneration of top management	2,126	1,409
	2,126	1,409
Off-balance sheet items		
	30 June 2020	31 December 2019
Guarantee obtained from		
<i>Shareholders Akbank T.A.Ş.</i>		
Obtained for the purpose of using for borrowings from other banks	998,752	958,406
Obtained for the purpose of using for law courts	1,435	6,029
	1,000,187	964,435
Finance lease commitments		
<i>Shareholders</i>		
Akbank T.A.Ş.	23,125	24,014
	23,125	24,014

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 9 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

30 June 2020	Contract/notional amount	Fair values	
		Assets	Liabilities
<i>Derivative financial instruments held for trading:</i>			
Interest rate swap transactions			
Akbank T.A.Ş. (Shareholder)	385,113	1,323	(6,914)
Currency swap transactions			
Akbank T.A.Ş. (Shareholder)	143,516	19	(14,355)
<i>Derivative financial instruments held for fair value hedges:</i>			
Cross currency swap transaction			
Akbank T.A.Ş. (Shareholder)	46,850	-	(23,578)
Total	575,479	1,342	(44,847)
<hr/>			
31 December 2019	Contract/notional amount	Fair values	
		Assets	Liabilities
<i>Derivative financial instruments held for trading:</i>			
Forward transactions			
Akbank T.A.Ş. (Shareholder)	79,629	-	(267)
Interest rate swap transactions			
Akbank T.A.Ş. (Shareholder)	157,953	-	(1,965)
Currency swap transactions			
Akbank T.A.Ş. (Shareholder)	242,184	242	(44,597)
<i>Derivative financial instruments held for fair value hedges:</i>			
Cross currency swap transaction			
Akbank T.A.Ş. (Shareholder)	80,570	-	(34,851)
Total	560,336	242	(81,680)

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 10 - 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 2020 and 31 December 2019:

Commitments under derivative instruments

	30 June 2020		31 December 2019	
	Nominal Original amount	Nominal TL	Nominal Original Amount	Nominal TL
Forward and Swap Purchase Transactions				
US Dollar	51,338	351,262	55,464	329,467
Euro	2,855	22,009	7,997	53,187
TL	359,412	359,412	223,408	223,408
Total Purchase		732,683		606,062
Forward and Swap Sale Transactions				
US Dollar	14,865	101,708	25,422	151,013
Euro	87,757	676,450	80,726	536,878
Total Sales		778,158		687,891
Grand Total		1,510,841		1,293,953

Guarantees given

The Company has collateral and given letters of guarantees amounting to TL 255,325 (31 December 2019: TL 264,974) 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 2020, the Company has given the letters of guarantee amounting to TL 199,969 (31 December 2019: TL 195,357) which had been obtained from Akbank and the aircrafts mortgaged amounting to TL 43,953 (31 December 2019: TL 58,577) had been given as collateral. The letter of guarantee and aircrafts mortgaged were given with respect to borrowings from Hermes.

The external guarantee provided for the borrowings from Europe Investment Bank is amounting to TL 798,783 (31 December 2019: TL 763,049). The Company has letters of credit for import of the equipment subject to finance leases in the amount of TL 187,390 (31 December 2019: TL 47,163) and finance lease commitments in the amount of TL 619,374 (31 December 2019: TL 380,161) for the leased asset imports.

Legal Proceedings

The Company has provided for a total provision of TL 818 against certain open legal cases of 30 June 2020 (31 December 2019: TL 976).

AK FİNANSAL KİRALAMA A.Ş.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2020

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

NOTE 11 - EARNINGS PER SHARE

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

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

	30 June 2020	30 June 2019
Net income for the period	60,711	52,434
Weighted average number of ordinary shares with a nominal value of Kr 1	37,340,000,000	31,923,333,333
Earnings per share (full TL)	0.0016	0.0016

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 12 - SUBSEQUENT EVENTS

None.

.....