YAPI KREDİ FİNANSAL KİRALAMA A.O.

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Yapı Kredi Finansal Kiralama A.O.

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Yapı Kredi Finansal Kiralama A.O. (the "Company") as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Our audit approach

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

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses for finance lease receivables The Company has total expected credit losses provision for finance lease receivables amounting to TL 501,204 thousand with respect to total finance lease receivables amounting to TL 12,775,671 thousand which represent a significant portion of the Company's total assets as at 31 December 2018. Explanations and notes related to expected credit losses for finance lease receivables are presented in Notes 2, 3, 4 and 7 in the accompanying financial statements for the year ended 31 December 2018.	With respect to stage classification of finance lease receivables and calculation of expected credit losses in accordance with IFRS 9, we have assessed policy, procedure and management principles of the Company within the scope of our audit. We tested the design and the operating effectiveness of relevant controls implemented by the Company. Together with our financial risk experts, we have evaluated whether the methodologies used in building impairment models are in line with the requirements of IFRS 9. Regarding expected credit losses methodology; we have assessed and tested appropriateness of segmentation, lifetime probability of default model, loss given default model and approaches in relation to projection of macroeconomic expectations with our financial risk experts.

Key audit matter	How our audit addressed the key audit matter
As of 1 January 2018, the Company implemented IFRS 9, "Financial Instruments" ("IFRS 9") and started to recognize expected credit losses on finance lease receivables in accordance with the requirements of IFRS 9 rather than previously used incurred loss model. This new and complex standard requires the Company to exercise significant decisions using subjective judgement, interpretation and assumptions over when and how much to record as expected credit losses on finance lease receivables. These judgements are key in the development of the financial models built to measure the expected credit losses on finance lease receivables recorded at amortized cost. Impairment allowances are calculated on a collective basis for portfolios of finance lease receivables of a similar nature and on individual basis for significant finance lease receivables taking into account management's best estimate at the reporting date. Our audit was focused on this area due to existence of complex estimates and information used in the impairment assessment such as macro-economic expectations, current conditions, historical loss experiences; the significance of the finance lease receivables balances; the classification of finance lease receivables as per their credit risk (staging) and the importance of determination of the associated impairment allowances. Timely and correctly identification of loss event and level of judgements and estimations made by the management have significant impacts on the amount of impairment provision for finance lease receivables. Therefore, this area is considered as key audit matter.	We have performed credit review on a selected sample of finance lease receivables with the objective to identify whether the staging classification reflects related credit risk level of the each selected credit files, whether key aspects of the Company's significant increase in credit risk determinations are designated appropriately and whether provision for impairment has been recognized in a timely manner. We tested individually assessed finance lease receivables on a sampling basis and checked the management's calculations by inspecting the calculation methodology, challenging key assumptions used in calculations, assessing reasonableness of the future cash flow estimations, comparing estimates to external evidence where available and tracing a sample back to source data. We checked accuracy of resultant expected credit losses calculations. We have also evaluated the adequacy of the financial statements disclosures and we have assessed whether the disclosures appropriately disclose and address the key judgements and assumptions used in expected credit loss calculation of finance lease receivables. In addition, we checked the appropriateness of adjustments related to the first time application of IFRS 9 and the related financial statement disclosures.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

Didem Demer Kaya, SMMM
Partner

Istanbul, 28 February 2019

YAPI KREDİ FİNANSAL KİRALAMA A.O.

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STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

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

	Notes	31 December 2018
ASSETS		
Cash and cash equivalents	5	107,314
Financial assets at fair value through profit or loss ("FVPL")	8	36
- Derivative financial instruments	*8*	*36*
Financial assets at fair value through other comprehensive income ("FVOCI")	6	140
- Equity securities	*6*	*140*
Financial assets at amortised cost ("AC")	7	12,274,467
- Finance lease receivables	*7*	*12,274,467*
Other assets and prepaid expenses	10	376,538
Assets held for sale		1,447
Investment accounted for using the equity accounting method	9	262,726
Income taxes assets	17	5,851
Property and equipment, net	11	1,103
Intangible assets, net	11	8,770
Deferred tax assets, net	17	131,513
Total assets		**13,169,905**
LIABILITIES		
Financial liabilities at amortised cost		10,532,839
- Funds borrowed	*12*	*10,046,697*
- Debt securities issued	*13*	*486,142*
Accounts payable	15	236,637
Advances from customers	14	145,389
Other liabilities	15	19,763
Provisions	15	44,251
Provisions for employee benefits	16	5,654
Total liabilities		**10,984,533**
EQUITY		
Share capital	18	389,928
Adjustment to share capital	18	(31,017)
Total paid-in share capital	18	358,911
Share premium		2
Retained earnings	19	1,826,459
Total equity		**2,185,372**
Total liabilities and equity		**13,169,905**

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

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

	Notes	31 December 2017
ASSETS		
Cash and cash equivalents	5	36,110
Derivative financial instruments	8	22,289
Available-for-sale financial assets	6	140
Finance lease receivables	7	10,260,804
Other assets and prepaid expenses	10	695,022
Assets held for sale		2,029
Investment accounted for using the equity accounting method	9	242,641
Income taxes assets	17	14,766
Property and equipment, net	11	977
Intangible assets, net	11	6,092
Deferred tax assets, net	17	48,612
Total assets		**11,329,482**
LIABILITIES		
Funds borrowed	12	7,803,217
Debt securities issued	13	995,600
Accounts payable	15	357,674
Advances from customers	14	159,786
Other liabilities	15	5,802
Provisions	15	36,126
Provisions for employee benefits	16	4,672
Total liabilities		**9,362,877**
EQUITY		
Share capital	18	389,928
Adjustment to share capital	18	(31,017)
Total paid-in share capital	18	358,911
Share premium		2
Retained earnings	19	1,607,692
Total equity		**1,966,605**
Total liabilities and equity		**11,329,482**

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

YAPI KREDİ FİNANSAL KİRALAMA A.O.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	1 January - 31 December 2018
Interest income		
Interest income from direct finance leases measured at AC		930,236
Interest income on placements and transactions with banks measured at amortized cost		8,415
Interest income on derivative financial instruments		40,657
Total interest and similar income		**979,308**
Interest expense		
Interest expense on borrowings (-)		(339,584)
Interest expense on debt securities issued (-)		(142,844)
Total interest expenses (-)		**(482,428)**
Net interest income		**496,880**
Foreign exchange gains, including net gains or losses from dealing in foreign currency, net		2,456
Net interest income after foreign exchange gains or losses and fee and commission expenses		**499,336**
Fee and commission expenses, net (-)		(4,075)
Expected credit loss provision, net		(75,325)
Operating expenses (-)	21	(51,492)
Other expenses, net (-)	20	(7,080)
Net operating income		**361,364**
Share of net profit of associates for using the equity method	9	47,982
Profit before income tax		**409,346**
Current income tax expense (-)	17	(115,559)
Deferred tax income	17	37,381
Profit for the year		**331,168**
Earnings per share (in full TL)	24	0.8493
Other comprehensive income/(loss)		
Items that will not be reclassified to profit or loss		
Re-measurement of post-employment benefits obligation, net of tax		(416)
Total comprehensive income		**330,752**

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

YAPI KREDİ FİNANSAL KİRALAMA A.O.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	1 January - 31 December 2017
Interest income		
Interest income from direct finance leases		661,144
Interest income on placements and transactions with banks		1,706
Interest income on derivative financial instruments		65,423
Total interest and similar income		**728,273**
Interest expense		
Interest expense on borrowings (-)		(234,555)
Interest expense on debt securities issued (-)		(116,517)
Total interest expenses (-)		**(351,072)**
Net interest income		**377,201**
Foreign exchange losses, including net gains or losses from dealing in foreign currency (-)		(8,399)
Net interest income after foreign exchange gains or losses and fee and commission expenses		**368,802**
Fee and commission expenses, net (-)		(1,289)
Provision for impairment of finance lease receivables (-)	7	(82,962)
Recoveries from impaired lease receivables	7	24,106
Operating expenses (-)	21	(42,911)
Other expenses, net (-)	20	(10,336)
Net operating income		**255,410**
Share of net profit of associates for using the equity method	9	42,071
Profit before income tax		**297,481**
Current income tax expense (-)	17	(30,219)
Deferred tax expense, net (-)	17	(21,093)
Profit for the year		**246,169**
Earnings per share (in full TL)	24	0.6313
Other comprehensive income/(loss)		
Items that will not be reclassified to profit or loss		
Re-measurement of post-employment benefits obligation, net of tax		(1,765)
Total comprehensive income		**244,404**

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

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

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

	Share capital	**Adjustment to share capital**	**Share premium**	**Retained earnings (Note 19)**	**Total equity**
Balance at 1 January 2017	**389,928**	**(31,017)**	**2**	**1,363,288**	**1,722,201**
Total comprehensive income	-	-	-	244,404	244,404
Profit for the year	-	-	-	*246,169*	*246,169*
Other comprehensive income	-	-	-	*(1,765)*	*(1,765)*
Balance at 31 December 2017	**389,928**	**(31,017)**	**2**	**1,607,692**	**1,966,605**
Balance at 31 December 2017	**389,928**	**(31,017)**	**2**	**1,607,692**	**1,966,605**
First time adoption impact of IFRS 9, net (Note 2.2)	-	-	-	(111,985)	(111,985)
Balance at 1 January 2018	**389,928**	**(31,017)**	**2**	**1,495,707**	**1,854,620**
Total comprehensive income	-	-	-	330,752	330,752
Profit for the year	-	-	-	331,168	331,168
Other comprehensive income	-	-	-	(416)	(416)
Balance at 31 December 2018	**389,928**	**(31,017)**	**2**	**1,826,459**	**2,185,372**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	1 January - 31 December 2018
Cash flows from operating activities		
Net profit for the year		331,168
Adjustments for:		
Depreciation and amortization	11, 21	2,876
Provision for employment benefits		5,884
Provision for tax and legal proceedings		7,303
Allowances for expected credit losses on lease receivables, and related financial assets		122,630
Interest income, net		(496,880)
Income from associate under equity accounting method	9	(47,982)
Remeasurement on derivative financial instruments		(22,253)
Current and deferred income taxes	17	78,178
Net foreign currency exchange differences		2,287,888
Cash flows from operating profit before changes in operating assets and liabilities		**2,268,812**
Changes in operating assets and liabilities		
Net increase in finance lease receivables (-)		(2,268,231)
Net decrease in other assets and prepaid expenses		316,130
Net decrease in other liabilities, accounts payable and advances received (-)		(117,634)
Interest received		999,648
Interest paid (-)		(464,436)
Taxes paid (-)		(106,644)
Employment termination benefits paid (-)		(4,046)
Net cash provided from operating activities (-)		**623,599**
Cash flows from investing activities		
Dividend received	22	27,898
Sale of available-for-sale investment securities		
Purchase of property and equipment and intangible assets, net	11	(6,103)
Net cash provided from investing activities		**21,795**
Cash flows from financing activities		
Proceeds from borrowings		1,955,927
Repayments of borrowings (-)		(2,022,341)
Proceeds from debt securities issued		1,261,676
Repayments of debt securities issued (-)		(1,778,710)
Net cash used in financing activities (-)		**(583,448)**
Net increase in cash and cash equivalents		61,946
		11,591
Effects of foreign exchange-rate changes on cash and cash equivalents		
Cash and cash equivalents at the beginning of the year		36,092
Cash and cash equivalents at the end of the year	5	**109,629**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

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

	Notes	1 January - 31 December 2017
Cash flows from operating activities		
Net profit for the year		246,169
Adjustments for:		
Depreciation and amortization	11, 21	2,172
Provision for employment benefits		1,385
Provision for tax and legal proceedings		11,645
Provision for impaired receivables	7	82,962
Interest income, net		(377,201)
Income from associate under equity accounting method	9	(42,071)
Remeasurement on derivative financial instruments		(41,535)
Current and deferred income taxes	17	51,312
Cash flows from operating profit before changes in operating assets and liabilities		**(65,162)**
Changes in operating assets and liabilities		
Net increase in finance lease receivables (-)		(1,987,465)
Net increase in other assets and prepaid expenses (-)		(121,328)
Net increase/(decrease) in other liabilities, accounts payable and advances received		224,737
Interest received		635,302
Interest paid (-)		(358,925)
Taxes paid (-)		(68,192)
Employment termination benefits paid (-)		(104)
Net cash used in operating activities (-)		**(1,741,137)**
Cash flows from investing activities		
Dividend received	22	26,906
Sale of available-for-sale investment securities		356
Purchase of property and equipment and intangible assets, net	11	(4,600)
Net cash provided from investing activities		**22,662**
Cash flows from financing activities		
Proceeds from borrowings		1,459,160
Proceeds from debt securities issued		1,576,901
Repayments of debt securities issued (-)		(1,379,060)
Net cash provided from financing activities		**1,657,001**
Net decrease in cash and cash equivalents (-)		(61,474)
Effects of foreign exchange-rate changes on cash and cash equivalents		1,798
Cash and cash equivalents at the beginning of the year		95,768
Cash and cash equivalents at the end of the year	5	**36,092**

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

1. GENERAL INFORMATION

Yapı Kredi Finansal Kiralama A.O. (the "Company") was established in 19 February 1987, pursuant to the license obtained from the Undersecretariat of Treasury for the purpose of financial leasing and operating leasing as permitted.

Yapı ve Kredi Bankası A.Ş. ("YKB") is the main shareholder of the Company; 18.20% of the share certificates of YKB is publicly traded as of 31 December 2018 and 2017. The remaining 81.80% of the share certificates are owned by Koç Finansal Hizmetler A.Ş. ("KFS") which is jointly controlled by UniCredit and Koç Group.

As of 31 December 2018, the Company has 145 employees (31 December 2017: 146). The Company operates predominantly in one geographical region, Turkey, and in one industry segment, financial leasing.

The address of the registered office is Cömert Sokak No:1A D:18,19,20 Levent Mahallesi, Beşiktaş / İstanbul /Türkiye.

As at 31 December 2018 and 31 December 2017, the Company is controlled by YKB.

The financial statements for the year ended 31 December 2018 has been signed on behalf of the Board of Directors by Chief Financial Officer at 28 February 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adapted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of presentation of financial statements

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

These financial statements have been prepared under the historical cost convention, except for derivative financial assets and liabilities measured at fair value.

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

Financial assets and liabilities are offset and the net amount is reported in the balance sheet 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of presentation of financial statements (Continued)

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

2.2 Changes in accounting policies and disclosures

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 the following standards:

- IFRS 9 *Financial Instruments,* and
- IFRS 15 *Revenue from Contracts with Customers.*

IFRS 15 revenue from contracts with customers standard ("IFRS 15"), effective starting from 1 January 2018, replaces IAS 18 Revenue ("IAS 18") standard. IFRS 15 has no significant impact on the Company's accounting policies, financial position and performance.

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

IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and hedge accounting.

The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening "retained earnings" and "other reserves" of the current period. Due to the impracticality, 2017 financial statements are presented separately.

The accounting policies adopted in the preparation of the financial statements as at 31 December 2018 are consistent with those followed in the preparation of the consolidated financial statements of the prior year except IFRS 9.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and also impairment of financial assets.

a) Classification and measurement of financial instruments

According to IFRS 9, each financial asset will be classified as either Financial Assets Measured at Amortised Cost , fair value through profit or loss ("FVPL"), or fair value through other comprehensive income ("FVOCI") in accordance with the business model and the contractual cash flow characteristics. The business model is determined by the Company in terms of the manner in which assets are managed and their performance is reported.

The following table reconciles the changes for impairment of financial assets between previous measurement category in accordance with IAS 39 as of 31 December 2017 to new measurement categories upon transition to IFRS 9 as of 1 January 2018:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

	Before IFRS 9		**After IFRS 9**	
Financial assets	**Basis of Measurement**	**Book value 31 December 2017**	**Basis of Measurement**	**Book value 1 January 2018**
Cash and cash equivalents	Amortised cost	36,110	Amortised cost	35,828
Finance lease receivables, net	Amortised cost	10,260,804	Amortised cost	10,107,623
Other asset	Amortised cost	695,022	Amortised cost	691,097
Derivative financial instruments	Fair value through profit or loss	22,289	Fair value through profit or loss	22,289
Funds borrowed	Amortised cost	7,803,217	Amortised cost	7,803,217
Debt securities issued	Amortised cost	995,600	Amortised cost	995,600

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

Financial Assets	**Book Value Before IFRS 9 31 December 2017**	**Reclassifications**	**Remeasurement**	**Book Value After IFRS 9 1 January 2018**
Cash and cash equivalents				
Book value in accordance with IAS 39	36,110	-	-	-
Remeasurement: Provision provided for expected credit losses (-)	-	-	(282)	-
Book value in accordance with IFRS 9	-	-	-	35,828
Finance lease receivables				
Book value in accordance with IAS 39	10,260,804	-	-	-
Remeasurement: Provision provided for expected credit losses (-)	-	-	(153,181)	-
Book value in accordance with IFRS 9	-	-	-	10,107,623
Other assets measured at amortised cost				
Book value in accordance with IAS 39	695,022	-	-	-
Remeasurement: Provision provided for expected credit losses (-)	-	-	(3,925)	-
Book value in accordance with IFRS 9	-	-	-	691,097
Total	**10,991,936**	**-**	**(157,388)**	**10,834,548**

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

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

	Book value before IFRS 9 31 December 2017 (*)	**Remeasurement**	**Book value after IFRS 9 1 January 2018**
Finance lease receivables			
Stage 1	47,721	15,173	62,894
Stage 2	3,331	21,098	24,429
Stage 3	217,713	116,910	334,623
Cash and cash equivalents			
Stage 1	-	282	282
Other assets and prepaid expenses			
Stage 1	-	3,925	3,925

(*) Since there was no differentiation between stages before the application of IFRS 9, total provision provided for collectively impaired lease receivables amounting to TL 51,052 has been presented in the lines "Stage 1" and "Stage 2" and provision provided for individually impaired lease receivables amounting to TL 217,713 TL has been presented as "Stage 3".

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

d) Equity impacts of IFRS 9 transition

In accordance with IFRS 9, "Financial Instruments", it is not compulsory to restate previous period information at initial application of IFRS 9 and if the previous period information is not restated, the differences between the book values of 1 January 2018, the date of initial application, should be reflected in the opening balance of equity. The explanations about the initial application effects of IFRS 9, amounting to TL 111,985 decrease on equity are presented below:

The negative difference amounting to TL 157,388 between provisions for impairment provided in accordance with IAS 39 and provisions provided for the expected credit losses measured in accordance with the IFRS 9 expected loss model as of 1 January 2018, has been classified under "Retained earnings" in shareholders' equity.

Deferred tax assets amounting to TL 45,403 have been reflected to the opening financials as of 1 January 2018 and the related amount has been classified under "Retained earnings" in shareholders' equity.

Equity at 31 December 2017 before the application of IFRS 9	**1,966,605**
Less: Increase in the provision for finance lease receivables (-)	(153,181)
Less: Provision for cash and cash equivalents (-)	(3,925)
Less: Provision for other assets and prepaid expenses (-)	(282)
Add: Deferred tax assets recognized on IFRS 9 adjustments above	45,403
First time adoption impact of IFRS 9, net (-)	(111,985)
Equity at 1 January 2018 after the application of IFRS 9	**1,854,620**

2.3. New and Revised International Financial Reporting Standards

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

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

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

iii) **Amendment to IFRS 15, 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

iv) **Amendments to IFRS 4, 'Insurance contracts'** regarding the implementation of IFRS 9, 'Financial Instruments'; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard is not relevant to the Group.

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

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

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

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

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

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

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

i) **Amendment to IFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2019. This amendment confirms 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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. 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. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Classification, measurement and presentation of leases:

The lease obligation is classified as gross basis in the way that equals to the total of all cash payments under the contract and netted off with the interest expense arising from the contract. The right of use arising from the leasing transactions is capitalized at commencement date of a lease by measuring the present value of the lease payments that have not been paid at the date. The lease payments is discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, incremental borrowing rate obtained by Asset-Liability Management Department of the Bank is used.

The Company will recognize n adjustment to opening retained earnings at 1 January 2019, to reflect the application of the new requirements at the adaptation date. The Company is currently assessing the impact of the new standard on its financial statements.

iv) **IFRIC 23, 'Uncertainty over income tax treatments';** effective from annual periods beginning on or after1 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

v) **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.

vi) **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.

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

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

viii) **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:

- use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

ix) **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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates

Related parties

For the purposes of these financial statements, shareholders who has the controlling power, key management personnel and Board of Directors, in each case together with companies controlled by/or affiliated with them or with their close family members, associated companies and other companies within the UniCredit ("UCI") and Koç Holding A.Ş. group companies are considered and referred to as related parties (Note 22).

A related party is a person or entity that is related to the entity that is preparing its financial statements

(a) A person or a close member of that person's family is related to a reporting entity if that person:
    (i) has control or joint control over the reporting entity;
    (ii) has significant influence over the reporting entity; or
    (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
(b) An entity is related to a reporting entity if any of the following conditions applies:
    (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
    (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
    (iii) Both entities are joint ventures of the same third party.
    (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
    (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
    (vi) The entity is controlled or jointly controlled by a person identified in (a).
    (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and cash on hand. For the purposes of the cash flow statement, cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, judgements and estimates (Continued)

Finance leases

The Company as lessor

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

Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return. The profit recognized on sale of leased assets is recorded as gain on liquidation of investments.

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

Operating leases

The Company as lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Foreign currency translation

The financial statements are presented in TL, which is the Company's functional and presentation currency. Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are recognized in the income statement.

Foreign currency translation rates used by the Company as of respective year-ends are TL 5.2609=US$1 and TL 6.0280=EUR1 (2017: TL 3.7719=US$1 and TL 4.5155=EUR1).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates (Continued)

Financial assets

The Company classifies its financial assets in the following categories: "Financial Assets at Fair Value Through Profit or Loss"; "Financial Assets Measured at Fair Value Through Other Comprehensive Income" or "Financial Assets Measured at Amortised Cost". The financial assets are recognized or derecognized in accordance with the "Recognition and Derecognition" principles defined in Section 3 related to the classification and measurement of financial instruments of the "IFRS 9 Financial Instruments" standard. At initial recognition, financial assets are measured at fair value. In the case of financial assets are not measured at fair value through profit or loss, transaction costs are added or deducted to/from their fair value.

The Company recognizes a financial asset in the financial statement when, and only when, the Company becomes a party to the contractual provisions of the instrument. When the Company first recognizes a financial asset, the business model and the characteristics of contractual cash flows of the financial asset are considered by management.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets that are managed by business model other than the business model that aims to "hold to collect" and "hold & sell" the contractual cash flows; acquired for the purpose of generating profit from short-term fluctuations in price, or regardless of this purpose, the financial assets that are a part of a portfolio with evidence of short-time profit-taking; and the financial assets, whose terms do not give rise to cash flows that are solely payments of principal of interest at certain dates. Financial assets at fair value through profit or loss are initially recognized at fair value and are subsequently measured at fair value. Gain and losses upon their valuation are accounted under the profit or loss accounts.

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

Derivative financial instruments

Derivative financial instruments are initially recognized in the balance sheet at their fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Transaction costs that are directly attributable to the acquisition are expensed immediately. All derivative financial instruments are classified as held for trading. Certain derivative transactions, even though providing effective economic hedges under the Company's risk management position, do not qualify for hedge accounting under the specific rules in IFRS 9 "Financial Instruments: Recognition and Measurement", and are therefore treated as derivatives held for trading with fair value gains and losses reported in income statement. Fair values are obtained from quoted market prices and from discounted cash flow models as appropriate. Fair value of over-the-counter ("OTC") forward foreign exchange contracts is determined based on the comparison of the original forward rate with the forward rate calculated by reference to market interest rates of the related currency for the remaining period of the contract, discounted to 31 December 2018 and 31 December 2017. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative (Note 8).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates (Continued)

Financial assets at fair value through other comprehensive income

Financial assets are classified as financial assets at fair value through other comprehensive income where the business models aim to hold financial assets in order to collect the contractual cash flows and selling assets and the terms of financial asset give rise to cash flows that are solely payments of principal of interest at certain dates.

The Company may elect at initial recognition to irrevocably designate an equity investment at fair value other comprehensive income where those investments are hold for purposes other than to generate investments returns. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss. Dividends that represent a return on the investment continue to be recongnised in profit or loss in the financial statements.

All equity instruments classified as financial assets at fair value through other comprehensive income are measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Classification of financial assets reflects the business model of how the Company manages the assets in order to generate cash flows. Company's business model may be to collect solely the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Financial assets measured at amortised cost:

A financial asset is classified as a financial asset measured at amortized cost when the Company's policy within a business model is to hold the asset to collect contractual cash flows and the terms give rise to cash flows that are solely payments of principal of interest at certain dates.

Financial asset measured at amortised cost is recognized at cost which represents its fair value at initial recognition by adding the transaction costs and subsequently measured at amortised cost by using the effective interest rate method. Interest income related to the financial asset measured at amortized cost is recognized in the statement of income.

Finance lease receivables:

Finance lease receivables are financial assets to Company's customers with fixed or determinable payment terms which are not traded on an active market and measured at amortised cost is recognized at cost which represents its fair value at initial recognition by adding the transaction costs and subsequently measured at amortised cost by using the effective interest rate method. Finance lease receivables to customers are carried at amortized cost, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in the income statement in "Expected credit loss expense for finance lease receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates (Continued)

Netting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable 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. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Recognition and derecognition of financial instruments

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

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

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

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

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

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

Assessment of the business model

The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not a single instrument basis approach for classification and should be determined on a higher level of aggregation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates (Continued)

During the assessment of the business model for management of financial assets, all relevant evidences at the assessment date have been taken into consideration. Such relevant evidence includes below:

- How the performance of the portfolio is evaluated and reported to the Company's management;
- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets with duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

If cash flows are realized in a way that is different from the expectations on the date of the assessment of the business model, that does not give rise to a prior period error in the financial statements nor does it change the classification of the remaining financial assets held in that business model as long as all relevant information that was available at the time of business model assessment were. However, when the business model is assessed for newly originated or newly purchased financial assets, it must be considered information about how cash flows were realized in the past, along with all other relevant information.

The business models are divided into three categories. These categories are defined below:

- Business model whose objective is to hold assets in order to collect contractual cash flows financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. That is, the Company manages the assets held within the portfolio to collect those particular contractual cash flows.

  Although the objective of Company's business model may be to hold financial assets in order to collect contractual cash flows, the Company does not need to hold all of those instruments until the maturity. Thus Company's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur or are expected to occur in the future.

  The business model may be to hold assets to collect contractual cash flows even if the Company sells financial assets when there is an increase in the assets' credit risk. The Company considers reasonable and supportable information, including forward looking information in order to determine whether there has been an increase in the assets' credit risk. Regardless of their frequency and value, sales due to an increase in the assets' credit risk are not inconsistent with a business model whose objective is to hold financial assets to collect contractual cash flows because the credit quality of financial assets is relevant to the Company's ability to collect contractual cash flows

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates (Continued)

- A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets

  The Company may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of business model, the Company's management has made a decision on both collecting contractual cash flows and selling financial assets are necessary for achieving the objective of the business model. There are various objectives that may be consistent with this type of business model. For example, the objective of the business model may be to manage liquidity needs on daily basis, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities funding those assets. To achieve such an objective, the Company will both collect contractual cash flows and sell financial assets

  Compared to a business model whose objective is to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it.

- Other business models

  Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

  A portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The Company is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at fair value through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates (Continued)

Impairment of financial assets

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

Measurement of the expected credit losses reflects:

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

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

Stage 1:

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

Stage 2:

In the event of a significant increase in credit risk since initial recognition, the financial asset will be transferred to this stage. Impairment for credit risk will be determined on the basis of the instrument's lifetime expected credit losses. Following criterias have been taken into account in classification a financial asset as Stage 2:

- The receivable is overdue more than 30 days
- Restructured receivables
- Concordatum files
- Significant deterioration in probability of default

In the case of the occurrence of any of the first four items above, it is classified under Stage 2 receivables regardless of the comparison between probability of defaults.

Significant deterioration in probability of default is considered as significant increase in credit risk and the financial assets is classified under Stage 2 financial assets. In this regard, it is assumed that the probability of default deteriorates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates (Continued)

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognized.

Life-time expected credit loss is calculated on an individual or collective basis for the financial assets in stage 2 and stage 3.

The Company uses specific models for calculating the expected credit loss; such models are based on the parameters of PD, LGD and EAD and on the effective interest rate. In particular:

- the PD (Probability of Default), represents the probability of occurrence of an event of default of the credit exposure, in a defined time lag;
- the LGD (Loss Given Default), represents the percentage of the estimated loss, and thus the expected rate of recovery, at the date of occurrence of the default event of the credit exposure;
- the EAD (Exposure at Default), represents the measure of the exposure at the time of the event of default of the credit exposure;
- the Effective interest rate is the discount rate that expresses of the time value of money.

Such parameters are calculated starting from the corresponding parameters used for IRB preparation purposes, with specific adjustments in order to ensure consistency between accounting and regulatory treatment despite different regulatory requirements.

The main adjustments aimed at:

- removal of prudency principal required for IRB preparation phase;
- introducing "point-in-time" adjustments to replace "through-the-cycle" adjustments required for IRB preparation phase (Company is at pre-application stage for A-IRB models. TFRS-9 parameters developed over these parameters.);
- with reference to lifetime PD, through-the-cycle PD curves obtained by adjusting observed cumulated default rates were calibrated in order to reflect point-in-time on portfolio default rates.

Recovery rate incorporated into through-the-cycle LGD was adjusted in order to remove prudency principle and to reflect the most updated trend of recovery rates discounted at effective interest rate or at its best approximation.

The lifetime EAD has been obtained by converting the 1 year regulatory or managerial model to life-time, removing margin of prudency and including the expected discounted cash flow.

The Stage Allocation model is a key aspect of the new accounting model required to calculate expected credit losses which is aimed at transferring credit exposures from Stage 1 to Stage 2.

With reference to the quantitative component of the model for stage allocation, the Company has adopted a statistical approach based on a quantiles regression whose objective is to define a threshold in terms of maximum variation acceptable between the PD at the time of origination and the PD assessed at the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates (Continued)

The Stage Allocation model was based on a combination of relative and absolute elements. The main elements were:

- comparison, for each transaction, between the PD measured at the time of recognition and PD as at the reporting date, both calculated according to internal models, through thresholds set in a way considering all key variables of each transaction that can affect the Company's expectation of PD changes over time;
- absolute elements such as the backstops required by law;
- additional internal evidence

Default definition is determined as the followings:

- The receivable is overdue more than 90 days after considering lease invoice payment term defined by related laws (i.e. plus 60 days)
- The customer is not able to pay at least one of the payables to the Company (cross default)
- Having a negative intelligence and bad-record for the borrower in the market.
- Deterioration of the creditworthiness of the borrower.

The Company does not have any financial asset as purchased or originated credit-impaired.

Assets held for sale

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

Property and equipment

All property and equipment is carried at cost, restated equivalent to purchasing power of TL at 31 December 2005 less accumulated depreciation. Depreciation is calculated over the restated amounts of property and equipment by using the straight-line method to write down the restated cost of each asset to their residual values over their estimated useful life as follows:

Furniture and fixtures	5-10 years
Machinery, equipment and installations	6 years
Leasehold improvements	Shorter of lease period or useful lives

Where the carrying amount of an asset is greater than its estimated recoverable amount ("higher of net selling price" and "value in use"), it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates (Continued)

Intangible assets

Intangible assets are measured initially at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably.

Intangible assets mainly comprise of expenditures to acquire software licenses and amortized by using the straight-line method over their useful lives of 3 or 5 years.

Investment in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Company's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date. The statement of profit or loss reflects the Company's share of the results of operations of the associate. Any change in the statement of other comprehensive income of those investees is presented as part of the Company's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. The aggregate of the Company's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company. After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of profit of an associate' in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates (Continued)

Income taxes

a. Income taxes currently payable

Tax expense/(income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

The Company is subject to Turkish taxation legislation. Where there are matters causing the final tax outcome to be different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

As of 31 December 2018, the Company carries TL 5,851 of income taxes asset (31 December 2017: TL 14,766 income tax payable) and TL 131,513 of net deferred tax asset (31 December 2017: TL 48,612).

b. Deferred income taxes

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized.

The principal temporary differences arise from the provision for impaired lease receivables, provisions and derivative financial instruments (Note 17).

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates (Continued)

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

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Employment termination benefits

Defined benefit plans:

Obligations related to employee termination benefits are accounted for in accordance with "International Accounting Standard for Employee Rights" ("IAS 19") and are classified under "employment benefits" account in the balance sheet.

Under the Turkish Labor Law, the Company is required to pay a specific amount to the employees who have retired or whose employment is terminated other than for the reasons specified in the Turkish Labor Law. Employment termination benefits represent the estimated present value of the total reserve of the future probable obligation of the Company arising in the case of the retirement of the employees in accordance with this Law and is calculated using the projected unit credit method (Note 16).

Defined contribution plans:

The Company also has to pay contributions to the Social Security Institution (Institution) for its employees within the contribution margin decided by the law. The Company does not have other liabilities to its employees or to the Institution other than the contribution for its employees. Those contributions are expensed on the date of accrual.

Short term plans:

The Company also provides for short-term employee benefits such as vacation rights and bonuses in accordance with IAS 19.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates (Continued)

Revenue recognition

Financing leases consist of full-payout leases for various types of equipment. The excess of aggregate contract lease rentals, plus the nominal residual value, over the original cost of the related equipment represents the total revenue to be recognized over the term of the lease. The revenue is recognized in order to provide a constant periodic rate of return on the net investment remaining in each lease.

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis.

Borrowing costs

All borrowing costs are recorded in the statement of comprehensive income in the period in which they are incurred.

Interest income and expense

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

Contingent assets and liabilities

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company are not included in the financial statements and treated as contingent assets or liabilities.

Share capital and dividends

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Company's shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the post balance sheet events note.

Earnings per share

Earnings per share presented in the statement of comprehensive income are determined by dividing net income attributable to that class of shares by the weighted average number of such shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (bonus shares) to existing shareholders from retained earnings and inflation adjustment to shareholders' equity. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the period has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them retroactive effect for the period in which they were issued and for each earlier period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates (Continued)

Subsequent events

Post year-end events that provide additional information about the Company’s position at the balance sheet date (adjusting events), are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

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 regulary reviewed by Board of Directors. The Company does not present segment information from the geographic perspective and business perspective since the Company operates in one geographical area (Turkey) and performs its activities only in finance lease sector.

Explanations on prior period accounting policies not valid for the current period

Financial instruments

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss; finance lease receivables, available-for-sale financial assets and financial liabilities measure at amortised cost. When financial assets are recognized initially, they are measured at fair value. The Company determines the classification of its financial assets at initial recognition.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of other comprehensive income until the investment is derecognized, or until the investment is determined to be impaired, at the time the cumulative gain or loss previously reported in other comprehensive income is included in the income statement. However, interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

Allowance for impairment of lease receivables

A credit risk provision for impairment of the investment in finance leases is established if there is objective evidence that the Company will not be able to collect all amounts due as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the receivables. The amount of the provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including the amount recoverable from guarantees and collateral, discounted based on the effective interest rate at inception.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Accounting policies, Judgements and estimates (Continued)

Impairment of financial assets

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

The collective provision also covers losses where there is objective evidence that probable losses are present in components of the portfolio at the balance sheet date. These have been estimated based upon historical loss experience which is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The provision made during the year is recognized in profit and loss statement in the related period.

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

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

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss, on assets carried at amortised cost, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

3. FINANCIAL RISK MANAGEMENT

Financial risk factors and risk management

The Company's activities expose to a variety of financial risks including the effects of changes in equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

The Company's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Financial risk management is carried out by Treasury and Foreign Relations department under policies approved by the Board of Directors. Treasury and Foreign Relations department identifies, evaluates and hedges financial risks in close co-operation with the operating units.

The core business of the Company is to serve clients' financial needs; therefore typically the Company acts as a financial institution, an activity which could expose the Company to risks such as foreign exchange risk, interest rate risk and liquidity risk. The Treasury mainly focuses on the structure of the Company's assets and liabilities while analyzing these risks. The Treasury's mission is to provide funds to the Company, to manage the structural excess of liquidity to match the foreign currency exposure and interest rate risk of the Company; in addition it tries to achieve the projected revenues of the Treasury budget, while minimizing the volatility of the results. The Treasury also aims to satisfy the Regulator's requirements.

The Rule Book is subject to the approval of the Board of Directors, which also approves any proposed amendment to it. It will be the Company's responsibility to assure regular compliance with these principles and limits.

a. Market risk

Market risk is the risk that the Company's earnings or capital or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates including credit spreads, foreign exchange rates, equity prices and commodity prices. The Company manages foreign exchange risk and interest rate risk by considering market risk.

For the market risk management some general guidelines apply;

- Yapı ve Kredi Bankası A.Ş. Risk Management and the Company's Board of Directors are informed of and they approve any major change in the risk portfolio or any important decision regarding market risk before any action is taken.
- All market risks are managed by the Company's Treasury.
- Planning and Control is independent from the Treasury and reports directly to general manager and Asset Liability Committee.
- Interest rate and foreign exchange risk is managed by the Treasury and it is the Treasury's responsibility to keep these within the limits.
- Derivative trading is allowed only for hedging purposes.
- Investments in government bonds are allowed if in Turkish domestic debt. Other government bonds are subject to the approval of the Board of Directors.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

a. Market risk (Continued)

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company enters into a derivative financial instruments to manage its exposure to interest rate risk and currency risk.

There has been no major change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

i. Currency risk

Foreign currency risk is a result of the Company's assets and liabilities denominated in foreign currencies. The Company has a foreign currency position as a result of its operations. The Treasury monitors daily the foreign currency position of the Company. Monthly reporting of the foreign currency position, in detailed tables by maturity and currency, is the responsibility of Planning and Control. A maximum limit of (+/-) EUR 6,500,000 (Full amount) (2017: (+/-) EUR 6,000,000 (Full amount)) for foreign currency exposure is projected by the Company. The Company invests in derivative financial instruments to match its assets and liabilities denominated in foreign currencies.

The table below summaries the Company's exposure to foreign currency exchange rate risk at 31 December 2018 and 31 December 2017.

	TL Equivalent			
31 December 2018	**USD**	**EUR**	**Other**	**Total TL equivalent**
Assets				
Cash and cash equivalents	3,307	92,304	7,237	102,848
Finance lease receivables	2,487,539	7,383,314	95,518	9,966,371
Other assets and prepaid expenses	36,681	251,460	5,351	293,492
Total assets	**2,527,527**	**7,727,078**	**108,106**	**10,362,711**
Liabilities				
Borrowings (-)	(2,423,886)	(7,466,564)	(99,437)	(9,989,887)
Accounts payable (-)	(18,863)	(97,534)	(24)	(116,421)
Provisions (-)	(24,463)	(5,626)	(2,096)	(32,185)
Advances received from customers (-)	(57,674)	(155,054)	(3,415)	(216,143)
Total liabilities	**(2,524,886)**	**(7,724,778)**	**(104,972)**	**(10,354,636)**
Net balance sheet position (*)	**2,641**	**2,300**	**3,134**	**8,075**
Off-balance sheet derivative instruments net notional position	(21,994)	22,002	-	8
Net foreign currency position	**(19,353)**	**24,302**	**3,134**	**8,083**

(*) Had the impact of the currency difference arising from the transactions between the Company and its customers, which would have been reflected to tenants, been eliminated, the net foreign exchange position would have occurred as TL 5,040 in USD, TL 82 in Euro, TL 97 in other currencies and TL 5,219 in total.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

i. Currency risk (Continued)

	TL Equivalent			
31 December 2017	**USD**	**EUR**	**Other**	**Total**
Assets				
Cash and cash equivalents	1,082	5,909	5,825	12,816
Finance lease receivables	2,291,320	6,182,896	112,727	8,586,943
Total assets	**2,292,402**	**6,188,805**	**118,552**	**8,599,759**
Liabilities				
Borrowings	(1,701,272)	(5,807,289)	(98,866)	(7,607,427)
Accounts payable	(59,429)	(261,942)	(789)	(322,160)
Advances received from customers	(55,405)	(66,246)	(20)	(121,671)
Total liabilities	**(1,816,106)**	**(6,135,477)**	**(99,675)**	**(8,051,258)**
Net balance sheet position (*)	**476,296**	**53,328**	**18,877**	**548,501**
Off-balance sheet derivative instruments net notional position	(491,290)	(59,830)	-	(551,120)
Net foreign currency position	**(14,994)**	**(6,502)**	**18,877**	**(2,619)**

(*) Had the impact of the currency difference arising from the transactions between the Company and its customers, which would have been reflected to tenants, been eliminated, the net foreign exchange position would have occurred as TL 484,739 in USD, TL 78,761 in Euro, TL 1,988 in other currencies and TL 565,488 in total.

At December 31, 2018, assets, liabilities and off-balance sheet derivative instruments denominated in foreign currency were translated into TL by using a foreign exchange rate of and TL 5.2609=US$1 and TL 6.0280=EUR1 (2017: TL 3.7719=US$1 and TL 4.5155=EUR1).

Foreign currency sensitivity

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

The following table details the Company's sensitivity to a 20% increase and decrease in the TL against the relevant foreign currencies as of 31 December 2018 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 20% change in foreign currency rates. A positive number indicates an increase in profit or loss where the TL weakens against the relevant currency.

	Profit/(Loss) 2018	**Profit/(Loss) 2017**
US Dollar	1,008	96,948
EURO	16	15,752
Other	19	398

In the case of appreciation of TL against US$ and EUR by 20%, totals shown above has equal and opposite effect on the income statement.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

ii. Interest rate risk

Movements in market interest rates which lead to price fluctuations in financial instruments of the Company require the management of the interest risk. It is Treasury and Foreign Relations Department that follows up the Company's interest sensitive assets, liabilities and off-balance sheet items. In addition Business Planning and Financial Reporting Department reports the interest rate risk by distributing interest rate risk into monthly time bands according to their maturity. The interest rate risk is measured on a monthly basis using Economic Value Sensitivity Analysis, Interest Rate Stress Testing and various scenarios.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate assets and liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

According to the Sensitivity Analysis as at 31 December 2018, in the scenario of one basis point increase in the TL interest rate and the foreign currency interest rate with all other variables being constant, there will be TL 1,486 (2017: TL 1,035)

The table below summaries the average year-end interest rates by major currencies for monetary financial instruments:

	31 December 2018 (%)			31 December 2017 (%)		
	US$	**EUR**	**TL**	**US$**	**EUR**	**TL**
Assets						
Finance lease receivables	6.00	5.31	16.13	5.68	5.45	13.51
Time deposits	-	0.20	10.55	-	-	12.00
Liabilities						
Borrowings	4.86	2.50	29.72	4.21	2.42	14.30
Debt securities issued	-	-	30.78	-	-	14.91

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

31 December 2018	**Demand and up to 3 months**	**3 to 12 months**	**Over 1 Year**	**Non-interest bearing**	**Total**
Assets					
Cash and cash equivalents	107,314	-	-	-	107,314
Finance lease receivables	1,283,558	2,975,918	7,904,737	110,254	12,274,467
Total assets	**1,390,872**	**2,975,918**	**7,904,737**	**110,254**	**12,381,781**
Liabilities					
Borrowings	937,704	2,919,376	6,189,617	-	10,046,697
Debt securities issued	486,142	-	-	-	486,142
Total liabilities	**1,423,846**	**2,919,376**	**6,189,617**	**-**	**10,532,839**
Net re-pricing gap	**(32,974)**	**56,542**	**1,715,120**	**110,254**	**1,848,942**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

ii. Interest rate risk (Continued)

31 December 2017	Demand and up to 3 months	3 to 12 months	Over 1 Year	Non-interest bearing	Total
Assets					
Cash and cash equivalents	23,607	-	-	12,503	36,110
Finance lease receivables	1,141,093	2,155,407	6,841,249	123,055	10,260,804
Total assets	**1,164,700**	**2,155,407**	**6,841,249**	**135,558**	**10,296,914**
Liabilities					
Borrowings	426,063	901,801	6,475,353	-	7,803,217
Debt securities issued	361,642	633,958	-	-	995,600
Total liabilities	**787,705**	**1,535,759**	**6,475,353**	**-**	**8,798,817**
Net re-pricing gap	**376,995**	**619,648**	**365,896**	**135,558**	**1,498,097**

b. Credit risk

Financial instruments contain an element of risk that the counterparty may be unable to meet the terms of the agreements. This risk is managed by limiting the aggregate risk to any individual counterparty and financial institution. The Company's exposure to credit risk is concentrated in Turkey where the majority of the activities are carried out. The credit risk is generally diversified due to the large number of entities comprising the customer bases and their dispersion across different industries.

The table below summaries the geographic distribution of the Company's assets and liabilities at 31 December 2018 and 31 December 2017:

31 December 2018	Assets	%	Liabilities	%
Turkey	12,730,809	97	3,415,478	31
European countries	287,625	2	6,471,611	59
Other	151,471	1	1,097,444	10
	13,169,905	**100**	**10,984,533**	**100**

31 December 2017	Assets	%	Liabilities	%
Turkey	10,854,979	96	4,446,975	47
European countries	282,845	2	4,206,332	45
Other	191,658	2	709,570	8
	11,329,482	**100**	**9,362,877**	**100**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

b. Credit risk (Continued)

The Company takes following criterias into consideration for the identification of default:

- The receivable is overdue more than 90 days after considering lease invoice payment term defined by related laws (i.e. plus 60 days)
- The customer is not able to pay at least one of the payables to the Company (cross default)
- Having a negative intelligence and bad-record for the borrower in the market.
- Deterioration of the creditworthiness of the borrower.

Probability of default of a customer is calculated through a rating system which is developed by the Company's shareholder, YKB.

Maximum exposure to credit risk

	31 December 2018	31 December 2017
Credit risk exposures relating to balance sheet items:		
Due from banks	107,314	36,110
Finance lease receivables, net	12,274,467	10,260,804
Derivative financial instruments	36	22,289
Other financial assets	376,538	695,022

The above table represents a worst case scenario of credit risk exposure in the absence of any collateral or credit enhancements.

The main types of collateral obtained are as follows:

- Equipment and goods subject to financial lease,
- For commercial lending, mortgages over real estate properties, cash, guarantee letters, securities, pledges or guarantees
- For retail lending, mortgages over residential properties or pledges on vehicles

The rating concentration of lease receivable customers according to Company's rating evaluation is as follows:

	Rating class	31 December 2018
Above average	1 - 4	6,800,971
Average	5 - 6	4,969,971
Below average	7 -9	503,525
Total		**12,274,467**

Further credit risk related disclosures are presented in Note 7.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

c. Liquidity risk

Liquidity risk is the possibility that the Company will be unable to fund its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To hedge against this risk, management has diversified funding sources, and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents. Moreover, the ability to fund the existing and prospective debt requirements and cover withdrawals at unexpected levels of demand is managed by maintaining the availability of adequate funding lines from shareholders and high quality investors.

The following table presents the cash flows payable by the Company under derivative and non-derivative financial liabilities based on remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on expected undiscounted cash inflows.

Non-derivative financial liabilities:

31 December 2018	Up to 3 months	3 to 12 months	Over 1 year	No definite maturity	Total
Borrowings	1,081,978	3,600,046	5,775,955	-	10,457,979
Debt securities issued	500,000	-	-	-	500,000
Total cash outflows	**1,581,978**	**3,600,046**	**5,775,955**	**-**	**10,957,979**

Derivative financial instruments:

31 December 2018	Up to 3 months	3 to 12 months	Over 1 year	No definite maturity	Total
Derivative financial instruments held for trading	43,996	-	-	-	43,996
Total cash outflows	**43,996**	**-**	**-**	**-**	**43,996**

Non-derivative financial liabilities:

31 December 2017	Up to 3 months	3 to 12 months	Over 1 year	No definite maturity	Total
Borrowings	513,732	1,370,201	6,328,240	-	8,212,173
Debt securities issued	107,021	938,501	-	-	1,045,522
Total cash outflows	**620,753**	**2,308,702**	**6,328,240**	**-**	**9,257,695**

Derivative financial instruments:

31 December 2017	Up to 3 months	3 to 12 months	Over 1 year	No definite maturity	Total
Derivative financial instruments held for trading	820,153	314,291	-	-	1,134,444
Total cash outflows	**820,153**	**314,291**	**-**	**-**	**1,134,444**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

d. Operational risk

The most comprehensive meaning of operational risk is considered to be any risk which is not classified as market and credit risk. In managing operational risk, increasing the skills of the staff, improving the job technology and job definitions, establishing the necessary internal controls and various insurances are employed as main methods.

e. Fair value of financial instruments

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

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

Fair value of financial assets is measured according to the assumptions based on quoted bid prices of similar assets, or amounts derived from cash flow models.

The table below indicates the fair value of the financial assets which are stated at amortized cost in the statement of financial position:

	Carrying amount		Fair value	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Cash and cash equivalents	107,314	36,110	107,314	36,110
Finance lease receivables	12,274,467	10,260,804	13,095,202	11,129,777
Borrowings	10,046,697	7,803,217	10,357,501	7,816,485
Debt securities issued	486,142	995,600	486,567	997,293

The discount rate used to calculate the fair value of US dollar, EUR and TL finance lease receivables as at 31 December 2018 are %7.28, %5.82 and %21.53, respectively.

The discount rate used to calculate the fair value of US$, EUR and TL borrowings and debt securities issued as at 31 December 2018 are %6.22, %3.39 and %29.89, respectively.

Fair value hierarchy

Fair values of financial assets and liabilities that are carried with their fair values on the balance sheet, are determined as follows:

- Level 1: Financial assets and liabilities are valued at the quoted prices (unadjusted) in an active market for identical assets and liabilities.
- Level 2: 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.

There are not any significant transfers between Level 1 and Level 2 of the fair value hierarchy.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

e. Fair value of financial instruments (Continued)

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

31 December 2018	**Level 1**	**Level 2**	**Level 3**
Trading derivative financial assets	-	36	-
Total assets	**-**	**36**	**-**

31 December 2017	**Level 1**	**Level 2**	**Level 3**
Trading derivative financial assets	-	22,289	-
Total assets	**-**	**22,289**	**-**

Since available for sale share certificates are not quoted in a stock exchange, they are carried at cost and are not included in the table above.

f. Capital management

In accordance with Article 12 of the "Regulation on Establishment and Operation Principles of Financial leasing, Factoring and Financing Companies" published in the Official Gazette dated 24 December 2013, the Company is required to keep minimum 3% standard ratio calculated by dividing equity to total assets. Standard ratio of the Company is 16.8% as of 31 December 2018 (31 December 2017: 17.3%) as calculated in accordance with statutory financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company management makes judgments, estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and assumptions are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary significant accounting policies (Note 2) and financial risk management (Note 3). Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

In preparing these financial statements, the significant judgements made by the management in applying the accounting policies and the key sources of estimation uncertainty were the same, except for the newly introduced model of IFRS 9 ECL calculation mentioned in Note 2, as those that applied to the annual financial statements for the year ended 31 December 2018.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Allowance for impairment of finance lease receivables

The Company reviews its financial assets classified as measured at amortized cost at each statement of financial position date to assess whether they are impaired in line with the descriptions set out in accounting policy Note 2.

The methodology and assumptions used for estimating both significant increase in credit risk and forward looking information in Note 2 are discussed below.

Significant increase in credit risk

In the assessment of significant increase in credit risk quantitative and qualitative assessments are made;

Quantitative assessment:

As a result of quantitative assessment, related financial asset is classified as stage 2 (Significant Increase in Credit Risk) when any of the following criterias are satisfied.

As of reporting date:

- Lifetime expected credit losses shall be recognized on a transaction base, when 30 days past due status is reached. The Company can abondon this estimation when it has reasonable and supportable information available which demonstrates that even if contractual payments become more than 30 days past due, this does not represent a significant increase in the credit risk of a financial instrument.
- In case a receivable has been restructured, it will be followed up under Stage 2 during the follow-up period mentioned in the related regulations. The receivable can be transferred back to Stage 1 at end of the follow-up period if there is no significant deterioration.

Qualitative assessment:

The probability of significant increase in credit risk under qualitative assessment is based on the comparison of probability of default of a receivable in the origination and as of reporting date.

The Company uses distribution regression on segment basis in order to calculate the thresholds used in defining the significant increase in credit risk.

Financial instruments defined as low risk for IFRS 9 are;

- Receivables with counterparty of Turkish Government,;
- Bank placements;
- Other money market transactions;
- Transactions of Company's associates and subsidiaries

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Forward looking information:

Forward-looking macroeconomic information is incorporated into credit risk parameters during assessment of significant increase in credit risk and expected credit loss calculation.

For the calculation of expected credit loss, Company uses macroeconomic estimation method which is developed during creation of various scenarios. Macroeconomic variables prevailing during these estimates are Gross Domestic Product (GDP) the Deflator of Gross Domestic Product and Mortgage Price Index.

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The total carrying value of such net finance lease receivables as of 31 December 2018 is TL 12,274,467 (31 December 2017: TL 10,260,804) with the impairment allowance of TL 501,204 (31 December 2017: TL 268,765).

While generating data for expected credit loss calculation, OECD countries, in the context of estimating macroeconomic information of international monetary policy and the intensity of the sector, specifications and estimates of econometric models revealing past relationships between credit risk parameters and macroeconomic variables are employed in order to be able to generate estimates based on macroeconomic information.

When expected credit losses are estimated in accordance with the forward-looking macroeconomic information, the Company evaluates 3 scenarios (base, pessimistic and optimistic) with various weights based. Each of these scenarios are in relation with different probability of default risk.

Where macroeconomic scenarios do not include longer than 1 year maturity, a process called "convergence to the mean" is applied.

Provisions for legal proceedings

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" in order to recognize allowances for litigations, the Company determines probable outflow of resources embodying economic benefits that are as a result of a past event and will be required to settle the obligation with a reliable estimate of the amount of the obligation. Within this scope, the Company management evaluates with the Company lawyers and makes most accurate evaluations with the available data. The Company has accounted for a litigation provision amounting to TL 38,812 (31 December 2017: TL 31,543).

Deferred income tax asset recognition

Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by Management and extrapolated results thereafter. The business plan is based on Management expectations that are believed to be reasonable under the circumstances (Note 17).

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Critical accounting estimates and judgements for the period ended at 31 December 2017 are as following:

Allowance for impairment of finance lease receivables

A credit risk provision for impairment of the finance lease receivables is established if there is objective evidence that the Company will not be able to collect all amounts due. The estimates used in evaluating the adequacy of the provision for impairment of finance lease receivables are based on the aging of these receivable balances and the trend of collection performance (Note 7).

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

The collective provision also covers losses where there is objective evidence that probable losses are present in components of the portfolio at the balance sheet date. These have been estimated based upon historical loss experience which is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The provision made during the year is recognized in the statement of comprehensive income in the related period.

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The total carrying value of such net finance lease receivables as of 31 December 2017 is TL 10,260,804 with the impairment allowance of TL 268,765.

5. CASH AND CASH EQUIVALENTS

	31 December 2018			31 December 2017		
	Foreign currency	**TL**	**Total**	**Foreign currency**	**TL**	**Total**
Due from banks						
- Time deposits	88,009	1,200	89,209	5,589	18,018	23,607
- Demand deposits	17,058	3,362	20,420	7,227	5,276	12,503
- Provisions for expected losses (-)	(2,219)	(96)	(2,315)	-	-	-
Total cash and cash equivalents	**102,848**	**4,466**	**107,314**	**12,816**	**23,294**	**36,110**

For the purposes of cash flow statements, cash and cash equivalents comprise TL 109,629 and TL 36,092 at 31 December 2018 and 2017, respectively. Expected credit loss provision amounting to TL 2,315 is excluded from the Cash and cash equivalents at the end of the year as at 31 December 2018. Accrued interest on time deposits amounts to TL 18 as of 31 December 2017.

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

5. CASH AND CASH EQUIVALENTS (Continued)

TL equivalents of foreign currency details of the demand deposits as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
CHF	7,383	236
EUR	6,283	5,909
USD	3,382	1,082
TL	3,362	5,276
GBP	6	-
JPY	4	-
Total	**20,420**	**12,503**

Details of time deposits are presented below:

	31 December 2018			31 December 2017		
	Maturity	Amount (TL Equivalent)	Per-annum rate (%)	Maturity	Amount (TL Equivalent)	Per-annum rate (%)
EUR	2 January 2019	88,009	0.20	-	-	-
TL	2 January 2019	1,200	10.55	2 January 2018	18,018	11.4 - 12
CHF	-	-	-	1 February 2018	5,589	0.2
Total		**89,209**			**23,607**	

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVOCI")

	31 December 2018	31 December 2017
FVOCI	140	140
Unlisted equity securities	**140**	**140**

The unlisted equity securities at 31 December 2018 and 31 December 2017 are as follows:

Entity	Nature of business	31 December 2018 TL	31 December 2018 (%)	31 December 2017 TL	31 December 2017 (%)
Yapı Kredi Bank Azerbaijan J.S.B. **(*)**	Banking	109	<1	109	<1
Yapı Kredi Yatırım Menkul Değerler A.Ş.	Investment Management	14	<1	14	<1
Koç Kültür Sanat ve Tanıtım A.Ş.	Organisation	10	4.9	10	4.9
Yapı Kredi Faktoring A.Ş.	Factoring	7	<1	7	<1
Total		**140**		**140**	
Less: Provision for impairment (-)		-		-	
		140		**140**	

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

7. FINANCE LEASE RECEIVABLES, NET

	31 December 2018
Gross investment in direct finance leases	14,231,402
Invoiced lease receivables	91,007
Gross finance lease receivables	**14,322,409**
Unearned finance lease income (-)	(2,090,723)
Finance lease receivables	**12,231,686**
Credit impaired finance lease receivables - Stage 3	543,985
Less: Expected credit loss for Stage 3 (-)	(433,730)
Less: 12-Month Expected Credit Losses (Stage 1) and lifetime expected credit loss for significant increase in credit risk (Stage 2) (-)	(67,474)
Finance lease receivables, net	**12,274,467**

	31 December 2017
Gross investment in direct finance leases	12,030,662
Invoiced lease receivables	33,279
Gross finance lease receivables	**12,063,941**
Unearned finance lease income (-)	(1,875,140)
Finance lease receivables	**10,188,801**
Individually impaired lease receivables	340,768
Less: Allowance for individually impaired lease receivables (-)	(217,713)
Less: Allowance for collective provision (-)	(51,052)
Finance lease receivables, net	**10,260,804**

At 31 December 2018 and 31 December 2017 the gross investment in direct finance leases according to their interest type are as follows:

	31 December 2018	**31 December 2017**
Fixed interest	13,793,316	11,646,828
Floating interest	438,086	383,834
	14,231,402	**12,030,662**

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

7. FINANCE LEASE RECEIVABLES, NET (Continued)

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

Period end	31 December 2018 Gross	31 December 2018 Net
2019	4,930,241	4,024,984
2020	3,494,492	2,960,417
2021	2,405,481	2,095,432
2022	1,689,015	1,522,620
2023	799,379	719,286
2024 and after	1,003,801	908,947
	14,322,409	**12,231,686**

Period end	31 December 2017 Gross	31 December 2017 Net
2018	4,107,058	3,312,362
2019	2,903,320	2,394,275
2020	1,984,474	1,731,997
2021	1,258,263	1,117,881
2022	901,051	818,709
2023 and after	909,775	813,577
	12,063,941	**10,188,801**

Net finance lease receivables can be analyzed as follows:

	31 December 2018
Stage 1	11,601,395
Stage 2	630,291
Stage 3	543,985
Gross lease receivables	**12,775,671**
Less: Expected credit loss for Stage 3 (-)	(433,730)
Less: 12-Month Expected Credit Losses (Stage 1) (-)	(41,123)
Less: Lifetime expected credit loss for significant increase in credit risk (Stage 2) (-)	(26,351)
Net finance lease receivables	**12,274,467**

	31 December 2017
Neither past due nor impaired	10,155,522
Past due but not impaired	33,279
Impaired	340,768
Gross	**10,529,569**
Less: allowances for impairment (-)	(268,765)
Net finance lease receivables	**10,260,804**

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

7. FINANCE LEASE RECEIVABLES, NET (Continued)

As at 31 December 2018, TL 96,080 of the total collaterals is related to the credit impaired finance lease receivables that are classified under stage 3 amounting to TL 543,985.

As at 31 December 2017, TL 27,650 of the total collaterals is related to the impaired finance lease receivables amounting to TL 340,768.

The aging of finance lease receivables that are classified under stage 1 and stage 2 at 31 December 2018 is as follows:

	31 December 2018	
	Invoiced amount	**Remaining principal**
0-30 days	34,025	410,716
30-60 days	25,797	266,901
60 - 90 days	31,185	306,408
	91,007	**984,025**

TL 37,556 of related lease receivables that are classified in stage 2 are followed-up by the Company via the watch list, remaining principal amount of the same lease receivables amounting to TL 437,766 is also followed-up via the watch list as at 31 December 2018.

The aging of finance lease receivables that are past due but nor impaired as at 31 December 2017 is as follows:

	31 December 2017	
	Invoiced amount	**Remaining principal**
0-30 days	3,952	208,673
30-60 days	9,050	68,798
60 - 150 days	20,277	111,750
	33,279	**389,221**

TL 11,065 of past due but not invoiced impaired lease receivables is followed-up by the Company via the watch list, remaining principal amount of the same lease receivables amounting to TL 191,194 is also followed-up via the watch list as at 31 December 2017.

The aging of credit impaired finance lease receivables at 31 December 2018 is as follows:

	31 December 2018		
	Invoiced amount	**Remaining principal**	**Total**
3 - 12 months	13,655	142,817	156,472
1 year and over	114,914	272,599	387,513
	128,569	**415,416**	**543,985**

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

7. FINANCE LEASE RECEIVABLES, NET (Continued)

The aging of credit impaired finance lease receivables at 31 December 2017 is as follows:

	31 December 2017		
	Invoiced amount	**Remaining principal**	**Total**
3 - 12 months	5,615	114,776	120,391
1 year and over	88,201	132,176	220,377
	93,816	**246,952**	**340,768**

Movement for expected credit loss provision provided for finance lease receivables for the year ended 31 December 2018 is as follows:

	2018
Opening - 1 January	**268,765**
Effect of first time adoption of IFRS 9 (Note 2.2)	153,181
Expected credit loss provision provided for lease receivables during the year	121,727
Recoveries and cancellation from amounts previously provided for (-)	(45,499)
Other	3,030
Closing - 31 December	**501,204**

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

	2017
Opening - 1 January	**319,709**
Impairment expense during the year	82,962
Recoveries from amounts previously provided for (-)	(24,106)
Written-off during the period (-) (*)	(109,800)
Closing - 31 December	**268,765**

(*) On 12 December 2017, the Company sold the portfolio of TL 109,800 that were selected from non-performing finance lease receivables and were previously fully impaired to Hayat Varlık Yönetim A.Ş. for TL 195 and removed the portfolio from the financial statements,

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Beginning of the period (1 January 2018)	**62,894**	**24,429**	**334,623**	**421,946**
Additions	13,901	12,404	76,607	102,912
Disposals	(41,191)	(4,308)	-	(45,499)
Transfers:	(2,402)	(6,602)	9,004	-
Transfer from Stage 1 to Stage 2	(2,402)	2,402	-	-
Transfer from Stage 2 to Stage 3	-	(9,004)	9,004	-
Financial assets recognised during the period other than write offs	-	-	3,030	3,030
Foreign exchange differences	7,921	428	10,466	18,815
End of the period (31 December 2018)	**41,123**	**26,351**	**433,730**	**501,204**

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

7. FINANCE LEASE RECEIVABLES, NET (Continued)

Economic sector risk concentrations for the gross investment in direct finance leases as of 31 December 2018 and 2017 are as follows:

	31 December 2018	Share (%)	31 December 2017	Share (%)
Construction	2,655,816	19	2,038,587	17
Energy	2,343,430	16	1,800,023	15
Textile	1,715,199	12	1,008,982	9
Real Estate	1,496,744	10	1,573,241	13
Steel and mining	1,117,524	8	1,010,391	9
Transportation	1,016,659	7	526,168	4
Automotive	670,420	5	346,542	3
Machinery and equipment	586,499	4	419,444	4
Petroleum and chemistry	473,757	3	408,620	2
Printing	452,396	3	211,716	2
Health	322,857	2	244,364	2
Food	273,990	2	173,098	1
Tourism	236,923	2	271,075	2
Wholesale and retail trade	205,334	1	197,808	2
Agriculture	28,720	<1	24,459	<1
Financial institutions	7,709	<1	13,619	<1
Education	6,787	<1	7,794	<1
Other	711,645	6	1,788,010	15
	14,322,409	**100**	**12,063,941**	**100**

Minimum finance 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.

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Renegotiated finance lease receivables that would otherwise be past due or impaired amounts to TL 159,392 (2017: TL 125,361).All of the renegotiated finance lease receivables are classified in stage 2 as of 31 December 2018.

Depending on the customers' inability to repay its obligations arising from financial leases or other similar economic factors, the Company cancelled 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.

Finance lease receivables are further analyzed as a part of the balance sheet in the notes: related party transactions (Note 22) and financial risk management (Note 3).

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

8. DERIVATIVE FINANCIAL INSTRUMENTS

31 December 2018	Contract/notional amount	Fair values Assets	Fair values Liabilities (-)
Foreign exchange derivatives			
Currency swaps	43,996	36	-
Total	**43,996**	**36**	**-**

31 December 2017	Contract/notional amount	Fair values Assets	Fair values Liabilities (-)
Foreign exchange derivatives			
Currency swaps	1,134,444	22,289	-
Total	**1,134,444**	**22,289**	**-**

Derivative financial instruments are further analyzed as a part of the balance sheet in the notes: commitments and contingent liabilities (Note 23) and financial risk management (Note 3).

9. INVESTMENT IN ASSOCIATES AND SUBSIDIARIES

Information on investments in associates:

Description	Adress City/Country	Shareholder ratio (%)	Other shareholder (%)	Net Assets	Net profit
Allianz Yaşam ve Emeklilik A.Ş.	Istanbul/Turkey	19.93	80.07	1,598,879	240,753

The Company has acquired a full nominal value of 115,574,715 shares for TL 11,557 representing 19.93% of the capital of Allianz Yaşam ve Emeklilik A.Ş. for TL 188,108 on 12 July 2013. The Company accounts its shares on Allianz Yaşam ve Emeklilik A.Ş. in accordance with equity accounting method as described in Note 2.

Movement of investments in associates:

	2018	2017
Opening - 1 January	**242,641**	**227,471**
Share of associate's current year income	47,982	42,071
Dividend elimination (Note 22) (-)	(27,897)	(26,901)
Closing - 31 December	**262,726**	**242,641**

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

10. OTHER ASSETS AND PREPAID EXPENSES

	31 December 2018	31 December 2017
Advances to vendors (*)	273,912	411,064
Prepaid expenses	65,885	73,398
Equipment to be leased (**)	37,161	176,072
Deferred value added taxes	-	34,150
Other	569	338
Expected credit losses (-)	(989)	-
	376,538	**695,022**

(*) Advances to vendors consist of advances paid to vendors for related customer orders and in advance of activation of customer agreements which will be transferred to lease receivables in subsequent period.

(**) Equipment to be leased consist of assets purchased for the financial lease agreements signed in the current period, which will be transferred to lessees in the subsequent period.

11. PLANT, PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

a) Property and equipment

	Furniture and fixtures	Machinery, equipment and installations	Leasehold improvements	Total
At 1 January 2018				
Cost	676	1,948	964	3,588
Accumulated depreciation (-)	(478)	(1,514)	(619)	(2,611)
Net book value	**198**	**434**	**345**	**977**
31 December 2018				
Opening net book value	198	434	345	977
Additions	7	475	-	482
Disposals (-)	(153)	(580)	(95)	(828)
Depreciation (-)	(48)	(199)	(102)	(349)
Disposal on depreciation	153	576	92	821
Net book value	**157**	**706**	**240**	**1,103**
At 31 December 2018				
Cost	530	1,843	869	3,242
Accumulated depreciation (-)	(373)	(1,137)	(629)	(2,139)
Net book value	**157**	**706**	**240**	**1,103**

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

11. PLANT, PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

	Furniture and fixtures	Machinery, equipment and installations	Leasehold improvements	Total
At 1 January 2017				
Cost	579	1,784	947	3,310
Accumulated depreciation (-)	(516)	(1,351)	(522)	(2,389)
Net book value	**63**	**433**	**425**	**921**
31 December 2017				
Opening net book value	**63**	**433**	**425**	**921**
Additions	160	164	75	399
Disposals, net	-	-	(42)	(42)
Depreciation	(25)	(163)	(113)	(301)
Net book value	**198**	**434**	**345**	**977**
At 31 December 2017				
Cost	676	1,948	964	3,588
Accumulated depreciation	(478)	(1,514)	(619)	(2,611)
Net book value	**198**	**434**	**345**	**977**

As of 31 December 2018, there is no pledge on the assets of the Company. (31 December 2017: None).

b) Intangible assets

31 December 2018	**Software**
Opening net book value	6,092
Additions	5,621
Amortization charge (-)	(2,527)
Disposals (-)	(416)
Net book value	**8,770**
31 December 2018	
Cost	23,071
Accumulated amortization (-)	(14,301)
Net book value	**8,770**

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

11. PLANT, PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (Continued)

31 December 2017	**Software**
Opening net book value	3,762
Additions	4,201
Amortization charge (-)	(1,871)
Net book value	**6,092**

31 December 2017	
Cost	17,870
Accumulated amortization (-)	(11,778)
Net book value	**6,092**

12. BORROWINGS

	31 December 2018			**31 December 2017**		
	Interest rates per annum (%)	**Balance in Original currency**	**TL equivalent**	**Interest rates per annum (%)**	**Balance in original currency**	**TL equivalent**
Domestic borrowings						
Fixed rate borrowings:						
EUR	4.0	131,340	791,716	3.1	106,525	481,012
TL	29.7	56,810	56,810	14.3	195,790	195,790
Floating rate borrowings:						
EUR	2.4	61,395	370,089	2.7	75,042	338,853
US Dollar	5.1	40,979	215,585	4.0	49,070	185,089
Total domestic borrowings			**1,434,200**			**1,200,744**
Foreign borrowings						
Fixed rate borrowings:						
EUR	2.5	863,393	5,204,532	2.5	827,833	3,738,078
US Dollar	4.3	214,396	1,127,916	4.1	154,024	580,962
CHF	1.3	2,363	12,606	1.2	3,351	12,917
Floating rate borrowings:						
EUR	1.6	182,520	1,100,227	1.9	276,679	1,249,346
US Dollar	5.4	205,361	1,080,385	4.3	247,944	935,221
CHF	0.6	16,275	86,831	0.6	22,297	85,949
Total foreign borrowings			**8,612,497**			**6,602,473**
Total borrowings			**10,046,697**			**7,803,217**

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

12. BORROWINGS (Continued)

	31 December 2018	31 December 2017
Short term bank borrowings	147,912	195,790
Short term portion of long term borrowings	4,332,935	1,529,636
Total short term borrowings	**4,480,847**	**1,725,426**
Long term borrowings	5,565,850	6,077,791
Total long term borrowings	**5,565,850**	**6,077,791**
Total borrowings	**10,046,697**	**7,803,217**

Payment terms of the borrowings as as follows:

	31 December 2018	31 December 2017
To be paid within 1 year	4,480,847	1,725,426
To be paid between 1-2 years	3,438,613	2,731,173
To be paid between 2-3 years	1,051,277	2,447,758
To be paid between 3-4 years	281,296	265,379
To be paid between 4-5 years	413,513	155,787
To be paid between 5-6 years	163,376	261,627
To be paid between 6-7 years	90,309	82,976
To be paid after 7 years	127,466	133,091
	10,046,697	**7,803,217**

The movement of borrowings for the year ended 31 December 2018 is as follows:

	2018
Opening - 1 January	**7,803,217**
Proceeds from borrowings	1,955,927
Repayments of funds borrowed (-)	(2,022,341)
Effect of changes in foreign currency and accruals, net	2,309,894
Closing - 31 December	**10,046,697**

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

13. SECURITIES ISSUED

	31 December 2018	31 December 2017
Debt securities issued	486,142	995,600
	486,142	**995,600**

Details of the securities issued as of 31 December 2018 and 31 December 2017 are as follows;

Securities	Nominal	Currency	Issue Date	Maturity Date	Simple rate (%)	Compound rate (%)	Rate type
Bill	200,000	TL	16 October 2018	11 January 2019	28.80	32.12	Fixed
Bill	150,000	TL	26 October 2018	21 January 2019	27.50	30.52	Fixed
Bill	100,000	TL	8 November 2018	3 May 2019	27.50	29.46	Fixed
Bill	50,000	TL	8 November 2018	5 March 2019	26.20	28.61	Fixed

Securities	Nominal	Currency	Issue Date	Maturity Date	Simple rate (%)	Compound rate (%)	Rate type
Bill	260,000	TL	18 December 2017	28 May 2018	14.60	15.20	Fixed
Bill	128,000	TL	14 December 2017	7 June 2018	14.60	15.16	Fixed
Bond	127,000	TL	5 August 2016	3 August 2018	14.24	15.00	Floating
Bill	100,000	TL	28 August 2017	21 February 2018	13.85	14.34	Fixed
Bill	99,000	TL	8 November 2017	2 May 2018	14.00	14.51	Fixed
Bill	98,000	TL	21 November 2017	18 May 2018	14.20	14.72	Fixed
Bill	85,000	TL	8 December 2017	5 June 2018	14.50	15.04	Fixed
Bond	83,000	TL	26 April 2016	24 April 2018	13.60	14.29	Floating
Bond	48,000	TL	7 June 2016	5 June 2018	14.80	15.63	Floating

The movement of debt securities issued is as follows:

	2018	2017
Opening - 1 January	**995,600**	**803,382**
Cash flows, net	(517,034)	197,841
Other non-cash movements	7,576	(5,623)
Closing - 31 December	**486,142**	**995,600**

14. ADVANCES RECEIVED

	31 December 2018	31 December 2017
Advances received (*)	145,389	159,786
	145,389	**159,786**

(*) Advances received consist of collections from lessees over the invoiced amount or early payments for lease receivables. These amounts will be deducted from related receivables in the subsequent period.

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

15. OTHER LIABILITIES, ACCOUNTS PAYABLE AND PROVISIONS

Other liabilities

	31 December 2018	31 December 2017
Withholding taxes and duties payable	13,861	1,392
Provision for personnel performance bonus	4,946	3,557
Other liabilities	956	853
	19,763	**5,802**

Accounts payable

	31 December 2018	31 December 2017
Accounts payable (*)	226,103	343,716
Insurance payables	10,534	13,958
	236,637	**357,674**

(*) Accounts payables are mainly related to the purchase of fixed assets from domestic and foreign suppliers regarding the financial lease agreements. As of 31 December 2018 maturity of accounts payable amounting to TL 236,637 is shorter than 1 year (As of December 31, 2017, maturity of trade payables amounting to TL 357,674 is shorter than 1 year).

Provisions

	31 December 2018	31 December 2017
Provision for open legal cases	38,812	31,543
Provision for resource utilization support fund	4,560	3,915
Other provisions	879	668
	44,251	**36,126**

The movements of the provision for legal cases for the years ended as at 31 December 2018 and 2017 are as follows:

	2018	2017
Opening - 1 January	**31,543**	**19,898**
Current year provision	7,303	12,207
Paid during the year (-)	(34)	(562)
Closing - 31 December	**38,812**	**31,543**

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

16. EMPLOYEE BENEFITS

	31 December 2018	31 December 2017
Provision for employment termination benefits	3,703	3,123
Provision for unused annual vacation	1,951	1,549
	5,654	**4,672**

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age. Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement.

IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability as at 31 December 2018 and 31 December 2017:

Accordingly the following financial and demographical actuarial assumptions were used in the calculations of the provision:

	31 December 2018	31 December 2017
Discount rate (%)	5.65	4.95
Estimated severance pay entitlement rate (%)	93.78	91.58

The principal assumption is that the maximum liability for each year service will increase in line with inflation. As the maximum liability is revised semi-annually the maximum amount of TL 6,017.60 (in full "TL" amount) which is effective as of 1 January 2019 has been taken into consideration in calculating the provision for employment termination benefits of the Company.

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

	2018	2017
Opening - 1 January	**3,123**	**781**
Service cost	296	166
Interest cost	240	16
Actuarial loss	533	2,264
Paid during the year (-)	(489)	(104)
Closing - 31 December	**3,703**	**3,123**

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

17. TAXATION

	31 December 2018	31 December 2017
Corporate taxes payable (-)	(118,631)	(31,280)
Prepaid taxes	124,482	46,046
Corporate tax receivable, net	**5,851**	**14,766**

	1 January - 31 December 2018	1 January - 31 December 2017
Current period tax charge (-)	(118,631)	(30,219)
Effect of cancellation of previous period corporate tax	3,072	-
Deferred tax income/(expense)	37,381	(21,093)
	(78,178)	**(51,312)**

Corporate Tax Law numbered 5422 was altered by Law No.5520 on 13 June 2006 which is published at the Official Gazette numbered 26205 and dated 21 June 2006 and many of its articles have become effective retrospectively starting from 1 January 2006. Corporation tax rate in Turkey starting from 1 January 2006 is 20%. Corporation tax is payable at a rate of 20% on the total income of the Company after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption and investment allowance, etc) and corporate income tax deductions (like research and development expenditures deduction). No further tax is payable unless the profit is distributed (except withholding tax at the rate of 19.8% on an investment incentive allowance utilized within the scope of Income Tax Law transitional article 61).

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

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital is not considered as a profit distribution.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax declaration is made by the 14th day and payable by the 17th day of the second month following each calendar quarter end by companies. Advance tax paid by corporations is credited against the annual corporation tax liability. If, despite offsetting, there remains a paid advance tax amount, it may be refunded or offset against other liabilities to the government.

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate.

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

17. TAXATION (Continued)

Tax returns are open for 5 years from the beginning of the year that follows the date of filing for the tax authorities' review who have the right to audit tax returns, and the related accounting records on which they are based, and they may issue re-assessments based on their findings.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

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

	1 January - 31 December 2018	1 January - 31 December 2017
Profit before tax	**409,346**	**297,481**
Theoretical tax expense with current tax rate (-)	(90,056)	(59,496)
Effect of share of net profit of associates for using the equity method	10,556	8,414
Effect of cancellation of previous period corporate tax	3,072	-
Effect of change in tax rate (*)	-	4,374
Tax-free income and non-deductible expenses, net	(1,750)	(4,604)
Current year tax expense	**(78,178)**	**(51,312)**

(*) As explained in detail above, the Company has prepared deferred tax assets and liabilities based on the tax rates that will be realized when the assets are realized or the liabilities are fulfilled due to the change in the corporate tax rate. The deferred tax assets and liabilities are calculated by 22% for the temporary differences, expected to be realized in 2018, 2019 and 2020 tax assets or liabilities.

Deferred taxes:

Under IAS 12, which deals with income taxes, deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilized and deferred tax assets should be reduced to the extent that it is no longer probable that the related tax benefit will be realized. The deferred tax asset and deferred tax liability have been netted of in these financial statements.

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

17. TAXATION (Continued)

Details of cumulative timing differences and the resulting deferred income tax assets and liabilities provided as of 31 December 2018 and 31 December 2017 are as follows:

	Total temporary differences		Deferred tax assets / (liabilities)	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Deferred tax assets				
Provision for impaired finance receivables	452,116	177,919	99,465	39,142
Finance lease receivables	145,640	81,282	32,041	17,882
Provision for open legal cases	38,812	31,543	8,539	6,939
Other	14,169	5,224	3,117	1,149
Deferred tax assets			**143,162**	**65,112**
Deferred tax liabilities				
Valuation difference on financial liabilities (-)	(52,179)	(51,006)	(11,479)	(11,221)
Valuation differences of derivative financial İnstruments (-)	(32)	(22,285)	(7)	(4,903)
Difference between carrying value and tax base of property, equipment and intangible assets (-)	(743)	(1,709)	(163)	(376)
Deferred tax liabilities (-)			**(11,649)**	**(16,500)**
Deferred tax assets, net			**131,513**	**48,612**

Movements of the deferred tax assets for the periods ended at 31 December 2018 and 31 December 2017 are as follows:

	2018	2017
Opening - 1 January	**48,612**	**69,206**
Deferred tax income recognized under retained earnings on first time application of IFRS 9 (Note 2.2)	45,403	-
Recognized under profit or loss	37,381	(21,093)
Recognized under other comprehensive income	117	499
Closing - 31 December	**131,513**	**48,612**

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

18. SHARE CAPITAL

At 31 December 2018, the Company's share capital consists of 389,927,705 shares with a par value of TL1 each (31 December 2017: 389,927,705 shares with a par value of TL1 each).

Adjustment to share capital represents the restatement effect of cash contributions to share capital in year-end equivalent purchasing power.

At 31 December 2018 and 31 December 2017, the share capital is as follows:

	31 December 2018		**31 December 2017**	
	Ratio (%)	**TL**	**Ratio (%)**	**TL**
Yapı ve Kredi Bankası A.Ş.	99.99	389,904	99.99	389,904
Other	0.01	24	0.01	24
	100.00	**389,928**	**100.00**	**389,928**
Adjustment to share capital		(31,017)		(31,017)
		358,911		**358,911**

19. RETAINED EARNINGS AND LEGAL RESERVES

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the Company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

In accordance with the Law No. 5228 on "Amending Certain Tax Laws" published in the Official Gazette dated July 31, 2004 and numbered 25539, it has become possible for costs arising from inflation differences of equity items occurring during the first adjustment of financial statements according to inflation and monitored in "Retained earnings/losses" to be offsetted with accumulated losses occurring as a result of the adjustment or to be added to the capital by corporate tax payers; and these transactions are not considered as profit distribution.

Inflation adjustments to issued capital and historical amount of extraordinary reserves can be used for in kind capital increase, dividend distribution in cash or the net loss deduction. In case inflation adjustment to issued capital is used as dividend distribution in cash, it is subject to corporation tax.

At 31 December 2018 and 31 December 2017 reserves held by the Company in the statutory financial statements which are not allowed to be distributed in accordance with TCC regulations is as follows:

	31 December 2018	**31 December 2017**
Legal reserves	78,228	78,228

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

20. OTHER INCOME/(EXPENSE)

	1 January - 31 December 2018	1 January - 31 December 2017
Provision charged in the current period for legal cases and other expenses (-)	(7,949)	(12,207)
Fixed asset sale gain, net	659	376
Operating lease income	61	38
Available-for-sale investment sale profit	-	356
Non-performing leasing receivables sale profit	-	195
Other	149	906
	(7,080)	**(10,336)**

21. OPERATING EXPENSES

	1 January - 31 December 2018	1 January - 31 December 2017
Personnel expenses	33,252	27,423
Amortization expenses (Note 11)	2,876	2,172
Audit and advisory expenses	2,522	2,601
Rent expenses	2,006	1,574
Donation expenses	1,875	1,501
Logistics expenses	1,699	1,229
Taxes and duties other than on income	1,675	1,499
Computer maintenance and repair expenses	1,176	865
Communication expenses	329	304
Marketing and advertising expenses	315	355
Insurance expenses	293	92
Travel and accommodation expenses	219	181
Office management expenses	191	177
Litigation expenses	165	176
Transportation expenses	128	156
Other	2,771	2,606
	51,492	**42,911**

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

22. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. A number of transactions were entered into with related parties in the normal course of business.

Assets

	31 December 2018	31 December 2017
Due from banks		
Demand deposits		
Yapı ve Kredi Bankası A.Ş. (Shareholder)	19,222	12,184
Yapı Kredi Bank Nederland N.V.	4	3
Time deposits		
Yapı ve Kredi Bankası A.Ş. (Shareholder)	87,234	23,607
	106,460	**35,794**

	31 December 2018	31 December 2017
Finance lease receivables		
Demir Export A.Ş.-Fernas İnş.Aş. Adi Ortaklığı	96,431	133,966
Koç Üniversitesi	63,806	42,770
Karsan Otomotıv San. Ve Tıc. A.Ş.	62,769	65,397
Demir Export A.Ş.	21,157	31,125
Halikarnas Özel Sağlık Hizmetleri Ve Sağlık Mal. San. Ve Tic. A.Ş.	5,127	-
Koç Sistem Bilgi Ve İletişim Hizm. A.Ş.	3,765	3,864
Moment Eğitim Araştırma Sağlık Hizm.Ve Tic.A.Ş	1,797	4,697
Rmk Classic Giyim Tekstil Tic.A.Ş.	1,013	1,433
Kredi Kayıt Bürosu A.Ş.	994	1,304
Setur Antalya Marina İşletmeciliği A.Ş	934	1,426
Opet Fuchs Madeni Yağ San. Ve Tic. A.Ş.	789	-
Bankalar Arası Kart Merkezi A.Ş	284	630
Yapı ve Kredi Bankası A.Ş.(Shareholder)	217	131
Harranova Besi Ve Tarım Ürün. A.Ş.	8	-
Biosun Pamukova Katı Atık İşleme Enerji Ve Çevre San. Tic. A.Ş.	-	4,666
Heksagon Mühendislik Ve Tasarım A.Ş.	-	1,933
	259,091	**293,342**

Liabilities

	31 December 2018	31 December 2017
Borrowings		
Unicredit Italiano Spa	6,044,467	4,036,509
Unicredit Bank AG	93,100	89,666
Unicredit Bank Austria AG	-	230,273
	6,137,567	**4,356,448**

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

22. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Trade payables	**31 December 2018**	**31 December 2017**
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	119	88
Zer Merkezi Hizmetler ve Ticaret A.Ş.	7	-
KKB Kredi Kayıt Bürosu A.Ş.	3	3
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	2	91
Opet Petrolcülük A.Ş.	-	12
	131	**194**

Off-balance sheet items

Guarantee letters received	**31 December 2018**	**31 December 2017**
Yapı ve Kredi Bankası A.Ş. (Shareholder)	9,676	4,579
	9,676	**4,579**

Derivative financial instruments	**31 December 2018**	**31 December 2017**
Yapı ve Kredi Bankası A.Ş. (Shareholder)	36	15,427
	36	**15,427**

Statement of comprehensive income

Interest income from direct finance leases	**1 January - 31 December 2018**	**1 January - 31 December 2017**
Demir Export A.Ş.-Fernas İnş.Aş. Adi Ortaklığı	17,017	10,565
Koç Üniversitesi	6,679	5,157
Karsan Otomotıv San. Ve Tıc. A.Ş.	5,649	5,418
Demir Export A.Ş.	3,100	3,582
Koç Sistem Bilgi Ve İletişim Hizm. A.Ş.	734	820
Moment Eğitim Araştırma Sağlık Hizm.Ve Tic.A.Ş	387	435
Halikarnas Özel Sağlık Hizmetleri Ve Sağlık Mal.San. Ve Tic. A.Ş.	356	-
Heksagon Mühendislik Ve Tasarım A.Ş.	281	172
Rmk Classic Giyim Tekstil Tic.A.Ş.	196	221
Opet Fuchs Madeni Yağ San. Ve Tic. A.Ş.	96	-
Kredi Kayıt Bürosu A.Ş.	87	112
Bankalar Arası Kart Merkezi A.Ş	72	94
Setur Antalya Marina İşletmeciliği A.Ş	68	85
Yapı ve Kredi Bankası A.Ş. (Shareholder)	27	18
Biosun Pamukova Katı Atık İşleme Enerji Ve Çevre San. Tic. A.Ş.	-	261
	34,749	**26,940**

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

22. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Interest income on bank deposits	1 January - 31 December 2018	1 January - 31 December 2017
Yapı ve Kredi Bankası A.Ş. (Shareholder)	8,415	1,637
	8,415	1,637

Commission expenses	1 January - 31 December 2018	1 January - 31 December 2017
Yapı Kredi Yatırım Menkul Değerler A.Ş. (*)	4,252	3,918
Yapı ve Kredi Bankası A.Ş. (Shareholder)	219	355
	4,471	**4,273**

(*) The Company paid commission expenses related with the bonds issued with intermediation of Yapı Kredi Yatırım Menkul Değerler A.Ş.. The commissions paid to Yapı Kredi Yatırım Menkul Değerler A.Ş. are classified under interest expenses and are recognized in the statement of comprehensive income throughout the life of the related bonds.

Interest expense on borrowings	1 January - 31 December 2018	1 January - 31 December 2017
Unıcredito Italiano Spa	170,499	83,338
Yapı ve Kredi Bankası A.Ş. (Shareholder)	2,576	2,987
Unicredit Bank AG	2,022	1,854
Unicredit Bank Austria AG	682	25,760
Yapı Kredi Bank Nederland N.V.	666	-
	176,445	**113,939**

Service expenses	1 January - 31 December 2018	1 January - 31 December 2017
Koç Holding A.Ş.	2,742	1,881
Zer Merkezi Hizmetler ve Ticaret A.Ş.	1,879	935
Otokoç A.Ş.	1,138	781
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	1,050	877
Allianz Yaşam ve Emeklilik A.Ş.	1,037	42
Yapı ve Kredi Bankası A.Ş.(Shareholder)	912	926
Opet Petrolcülük A.Ş.	305	276
Unicredit Bank AG	284	122
Setur Servis Turistik A.Ş.	126	96
Kredi Kayıt Bürosu A.Ş.	32	36
Türkiye Eğitim Gönüllüleri Vakfı	-	1
	9,505	**5,973**

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

22. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	1 January - 31 December 2018	1 January - 31 December 2017
Rent expenses		
Yapı ve Kredi Bankası A.Ş. (Shareholder)	1,916	1,494
	1,916	**1,494**

	1 January - 31 December 2018	1 January - 31 December 2017
Dividend income		
Allianz Yaşam ve Emeklilik A.Ş. (*)	27,897	26,901
Yapı Kredi Yatırım Menkul Değerler A.Ş.	1	1
Yapı Kredi Faktoring A.Ş.	-	4
	27,898	**26,906**

(*) Since the investment in Allianz Yaşam ve Emeklilik A.Ş. is accounted for using the equity accounting method, related dividend amount is eliminated in the statement of comprehensive income.

Details of derivative financial instruments with Yapı Kredi Bankası A.Ş. are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Profit/(loss) from derivative financial instruments		
Interest income on derivative financial instruments		
Yapı ve Kredi Bankası A.Ş. (Shareholder)	26,268	40,360
Foreign exchange (losses)/gains, including net gains or losses from dealing in foreign currency		
Yapı ve Kredi Bankası A.Ş. (Shareholder)	(56,376)	17,105
	(30,108)	**57,465**

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

22. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	31 December 2018		31 December 2017	
Contractual amounts	**Original currency**	**TL**	**Original currency**	**TL**
Cross currency swap purchases				
TL	22,002	22,002	430,063	430,063
		22,002	**-**	**430,063**
Cross currency swap sales				
USD	4,180	21,994	92,250	347,958
EUR	-	-	13,250	59,830
		21,994		**407,788**
		43,996		**837,851**

Payments made to members of the Board and key management personnel:

	1 January - 31 December 2018	**1 January - 31 December 2017**
Payments made to members of the Board and key management personnel	3,284	2,649

23. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of activities, the Company undertakes commitments and incurs certain contingent liabilities that are not presented in these financial statements. The following is a summary of significant commitments and contingent liabilities at 31 December 2018 and 31 December 2017.

a. Guarantees received

Details of the guarantees received as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	**31 December 2017**
Indemnification	33,749,221	18,442,448
Assignment of claims	2,197,911	1,589,039
Mortgage	1,170,375	990,209
Machinery pledge	556,704	281,303
Repurchase guarantees	356,411	247,195
Other pledged assets	171,556	170,565
Other guarantees	161,487	98,115
Collateral letters	24,320	34,003
Other	394,856	140,904
	38,782,841	**21,993,781**

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

23. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

b. Guarantee letters given

	31 December 2018	31 December 2017
İstanbul Takas ve Saklama Bankası A.Ş.	518,000	420,000
Other (*)	166,729	56,267
	684,729	**476,267**

(*) The Company has given the collateral letters to the Banks, customs bureaus and courts.

Commitments under derivative financial instruments:

	31 December 2018		31 December 2017	
	Original currency	TL	Original currency	TL
Cross currency swap purchases				
EUR	3,650	22,002	-	-
TL	-	-	583,324	583,324
		22,002		**583,324**
Cross currency swap sales				
USD	4,180	21,994	130,250	491,290
EUR	-	-	13,250	59,830
		21,994		**551,120**
Total		**43,996**		**1,134,444**

24. EARNINGS AND DIVIDENDS PER SHARE

	1 January - 31 December 2018	1 January - 31 December 2017
Current year net income	331,168	246,169
Weighted average number of shares during the year	389,927,705	389,927,705
Earnings per share (full TL)	**0.8493**	**0.6313**

25. SUBSEQUENT EVENTS

None.

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