Yapı Kredi Finansal Kiralama A.O.

Financial statements as of December 31, 2016 together with independent auditors' report

Yapı Kredi Finansal Kiralama A.O.

Contents

Building a better working world

Güney Bağımsız Denetim ve SMMM AŞ
Eski Büyükdere Cad
Orjin Maslak No:27
Maslak, Sarıyer 34398
İstanbul - Turkey

Tel : +90 212 315 30 00
Fax: +90 212 230 82 91
ey.com
Ticaret Sicil No: 479920-427502

Independent auditor's report

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Yapı Kredi Finansal Kiralama A.O. (the Company), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Impairment of leasing receivables

Determining the adequacy of impairment allowance on leasing receivables is a key area of judgment for the management due to the significance of the balances, and complexity and subjectivity over estimating timing and amount of impairment. The risk is that leasing receivables are impaired and no reasonable impairment losses/provisions are provided in accordance with the requirements of IFRS. Accordingly, carrying amount of leasing receivables and customers might be greater than the estimated recoverable amounts, therefore the impairment test of these leasing receivables is a key audit matter. Refer Note 7 to the financial statements relating to the impairment of leasing receivables.

Our audit procedures included, among others, considering, assessing and testing the relevant controls over granting, booking, monitoring and settlement, and those relating to the calculation of credit provisions, to confirm the operating effectiveness of the key controls in place, which identify the impaired leasing receivables and the required provisions against them. In addition we selected samples of leasing receivables based on our judgement and considered whether there was objective evidence that impairment exists on these leasing receivables. We also assessed whether impairment losses for leasing receivables were reasonably determined in accordance with the requirements of IFRS.

Responsibilities of the Management and the Board of Directors for the financial statements

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

The Management and the Board of Directors 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 ISAs 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 ISAs, we exercise professional judgment and maintain professional skepticism 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 the Management and Board of Directors.

- Conclude on the appropriateness of the Management's and Board of Director'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 the Management and the Board of Directors 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 the Management and the Board of Directors 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 the Management and the Board of Directors, 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.

The partner in charge of the audit resulting in this independent auditor's report is Yaşar Bivas.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst &Young Global Limited.

Istanbul, Turkey
March 6, 2017

Yapı Kredi Finansal Kiralama A.O.

Statement of financial position
as of December 31, 2016
(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

	Notes	**2016**	2015
Assets			
Cash and cash equivalents	5	**95,845**	18,500
Available-for-sale investment securities	6	**122**	122
Investment in direct finance leases	7	**8,263,330**	6,827,552
Derivative financial instruments	8	**1,862**	424
Investment in associates	9	**227,471**	207,545
Other assets and prepaid expenses	10	**575,723**	495,761
Property and equipment, net	11	**921**	607
Intangible assets, net	11	**3,762**	3,450
Deferred income tax assets, net	17	**69,206**	49,916
Total assets		**9,238,242**	7,603,877
Liabilities			
Borrowings	12	**6,339,686**	4,989,406
Debt securities issued	13	**803,382**	494,384
Accounts payable	15	**242,401**	523,518
Advances received from customers	14	**55,438**	59,738
Derivative financial instruments	8	**21,108**	23
Current income taxes payable	17	**23,207**	7,793
Other liabilities	15	**7,560**	12,601
Other provisions	23	**22,478**	18,781
Reserve for employment termination benefits	16	**781**	783
Total liabilities		**7,516,041**	6,107,027
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	**1,363,288**	1,137,937
Total equity		**1,722,201**	1,496,850
Total liabilities and equity		**9,238,242**	7,603,877

The accompanying notes set out on pages 8 to 56 form an integral part of these financial statements.

Yapı Kredi Finansal Kiralama A.O.

Statement of profit and loss and other comprehensive income
for the year ended December 31, 2016
(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

	Notes	2016	2015
Interest income from direct finance leases		**517,255**	438,643
Interest income on placements and transactions with banks		**1,878**	1,991
Total interest income		**519,133**	440,634
Interest expense on borrowings		**(163,308)**	(138,818)
Interest income from derivative financial instruments, net		**26,757**	8,733
Interest expense on debt securities issued		**(69,110)**	(33,807)
Net interest income		**313,472**	276,742
Foreign exchange gains and (losses), including net gain or losses from dealing in foreign currency		**769**	6,550
Net interest income after foreign exchange gains and losses		**314,241**	283,292
Fee and commission income, net		**(261)**	1,219
Impairment loss on finance lease receivables	7	**(57,262)**	(68,972)
Recoveries from impaired lease receivables	7	**14,364**	27,263
Income from profit of an associate	9, 20	**39,853**	27,781
Other income/(expense), net	20	**(2,962)**	3,571
Operating expenses	21	**(37,435)**	(35,808)
Operating profit, net		**270,538**	238,346
Profit before income tax		**270,538**	238,346
Taxation on income	17	**(45,187)**	(42,048)
Profit for the year		**225,351**	196,298
Other comprehensive income not being reclassified to profit or loss		**-**	-
Total comprehensive income		**225,351**	196,298
Earnings per share (full TL)	24	**0.5779**	0.5034

The accompanying notes set out on pages 8 to 56 form an integral part of these financial statements.

Yapı Kredi Finansal Kiralama A.O.

Statement of changes in equity
for the year ended December 31, 2016
(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 January 1, 2015	389,928	(31,017)	2	941,639	1,300,552
Dividends paid	-	-	-	-	-
Profit for the year	-	-	-	196,298	196,298
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	196,298	196,298
Balance at December 31, 2015	389,928	(31,017)	2	1,137,937	1,496,850
Balance at January 1, 2016	**389,928**	**(31,017)**	**2**	**1,137,937**	**1,496,850**
Dividends paid	-	-	-	-	-
Profit for the year	-	-	-	**225,351**	**225,351**
Other comprehensive income	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**225,351**	**225,351**
Balance at December 31, 2016	**389,928**	**(31,017)**	**2**	**1,363,288**	**1,722,221**

The accompanying notes set out on pages 8 to 56 form an integral part of these financial statements.

Statement of cash flows
for the year ended December 31, 2016
(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated.)

	Notes	2016	2015
Cash flows from operating activities			
Net profit for the year		**225,351**	196,298
Adjustments for:			
Depreciation and amortization	11, 21	**1,775**	2,005
Remeasurement of derivative financial instruments at fair value	8	**19,647**	189
Provision for employment termination benefits		**289**	72
Provision for tax and legal proceedings	23	**3,931**	1,974
Provision for impaired receivables	7	**57,262**	68,972
Interest income, net		**(313,548)**	(276,742)
Interest paid		**(171,276)**	(150,261)
Interest received		**486,159**	406,464
Provision for current and deferred income taxes		**45,187**	42,048
Other non-cash items		**(19,827)**	(19,430)
Taxes paid	17	**49,526**	91,205
Cash flows from operating profit before changes in operating assets and liabilities		**384,476**	362,794
Changes in operating assets and liabilities			
Net decrease/(increase) in finance lease receivables		**(1,467,625)**	(1,882,608)
Net (increase)/decrease in advances to vendors		**(2,847)**	(167,621)
Net increase in equipment to be leased		**(54,978)**	(54,639)
Net decrease/(increase) in other assets and prepaid expenses		**(2,847)**	5,931
Net increase in other liabilities, accounts payable and advances received		**(409,173)**	130,514
Net cash from/(used in) operating activities		**(1,552,994)**	(1,605,629)
Cash flows from investing activities			
Increase in investment securities	9	**-**	-
Purchase of property and equipment and intangible assets, net	11	**(2,401)**	(1,986)
Net cash (used in) investing activities		**(2,401)**	(1,986)
Cash flows from financing activities			
Borrowings		**1,329,423**	1,284,357
Debt securities issued		**295,470**	314,503
Net cash (used in)/provided from financing activities		**1,624,893**	1,598,860
Net increase/(decrease) in cash and cash equivalents		**69,498**	(8,756)
Effects of foreign exchange-rate changes on cash and cash equivalents		**7,771**	9,780
Cash and cash equivalents at the beginning of the year	5	**18,499**	17,475
Cash and cash equivalents at the end of the year	5	**95,768**	18,499

The accompanying notes set out on pages 8 to 56 form an integral part of these financial statements.

1. General information

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

Yapı ve Kredi Bankası A.Ş. (YKB) is the ultimate shareholder of the Company, 18.20% of the share certificates of YKB is publicly traded as of December 31, 2016 and December 31, 2015. 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 December 31, 2016, the Company have 141 employees (December 31, 2015: 138). 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.

These financial statements as at and for the year ended December 31, 2016 have been approved for the issue by the Board of Directors on March 6, 2017. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

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.

Basis of presentation of financial statements

These financial statements are prepared in accordance with the International Financial Reporting Standards ("IFRS"), including the International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Company maintains its books of account and prepares its statutory financial statements in Turkish Lira ("TL") which is the Company's functional and presentation currency, in accordance with regulations of Banking Regulation and Supervision Agency ("BRSA"), Turkish Commercial Code, Leasing Law and tax legislation, Turkish tax legislation required all leased assets be capitalized on the balance sheet of the lessor whether the lease is operating or finance lease until July 1, 2003. In accordance with amendments in Turkish tax law dated 24 April 2003, the lessors started to apply rules similar to IAS 17: "Leases" for the leasing transactions they entered after July 1, 2003 in their statutory financial statements.

The "Law on Financial Leasing, Factoring and Finance Companies" has been published in the Official Gazette dated December 13, 2012 and became effective as of the publishing date.

The financial statements are based on the historical cost convention, except for the derivative instruments which are stated at their fair values.

2. Summary of significant accounting policies (continued)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Accounting for the effects of hyperinflation

Prior to January 1, 2006, the adjustments and reclassifications made to the statutory records for the purpose of fair presentation in accordance with IFRS included the restatement of balances and transactions for the changes in the general purchasing power of the TL in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Turkey indicate that hyperinflation has ceased, effective from January 1, 2006, the Company no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at December 31, 2005 are treated as the basis for the carrying amounts in these financial statements.

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at 31 December 2016 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 2016. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows:

IFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

IFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment clarifies that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in this IFRS. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments did not have an impact on the financial position or performance of the Company.

IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 and IAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments did not have an impact on the financial position or performance of the Company.

2. Summary of significant accounting policies (continued)

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amendment) – Bearer Plants

IAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in IAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of IAS 41, measured at fair value less costs to sell. The amendment is not applicable for the Company and did not have an impact on the financial position or performance of the Company.

IAS 27 Equity Method in Separate Financial Statements (Amendments to IAS 27)

IASB issued an amendment to IAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:

• At cost
• In accordance with IFRS 9,
Or
• Using the equity method defined in IAS 28

The entity must apply the same accounting for each category of investments. The amendment is not applicable for the Company and did not have an impact on the financial position or performance of the Company.

IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)

Amendments issued to IFRS 10, IFRS 12 and IAS 28, to address the issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendment is not applicable for the Company and did not have an impact on the financial position or performance of the Company.

IAS 1: Disclosure Initiative (Amendments to IAS 1)

Amendments issued to IAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. These amendments did not have significant impact on the notes to the consolidated financial statements of the Company.

2. Summary of significant accounting policies (continued)

Annual Improvements to IFRSs - 2012-2014 Cycle

IASB issued, Annual Improvements to IFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan
- IFRS 7 Financial Instruments: Disclosures – clarifies that i) the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with IFRS 7; ii) the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report
- IAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located
- IAS 34 Interim Financial Reporting – clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report

These amendments did not have significant impact on the financial position or performance of the Company.

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the financial statements are as follows. The Company will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, when the new standards and interpretations become effective.

IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

Amendments issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. An entity shall apply those amendments prospectively. The amendment is not applicable for the Company and will not have an impact on the financial position or performance of the Company.

2. Summary of significant accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity’s ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called ‘own credit’ issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

2. Summary of significant accounting policies (continued)

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Company/Group applies this relief, it shall disclose that fact. The Company is in the process of assessing the impact of the amendments on financial position or performance of the Company.

IAS 7 Statement of Cash Flows (Amendments)

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. When the Company/Group first applies those amendments, it is not required to provide comparative information for preceding periods. The Company is in the process of assessing the impact of the amendments on financial position or performance of the Company.

IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:

a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;

b. share-based payment transactions with a net settlement feature for withholding tax obligations; and

c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are not applicable for the Company and will not have an impact on the financial position or performance of the Company.

2. Summary of significant accounting policies (continued)

IFRS 4 Insurance Contracts (Amendments)

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

a. 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 Financial instruments is applied before the new insurance contracts Standard is issued; and

b. give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 Financial instruments until 2021. The entities that defer the application of IFRS 9 Financial instruments will continue to apply the existing financial instruments Standard—IAS 39.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are not applicable for the Company and will not have an impact on the financial position or performance of the Company.

IAS 40 Investment Property: Transfers of Investment Property (Amendments)

The IASB issued amendments to IAS 40 'Investment Property '. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendment are not applicable for the Company and will not have an impact on the financial position or performance of the Company.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Company is in the process of assessing the impact of the interpretation on financial position or performance of the Company.

2. Summary of significant accounting policies (continued)

Annual Improvements to IFRSs - 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.

- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after 1 January 2017.

IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The Company is in the process of assessing the impact of the amendments on financial position or performance of the Company.

The principal accounting policies applied in the preparation of these financial statements are summarized below:

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.

2. Summary of significant accounting policies (continued)

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

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

Cash and cash equivalents

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

Investment securities

Investment securities are classified as available-for-sale assets as these investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Company management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of it. Available-for-sale investment securities are subsequently remeasured at fair value based on quoted bid prices, or at amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be transferred to income statement. Unlisted equity securities for which fair values cannot be measured reliably are recognised at cost after deductions for any impairment.

Accounting for leases (where the Company is a lessor)

Finance leases

When assets are sold under a finance lease, the present value of the lease payments is recognized as a receivable. All costs that are directly attributable to the investment in direct finance lease are capitalized at initial recognition as part of the investment in direct finance lease and amortized via effective interest rate method. 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.

2. Basis of preparation of financial statements (continued)

Future gross lease rentals receivable net of unearned future lease income, are classified as the net investment in direct finance leases.

Gross rentals due but not received at the balance sheet date are classified as receivables from outstanding lease payments. Receivables from outstanding lease payments are carried at net realizable value.

Operating leases

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 direct finance leases and accounts receivables 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.

The 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 charged against the income for the year.

Investment in direct finance leases and accounts receivables that cannot be recovered are written off and charged against the allowance for impairment of lease and accounts receivables. Such receivables are written off after all the necessary legal proceedings have been completed and the amount of the loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction from provision for impairment of lease and accounts receivables for the year (Note 7).

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 December 31, 2016 and 2015. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative (Note 8).

2. Basis of preparation of financial statements (continued)

Property and equipment

All property and equipment is carried at cost, restated equivalent to purchasing power of TL at December 31, 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	5-15 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 15 years.

Investment in associates

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

The Company's investment in its associate is accounted for using the equity method.
Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. 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 OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. The aggregate of the Company's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company. After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of profit of an associate' in the income statement.

2. Basis of preparation of financial statements (continued)

Financial liabilities

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

Income taxes

a. Income taxes currently payable

Income taxes (“corporation tax”) currently payable are calculated in accordance with the Turkish tax legislation.

Taxes other than on income are recorded within operating expenses.

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, reserve for annual leave provision, derivative financial instruments, unused investment allowances and provision for employment termination benefits (Note 17).

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 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 substantively enacted at the balance sheet dates.

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. Basis of preparation of financial statements (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.

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.

2. Basis of preparation of financial statements (continued)

Reserve for employment termination benefits

The Company has both defined benefit and defined contribution plans as described below:

(a) Defined benefit plans:

In accordance with existing social legislation in Turkey, the Company is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Company and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the “Projected Unit Credit Method” based upon factors derived using the Company’s experience of personnel terminating their services and being eligible to receive benefits, discounted by using the current market yield at the balance sheet date on government bonds. Changes in the key assumptions and other sources of estimation regarding benefit fund are recognized in actuarial gains/losses in the year of the change in the estimates. All actuarial gains and losses are recognized in the other comprehensive income (Note 16).

(b) Defined contribution plans:

The Company pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Revenue recognition

Direct 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 expense

Interest income and expense are recognized in the profit and loss and other comprehensive income statement for all instruments measured at amortized cost using the effective interest method.

Borrowing costs

All borrowing costs are recorded in the profit and loss and other comprehensive income statement in the period in which they are incurred.

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.

2. Basis of preparation of financial statements (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". As of December 31, 2016 and 2015 assets held for sale are stated at their book values.

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.

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.

Contingent assets and liabilities

Contingent liabilities are not recognized but disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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.

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 commercial 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)

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 December 31, 2016 and 2015:

2016	**Assets**	**%**	**Liabilities**	**%**
Turkey	8,731,979	95	2,414,668	32
European countries	202,745	2	4,143,119	55
Other	303,518	3	958,257	13
	9,238,242	100	7,516,044	100

2015	Assets	%	Liabilities	%
Turkey	7,348,198	97	1,819,431	30
European countries	79,944	1	3,345,717	54
Other	175,735	2	941,879	16
	7,603,877	100	6,107,027	100

Maximum exposure to credit risk

	2016	2015
Credit risk exposures relating to balance sheet items:		
Due from banks	**95,845**	18,500
Lease receivables, net	**8,263,330**	6,827,552
Derivative financial instruments	**1,862**	424
Other assets – advances to vendors	**252,290**	197,312

The above table represents a worst case scenario of credit risk exposure.

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. 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 5,500,000 (2015: (+/-) EUR 5,000,000) 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 December 31, 2016 and 2015.

	Foreign currency (TL equivalent)			
2016	**US$**	**EUR**	**Other**	**Total**
Assets				
Cash and cash equivalents	**525**	**4,519**	**524**	**5,568**
Investment in direct finance leases	**2,132,514**	**4,343,167**	**108,526**	**6,584,207**
Other assets and prepaid expenses	**197,097**	**273,444**	**1,309**	**471,850**
Total assets	**2,330,136**	**4,621,130**	**110,359**	**7,061,625**
Liabilities				
Borrowings	**1,663,453**	**4,387,450**	**112,520**	**6,163,423**
Accounts payable	**69,063**	**162,722**	**749**	**232,534**
Advances received from customers	**9,502**	**29,456**	**15**	**38,973**
Total liabilities	**1,742,018**	**4,579,628**	**113,284**	**6,434,930**
Net balance sheet position (*)	**588,118**	**41,502**	**(2,925)**	**626,695**
Off-balance sheet derivative instruments net notional position	**(608,998)**	**(15,582)**	**3,323**	**(621,256)**

(*) 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.

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

3. Financial risk management (continued)

	Foreign currency (TL equivalent)			
2015	US$	EUR	Other	Total
Assets				
Cash and cash equivalents	3,730	9,719	96	13,545
Investment in direct finance leases	1,741,759	3,419,446	85,506	5,246,710
Other assets and prepaid expenses	140,838	249,861	520	391,219
Total assets	1,886,327	3,679,026	86,122	5,651,474
Liabilities				
Borrowings	1,414,676	3,457,678	89,023	4,961,377
Accounts payable	186,803	286,120	1,533	474,456
Advances received from customers	14,754	23,912	12	38,677
Total liabilities	1,616,233	3,767,710	90,568	5,474,510
Net balance sheet position (*)	270,094	(88,684)	(4,446)	176,964
Off-balance sheet derivative instruments net notional position	(268,432)	100,888	3,815	(163,729)

(*) 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 273,647 in USD, TL (99,015) in Euro, TL (3,987) in other currencies and TL 170,640 in total.

At December 31, 2016, 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 3.5192=US$1 and TL 3.7099=EUR1 (2015: TL 2.9076=US$1 and TL 3.1776=EUR1).

The table below shows the Company's sensitivity against 10% depreciation of TL against US$ and EUR in the income statement. In this analysis it has been assumed that all other variables, especially interest rates, are being held constant.

	Profit/(Loss)	Profit/(Loss)
	2016	2015
US$	**(2,088)**	166
EURO	**2,592**	1,220

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.

d. 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.

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

3. Financial risk management (continued)

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.

2016	**Up to 3 months**	**3 to 12 months**	**Over 1 year**	**No definite maturity**	**Total**
Liabilities					
Borrowings	**826,126**	**3,033,226**	**2,731,209**	**-**	**6,590,561**
Debt securities issued	**311,024**	**232,999**	**317,297**	**-**	**861,320**
Accounts payable	**122,096**	**120,309**	**-**	**-**	**242,405**
Advances received from customers	**55,438**	**-**	**-**	**-**	**55,438**
Derivative financial instruments	**21,108**	**-**	**-**	**-**	**21,108**
Current income taxes payable	**23,207**	**-**	**-**	**-**	**23,207**
Other liabilities	**1,173**	**-**	**-**	**6,387**	**7,560**
Total liabilities	**1,360,172**	**3,428,308**	**3,006,732**	**6,387**	**7,801,559**
Assets held for managing liquidity risk (contractual maturity dates)	**253,404**	**301,319**	**20,994**	**58,214**	**633,931**
Derivative financial instruments held for trading					
Cash inflows	**614,815**	**-**	**-**	**-**	**614,815**
Cash outflows	**(624,579)**	**-**	**-**	**-**	**(624,579)**

2015	Up to 3 months	3 to 12 months	Over 1 year	No definite maturity	Total
Liabilities					
Borrowings	382,340	1,841,017	2,934,417	-	5,157,774
Debt securities issued	75,000	384,718	61,113	-	520,831
Accounts payable	257,148	266,370	-	-	523,518
Advances received from customers	59,738	-	-	-	59,738
Derivative financial instruments	23	-	-	-	23
Current income taxes payable	7,793	-	-	-	7,793
Other liabilities	6,822	-	-	5,779	12,601
Total liabilities	788,864	2,492,105	2,995,530	5,779	6,282,279
Assets held for managing liquidity risk (contractual maturity dates)	229,183	236,608	29,974	37,422	533,187
Derivative financial instruments held for trading					
Cash inflows	240,043	29,279	-	-	269,322
Cash outflows	(239,297)	(29,076)	-	-	(268,373)

e. 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.

According to the Economic Value Sensitivity Analysis as at December 31, 2016, in the scenario of a 4% increase in the TL interest rate and a 2% increase in the foreign currency interest rate with all other variables being constant, there will be TL 49,204 (2015: TL 38,490) decrease in the net present value of assets and liabilities which are sensitive for interest rates.

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

3. Financial risk management (continued)

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

		2016			2015	
		(%)			(%)	
	US$	**EUR**	**TL**	US$	EUR	TL
Assets						
Investment in direct finance leases	**5.81**	**5.31**	**12.77**	6.00	5.47	12.14
Time deposits	**-**	**-**	**10.52**	0.3	0.3	9.5
Liabilities						
Borrowings	**3.60**	**2.36**	**11.12**	2.94	2.39	11.13
Debt securities issued	**-**	**-**	**11.34**	-	-	11.33

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.

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**
Available-for-sale investment securities	**-**	**-**	**-**	**122**	**122**
Investment in direct finance leases	**836,501**	**1,770,233**	**5,598,389**	**58,207**	**8,263,330**
Derivative financial instruments	**1,862**	**-**	**-**	**-**	**1,862**
Investment in associates and subsidiaries	**-**	**-**	**-**	**227,471**	**227,471**
Other assets and prepaid expenses	**-**	**-**	**-**	**575,723**	**575,723**
Property and equipment, net	**-**	**-**	**-**	**921**	**921**
Intangible assets, net	**-**	**-**	**-**	**3,762**	**3,762**
Deferred income tax assets, net	**-**	**-**	**-**	**69,206**	**69,206**
Total assets	**923,290**	**1,770,233**	**5,598,389**	**946,330**	**9,238,242**
Liabilities					
Borrowings	**2,364,759**	**2,719,218**	**1,255,709**	**-**	**6,339,686**
Debt securities issued	**-**	**672,382**	**131,000**	**-**	**803,382**
Accounts payable	**-**	**-**	**-**	**242,401**	**242,401**
Advances received from customers	**-**	**-**	**-**	**55,438**	**55,438**
Derivative financial instruments	**21,108**	**-**	**-**	**-**	**21,108**
Current income taxes payable	**-**	**-**	**-**	**23,207**	**23,207**
Other liabilities	**-**	**-**	**-**	**7,560**	**7,560**
Other provisions	**-**	**-**	**-**	**22,478**	**22,478**
Reserve for employment termination benefits	**-**	**-**	**-**	**781**	**781**
Total liabilities	**2,385,867**	**3,391,600**	**1,386,710**	**351,865**	**7,516,041**
Net re-pricing gap(*)	**(1,462,577)**	**(1,621,367)**	**4,211,679**	**594,465**	**1,722,201**
Cash inflow from derivative financial instruments	**614,815**	**-**	-	-	**614,815**
Cash outflow from derivative financial instruments	**(624,579)**	**-**	-	-	**(624,579)**

(*) Equals to the total equity of the Company.

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

3. Financial risk management (continued)

2015	Demand and up to 3 months	3 to 12 months	Over 1 Year	Non-interest bearing	Total
Assets					
Cash and cash equivalents	10,539	-	-	7,961	18,500
Available-for-sale investment securities	-	-	-	122	122
Investment in direct finance leases	712,189	1,271,262	4,806,678	37,424	6,827,553
Derivative financial instruments	424	-	-	-	424
Investment in associates and subsidiaries	-	-	-	207,545	207,545
Other assets and prepaid expenses	-	-	-	495,761	495,761
Property and equipment, net	-	-	-	607	607
Intangible assets, net	-	-	-	3,450	3,450
Deferred income tax assets, net	-	-	-	49,916	49,916
Total assets	723,152	1,271,262	4,806,678	802,786	7,603,877
Liabilities					
Borrowings	2,061,737	2,682,911	244,758	-	4,989,406
Debt securities issued	78,340	361,544	54,500	-	494,384
Accounts payable	-	-	-	523,518	523,518
Advances received from customers	-	-	-	59,738	59,738
Derivative financial instruments	23	-	-	-	23
Current income taxes payable	-	-	-	7,793	7,793
Other liabilities	-	-	-	12,601	12,601
Other provisions	-	-	-	18,781	18,781
Reserve for employment termination benefits	-	-	-	782	782
Total liabilities	2,140,100	3,044,455	299,258	623,214	6,107,027
Net re-pricing gap(*)	(1,416,948)	(1,773,193)	4,507,420	179,572	1,496,850
Cash inflow from derivative financial instruments	240,043	29,279	-	-	269,322
Cash outflow from derivative financial instruments	(239,297)	(29,076)	-	-	(268,373)

f. 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.

g. 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 (ie an exit price).

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.

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

3. Financial risk management (continued)

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
	2016	2015	**2016**	2015
Finance lease receivables	8,263,330	6,827,552	9,059,329	7,178,753
Borrowings	6,339,686	4,989,406	6,424,375	5,118,564
Debt securities issued	803,382	494,384	814,114	495,380

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:

2016	**Level 1**	**Level 2**	**Level 3**
Trading derivative financial assets	-	**1,862**	-
Total assets	-	**1,862**	-
Trading derivative financial liabilities	-	**21,108**	-
Total liabilities	-	**21,108**	-

2015	**Level 1**	**Level 2**	**Level 3**
Trading derivative financial assets	-	424	-
Total assets	-	424	-
Trading derivative financial liabilities	-	23	-
Total liabilities	-	23	-

3. Financial risk management (continued)

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.

h. 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 December 24, 2015, the Company is required to keep min 3% standard ratio calculated by dividing equity to total assets. Standard ratio of the Company is 18.6% as of December 31, 2016. (December 31, 2015: 19.7%)

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 investment in finance leases and accounts 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).

Fair value of derivatives

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values (Note 8).

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).

Provisions for legal proceedings

In order to record allowances for litigations, the consequences of lost cases and status of the ongoing cases are evaluated with the Company lawyers and the Company management makes most accurate evaluations with the available data (Note 23).

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

4. Critical accounting estimates and judgements (continued)

Employee termination benefits

The cost of defined benefit plans is determined using actuarial valuations which involve making assumptions about discount rates, future salary increases and employee turnover rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. These estimations which are disclosed in Note 16 are reviewed regularly. The carrying values of employee termination benefit provisions as of December 31, 2016 and 2015 are TL 781 and TL 783, respectively.

5. Cash and cash equivalents

	2016			2015		
	Foreign currency	**TL**	**Total**	Foreign currency	TL	Total
Due from banks						
- time deposits	**-**	**84,927**	**84,927**	6,839	3,700	10,539
- demand deposits	**5,568**	**5,350**	**10,918**	6,707	1,254	7,961
Total cash and cash equivalents	**5,568**	**90,277**	**95,845**	13,546	4,954	18,500

For the purposes of cash flow statements, cash and cash equivalents comprise TL 95,768 and TL 18,499 at December 31, 2016 and 2015, respectively. Accrued interest on time deposits as of December 31, 2016: TL 77 (December 31, 2015: TL 1).

Time deposits:

	December 31, 2016			December 31, 2015		
	Maturity	**Amount (TL equivalent)**	**Per-annum rate (%)**	Maturity	Amount (TL equivalent)	Per-annum rate (%)
TL	**January 2, 2017**	**84,927**	**8.5% - 11.35%**	January 4,2016	3,700	9.5%
EURO	**-**	**-**	**-**	January 4,2016	5,879	3%
USD	**-**	**-**	**-**	January 4,2016	960	3%
Total		**84,927**			10,539	

6. Available-for sale investment securities

	2016	2015
Securities available-for-sale	**122**	122
Unlisted equity securities	**122**	122

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

6. Available-for sale investment securities (continued)

The unlisted equity securities at December 31, 2016 and 2015 are as follows:

Entity	Nature of business	2016 TL	2016 (%)	2015 TL	2015 (%)
Yapı Kredi Bank Moscow	**Banking**	**1,928**	**<1**	1,928	<1
Yapı Kredi Bank Azerbaijan J,S,B,	**Banking**	**91**	**<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 Management**	**7**	**<1**	7	<1
		2,050		2,050	
Less: Provision for impairment		**(1,928)**		(1,928)	
		122		122	

7. Investment in direct finance leases

	2016	2015
Gross investment in direct finance leases	**9,741,549**	8,063,505
Invoiced lease receivables	**35,507**	36,582
Gross finance lease receivables	**9,777,056**	8,100,087
Unearned finance income	**(1,529,673)**	(1,275,248)
Finance lease receivables	**8,247,383**	6,824,839
Impaired lease receivables	**335,656**	279,521
Impairment provision - impaired lease receivables	**(277,442)**	(242,100)
Impairment provision - lease receivables under follow up (watch list)	**(2,858)**	(1,907)
Impairment provision - portfolio provision	**(39,409)**	(32,801)
Finance lease receivables, net	**8,263,330**	6,827,552

At December 31, 2016 and 2015 the gross investment in direct finance leases according to their interest type are as follows:

	2016	2015
Fixed interest	**9,343,349**	7,896,101
Floating interest	**398,200**	167,404
	9,741,549	8,063,505

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

7. Investment in direct finance leases (continued)

At December 31, 2016 and 2015 the leasing receivables have the following collection schedules:

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

Period end	2015 Gross	2015 Net
December 31, 2016	2,301,663	1,879,776
December 31, 2017	1,796,160	1,435,643
December 31, 2018	1,384,528	1,172,906
December 31, 2019	1,081,600	949,432
December 31, 2020	685,212	612,123
December 31, 2021 and after	850,924	774,959
	8,100,087	6,824,839

Finance lease receivables can be analyzed as follows:

	2016	2015
Neither past due nor impaired	**8,211,876**	6,788,257
Past due but not impaired	**35,507**	36,582
Impaired	**335,656**	279,521
Gross	**8,583,039**	7,104,360
Less: allowances for impairment	**(319,709)**	(276,808)
Net finance lease receivables	**8,263,330**	6,827,552

As at December 31, 2016, TL 12,672 of the total collaterals (2015: TL 17,530) are related with the impaired finance lease receivables amounting to TL 335,656 (2015: TL 279,521). 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 as TL 30,197 (December 31, 2015: TL 26,827).

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

7. Investment in direct finance leases (continued)

The aging of past due but not impaired finance lease receivables at December 31, 2016 and 2015 are as follows:

	2016		2015	
	Invoiced amount	**Remaining principal**	Invoiced amount	Remaining principal
0-30 days	**9,719**	**305,357**	9,925	293,446
30-60 days	**7,180**	**147,950**	13,573	191,086
60 days and over	**18,608**	**13,518**	13,084	61,587
	35,507	**466,825**	36,582	546,119

TL 11,896 of past due but not impaired lease receivables is followed-up by the Company via the watch list, Remaining principal amount of the same lease receivables amounting to TL 267,654 is also followed-up via the watch list (2015: TL 17,978 invoiced amount, TL 162,040 remaining principal).

The aging of impaired finance lease receivables at December 31, 2016 and 2015 are as follows:

	2016			2015		
	Invoiced amount	**Remaining principal**	**Total**	Invoiced Amount	Remaining principal	Total
3 - 12 months	**9,014**	**48,647**	**57,661**	5,763	22,394	28,157
1 year and over	**125,420**	**152,575**	**277,995**	112,586	138,778	251,364
	134,434	**201,222**	**335,656**	118,349	161,172	279,521

Movements in provision for impaired finance lease receivables for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
At January 1	**276,808**	235,721
Impairment expense during the year	**57,262**	68,972
Recoveries of amounts previously provided for (including foreign exchange differences)	**(14,361)**	(27,263)
Write-off	**-**	(622)
At December 31	**319,709**	276,808

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

7. Investment in direct finance leases (continued)

Economic sector risk concentrations for the gross investment in direct finance leases as of December 31, 2016 and 2015 are as follows:

	2016	**%**	**2015**	**%**
Real Estate and Construction	**2,506,061**	**26**	2,214,044	27
Steel and mining	**1,508,595**	**15**	1,076,474	13
Textile	**968,223**	**10**	917,803	11
Transportation	**826,544**	**8**	807,391	10
Printing	**406,647**	**4**	228,702	3
Petroleum and chemistry	**315,033**	**3**	347,983	4
Food	**286,921**	**3**	245,989	3
Tourism	**285,402**	**3**	191,667	2
Wholesale and retail trade	**253,804**	**3**	150,466	2
Machinery and equipment	**243,799**	**2**	256,476	3
Automotive	**239,292**	**2**	223,719	3
Health	**123,054**	**1**	116,265	1
Agriculture	**89,827**	**1**	84,790	1
Financial institutions	**21,888**	**<1**	171,053	2
Communication	**17,032**	**<1**	24,788	<1
Education	**5,939**	**<1**	7,116	<1
Other	**1,678,995**	**17**	1,035,361	13
	9,777,056	**100**	8,100,087	100

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

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 176,389 (2015: TL 91,888).

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.

As of December 31, 2016 and 2015, the Company obtained the following collaterals from its customers except for the assets subject to finance lease, against their outstanding exposures:

	2016	2015
Transfer of rights of receivables	**100,093**	49,717
Mortgages	**97,632**	122,015
Buyback guarantees	**55,069**	22,379
Pledged machinery	**45,703**	31,344
Pledged automobiles	**11,976**	10,389
Guarantee letters	**2,886**	3,437
Cheques received	**528**	1,631
Blocked bank deposits	**358**	1,454
Other pledged securities	**63,230**	44,882
	377,475	287,248

Investment in direct finance leases 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

	Contract/notional amount	Fair values Assets	(Liabilities)
2016			
Foreign exchange derivatives			
Currency forwards	**1,239,394**	**1,862**	**(21,108)**
Total over the counter	**1,239,394**	**1,862**	**(21,108)**
2015			
Foreign exchange derivatives			
Currency forwards	537,754	424	(23)
Total over the counter	537,754	424	(23)

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	Address (City/Country)	Shareholding Percentage (%)	Other Shareholders' shareholding percentage (%)
Allianz Yaşam ve Emeklilik A,Ş	İstanbul /Turkey	19.93	80.07

Main financial figures of the investments in associates in order of the above table:

Total Assets	Shareholders' Equity	Total Fixed Assets (net)	Interest Income	Income From Marketable Securities Portfolio	Current Period Profit / Loss
1,328,619	401,714	26,268	138,275	-	163,207

In 2013, the Company has acquired 115,574,715 shares with a full nominal value of TL 11,557,471,5 representing 19.93% of the capital of Yapı Kredi Emeklilik A,Ş, (now known as Allianz Yaşam ve Emeklilik A,Ş,) for full TL 188,107,812 on July 12, 2013. At the acquisition date, associate's net asset value is TL 215,550 and 19.93% of such amount is TL 42,959 and purchase value is TL 188,108.

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

9. Investment in associates and subsidiaries (continued)

Movement of investments in associates:

	Current Period	Prior Period
Balance at the beginning of the period	**207,545**	196,901
Movements during the period	**19,926**	10,644
Purchases	**-**	-
Share of current year income	**39,853**	27,781
Dividend distributed	**(19,927)**	(17,137)
Balance at the end of the period	**227,471**	207,545

10. Other assets and prepaid expenses

	2016	2015
Advances to vendors	**252,290**	197,312
Equipments to be leased	**247,638**	244,791
Prepaid expenses	**44,693**	50,986
Deferred value added tax	**-**	-
Asset held for resale	**1,880**	2,149
Other	**29,222**	523
	575,723	495,761

Equipments 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.

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

11. Property and equipment and intangible assets

a) Property and equipment

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

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

11. Property and equipment and intangible assets (continued)

	Furniture and fixtures	Machinery, equipment and installations	Leasehold improvements	Total
At January 1, 2015				
Cost	522	1,480	575	2,577
Accumulated depreciation	(471)	(1,069)	(351)	(1,891)
Net book value	51	411	224	686
December 31, 2015				
Opening net book value	51	411	224	686
Additions	21	103	86	210
Disposals, net	-	-	-	-
Depreciation	(32)	(156)	(101)	(289)
Net book value	40	358	209	607
At December 31, 2015				
Cost	543	1,583	661	2,787
Accumulated depreciation	(503)	(1,225)	(452)	(2,180)
Net book value	40	358	209	607

As of December 31, 2016, there is no pledge on the assets of the Company. (December 31, 2015: None).

b) Intangible assets

December 31, 2016	**Software**
Opening net book value	**3,450**
Additions	**1,878**
Disposals, net	**-**
Amortisation charge	**(1,566)**
Net book value	**3,762**
At December 31, 2016	
Cost	**13,669**
Accumulated amortisation	**(9,907)**
Net book value	**3,762**

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

11. Property and equipment and intangible assets (continued)

December 31, 2015	Software
Opening net book value	3,390
Additions	1,776
Disposals, net	-
Amortisation charge	(1,716)
Net book value	3,450

At December 31, 2015

Cost	11,791
Accumulated amortisation	(8,341)
Net book value	3,450

12. Borrowings

	2016			2015		
	Interest rates per annum (%)	**Balance in original currency (thousands)**	**TL**	Interest rates per annum (%)	Balance in original currency (thousands)	TL
Domestic borrowings						
Fixed rate borrowings:						
EUR	**2.5%**	**115,578**	**428,782**	2.20%	112,055	356,065
US$	**3.6%**	**86,280**	**303,637**	2.80%	101,067	293,862
TL	**11.8%**	**176,262**	**176,262**	13.50%	8,006	8,006
Floating rate borrowings:						
US$	**3.7%**	**60,384**	**212,504**	3.20%	9,017	26,217
EUR	**2.2%**	**32,803**	**121,696**	2.30%	49,864	158,447
Total domestic borrowings			**1,242,881**			842,597
Foreign borrowings						
Fixed rate borrowings:						
EUR	**2.7%**	**338,133**	**1,254,440**	2.80%	157,837	501,543
US$	**4.0%**	**78,546**	**276,420**	3.10%	78,198	227,368
TL	**-**	**-**	**-**	14.0%	20,023	20,023
CHF	**1.2%**	**4,340**	**14,951**	1.20%	5,328	15,598
Floating rate borrowings:						
EUR	**2.2%**	**696,119**	**2,582,533**	2.30%	768,386	2,441,623
US$	**3.4%**	**247,469**	**870,892**	3.00%	298,263	867,229
CHF	**0.6%**	**28,319**	**97,569**	0.70%	25,079	73,425
Total foreign borrowings			**5,096,805**			4,146,809
Total borrowings			**6,339,686**			4,989,406

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

12. Borrowings (continued)

	2016	2015
Short term bank borrowings	**176,262**	28,029
Short term portion of long term borrowings	**3,586,534**	2,114,982
Total short term borrowings	**3,762,796**	2,143,011
Long term borrowings	**2,576,890**	2,846,395
Total long term borrowings	**2,576,890**	2,846,395
Total borrowings	**6,339,686**	4,989,406

Payment terms of the borrowings as as follows:

	2016	2015
To be paid within 1 year	**3,762,796**	2,143,011
To be paid between 1-2 years	**648,411**	2,183,929
To be paid between 2-3 years	**990,028**	234,093
To be paid between 3-4 years	**679,168**	167,594
To be paid between 4-5 years	**127,360**	149,615
To be paid between 5-6 years	**54,181**	67,370
To be paid between 6-7 years	**38,184**	23,494
To be paid after 7 years	**39,558**	20,300
	6,339,686	4,989,406

13. Securities Issued

	2016	2015
Debt securities issued	**803,382**	494,384
	803,382	494,384

Securities issued as of December 31, 2016;

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

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

13. Securities Issued (continued)

Securities issued as of December 31, 2015;

Securities	Nominal Amount	Currency	Date of Issue	Maturity Date	Simple Interest	Compound Interest	Interest
Bill	128,400	TL	December 11, 2015	June 7, 2016	11.54%	11.88%	Fixed
Bill	125,000	TL	November 10, 2015	April 29, 2016	11.23%	11.57%	Fixed
Bond	120,000	TL	August 8, 2014	August 5, 2016	11.23%	11.70%	Floating
Bill	75,000	TL	July 23, 2015	January 18, 2016	10.59%	10.88%	Fixed
Bond	39,500	TL	December 11, 2015	December 8, 2017	12.03%	12.59%	Floating
Bond	15,000	TL	November 10, 2015	November 7, 2017	11.27%	11.75%	Floating

14. Advances received

Advances received are related with the amounts received from customers regarding the financial leasing agreements. Advances received with respect to new financial leasing agreements at December 31, 2016 amount to TL 55,438 (2015: TL 59,738).

15. Other liabilities and accounts payable

	2016	2015
Provision for personnel performance bonus	**2,340**	2,250
Expense accruals	**2,484**	2,167
Provision for unused annual vacation	**1,563**	1,362
Withholding taxes and duties payable	**1,173**	6,822
	7,560	12,601

Accounts payable:

Accounts payable are mainly related with the purchase of fixed assets from domestic and foreign suppliers regarding the financial lease agreements and insurance payables with respect to the assets subject to financial leasing. As of December 31, 2016 maturity of trade payables amounting to TL 242,401 is shorter than 1 year. (As of December 31, 2015, maturity of trade payables amounting to TL 523,518 is shorter than 1 year)

16. Reserve for employment termination benefits

	2016	2015
Reserve for employment termination benefits	**781**	783

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. The amount payable consists of one month's salary limited to a maximum of full TL 4,297 as of December 31, 2016 (2015: full TL 4,093) for each year of service. The liability is not funded, as there is no funding requirement.

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

16. Reserve for employment termination benefits (continued)

IFRS requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. In the financial statements, the Company reflected a liability calculated using the projected unit credit method and based upon the factors derived using their experience of personnel terminating their services and being eligible to receive employment termination benefits. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

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

	2016	2015
Discount rate (%)	**4.5**	4.6
Turnover rate to estimate the probability of retirement (%)	**10.00**	9.36

Additionally, the principal actuarial assumption is that the maximum liability for each year of service would increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of full TL 4,426 (January 1, 2016: full TL 4,093) which is effective from January 1, 2017, has been taken into consideration in calculating the reserve for employee benefits of the Company.

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

	2016	2015
At January 1	**783**	710
Paid during the year	**(308)**	(285)
Service cost	**284**	326
Interest cost	**22**	32
Actuarial gain/(loss)	**-**	-
At December 31	**781**	783

17. Taxation

	2016	2015
Corporate taxes payable	**64,940**	54,828
Minus: Prepaid taxes	**(41,733)**	(47,035)
Corporate tax payable, net	**23,207**	7,793

	2016	2015
Current tax charge	**(64,477)**	(53,754)
Deferred tax income	**19,290**	11,706
	(45,187)	(42,048)

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

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 January 1, 2006. Corporation tax rate in Turkey starting from January 1, 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).

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, 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.

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

	2016	2015
Profit before taxes(*)	**230,685**	210,565
Theoretical tax expense with 20% tax rate	**(46,137)**	(42,113)
Tax-free income and non-deductible expenses(net)	**950**	65
Current year tax expense	**(45,187)**	(42,048)

(*) Excluding net income gained from associates.

17. Taxation (continued)

Exemption for investment allowance

Investment allowance applied for several years and calculated as 40% of fixed asset acquisitions exceeding a certain amount, was abolished with law no. 5479 dated 8 April 2006. However, in accordance with temporary law no. 69 added to the Income Tax Law, corporate and income taxpayers can offset the investment allowance amounts existing as of December 31, 2005 which they could not offset against income in 2005, as follows:

a) In the scope of the investment incentive certificates prepared related to the applications before 24 April 2003, investments to be made after January 1, 2006 in the scope of the certificate for the investments started in accordance with the additional 1st, 2nd, 3rd, 4th, 5th and 6th articles prior to the abrogation of Income Tax Law No. 193, with Law No.4842, dated 9 April 2003.

b) Investment allowance amounts to be calculated in accordance with legislation effective on December 31, 2005 in relation to investments which exhibit an integrity technically and economically and which were started prior to January 1, 2006 within the scope of repealed Article 19 of the Income Tax Law numbered 193, could solely be offset against income related to the years 2006, 2007 and 2008, in accordance with the legislation current as of December 31, 2005 (including provisions related to tax rate).

Within the scope of Temporary Article 69 of the Income Tax Law (for the years of 2006, 2007 and 2008) income tax payers, and corporate taxpayers who are benefiting from investment allowance practice, had calculated their income or corporate tax base related to the aforementioned years by applying to their income for the year in which the allowance was requested the tax rate applicable as of December 31, 2005, and the tax rate of 30% stated in the Article 25 of the annulled Corporate Tax Law No. 5422, respectively.

However, it was no longer possible to benefit from the carried-forward investment allowance amount left unused as of December 31, 2008. In this respect, a lawsuit is filed against the Constitutional Court on the basis that it is against the equality and certainty in taxation which are guaranteed by the Constitution.

According to the decision of the Constitutional Court dated 15 October 2009 and numbered E:2006/95, the phrase "comprising only the years 2006, 2007 and 2008" in the Provisional Article 69 of the Income Tax Law regarding the investment incentives is revoked. Therefore, the time limitation on the use of unused investment incentives was removed. The decision of the Constitutional Court has been published in the Official Gazette on January 8, 2011. Therefore, the cancellation became effective with the publishing of the decision of the Constitutional Court at the Official Gazette.

With the Law no. 6009 published in the Official Gazette dated August 1, 2010, the temporary article 69 of the Income Tax Law regarding the investment allowance was amended and use of investment allowance was enabled; however, use of investment allowance was limited to 25% of the profit of the related year.

In the Constitutional Court's meeting dated February 9, 2012; it was decided that the sentence "In so far as, the amount to be deducted as investment allowance in the determination of tax base cannot exceed 25% of the related profit" added to the first paragraph of the article 69 of the Income Tax Law with the article 5 of the Law no. 6009 was unconstitutional and would be cancelled. Furthermore, since the sentence in question was cancelled in the same meeting with the decision no. E. 2010/93, K. 2012/20 dated February 9, 2012, it was decided that it would be invalidated until it was published in the Official Gazette in order to prevent situations and losses emerging from the application of this sentence, which were difficult to recover, and not to leave the cancellation decision inconclusive. This decision was published on the Official Gazette on February 18, 2012.

17. Taxation (continued)

Deferred taxes:

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

The Company did not pay any corporation tax until December 31, 2008 due to its accumulated investment allowances related with capital expenditures which are deductible from taxable income.

Due to the cease of the investment incentive utilization as of December 31, 2008, the Company paid corporate income tax during the year 2009. As a result of the aforementioned decision of the Constitutional Court dated January 8, 2011, investment allowance of the Company became recoverable again; the Company filed a lawsuit against Tax Office for the refund of the corporate taxes that the Company paid for the year 2009 amounting to TL 28,533 and recognized deferred tax asset for the same amount in its financial statements as of the Balance sheet dates. As a result of the lawsuit won by the Company the Tax Office made a payment in cash to the Company amounting to TL 28,533. However, this amount is not recognized as an income for the current year but accounted for as a provision in the balance sheet as of December 31, 2012 since Boğaziçi Corporate Tax Office has appealed the decision of the court. Deferred tax asset with the same amount is recognized in balance sheet of the Company as of December 31, 2012. With the appeal of Boğaziçi Corporate Tax Office overruled in 2015, the amount previously recognized as tax deposit account was closed, added to the current corporate tax charge as income and reversed from deferred tax assets.

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

17. Taxation (continued)

Details of cumulative timing differences and the resulting deferred income tax assets and liabilities provided as of December 31, 2016 and 2015 are as follows:

	Total temporary differences		**Deferred income tax assets/(liabilities)**	
	December 31, 2016	December 31, 2015	**December 31, 2016**	December 31, 2015
Deferred tax assets				
Provision for impaired receivables	**226,548**	192,719	**45,310**	38,544
Difference between carrying value and tax base of financial leases	**99,573**	57,161	**19,915**	11,432
Valuation differences of derivative financial Instruments	**21,108**	23	**4,222**	5
Provision for legal proceedings	**19,898**	15,967	**3,980**	3,193
Income accrual on lease receivables	**11,056**	4,789	**2,211**	958
Provision for impairment on investments	**1,928**	1,928	**386**	386
Provision for unused vacation	**1,563**	1,362	**313**	272
Provision for employment termination benefits	**781**	783	**156**	156
Provision for litigation related to Fund for Resource Use Support	**183**	183	**37**	37
Difference between carrying value and tax base of property, equipment and intangible assets	**-**	106	**-**	21
Other	**402**	14,499	**80**	2,900
Deferred tax assets			**76,610**	57,904
Deferred tax liabilities				
Valuation difference on financial liabilities	**(34,621)**	(39,516)	**(6,924)**	(7,903)
Difference between carrying value and tax base of property, equipment and intangible assets	**(541)**	-	**(108)**	-
Valuation differences of derivative financial Instruments	**(1,862)**	(424)	**(372)**	(85)
Deferred tax liabilities			**(7,404)**	(7,988)
Deferred tax assets - net			**69,206**	49,916

Movement of the deferred tax assets / (liabilities) for the year is as follows:

	December 31, 2016	December 31, 2015
Deferred tax asset/(liability) as of January 1	**49,916**	38,210
Deferred tax income/(expense)	**19,290**	11,706
Deferred tax asset/(liability) as of December 31	**69,206**	49,916

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

18. Share capital

At December 31, 2016, the Company's authorized share capital consists of 389,927,705 shares with a par value of TL1 each (2015: 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 December 31, 2016 and 2015, the share capital is as follows:

		2016		2015
	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.

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 December 31, 2016 and 2015 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:

	2016	2015
Legal reserves	**78,228**	78,228

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

20. Other income/(expense)

	2016	2015
Income from profit of an associate	**39,853**	27,781
Income from profit of an associate	**39,853**	27,781
Operating lease income	**15**	-
Fixed asset sales gain, net	**331**	4,910
Income/(expense) on legal cases, net	**(3,697)**	(1,978)
Other	**389**	639
Other income/(expense), net	**(2,962)**	3,571

21. Operating expenses

	January 1 - December 31, 2016	January 1- December 31, 2015
Personnel expenses	23,303	21,960
Audit and advisory expenses	2,232	2,615
Amortization expenses (Note 11)	1,775	2,005
Rent expenses	1,315	1,166
Donation expenses	1,276	1,251
Taxes and duties other than on income	1,200	1,438
Computer maintenance and repair expenses	1,041	833
Logistics expenses	959	910
Litigation expenses	644	168
Marketing and advertising expenses	312	302
Communication expenses	284	274
Travel and accommodation expenses	192	176
Office management expenses	166	148
Transportation expenses	156	173
Insurance expenses	74	65
Other	2,506	2,324
	37,435	35,808

(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.

a) Balances with related parties

	2016	2015
Assets		
Due from banks		
Shareholders		
- Demand deposits		
Yapı ve Kredi Bankası A.Ş.	**10,697**	7,797
Other related parties		
Yapı Kredi Bank Nederland N.V.	**2**	2
Shareholders		
- Time deposits		
Yapı ve Kredi Bankası A.Ş.	**84,927**	10,539
	95,626	18,338

	2016	2015
Net investment in direct finance leases		
Other related parties		
Demir Export A.Ş.-Fernas İnş. A.Ş. Adi Ortaklığı(*)	**197,531**	194,741
Karsan Otomotiv San. Ve Tıc. A.Ş.	**63,440**	67,949
Koç Üniversitesi	**56,012**	51,183
Heksagon Mühendislik Ve Tasarım A.Ş.	**4,279**	5,035
Sirena Marıne Malta Ltd	**256**	4,745
Demir Export A.Ş.	**43,701**	26,198
Koç Sistem Bilgi Ve İletişim Hizm, A.Ş.	**4,063**	6,177
Setur Antalya Marina İşletmeciliği A.Ş.	**1,735**	1,948
Moment Eğitim Araştırma Sağlık Hizm. Ve Tic. A.Ş.	**6,132**	7,197
Other	**-**	8
	377,149	365,181

(*) Since the specified joint venture’s the related party share is 75%, the related party balance’s 75% should be considered.

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

22. Transactions and balances with related parties (continued)

	2016	2015
Liabilities		
Borrowings		
Other related parties		
Unicredit Bank Austria AG	**2,003,700**	2,405,761
Unicredit Italiano Spa	**1,198,295**	-
Unicredit Bank AG	**90,036**	91,141
	3,292,031	2,496,902

	2016	2015
Trade payables		
Associates		
Allianz Yaşam ve Emeklilik A.Ş.	**5,291**	6,058
Other related parties		
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	**8**	209
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	**55**	56
Zer Merkezi Hizmetler ve Ticaret A.Ş.	**-**	32
Koç Holding A.Ş.	**9**	13
Opet Petrolcülük A.Ş.	**-**	10
Setur Servis Turistik A.Ş.	**-**	6
KKB Kredi Kayıt Bürosu A.Ş.	**2**	4
	5,365	6,388
Contingent liabilities		
Guarantee letters		
Shareholders		
Yapı ve Kredi Bankası A.Ş.	**2,225**	5,304
	2,225	5,304
Derivative financial instruments		
Foreign currency forward transactions (buy)		
Shareholders		
Yapı ve Kredi Bankası A.Ş.	**563,668**	269,322
Foreign currency forward transactions (sell)		
Shareholders		
Yapı ve Kredi Bankası A.Ş.	**571,791**	268,373
	1,135,459	537,695

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

22. Transactions and balances with related parties (continued)

b) Transactions with related parties

Interest income from direct finance leases	2016	2015
Other related parties		
Demir Export A.Ş.-Fernas İnş,A.Ş. Adi Ortaklığı	**8,714**	12,110
Karsan Otomotıv San. Ve Tıc. A.Ş.	**2,633**	4,914
Koç Üniversitesi	**3,231**	6,316
Demir Export A.Ş.	**5,355**	2,692
Koç Sistem Bilgi Ve İletişim Hizm. A.Ş.	**258**	610
Heksagon Mühendislik Ve Tasarım A.Ş.	**136**	321
Sirena Marıne Malta Ltd	**25**	200
Ferrocom Mad.San.Ve Tic.A.Ş.	**-**	-
Setur Antalya Marina İşletmeciliği A.Ş.	**49**	100
Moment Eğitim Araştırma Sağlık Hizm.Ve Tic. A.Ş.	**162**	273
	20,563	27,536

Interest income on bank deposits	2016	2015
Shareholders		
Yapı ve Kredi Bankası A.Ş.	**1,944**	668
Yapı ve Kredi Malta	**-**	7
	1,944	675

Commission expenses	2016	2015
Shareholders		
Yapı ve Kredi Bankası A.Ş.	**298**	305
	298	305

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

22. Transactions and balances with related parties (continued)

Service expenses	**2016**	2015
Shareholders		
Yapı ve Kredi Bankası A.Ş.	**511**	919
Associates		
Allianz Yaşam ve Emeklilik A.Ş.	**19**	29
Other related parties		
Koç Holding A.Ş.	**2,016**	1,651
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	**1,052**	655
Zer Merkezi Hizmetler A.Ş.	**589**	453
Otokoç A.Ş.	**228**	180
Opet Petrolcülük A.Ş.	**804**	691
Setur Servis Turistik A.Ş.	**97**	91
Kredi Kayıt Bürosu A.Ş.	**47**	36
Türkiye Eğitim Gönüllüleri Vakfı	**1**	1
	5,364	4,696

Interest expense on borrowings	**2016**	2015
Shareholders		
Yapı ve Kredi Bankası A.Ş.	**165**	393
Other related parties		
Unicredit Bank Austria AG	**53,700**	54,462
Unıcredito Italiano Spa	**18,391**	-
Unicredit Bank AG	**1,527**	1,896
	73,783	56,751

Rent expenses	**2016**	2015
Shareholders		
Yapı ve Kredi Bankası A.Ş.	**1,235**	1,105
	1,235	1,105

Dividend income	**2016**	2015
Associates		
Allianz Yaşam ve Emeklilik A.Ş. (*)	**19,927**	17,137
Other related parties		
Yapı Kredi Faktoring A.Ş.	**2**	6
Yapı Kredi Yatırım Menkul Değerler A.Ş.	**1**	1
	19,930	17,144

(*) Since the related amount is consolidated by equity method on the financial statements, the amount is not stated on the statement of income/

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

Payments made to members of the Board and key management personnel	**2,535**	2,222

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

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 December 31, 2016 and 2015.

Commitments under derivative financial instruments:

	2016		2015	
	Original currency	**TL**	Original currency	TL
Forward currency purchases				
TL	**611,492**	**611,492**	164,619	164,619
CHF	**964**	**3,323**	1,303	3,815
EUR	**-**	**-**	31,750	100,888
USD	**-**	**-**	-	-
		614,815		269,322
Forward currency sales				
USD	**173,050**	**608,997**	92,301	268,432
EUR	**4,200**	**15,582**	-	-
		624,579		268,432
Total contract amount		**1,239,394**		537,754

Other commitments:

The Company has given guarantee letters to government organizations, customs authorities and banks amounting to TL 63,889 (2015: TL 50,795).

Legal proceedings:

Provisions for legal proceedings as of December 31, 2016 and 2015 are as follows:

	2016	2015
Provision for open legal cases	**22,478**	18,781
	22,478	18,781

The Company has provided for a total provision of TL 19,898 against certain open legal cases as of December 31, 2016 (2015: TL 18,781).

The movement of the provision for legal cases is as follows:

	2016	2015
January 1	**18,781**	16,807
Paid	**(421)**	(4)
Current year provision	**4,118**	1,978
December 31	**22,478**	18,781

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

24. Earnings and dividends per share

	2016	2015
Current year net income	**225,351**	196,298
Weighted average number of shares during the year (1 full TL nominal value)	**389,927,705**	389,927,705
Earnings per share (full TL)	**0.5779**	0.5034

	2016	2015
Dividends paid	**-**	**-**
Weighted average number of shares during the year (1 full TL nominal values)	**389,927,705**	**389,927,705**
Dividends per share (full TL)	**-**	**-**

25. Subsequent events

None.