YAPI KREDİ FİNANSAL KİRALAMA A.O.

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

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 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Company's financial statements comprise:

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

Basis for opinion

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

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and "Independence Audit by-Law" published by the Public Oversight Accounting and Auditing Standards Authority ("POA"), independent auditing requirements referred to in Article 400 of the Turkish Commercial Code ("TCC"), and Communiqué Series: X No: 22 on "Principles Regarding Independent Auditing Standards in the Capital Markets" (collectively referred to as "Turkish Local Independence Rules"). We have fulfilled our other ethical responsibilities in accordance with IESBA Code and Turkish Local Independence Rules.

Our audit approach

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

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

Key audit matters

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

Key audit matter	***How our audit addressed the key audit matter***
Impairment of finance lease receivables The Company recognised a provision of TL268,765 thousands for finance lease receivables of TL10,529,569 thousand, which represents a significant portion of the Company's total assets in its financial statements as at 31 December 2017. Explanations and notes related to the provision for impairment of finance lease receivables are presented in Notes 2 and 7 in the financial statements. The provision for impairment of finance lease receivables is considered to be a matter of most significance as it requires the application of judgement and estimations by the management as the assessment of objective evidence for impairment, the value of collaterals and the assessment of the recoverable amounts.	During our audit we performed the following procedures to support our conclusions: • We gained an understanding of the Company's processes. We assessed and tested the design and operating effectiveness of the relevant controls over the monitoring and identification with respect to which finance lease receivables are impaired and the calculation of impairment provisions. • We have performed a credit review by testing a sample of finance lease receivables to form our own assessment as to evaluate whether the loss event had occurred and whether the provision for impairment was recognized in a timely manner. • We tested individually impaired finance lease receivables on a sample basis and tested management's calculations and we concluded that management's assumptions to be in line with the historical rates. • Where impairment was calculated on a modelled basis for collectively assessed portfolios, we understood and assessed the methodology and models that have been applied by management. Our testing was varied by portfolio, but typically included evaluation of parameters and assumptions in the models, re-performance of calculations on a sampling basis. Based on the evidence obtained we concluded that identification of impairment events, the principal assumptions used and the impairment provisions are reasonable.

Other matter

The financial statements of the Company as of 31 December 2016 and for the year then ended were audited by another audit firm whose audit report dated 6 March 2017 expressed an unqualified opinion on those statements.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- 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, 2 March 2018

YAPI KREDİ FİNANSAL KİRALAMA A.O.

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STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

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

	Notes	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	5	36,110	95,845
Derivative financial instruments	8	22,289	1,862
Available-for-sale financial assets	6	140	122
Finance lease receivables	7	10,260,804	8,263,330
Other assets and prepaid expenses	10	695,022	573,843
Assets held for sale		2,029	1,880
Investment accounted for using the equity accounting method	9	242,641	227,471
Income taxes assets	17	14,766	-
Property and equipment, net	11	977	921
Intangible assets, net	11	6,092	3,762
Deferred tax assets, net	17	48,612	69,206
Total assets		**11,329,482**	**9,238,242**
LIABILITIES			
Borrowings	12	7,803,217	6,339,686
Debt securities issued	13	995,600	803,382
Accounts payable	15	357,674	239,823
Advances from customers	14	159,786	57,224
Other liabilities	15	5,802	4,309
Provisions	15	36,126	24,958
Provisions for employee benefits	16	4,672	2,344
Derivative financial instruments	8	-	21,108
Income tax payable	17	-	23,207
Total liabilities		**9,362,877**	**7,516,041**
EQUITY			
Share capital	18	389,928	389,928
Adjustment to share capital	18	(31,017)	(31,017)
Total paid-in share capital	18	358,911	358,911
Share premium		2	2
Retained earnings	19	1,607,692	1,363,288
Total equity		**1,966,605**	**1,722,201**
Total liabilities and equity		**11,329,482**	**9,238,242**

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

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	1 January – 31 December 2016
Interest income			
Interest income from direct finance leases		661,144	517,255
Interest income on placements and transactions with banks		1,706	1,878
Interest income on derivative financial instruments		65,423	26,757
Total interest and similar income		**728,273**	**545,890**
Interest expense			
Interest expense on borrowings		(234,555)	(163,308)
Interest expense on debt securities issued		(116,517)	(69,110)
Total interest expenses		**(351,072)**	**(232,418)**
Net interest income		**377,201**	**313,472**
Foreign exchange (losses)/gains, including net gains or losses from dealing in foreign currency		(8,399)	769
Net interest income after foreign exchange gains or losses and fee and commission expenses		**368,802**	**314,241**
Fee and commission expenses, net (-)		(1,289)	(261)
Provision for impairment of finance lease receivables (-)	7	(82,962)	(57,262)
Recoveries from impaired lease receivables	7	24,106	14,361
Operating expenses (-)	21	(42,911)	(37,432)
Other expenses, net (-)	20	(10,336)	(2,962)
Net operating income		**255,410**	**230,685**
Share of net profit of associates for using the equity method	9	42,071	39,853
Profit before income tax		**297,481**	**270,538**
Current income tax expense (-)	17	(30,219)	(64,477)
Deferred tax (expense)/income, net	17	(21,093)	19,290
Profit for the year		**246,169**	**225,351**
Earnings per share (in full TL)	24	0.6313	0.5779
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**	**225,351**

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

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

(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 2016	**389,928**	**(31,017)**	**2**	**1,137,937**	**1,496,850**
Total comprehensive income	-	-	-	225,351	225,351
Profit for the year	-	-	-	*225,351*	*225,351*
Balance at 31 December 2016	**389,928**	**(31,017)**	**2**	**1,363,288**	**1,722,201**
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**

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	1 January - 31 December 2016
Cash flows from operating activities			
Net profit for the year		246,169	225,351
Adjustments for:			
Depreciation and amortization	11, 21	2,172	1,775
Provision for employment benefits		1,385	289
Provision for tax and legal proceedings		11,645	3,931
Provision for impaired receivables	7	82,962	57,262
Interest income, net		(377,201)	(313,548)
Income from associate under equity accounting method	9	(42,071)	(39,853)
Remeasurement on derivative financial instruments		(41,535)	19,647
Current and deferred income taxes	17	51,312	45,187
Other non-cash items		-	(19,827)
Cash flows from operating profit before changes in operating assets and liabilities		**(65,162)**	**(19,786)**
Changes in operating assets and liabilities			
Net increase in finance lease receivables (-)		(1,987,465)	(1,467,625)
Net increase in other assets and prepaid expenses (-)		(121,328)	(60,672)
Net increase/(decrease) in other liabilities, accounts payable and advances received		224,737	(309,845)
Interest received		635,302	486,159
Interest paid (-)		(358,925)	(171,276)
Taxes paid (-)		(68,192)	(49,526)
Employment termination benefits paid (-)		(104)	-
Net cash used in operating activities (-)		**(1,741,137)**	**(1,592,571)**
Cash flows from investing activities			
Dividend received	22	26,906	19,930
Sale of available-for-sale investment securities		356	
Purchase of property and equipment and intangible assets, net	11	(4,600)	(2,401)
Net cash provided from investing activities		**22,662**	**17,529**
Cash flows from financing activities			
Proceeds from borrowings		1,459,160	1,349,070
Proceeds from debt securities issued		1,576,901	888,110
Repayments of debt securities issued (-)		(1,379,060)	(592,640)
Net cash provided from financing activities		**1,657,001**	**1,644,540**
Net (decrease)/increase in cash and cash equivalents		(61,474)	69,498
Effects of foreign exchange-rate changes on cash and cash equivalents		1,798	7,771
Cash and cash equivalents at the beginning of the year		95,768	18,499
Cash and cash equivalents at the end of the year	5	**36,092**	**95,768**

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

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 2017 and 2016. 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 2017, the Company has 146 employees (31 December 2016: 141). The Company operates predominantly in one geographical region, Turkey, and in one industry segment, financial leasing.

The address of the registered office is Büyükdere Caddesi Yapı Kredi Plaza A Blok Levent-Beşiktaş-İstanbul/Türkiye.

The financial statements for the year ended 31 December 2017 has been signed on behalf of the Board of Directors by Chief Financial Officer at 2 March 2018.

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. New and Revised International Financial Reporting Standards

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

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

- Amendments to IAS 7, 'Statement of cash flows'; on disclosure initiative effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

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

- Annual improvements 2014-2016 effective from annual periods beginning on or after 1 January 2017:

    • IFRS 12, 'Disclosure of interests in other entities'; regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. This amendment clarifies that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarized financial information.

- 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Compared to the classification under IAS39, the combined application of the contractual cash flow characteristics and business models as at 1 January 2018 will not have a material effect on the Company’s equity.

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

Stage 1:

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

Stage 2:

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

Stage 3:

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

The Company will recognize an adjustment to opening retained earnings at 1 January 2018, to reflect the application of the new requirements at the adoption date. The Company is currently assessing the impact of the new standard on its financial statements.

- 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial Instruments'; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

  - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
  - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.

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

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

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

  - IFRS 1, 'First time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
  - IAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

- IFRS 16, 'Leases'; effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- 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.

The new standards, amendments and interpretations which will be effective on or after 1 January 2018 are not expected to have a material impact on the Company's financial statements except adoption of IFRS 9 as discussed above.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2016.

2.3 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Accounting policies, Judgements and estimates (Continued)

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.

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.

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)

2.3 Accounting policies, Judgements and estimates (Continued)

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

The 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 loan. Subsequent recoveries of amounts previously written off are included in income. (Note 7).

Financial assets

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

a) 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 IAS 39 "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 2017 and 31 December 2016. 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)

2.3 Accounting policies, Judgements and estimates (Continued)

b) 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.

c) Impairment of financial assets

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.

d) Financial liabilities

Financial liabilities including borrowings and securities issued are recognized initially at fair value. Subsequently, financial liabilities are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the financial liability using the effective yield method.

e) Recognition and derecognition of financial instruments

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

The Company derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Accounting policies, Judgements and estimates (Continued)

Assets held for sale

The assets sustaining the criteria of being classified under assets held for sale are measured with the lower of their 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Accounting policies, Judgements and estimates (Continued)

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.

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 for 2017 and 2016. 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 2017, the Company carries TL 14,766 of income taxes asset (31 December 2016: TL 23,207 income tax payable) and TL 48,612 of net deferred tax asset (31 December 2016: TL 69,206).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Accounting policies, Judgements and estimates (Continued)

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, derivative financial instruments and finance lease receivables (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. For the periods 2021 and after, the reversals of temporary differences are measured by 20%.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Accounting policies, Judgements and estimates (Continued)

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.

Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Accounting policies, Judgements and estimates (Continued)

Short term plans:

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

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.

Foreign currency transactions

Transactions denominated in foreign currencies are recorded in Turkish lira at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Offsetting

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 to realize the asset and settle the liability simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Accounting policies, Judgements and estimates (Continued)

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.

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.

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 6,000,000 (Full amount) (2016: (+/-) EUR 5,500,000 (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 2017 and 31 December 2016.

	TL Equivalent			
31 December 2017	**US$**	**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.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

a. Market risk (Continued)

	TL Equivalent			
31 December 2016	**US$**	**EUR**	**Other**	**Total**
Assets				
Cash and cash equivalents	525	4,519	524	5,568
Finance lease receivables	2,330,468	4,617,100	109,835	7,057,403
Total assets	**2,330,993**	**4,621,619**	**110,359**	**7,062,971**
Liabilities				
Borrowings	1,663,453	4,387,451	112,520	6,163,424
Accounts payable	69,283	160,662	749	230,694
Advances received from customers	10,139	32,004	15	42,158
Total liabilities	**1,742,875**	**4,580,117**	**113,284**	**6,436,276**
Net balance sheet position (*)	**588,118**	**41,502**	**(2,925)**	**626,695**
Off-balance sheet derivative instruments net notional position	(608,997)	(15,582)	3,323	(621,256)
Net foreign currency position	**(20,879)**	**25,920**	**398**	**5,439**

(*) 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 616,469 in USD, TL 28,057 in Euro, TL (3,015) in other currencies and TL 641,511 in total.

At December 31, 2017, 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 3.7719=US$1 and TL 4.5155=EUR1 (2016: TL 3.5192=US$1 and TL 3.7099=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 10% increase and decrease in the TL against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss where the TL weakens against the relevant currency.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

a. Market risk (Continued)

	Profit/(Loss) 2017	Profit/(Loss) 2016
US$	(1,499)	(2,088)
EURO	(650)	2,592

In the case of appreciation of TL against US$ and EUR by 10%, totals shown above has equal and opposite effect on the income statement.

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 2017, 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 1,035 (2016: TL 413)

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

	31 December 2017 (%)			31 December 2016 (%)		
	US$	EUR	TL	US$	EUR	TL
Assets						
Finance lease receivables	5.68	5.45	13.51	5.81	5.31	12.77
Time deposits	-	-	12.00	-	-	10.52
Liabilities						
Borrowings	4.21	2.42	13.02	3.60	2.36	11.12
Debt securities issued	-	-	14.91	-	-	11.34

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

3. FINANCIAL RISK MANAGEMENT (Continued)

a. Market risk (Continued)

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 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**

31 December 2016	Demand and up to 3 months	3 to 12 months	Over 1 Year	Non-interest bearing	Total
Assets					
Cash and cash equivalents	84,927	-	-	10,918	95,845
Finance lease receivables	836,501	1,770,233	5,598,389	58,207	8,263,330
Total assets	**921,428**	**1,770,233**	**5,598,389**	**69,125**	**8,359,175**
Liabilities					
Borrowings	2,364,759	2,719,218	1,255,709	-	6,339,686
Debt securities issued	617,084	186,298	-	-	803,382
Total liabilities	**2,981,843**	**2,905,516**	**1,255,709**	**-**	**7,143,068**
Net re-pricing gap	**(2,060,415)**	**(1,135,283)**	**4,342,680**	**69,125**	**1,216,107**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

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 2017 and 31 December 2016:

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**

31 December 2016	**Assets**	**%**	**Liabilities**	**%**
Turkey	8,731,980	95	2,414,665	32
European countries	202,745	2	4,143,119	55
Other	303,517	3	958,257	13
	9,238,242	**100**	**7,516,041**	**100**

Maximum exposure to credit risk

	31 December 2017	**31 December 2016**
Credit risk exposures relating to balance sheet items:		
Due from banks	36,110	95,845
Finance lease receivables, net	10,260,804	8,263,330
Derivative financial instruments	22,289	1,862

Further credit risk related disclosures are provided 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 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**

Non-derivative financial liabilities:

31 December 2016	Up to 3 months	3 to 12 months	Over 1 year	No definite maturity	Total
Borrowings	826,126	3,033,226	2,731,209	-	6,590,561
Debt securities issued	311,024	232,999	317,297	-	861,320
Total liabilities	**1,137,150**	**3,266,225**	**3,048,506**	**-**	**7,451,881**

Derivative financial instruments:

31 December 2016	Up to 3 months	3 to 12 months	Over 1 year	No definite maturity	Total
Derivative financial instruments held for trading	1,239,394	-	-	-	1,239,394
Total cash outflows	**1,239,394**	**-**	**-**	**-**	**1,239,394**

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

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 2017	31 December 2016	31 December 2017	31 December 2016
Cash and cash equivalents	36,110	95,845	36,110	95,845
Finance lease receivables	10,260,804	8,263,330	11,129,777	9,059,329
Borrowings	7,803,217	6,339,686	7,816,485	6,424,375
Debt securities issued	995,600	803,382	997,293	814,114

The discount rate used to calculate the fair value of US$, EUR and TL finance lease receivables as at 31 December 2017 are %6.14, %4.08 and %16.78, respectively.

The discount rate used to calculate the fair value of US$, EUR and TL borrowings and debt securities issued as at 31 December 2017 are %3.13, %2.08 and %13.56, respectively.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

e. Fair value of financial instruments (Continued)

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.

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

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

31 December 2016	**Level 1**	**Level 2**	**Level 3**
Trading derivative financial assets	-	1,862	-
Total assets	-	**1,862**	-

31 December 2016	**Level 1**	**Level 2**	**Level 3**
Trading derivative financial liabilities	-	21,108	-
Total liabilities	-	**21,108**	-

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 17.3% as of 31 December 2017 (31 December 2016: 18.6%) 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:

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 (31 December 2016: TL 8,263,330) with the impairment allowance of TL 268,765 (31 December 2016: TL 319,709).

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 31,543 (31 December 2016: TL 19,898).

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

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).

5. CASH AND CASH EQUIVALENTS

	31 December 2017			31 December 2016		
	Foreign currency	**TL**	**Total**	**Foreign currency**	**TL**	**Total**
Due from banks						
- Time deposits	5,589	18,018	23,607	-	84,927	84,927
- Demand deposits	7,227	5,276	12,503	5,568	5,350	10,918
Total cash and cash equivalents	**12,816**	**23,294**	**36,110**	**5,568**	**90,277**	**95,845**

For the purposes of cash flow statements, cash and cash equivalents comprise TL 36,092 and TL 95,768 at 31 December 2017 and 2016, respectively. Accrued interest on time deposits as of 31 December 2017: TL 18 (31 December 2016: TL 77).

TL equivalents of foreign currency details of the demand deposits as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	**31 December 2016**
TL	5,276	5,350
EUR	5,909	4,519
USD	1,082	525
CHF	236	472
JPY	-	45
GBP	-	7
Total	**12,503**	**10,918**

Details of time deposits are presented below:

	31 December 2017			31 December 2016		
	Maturity	**Amount (TL Equivalent)**	**Per-annum rate (%)**	**Maturity**	**Amount (TL Equivalent)**	**Per-annum rate (%)**
TL	2 January 2018	18,018	11.4 - 12	2 January 2017	84,927	8.5 - 11.35
CHF	1 February 2018	5,589	0.2	-	-	-
Total		**23,607**			**84,927**	

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

6. AVAILABLE-FOR SALE INVESTMENT SECURITIES

	31 December 2017	31 December 2016
Securities available-for-sale	140	122
Unlisted equity securities	**140**	**122**

The unlisted equity securities at 31 December 2017 and 31 December 2016 are as follows:

Entity	Nature of business	31 December 2017 TL	31 December 2017 (%)	31 December 2016 TL	31 December 2016 (%)
Yapı Kredi Bank Azerbaijan J.S.B. (*)	Banking	109	<1	91	<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
Yapı Kredi Bank Moscow (**)	Banking	-	-	1,928	<1
Total		**140**		**2,050**	
Less: Provision for impairment (-)		-		(1,928)	
		140		**122**	

(*) In accordance with the decision of the Compay's Board of Directors dated 24 February 2017 and numbered 1223, the capital increase of Yapı Kredi Bank Azerbaijan Closed Joint Stock Company amounting to USD 5,000 (full amount) against TL 18 was completed on 24 October 2017.

(**) In accordance with the decision of the Compay's Board of Directors dated 12 October 2017 and numbered 1273, the shares of Yapı Kredi Bank Moscow that the Company held with a ratio of 0.16% and a 752,000 nominal value of Ruble and which was previously fully impaired, was sold to Expobank LLC in exchange for Ruble 5,188,679 (full amount) equivalent of 356 TL on 1 December 2017.

7. FINANCE LEASE RECEIVABLES, NET

	31 December 2017	31 December 2016
Gross investment in direct finance leases	12,030,662	9,741,549
Invoiced lease receivables	33,279	35,507
Gross finance lease receivables	**12,063,941**	**9,777,056**
Unearned finance lease income (-)	(1,875,140)	(1,529,673)
Finance lease receivables	**10,188,801**	**8,247,383**
Individually impaired lease receivables	340,768	335,656
Less: Allowance for individually impaired lease receivables (-)	(217,713)	(277,442)
Less: Allowance for collective provision (-)	(51,052)	(42,267)
Finance lease receivables, net	**10,260,804**	**8,263,330**

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

7. FINANCE LEASE RECEIVABLES, NET (Continued)

At 31 December 2017 and 31 December 2016 the gross investment in direct finance leases according to their interest type are as follows:

	31 December 2017	31 December 2016
Fixed interest	11,646,828	9,343,349
Floating interest	383,834	398,200
	12,030,662	**9,741,549**

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

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**

Period end	31 December 2016 Gross	31 December 2016 Net
2017	2,875,288	2,345,534
2018	2,276,691	1,864,282
2019	1,799,878	1,541,490
2020	1,119,464	972,541
2021	712,957	627,005
2022 and after	992,778	896,531
	9,777,056	**8,247,383**

Net finance lease receivables can be analyzed as follows:

	31 December 2017	31 December 2016
Neither past due nor impaired	10,155,522	8,211,876
Past due but not impaired	33,279	35,507
Impaired	340,768	335,656
Gross	**10,529,569**	**8,583,039**
Less: allowances for impairment (-)	(268,765)	(319,709)
Net finance lease receivables	**10,260,804**	**8,263,330**

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

7. FINANCE LEASE RECEIVABLES, NET (Continued)

As at 31 December 2017, TL 27,650 of the total collaterals (31 December 2016: TL 12,672) is related to the impaired finance lease receivables amounting to TL 340,768 (2016: TL 335,656). In determining the provision for doubtful lease receivables, in addition to the collaterals received from customers; assets which have been subject to the leasing agreements have also been taken into consideration amount to TL 29,692 (31 December 2016: TL 30,197).

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

	31 December 2017		31 December 2016	
	Invoiced amount	**Remaining principal**	**Invoiced amount**	**Remaining principal**
0-30 days	3,952	208,673	9,719	305,357
30-60 days	9,050	68,798	7,180	147,950
60 days and over	20,277	111,750	18,608	13,518
	33,279	**389,221**	**35,507**	**466,825**

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 (31 December 2016: TL 11,896 invoiced amount, TL 267,654 remaining principal).

The aging of impaired finance lease receivables at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017			31 December 2016		
	Invoiced amount	**Remaining principal**	**Total**	**Invoiced Amount**	**Remaining Principal**	**Total**
3 - 12 months	5,615	115,047	120,662	9,014	48,874	57,888
1 year and over	88,201	131,905	220,106	125,420	152,348	277,768
	93,816	**246,952**	**340,768**	**134,434**	**201,222**	**335,656**

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

	2017	**2016**
Opening - 1 January	**319,709**	**276,808**
Impairment expense during the year	82,962	57,262
Recoveries from amounts previously provided for (-)	(24,106)	(14,361)
Written-off during the period (-) (*)	(109,800)	-
Closing - 31 December	**268,765**	**319,709**

(*) 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,

(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 2017 and 2016 are as follows:

	31 December 2017	%	31 December 2016	%
Real Estate and construction	3,611,828	30	2,690,299	28
Energy	1,800,023	15	930,954	10
Steel and mining	1,010,391	8	1,122,832	11
Textile	1,008,982	8	737,628	8
Transportation and communication	526,168	4	433,422	4
Machinery and equipment	419,444	3	291,499	3
Petroleum and chemistry	408,620	3	364,391	4
Printing	346,542	3	336,392	3
Food	271,075	2	299,610	3
Tourism	244,364	2	335,445	3
Automotive	211,716	2	41,984	<1
Wholesale and retail trade	197,808	2	157,548	2
Health	173,098	1	114,034	1
Agriculture	24,459	<1	73,653	1
Financial institutions	13,619	<1	20,619	<1
Education	7,794	<1	4,120	<1
Other	1,788,010	15	1,822,626	19
	12,063,941	**100**	**9,777,056**	**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 125,361 (2016: TL 176,389).

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 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**	-

31 December 2016	Contract/notional amount	Fair values Assets	Fair values Liabilities (-)
Foreign exchange derivatives			
Currency swaps	1,239,394	1,862	(21,108)
Total	**1,239,394**	**1,862**	**(21,108)**

Derivative financial instruments are further analysed 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.	İstanbul/Turkey	19.93	80.07	475,953	213,557

In 2013, 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:

	2017	2016
Opening - 1 January	**227,471**	**207,545**
Share of current year income	42,071	39,853
Dividend elimination (-)	(26,901)	(19,927)
Closing - 31 December	**242,641**	**227,471**

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

10. OTHER ASSETS AND PREPAID EXPENSES

	31 December 2017	31 December 2016
Advances to vendors (*)	411,064	252,290
Equipment to be leased (**)	176,072	247,638
Prepaid expenses	73,398	44,693
Deferred value added taxes	34,150	28,754
Other	338	468
	695,022	**573,843**

(*) 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 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**

(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 2016				
Cost	543	1,583	661	2,787
Accumulated depreciation	(503)	(1,225)	(452)	(2,180)
Net book value	**40**	**358**	**209**	**607**
31 December 2016				
Opening net book value	**40**	**358**	**209**	**607**
Additions	36	201	286	523
Depreciation	(13)	(126)	(70)	(209)
Net book value	**63**	**433**	**425**	**921**
At 31 December 2016				
Cost	579	1,784	947	3,310
Accumulated depreciation	(516)	(1,351)	(522)	(2,389)
Net book value	**63**	**433**	**425**	**921**

As of 31 December 2017, there is no pledge on the assets of the Company. (31 December 2016: None).

b) Intangible assets

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**

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

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

31 December 2016	**Software**
Opening net book value	3,450
Additions	1,878
Amortization charge (-)	(1,566)
Net book value	**3,762**

31 December 2016	
Cost	13,669
Accumulated amortization (-)	(9,907)
Net book value	**3,762**

12. BORROWINGS

	31 December 2017			**31 December 2016**		
	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	3.1	106,525	481,012	2.5	115,578	428,782
TL	14.3	195,790	195,790	11.8	176,262	176,262
US$	-	-	-	3.6	86,280	303,637
Floating rate borrowings:						
EUR	2.7	75,042	338,853	2.2	32,803	121,696
US$	4.0	49,070	185,089	3.7	60,384	212,504
Total domestic borrowings			**1,200,744**			**1,242,881**
Foreign borrowings						
Fixed rate borrowings:						
EUR	2.5	827,833	3,738,078	2.7	338,133	1,254,440
US$	4.1	154,024	580,962	4.0	78,546	276,420
CHF	1.2	3,351	12,917	1.2	4,340	14,951
Floating rate borrowings:						
EUR	1.9	276,679	1,249,346	2.2	696,119	2,582,533
US$	4.3	247,944	935,221	3.4	247,469	870,892
CHF	0.6	22,297	85,949	0.6	28,319	97,569
Total foreign borrowings			**6,602,473**			**5,096,805**
Total borrowings			**7,803,217**			**6,339,686**

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

12. BORROWINGS (Continued)

	31 December 2017	31 December 2016
Short term bank borrowings	195,790	176,262
Short term portion of long term borrowings	1,529,636	3,586,534
Total short term borrowings	**1,725,426**	**3,762,796**
Long term borrowings	6,077,791	2,576,890
Total long term borrowings	**6,077,791**	**2,576,890**
Total borrowings	**7,803,217**	**6,339,686**

Payment terms of the borrowings as as follows:

	31 December 2017	31 December 2016
To be paid within 1 year	1,725,426	3,762,796
To be paid between 1-2 years	2,731,173	648,411
To be paid between 2-3 years	2,447,758	990,028
To be paid between 3-4 years	265,379	679,168
To be paid between 4-5 years	155,787	127,360
To be paid between 5-6 years	261,627	54,181
To be paid between 6-7 years	82,976	38,184
To be paid after 7 years	133,091	39,558
	7,803,217	**6,339,686**

13. SECURITIES ISSUED

	31 December 2017	31 December 2016
Debt securities issued	995,600	803,382
	995,600	**803,382**

Details of the securities issued as of 31 December 2017 and 31 December 2016 are as follows;

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

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

13. SECURITIES ISSUED (Continued)

Securities	Nominal	Currency	Issue Date	Maturity Date	Simple rate (%)	Compound rate (%)	Rate type
Bond	127,000	TL	5 August 2016	3 August, 2018	10.99	11.44	Floating
Bill	120,000	TL	9 September 2016	6 March, 2017	10.61	10.90	Fixed
Bill	117,600	TL	19 July 2016	13 January 2017	10.52	10.80	Fixed
Bill	100,000	TL	23 December 2016	20 June 2017	11.00	11.31	Fixed
Bill	95,000	TL	1 December 2016	26 May 2017	10.61	10.90	Fixed
Bond	83,000	TL	26 April 2016	24 April 2018	10.55	10.96	Floating
Bill	65,000	TL	11 January 2016	9 January 2017	12.45	12.45	Fixed
Bond	48,000	TL	7 June 2016	5 June 2018	12.23	12.81	Floating
Bond	39,500	TL	11 December 2015	8 December 2017	11.95	12.48	Floating
Bond	15,000	TL	10 November 2015	7 November 2017	10.67	11.09	Floating

The movement of debt securities issued is as follows:

	Debt securities issued
Balance as at 1 January 2017	803,382
Cash flows, net	197,841
Other non-cash movements	(5,623)
Balance as at 31 December 2017	**995,600**

14. ADVANCES RECEIVED

	31 December 2017	31 December 2016
Advances received (*)	159,786	57,224
	159,786	**57,224**

(*) 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.

15. OTHER LIABILITIES, ACCOUNTS PAYABLE AND PROVISIONS

Other liabilities

	31 December 2017	31 December 2016
Provision for personnel performance bonus	3,557	2,340
Withholding taxes and duties payable	1,392	1,173
Other liabilities	853	796
	5,802	**4,309**

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

15. OTHER LIABILITIES, ACCOUNTS PAYABLE AND PROVISIONS (Continued)

Accounts payable

	31 December 2017	31 December 2016
Accounts payable (*)	343,716	227,356
Insurance payables	13,958	12,467
	357,674	**239,823**

(*) Accounts payable are mainly related to the purchase of fixed assets from domestic and foreign suppliers regarding the financial lease agreements. As of December 31, 2017 maturity of trade payables amounting to TL 357,674 is shorter than 1 year. (As of December 31, 2016, maturity of trade payables amounting to TL 239,823 is shorter than 1 year)

Provisions

	31 December 2017	31 December 2016
Provision for open legal cases	31,543	19,898
Provision for resource utilization support fund	3,915	3,913
Other provisions	668	1,147
	36,126	**24,958**

The movements of the provision for legal cases for the years ended as at 31 December 2017 and 2016 are as follows:

	2017	2016
Opening- 1 January	**19,898**	**15,967**
Current year provision (Note 20)	12,207	3,931
Paid during the year (-)	(562)	-
Closing - 31 December	**31,543**	**19,898**

16. EMPLOYEE BENEFITS

	31 December 2017	31 December 2016
Reserve for employment termination benefits	3,123	781
Provision for unused annual vacation	1,549	1,563
	4,672	**2,344**

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.

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

16. EMPLOYEE BENEFITS (Continued)

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

IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability as at 31 December 2017 and 31 December 2016:

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

	31 December 2017	31 December 2016
Discount rate (%)	4.95	4.5
Estimated severance pay entitlement rate (%)	91.58	84.40

The principal assumption is that the maximum liability for each year service will increase in line with inflation. As the maximum liability is revised semi-annually the maximum amount of TL 5,001.76 (in full "TL" amount) which is effective as of 1 January 2018 has been taken into consideration in calculating the provision for employment termination benefits of the Company.

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

	2017	2016
Opening - 1 January	**781**	**783**
Service cost	166	284
Interest cost	16	22
Actuarial loss	2,264	-
Paid during the year (-)	(104)	(308)
Closing - 31 December	**3,123**	**781**

17. TAXATION

	31 December 2017	31 December 2016
Corporate taxes payable (-)	(31,280)	(64,940)
Prepaid taxes	46,046	41,733
Corporate tax receivable/(payable), net	**14,766**	**(23,207)**

	31 December 2017	31 December 2016
Current tax charge (-)	(30,219)	(64,477)
Deferred tax (expense)/income	(21,093)	19,290
	(51,312)	**(45,187)**

17. TAXATION (Continued)

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 2017 (2016: 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.

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.

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

17. TAXATION (Continued)

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

	1 January - 31 December 2017	1 January - 31 December 2016
Profit before tax	**297,481**	**270,538**
Theoretical tax expense with 20% tax rate (-)	(59,496)	(54,108)
Effect of change in tax rate (*)	4,374	-
Effect of share of net profit of associates for using the equity method	8,414	7,971
Tax-free income and non-deductible expenses, net	(4,604)	950
Current year tax expense	**(51,312)**	**(45,187)**

(*) 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.

Details of cumulative timing differences and the resulting deferred income tax assets and liabilities provided as of 31 December 2017 and 31 December 2016 are as follows:

	Total temporary differences		Deferred tax assets / (liabilities)	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deferred tax assets				
Provision for impaired finance receivables	177,919	226,548	39,142	45,310
Finance lease receivables	81,282	110,629	17,882	22,126
Provision for open legal cases	31,543	19,898	6,939	3,980
Valuation differences of derivative financial instruments	-	21,108	-	4,222
Other	5,224	4,857	1,149	972
Deferred tax assets			**65,112**	**76,610**
Deferred tax liabilities				
Valuation difference on financial liabilities	(51,006)	(34,621)	(11,221)	(6,924)
Valuation differences of derivative financial İnstruments	(22,289)	(1,862)	(4,903)	(372)
Difference between carrying value and tax base of property, equipment and intangible assets	(1,709)	(541)	(376)	(108)
Deferred tax liabilities			**(16,500)**	**(7,404)**
Deferred tax assets, net			**48,612**	**69,206**

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

17. TAXATION (Continued)

Movement of the deferred tax assets is as follows:

	2017	2016
Opening - 1 January	**69,206**	**49,916**
Recognized under profit or loss	(21,093)	19,290
Recognized under other comprehensive income	499	-
Closing - 31 December	**48,612**	**69,206**

18. SHARE CAPITAL

At 31 December 2017, the Company's share capital consists of 389,927,705 shares with a par value of TL1 each (31 December 2016: 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 2017 and 31 December 2016, the share capital is as follows:

	31 December 2017		31 December 2016	
	Shares (%)	TL	Shares (%)	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.

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

19. RETAINED EARNINGS AND LEGAL RESERVES (Continued)

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 2017 and 31 December 2016 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 2017	31 December 2016
Legal reserves	78,228	78,228

20. OTHER INCOME/(EXPENSE)

	1 January - 31 December 2017	1 January - 31 December 2016
Provision on legal cases, net (-)	(12,207)	(3,931)
Fixed asset sales gain, net	376	331
Available-for-sale investment sales profit	356	-
Non-performing leasing receivables sale profit	195	-
Operating lease income	38	15
Other	906	623
	(10,336)	**(2,962)**

21. OPERATING EXPENSES

	1 January - 31 December 2017	1 January - 31 December 2016
Personnel expenses	27,423	23,303
Audit and advisory expenses	2,601	2,232
Depreciation and amortization expense (Note 11)	2,172	1,775
Rent expenses	1,574	1,315
Donation expenses	1,501	1,276
Taxes and duties other than on income	1,499	1,200
Logistics expenses	1,229	959
Computer maintenance and repair expenses	865	1,041
Marketing and advertising expenses	355	312
Communication expenses	304	284
Travel and accommodation expenses	181	192
Office management expenses	177	166
Litigation expenses	176	644
Transportation expenses	156	156
Insurance expenses	92	74
Other	2,606	2,503
	42,911	**37,432**

(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

Due from banks	31 December 2017	31 December 2016
Demand deposits		
Yapı ve Kredi Bankası A.Ş. (Shareholder)	12,184	10,697
Yapı Kredi Bank Nederland N.V.	3	2
Time deposits		
Yapı ve Kredi Bankası A.Ş. (Shareholder)	23,607	84,927
	35,794	**95,626**

Finance lease receivables	31 December 2017	31 December 2016
Demir Export A.Ş.-Fernas İnş.Aş. Adi Ortaklığı	133,996	197,531
Karsan Otomotıv San. ve Tic. A.Ş.	65,397	63,440
Koç Üniversitesi	42,770	56,012
Demir Export A.Ş.	31,125	43,701
Moment Eğitim Araştırma Sağlık Hizm,ve Tic. A.Ş.	4,697	6,132
Biosun Pamukova Katı Atık İşleme Enerji ve Çevre San. Tic. A.Ş.	4,666	-
Koç Sistem Bilgi ve İletişim Hizmç A.Ş.	3,864	4,063
Heksagon Mühendislik ve Tasarım A.Ş.	1,933	4,279
Rmk Classic Giyim Tekstil Tic,A,Ş,	1,433	-
Kredi Kayıt Bürosu A.Ş.	1,304	-
Setur Antalya Marina İşletmeciliği A.Ş.	1,426	1,735
Bankalar Arası Kart Merkezi A.Ş.	630	-
Yapı ve Kredi Bankası A.Ş.	131	-
Sirena Marıne Malta Ltd.	-	256
	293,372	**377,149**

Liabilities

Borrowings	31 December 2017	31 December 2016
Unicredit Italiano Spa	4,036,509	1,198,295
Unicredit Bank Austria AG	230,273	2,003,700
Yapı ve Kredi Bankası A.Ş. (Shareholder)	91,590	165
Unicredit Bank AG	89,666	90,036
	4,448,038	**3,292,196**

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

22. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Trade payables	**31 December 2017**	**31 December 2016**
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	91	8
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	88	55
Opet Petrolcülük A.Ş.	12	-
KKB Kredi Kayıt Bürosu A.Ş.	3	2
Koç Holding A.Ş.	-	9
	194	**74**

Off-balance sheet items

Guarantee letters received	**31 December 2017**	**31 December 2016**
Yapı ve Kredi Bankası A.Ş. (Shareholder)	4,579	2,225
	4,579	**2,225**

Derivative financial instruments	**31 December 2017**	**31 December 2016**
Yapı ve Kredi Bankası A.Ş. (Shareholder)	15,427	(17,496)
	15,427	**(17,496)**

Statement of comprehensive income

Interest income from direct finance leases	**1 January - 31 December 2017**	**1 January - 31 December 2016**
Demir Export A.Ş.-Fernas İnş.Aş. Adi Ortaklığı	10,565	8,714
Karsan Otomotıv San. ve Tıc. A.Ş.	5,418	2,633
Koç Üniversitesi	5,157	3,231
Demir Export A.Ş.	3,582	5,355
Koç Sistem Bilgi ve İletişim Hizm. A.Ş.	820	258
Moment Eğitim Araştırma Sağlık Hizm.ve Tic.A.Ş	435	162
Biosun Pamukova Katı Atık İşleme Enerji ve Çevre San. Tic. A.Ş.	261	-
Rmk Classic Giyim Tekstil Tic.A.Ş.	221	-
Heksagon Mühendislik Ve Tasarım A.Ş.	172	136
Kredi Kayıt Bürosu A.Ş.	112	-
Bankalar Arası Kart Merkezi A.Ş	94	-
Setur Antalya Marina İşletmeciliği A.Ş	85	49
Yapı ve Kredi Bankası A.Ş.	18	-
Sirena Marıne Malta Ltd	-	25
	26,940	**20,563**

(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 2017	1 January - 31 December 2016
Yapı ve Kredi Bankası A.Ş. (Shareholder)	1,637	1,944
	1,637	**1,944**

Commission expenses	1 January - 31 December 2017	1 January - 31 December 2016
Yapı Kredi Yatırım Menkul Değerler A.Ş. (*)	3,918	2,918
Yapı ve Kredi Bankası A.Ş. (Shareholder)	355	298
	4,273	**3,216**

(*) 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 2017	1 January - 31 December 2016
Unıcredito Italiano Spa	83,338	18,391
Unicredit Bank Austria AG	25,760	53,700
Yapı ve Kredi Bankası A.Ş. (Shareholder)	2,987	165
Unicredit Bank AG	1,854	1,527
	113,939	**73,783**

Service expenses	1 January - 31 December 2017	1 January - 31 December 2016
Koç Holding A.Ş.	1,881	2,016
Zer Merkezi Hizmetler ve Ticaret A.Ş.	935	1,052
Yapı ve Kredi Bankası A.Ş. (Shareholder)	926	511
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	877	804
Otokoç A.Ş.	781	589
Opet Petrolcülük A.Ş.	276	228
Setur Servis Turistik A.Ş.	96	97
Allianz Yaşam ve Emeklilik A.Ş.	42	19
Kredi Kayıt Bürosu A.Ş.	36	47
Türkiye Eğitim Gönüllüleri Vakfı	1	1
	5,851	**5,364**

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

22. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Rent expenses	**1 January - 31 December 2017**	**1 January - 31 December 2016**
Yapı ve Kredi Bankası A.Ş. (Shareholder)	1,494	1,235
	1,494	**1,235**

Dividend income	**1 January - 31 December 2017**	**1 January - 31 December 2016**
Allianz Yaşam ve Emeklilik A.Ş. (*)	26,901	19,927
Yapı Kredi Faktoring A.Ş.	4	2
Yapı Kredi Yatırım Menkul Değerler A.Ş.	1	1
	26,906	**19,930**

(*) Since the investment in Allianz Yaşam ve Emeklilik A.Ş. is accounted for using the equity 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:

Profit/(loss) from derivative financial instruments	**1 January - 31 December 2017**	**1 January - 31 December 2016**
Yapı ve Kredi Bankası A.Ş. (Shareholder)	57,465	(23,629)
	57,465	**(23,629)**

	31 December 2017		**31 December 2016**	
Contractual amounts	**Original currency**	**TL**	**Original currency**	**TL**
Cross currency swap purchases				
TL	430,063	430,063	560,345	560,345
CHF	-	-	964	3,323
		430,063		**563,668**
Cross currency swap sales				
USD	92,250	347,958	158,050	556,209
EUR	13,250	59,830	4,200	15,582
		407,788		**571,791**
		837,851		**1,135,459**

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

22. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

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

	1 January - 31 December 2017	1 January - 31 December 2016
Payments made to members of the Board and key management personnel	2,649	2,535

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 2017 and 31 December 2016.

a. Guarantees received

Details of the guarantees received as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	31 December 2016
Indemnification	18,442,448	16,291,433
Assignment of claims	1,589,039	712,241
Mortgage	990,209	937,861
Machinery pledge	281,303	189,826
Repurchase guarantees	247,195	213,363
Other pledged assets	170,565	47,218
Other guarantees	98,115	45,160
Collateral letters	34,003	53,035
Other	140,904	2,968
	21,993,781	**18,493,105**

b. Guarantee letters given

	31 December 2017	31 December 2016
İstanbul Takas ve Saklama Bankası A.Ş.	420,000	-
Other (*)	56,267	63,889
	476,267	**63,889**

(*) The Company gave the collateral letters to the Banks and courts.

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

23. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Commitments under derivative financial instruments:

	31 December 2017		31 December 2016	
	Original currency	TL	Original currency	TL
Cross currency swap purchases				
TL	583,324	583,324	611,492	611,492
CHF	-	-	964	3,323
		583,324		**614,815**
Cross currency swap sales				
USD	130,250	491,290	173,050	608,997
EUR	13,250	59,830	4,200	15,582
		551,120		**624,579**
Total		**1,134,444**		**1,239,394**

24. EARNINGS AND DIVIDENDS PER SHARE

	1 January - 31 December 2017	1 January - 31 December 2016
Current year net income	246,169	225,351
Weighted average number of shares during the year	389,927,705	389,927,705
Earnings per share (full TL)	**0.6313**	**0.5779**

25. SUBSEQUENT EVENTS

None.

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