

Yapı Kredi Finansal Kiralama A.O.

**Consolidated financial statements as of December 31, 2016
together with independent auditors' report**
(Convenience Translation into English of consolidated financial statements as of
December 31, 2016 and Independent Auditors' Report Originally Issued in Turkish,
See Note 2.1.1)

Convenience translation into English of independent auditor's report originally prepared and issued in Turkish

Independent auditors' report

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

We have audited the consolidated balance sheet of Yapı Kredi Finansal Kiralama A.O. ("the Company") as at December 31, 2016 and the consolidated income statement, the consolidated statement of income and expense items accounted under equity, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

The Company's management is responsible for the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to error or fraud in accordance with the Communiqué on Financial Leasing, Factoring and Uniform chart of Accounts which shall be applied by Finance Companies published in Official Gazette dated December 24, 2013 and numbered 28861 and Regulation, Communiqué and Circular on Accounting Policies of Financial Leasing, Factoring and Finance Companies and their Financial Statements and announcements made by the Banking Regulation and Supervision Authority and in accordance with "BRSA Accounting and Financial Reporting Legislation" including provisions of Turkish Accounting Standards except for the matters regulated by the aforementioned regulations.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Yapı Kredi Finansal Kiralama A.O. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with BRSA Accounting and Financial Reporting Legislation.

Other matter

On July 12, 2013, the Company has acquired 19,93% of the capital of Allianz Yaşam ve Emeklilik A.Ş. In the accompanying consolidated financial statements, the Company's investment in its associate is accounted for using the equity method. The audited unconsolidated financial statements and the audit report dated February 1, 2017 is presented separately.

Reports on independent auditor's responsibilities arising from other regulatory requirements

In accordance with Article 402 paragraph 4 of the Turkish Commercial Code ("TCC"); no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period January 1 – December 31, 2016 are not in compliance with the TCC and provisions of the Company's articles of association in relation to financial reporting.

In accordance with Article 402 paragraph 4 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

Additional paragraph for convenience translation into English of financial statements as of December 31, 2016 and independent auditors' report originally issued in Turkish

As explained in detail in Note 2.1.1 to the financial statements, the accompanying financial statements are presented in accordance with regulations, communiqués, interpretations and circulars published by the BRSA on accounting and financial reporting principles. The effects of differences between the accounting principles and standards set out by regulations, communiqués, interpretations and circulars published by the BRSA, and accounting principles generally accepted in the countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

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



February 1, 2017
Istanbul, Turkey

YAPI KREDİ FİNANSAL KİRALAMA A.Ö.

**FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2016**

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YAPI KREDİ FİNANSAL KİRALAMA A.O.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2016

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

ASSETS	Notes	Audited 31 December 2016			Audited 31 December 2015		
		TL	FC	Total	TL	FC	Total
I. CASH BALANCES AND CENTRAL BANKS				-	-	-	-
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT or (LOSS) (Net)	3	1.862	-	1.862	424	-	424
2.1 Trading Financial Assets		-	-	-	-	-	-
2.2 Financial Assets Designated at Fair Value through Profit or (Loss)		-	-	-	-	-	-
2.3 Trading Derivative Financial Assets		1.862	-	1.862	424	-	424
III. BANKS	4	90.277	5.568	95.845	4.955	13.545	18.500
IV. RECEIVABLES FROM REVERSE REPURCHASE AGREEMENTS				-	-	-	-
V. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Net)	5	122	-	122	122	-	122
VI. FACTORING RECEIVABLES				-	-	-	-
6.1 Discounted Factoring Receivables		-	-	-	-	-	-
6.1.1 Domestic		-	-	-	-	-	-
6.1.2 Foreign		-	-	-	-	-	-
6.1.3 Unearned Income (-)		-	-	-	-	-	-
6.2 Other Factoring Receivables		-	-	-	-	-	-
6.2.1 Domestic		-	-	-	-	-	-
6.2.2 Foreign		-	-	-	-	-	-
VII. FINANCE LOANS				-	-	-	-
7.1 Consumer Loans		-	-	-	-	-	-
7.2 Credit Cards		-	-	-	-	-	-
7.3 Commercial Installment Loans		-	-	-	-	-	-
VIII. LEASE RECEIVABLES	10	1.711.558	7.035.753	8.747.311	1.634.838	5.632.104	7.266.942
8.1 Receivables from Leasing Transactions		1.683.754	6.563.629	8.247.383	1.583.954	5.240.885	6.824.839
8.1.1 Financial Lease Receivables	10	2.192.755	7.584.301	9.777.056	2.006.374	6.093.713	8.100.087
8.1.2 Operating Lease Receivables		-	-	-	-	-	-
8.1.3 Unearned Income (-)		509.001	1.020.672	1.529.673	422.420	852.828	1.275.248
8.2 Assets to Be Leased		19.500	228.138	247.638	43.784	201.007	244.791
8.3 Advances Given for Leasing Transactions		8.304	243.986	252.290	7.100	190.212	197.312
IX. OTHER RECEIVABLES				-	-	-	-
X. DOUBTFUL RECEIVABLES	10	36.564	21.650	58.214	30.807	6.614	37.421
10.1 Doubtful Factoring Receivables		-	-	-	-	-	-
10.2 Doubtful Finance Loans		-	-	-	-	-	-
10.3 Doubtful Lease Receivables	10	301.927	33.729	335.656	246.029	33.492	279.521
10.4 Specific Provisions (-)		265.363	12.079	277.442	215.222	26.878	242.100
XI. HEDGING DERIVATIVE FINANCIAL ASSETS				-	-	-	-
11.1 Fair Value Hedge		-	-	-	-	-	-
11.2 Cash Flow Hedge		-	-	-	-	-	-
11.3 Foreign Net Investment Hedge		-	-	-	-	-	-
XII. HELD-TO-MATURITY SECURITIES (Net)				-	-	-	-
XIII. SUBSIDIARIES (Net)				-	-	-	-
XIV. INVESTMENTS IN ASSOCIATES (Net)	13	227.471	-	227.471	207.545	-	207.545
XV. JOINT VENTURES (Net)				-	-	-	-
XVI. PROPERTY AND EQUIPMENT (Net)	11	921	-	921	607	-	607
XVII. INTANGIBLE ASSETS (Net)	12	3.762	-	3.762	3.450	-	3.450
17.1 Goodwill		-	-	-	-	-	-
17.2 Other		3.762	-	3.762	3.450	-	3.450
XVIII. PREPAID EXPENSES	14	44.693	-	44.693	50.986	-	50.986
XIX. TAX ASSETS				-	-	-	-
XX. DEFERRED TAX ASSET	23	69.206	-	69.206	49.916	-	49.916
XXI. OTHER ASSETS	15	29.222	-	29.222	523	-	523
SUB TOTAL		2.215.658	7.062.971	9.278.629	1.984.173	5.652.263	7.636.436
XXII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)		1.880	-	1.880	2.149	-	2.149
22.1 Held for sale		1.880	-	1.880	2.149	-	2.149
22.2 Discontinued Operations		-	-	-	-	-	-
TOTAL ASSETS		2.217.538	7.062.971	9.280.509	1.986.322	5.652.263	7.638.585

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

YAPI KREDİ FİNANSAL KİRALAMA A.O.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2016

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

LIABILITIES	Notes	Audited 31 December 2016			Audited 31 December 2015		
		TL	FC	Total	TL	FC	Total
I. TRADING DERIVATIVE FINANCIAL LIABILITIES	6	21.108	-	21.108	23	-	23
II. BORROWINGS	7	176.262	6.163.424	6.339.686	28.029	4.961.377	4.989.406
III. FACTORING PAYABLES		-	-	-	-	-	-
IV. LEASE PAYABLES		-	-	-	-	-	-
4.1 Financial Lease Payables		-	-	-	-	-	-
4.2 Operating Lease Payables		-	-	-	-	-	-
4.3 Other		-	-	-	-	-	-
4.4 Deferred Financial Lease Expenses (-)		-	-	-	-	-	-
V. MARKETABLE SECURITIES ISSUED (Net)	8	803.382	-	803.382	494.384	-	494.384
5.1 Bills		486.199	-	486.199	317.593	-	317.593
5.2 Asset Backed Securities		-	-	-	-	-	-
5.3 Bonds		317.183	-	317.183	176.791	-	176.791
VI. OTHER PAYABLES	9	11.271	229.348	240.619	39.494	472.136	511.630
VII. OTHER LIABILITIES	20	15.066	42.158	57.224	30.628	40.997	71.625
VIII. HEDGING DERIVATIVE FINANCIAL LIABILITIES		-	-	-	-	-	-
8.1 Fair Value Hedge		-	-	-	-	-	-
8.2 Cash Flow Hedge		-	-	-	-	-	-
8.3 Foreign Net Investment Hedge		-	-	-	-	-	-
IX. TAX AND LIABILITIES PAYABLES	23	1.173	-	1.173	6.822	-	6.822
X. PROVISIONS		70.563	1.346	71.909	59.263	789	60.052
10.1 Restructuring Reserves		-	-	-	-	-	-
10.2 Reserves for Employee Rights	18	2.344	-	2.344	2.145	-	2.145
10.3 Other Provisions	16	68.219	1.346	69.565	57.118	789	57.907
XI. DEFERRED RECEIVABLES		-	-	-	-	-	-
XII. TAX LIABILITY	23	23.207	-	23.207	7.793	-	7.793
XIII. DEFERRED TAX LIABILITY		-	-	-	-	-	-
XIV. SUBORDINATED LOANS		-	-	-	-	-	-
SUB TOTAL		1.122.032	6.436.276	7.558.308	666.436	5.475.299	6.141.735
XV. PAYABLES FOR ASSET HELD FOR SALE AND DISCONTINUED OPERATIONS		-	-	-	-	-	-
15.1 Held for Sale Purpose		-	-	-	-	-	-
15.2 Related to Discontinued Operations		-	-	-	-	-	-
XVI. SHAREHOLDERS' EQUITY		1.722.201	-	1.722.201	1.496.850	-	1.496.850
16.1 Paid-in Capital	19	389.928	-	389.928	389.928	-	389.928
16.2 Capital Reserves		(34.598)	-	(34.598)	(34.598)	-	(34.598)
16.2.1 Share Premium		2	-	2	2	-	2
16.2.2 Share Cancellation Profits		-	-	-	-	-	-
16.2.3 Other Capital Reserves	19	(34.600)	-	(34.600)	(34.600)	-	(34.600)
16.3 Other comprehensive income or expense that will not be reclassified subsequently to profit or loss		39	-	39	39	-	39
16.4 Other comprehensive income or expense that will be reclassified subsequently to profit or loss		-	-	-	-	-	-
16.5 Profit Reserves		1.032.553	-	1.032.553	846.899	-	846.899
16.5.1 Legal Reserves		78.228	-	78.228	78.228	-	78.228
16.5.2 Status Reserves		-	-	-	-	-	-
16.5.3 Extraordinary Reserves		954.325	-	954.325	768.671	-	768.671
16.5.4 Other Profit Reserves		-	-	-	-	-	-
16.6 Income or (Loss)		334.279	-	334.279	294.582	-	294.582
16.6.1 Prior Years' Income or (Loss)		108.928	-	108.928	98.284	-	98.284
16.6.2 Current Period Income or (Loss)		225.351	-	225.351	196.298	-	196.298
TOTAL LIABILITIES AND EQUITY		2.844.233	6.436.276	9.280.509	2.163.286	5.475.299	7.638.585

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

YAPI KREDİ FİNANSAL KİRALAMA A.O.

CONSOLIDATED OFF-BALANCE SHEET ITEMS AS AT DECEMBER 31, 2016

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

Off-balance sheet items		Notes	Audited 31 December 2016			Audited 31 December 2015		
			TL	FC	Total	TL	FC	Total
I	RECOURSE FACTORING		-	-	-	-	-	-
	TRANSACTIONS		-	-	-	-	-	-
II	NON-RECOURSE FACTORING		-	-	-	-	-	-
	TRANSACTIONS		-	-	-	-	-	-
III	GUARANTEES RECEIVED	10	1.211.862	989.810	2.201.672	988.778	831.853	1.820.631
IV	GUARANTEES GIVEN	17	63.889	-	63.889	52.473	-	52.473
V	COMMITMENTS		-	-	-	-	-	-
5.1	Irrevocable Commitments		-	-	-	-	-	-
5.2	Revocable Commitments		-	-	-	-	-	-
5.2.1	Lease Commitments		-	-	-	-	-	-
5.2.1.1	Financial Lease Commitments		-	-	-	-	-	-
5.2.1.2	Operating Lease Commitments		-	-	-	-	-	-
5.2.2	Other Revocable Commitments		-	-	-	-	-	-
VI	DERIVATIVE FINANCIAL		-	-	-	-	-	-
	INSTRUMENTS	17	611.492	627.902	1.239.394	164.619	373.135	537.754
6.1	Hedging Derivative Financial Instruments		-	-	-	-	-	-
6.1.1	Transactions for Fair Value Hedge		-	-	-	-	-	-
6.1.2	Transactions for Cash Flow Hedge		-	-	-	-	-	-
6.1.3	Transactions for Foreign Net Investment Hedge		-	-	-	-	-	-
6.2	Trading Transactions		611.492	627.902	1.239.394	164.619	373.135	537.754
6.2.1	Forward Buy/Sell Transactions		-	-	-	-	-	-
6.2.2	Swap Buy/Sell Transactions		611.492	627.902	1.239.394	164.619	373.135	537.754
6.2.3	Options Buy/Sell Transactions		-	-	-	-	-	-
6.2.4	Futures Buy/Sell Transactions		-	-	-	-	-	-
6.2.5	Other		-	-	-	-	-	-
VII	ITEMS HELD IN CUSTODY		4.377.252	10.450.424	14.827.676	3.624.218	8.009.130	11.633.348
	TOTAL OFF BALANCE SHEET COMMITMENTS		6.264.495	12.068.136	18.332.631	4.830.088	9.214.118	14.044.206

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

YAPI KREDİ FİNANSAL KİRALAMA A.O.

CONSOLIDATED STATEMENT OF INCOME FOR THE PERIOD JANUARY 1 – DECEMBER 31, 2016

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

INCOME AND EXPENSE ITEMS	Notes	Audited 1 January - 31 December 2016	Audited 1 January - 31 December 2015
I. OPERATING INCOME		517.270	438.643
FACTORING INCOME			
1.1 Interest Received from Factoring Receivables		-	-
1.1.1 Discounted		-	-
1.1.2 Other		-	-
1.2 Fees and Commissions Received from Factoring Receivables		-	-
1.2.1 Discounted		-	-
1.2.2 Other		-	-
FINANCE LOAN INCOME			
1.3 Interest Received from Finance Loans		-	-
1.4 Fees and Commissions Received from Finance Loans		-	-
LEASE INCOME		517.270	438.643
1.5 Financial Lease Income		517.255	438.643
1.6 Operating Lease Income		15	-
1.7 Fees and Commissions Received from Lease Transactions		-	-
II. FINANCIAL EXPENSES (-)		(232.679)	(174.157)
2.1 Interest on Funds Borrowed		(163.308)	(138.818)
2.2 Interest on Factoring Payables		-	-
2.3 Financial Lease Expenses		-	-
2.4 Interest on Securities Issued		(69.110)	(33.807)
2.5 Other Interest Expenses		-	-
2.6 Fees and Commissions Given		(261)	(1.532)
III. GROSS PROFIT/LOSS (I-II)		284.591	264.486
IV. OPERATING EXPENSES (-)	21	(37.435)	(35.808)
4.1 Personnel Expenses		(23.303)	(21.960)
4.2 Provision Expenses for Employment Termination Benefits		-	(71)
4.3 Research and Development Expenses		-	-
4.4 General Administration Expenses		(12.932)	(12.098)
4.5 Other		(1.200)	(1.679)
V. OPERATING GROSS PROFIT/LOSS (III+IV)		247.156	228.678
VI. OTHER OPERATING INCOME		185.758	135.214
6.1 Interest Received from Banks		1.878	1.991
6.2 Interest Received from Reverse Repurchase Agreements		-	-
6.3 Interest Received from Marketable Securities Portfolio		-	-
6.3.1 Trading Financial Assets		-	-
6.3.2 Financial Assets at Fair Value through Profit or (Loss)		-	-
6.3.3 Available-for-sale Financial Assets		-	-
6.3.4 Held to Maturity Investments		-	-
6.4 Dividend Income		3	7
6.5 Trading Gains on Securities		67.774	55.827
6.5.1 From Derivative Financial Transactions		67.774	55.827
6.5.2 Other		-	-
6.6 Foreign Exchange Gains		60.932	12.166
6.7 Other	22	55.171	65.223
VII. SPECIFIC PROVISIONS FOR FOLLOW-UP RECEIVABLES (-)	10	(57.262)	(68.972)
VIII. OTHER OPERATING EXPENSES (-)		(105.114)	(56.574)
8.1 Impairment of Marketable Securities		-	-
8.1.1 Impairment of Financial Assets at Fair Value through Profit or (Loss)		-	-
8.1.2 Impairment of Available-for-sale Financial Assets		-	-
8.1.3 Impairment of Held to Maturity Investments		-	-
8.2 Impairment of Fixed Assets		-	-
8.2.1 Impairment of Property and Equipment		-	-
8.2.2 Impairment of Non-current Assets Held for Resale and Discontinued Operations		-	-
8.2.3 Impairment of Goodwill		-	-
8.2.4 Impairment of Other Intangible Non-current Assets		-	-
8.2.5 Loss from impairment of Associates, Subsidiaries and Joint Ventures (business partners)		-	-
8.3 Loss from Derivative Financial Transaction		(101.182)	(52.710)
8.4 Foreign Exchange Loss		-	-
8.5 Other	22	(3.932)	(3.864)
IX. NET OPERATING INCOME/EXPENSE (V+...+VIII)		270.538	238.346
X. SURPLUS WRITTEN AS GAIN AFTER MERGER			
XI. NET MONETARY POSITION GAIN/LOSS			
XII. PROFIT/LOSS BEFORE TAX FROM CONTINUING OPERATIONS (IX+X+XI)		270.538	238.346
XIII. TAXATION ON INCOME FROM CONTINUING OPERATIONS (±)	23	(45.187)	(42.048)
13.1 Current Tax Provision		(64.477)	(53.754)
13.2 Deferred Tax Expense Effect (+)		-	-
13.3 Deferred Tax Income Effect (-)		19.290	11.706
XIV. NET PROFIT/LOSS FROM CONTINUING OPERATIONS (XII±XIII)		225.351	196.298
XV. INCOME FROM DISCONTINUING OPERATIONS (-)			
15.1 Income from Assets Held for Resale		-	-
15.2 Income from Investment and Associates, Subsidiaries and Joint Ventures		-	-
15.3 Other income		-	-
XVI. EXPENSES FROM DISCONTINUING OPERATIONS (-)			
16.1 Expenses from Assets Held for Resale		-	-
16.2 Loss on Investment and Associates, Subsidiaries and Joint Ventures		-	-
16.3 Other Expenses		-	-
XVII. PROFIT/LOSS BEFORE TAX FROM DISCONTINUING OPERATIONS (XV-XVI)			
XVIII. TAXATION ON INCOME FROM DISCONTINUING OPERATIONS (±)			
18.1 Current Tax Provision		-	-
18.2 Deferred Tax Expense Effect (+)		-	-
18.3 Deferred Tax Income Effect (-)		-	-
XIX. NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XVII±XVIII)			
XX. NET PROFIT/LOSSES (XIV+XIX)		225.351	196.298
Earnings/Losses per Share (full TL)	24	0,5779	0,5034

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

YAPI KREDİ FİNANSAL KİRALAMA A.O.

**CONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED
UNDER EQUITY FOR THE PERIOD JANUARY 1 – DECEMBER 31, 2016**

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

		Audited	Audited
	Notes	31 December	31 December
		2016	2015
I. PERIOD INCOME/LOSS		225.351	196.298
II. OTHER COMPREHENSIVE INCOME		-	-
2.1 ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		-	-
2.1.1 Gains/(losses) on revaluation of tangible assets		-	-
2.1.2 Gains/(losses) on revaluation of intangible assets		-	-
2.1.3 Gains/(losses) on remeasurement of defined benefit pension plans		-	-
2.1.4 Other items that will not be reclassified to profit or loss		-	-
2.1.5 Taxation on comprehensive income that will not be reclassified to profit or loss		-	-
2.1.5.1 Tax income/expense		-	-
2.1.5.2 Deferred tax income/expense		-	-
2.2 ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS		-	-
2.2.1 Translation differences for transactions in foreign currencies		-	-
2.2.2 Income/expenses on revaluation or reclassification of available for sale financial assets		-	-
2.2.3 Gains/(losses) from cash flow hedges		-	-
2.2.4 Gains/(losses) from net investment hedges		-	-
2.2.5 Other items that will be reclassified to profit or loss		-	-
2.2.6 Taxation on comprehensive income that will be reclassified to profit or loss		-	-
2.2.6.1 Tax income/expense		-	-
2.2.6.2 Deferred tax income/expense		-	-
III. TOTAL COMPREHENSIVE INCOME (I+II)		225.351	196.298

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

YAPI KREDİ FİNANSAL KİRALAMA A.O.**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD JANUARY 1 – DECEMBER 31, 2016**

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

CHANGES IN EQUITY						Other comprehensive income or expense that will Not be reclassified subsequently to profit or loss						Other comprehensive income or expense that will be reclassified subsequently to profit or loss						THOUSAND TURKISH LIRAS				
	Paid-in Capital	Capital Reserves	Share Premium	Share Cancellation Profits	Other Capital Reserves	1	2	3	4	5	6	Profit Reserves	Legal Reserves	Statuses Reserves	Extraordinary Reserves	Other Profit Reserves	Income or (Loss)	Prior Years' Income or (Loss)	Current Period Net Income or (Loss)	Total equity		
PRIOR PERIOD																						
I. Balances at the beginning of the period	389.928	(34.600)	2	-	-	-	39	-	-	-	-	697.248	78.228	-	619.020	-	247.935	94.883	153.052	1.300.552		
II. Corrections made as per TAS 8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
2.1 Effect of corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
2.2 Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
III. Adjusted balances (I-II)	389.928	(34.600)	2	-	-	-	39	-	-	-	-	697.248	78.228	-	619.020	-	247.935	94.883	153.052	1.300.552		
IV. Total Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
V. Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Capital increase through internal resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
VII. Inflation adjustments to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
VIII. Convertible bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
IX. Subordinated loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
X. Increase/decrease due to other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XI. Current period net profit/loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	196.298	-	196.298	196.298		
XII. Profit distribution	-	-	-	-	-	-	-	-	-	-	-	149.651	(153.052)	-	149.651	-	(149.651)	3.401	(153.052)	-		
12.1 Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
12.2 Transfers to reserves	-	-	-	-	-	-	-	-	-	-	-	149.651	-	-	149.651	-	(149.651)	-	(149.651)	-		
12.3 Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.401	(3.401)	-		
Balance at the end of the period (II+IV+.....+XI+XII)	389.928	(34.600)	2	-	-	-	39	-	-	-	-	846.899	78.228	-	768.671	-	294.582	98.284	196.298	1.496.850		
CURRENT PERIOD																						
I. Balances at the beginning of the period	389.928	(34.600)	2	-	-	-	39	-	-	-	-	846.899	78.228	-	768.671	-	294.582	98.284	196.298	1.496.850		
II. Corrections made as per TAS 8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
2.1 Effect of corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
2.2 Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
III. Adjusted balances (I-II)	389.928	(34.600)	2	-	-	-	39	-	-	-	-	846.899	78.228	-	768.671	-	294.582	98.284	196.298	1.496.850		
IV. Total Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
V. Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Capital increase through internal resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
VII. Inflation adjustments to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
VIII. Convertible bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
IX. Subordinated loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
X. Increase/decrease due to other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XI. Current period net profit/loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	225.351	-	225.351	225.351		
XII. Profit distribution	-	-	-	-	-	-	-	-	-	-	-	185.654	(185.654)	-	185.654	-	(185.654)	10.644	(196.298)	-		
12.1 Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
12.2 Transfers to reserves	-	-	-	-	-	-	-	-	-	-	-	185.654	-	-	185.654	-	(185.654)	-	(185.654)	-		
12.3 Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10.644	10.644	-		
Balance at the end of the period (II+IV+.....+XI+XII)	389.928	(34.600)	2	-	-	-	39	-	-	-	-	1.032.553	78.228	-	954.325	-	334.279	108.928	225.351	1.722.201		

(1) Fixed assets accumulated revaluation gains/losses

(2) Remeasurement of defined benefit plans' accumulated gains/losses

(3) Other (Investments accounted by equity method's accumulated balances of other comprehensive income or expense that will not be reclassified subsequently to profit or loss and other comprehensive income or expense that will be reclassified subsequently to profit or loss),

(4) Foreign currency translation differences

(5) Accumulated revaluation of financial assets available for sale and / or classification gains/losses,

(6) Other (Gains/Losses from cash flow hedge, Investments accounted by equity method's accumulated balances of other comprehensive income or expense that will not be reclassified subsequently to profit or loss and other comprehensive income or expense that will be reclassified subsequently to profit or loss).

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

YAPI KREDİ FİNANSAL KİRALAMA A.O.

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE PERIOD JANUARY 1 – DECEMBER 31, 2016

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

		Audited	Audited
	Notes	31 December 2016	31 December 2015
A. CASH FLOWS FROM OPERATING ACTIVITIES			
1.1 Operating Profit before Changes in Operating Assets and Liabilities		384.476	371.651
1.1.1 Interests Received/ Leasing Income		486.098	406.464
1.1.2 Interests Paid / Leasing Expenses		(198.033)	(158.994)
1.1.3 Leasing Expenses		-	-
1.1.4 Dividend Received	25	19.930	17.144
1.1.5 Fees and Commissions Received		-	2.751
1.1.6 Other Income		149.098	20.569
1.1.7 Collections from Previously Written-off Doubtful Receivables	10	14.361	27.886
1.1.8 Payments to Personnel and Service Suppliers		(23.014)	(22.216)
1.1.9 Taxes Paid	23	49.526	90.898
1.1.10 Other		(113.490)	(12.851)
1.2 Changes in Operating Assets and Liabilities		(608.047)	(692.924)
1.2.1 Net (Increase)/Decrease in Factoring Receivables		-	-
1.2.1 Net (Increase)/Decrease in Finance Loans		-	-
1.2.1 Net (Increase)/Decrease in Lease Receivables	10	(1.525.450)	(2.114.053)
1.2.2 Net (Increase)/Decrease in Other Assets		(22.137)	(5.772)
1.2.3 Net Increase/(Decrease) in Factoring Payables		-	-
1.2.3 Net Increase/(Decrease) in Lease Payables		-	-
1.2.4 Net Increase/(Decrease) in Funds Borrowed		1.329.423	1.284.357
1.2.5 Net Increase/(Decrease) in Due Payables		-	-
1.2.6 Net Increase/(Decrease) in Other Liabilities		(389.883)	142.544
I. Net Cash Used in Operating Activities		(223.571)	(321.273)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
2.1 Acquisition of Investments, Associates and Subsidiaries		-	-
2.2 Disposal of Investments, Associates and Subsidiaries		-	-
2.3 Purchases of Property and Equipment	11	(523)	(210)
2.4 Disposals of Property and Equipment		-	-
2.5 Purchase of Investments Available-for-sale		-	-
2.6 Sale of Investments Available-for-sale		-	-
2.7 Purchase of Investment Securities Held to Maturity		-	-
2.8 Sale of Investment Securities Held to Maturity		-	-
2.9 Other		(1.878)	(1.776)
II. Net Cash (Used in)/Provided from Investing Activities		(2.401)	(1.986)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
3.1 Cash Obtained from Funds Borrowed and Securities Issued		888.110	612.573
3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued		(592.640)	(298.070)
3.3 Issued Capital Instruments		-	-
3.4 Dividends Paid		-	-
3.5 Payments for Finance Leases		-	-
3.6 Other		-	-
III. Net Cash (Used in)/Provided from Financing Activities		295.470	314.503
IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents		7.771	9.780
V. Net Increase/(Decrease) in Cash and Cash Equivalents		77.269	1.024
VI. Cash and Cash Equivalents at Beginning of the Period	4	18.499	17.475
VII. Cash and Cash Equivalents at End of the Period	4	95.768	18.499

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

YAPI KREDİ FİNANSAL KİRALAMA A.O.

PROFIT DISTRIBUTION TABLE FOR THE PERIOD JANUARY 1 – DECEMBER 31, 2016

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

		THOUSAND TURKISH LIRA	
		Current Period (31/12/2016) (*)	Prior Period (31/12/2015)
I.	DISTRIBUTION OF CURRENT PERIOD PROFIT (**)		
1.1	CURRENT PERIOD PROFIT	250.612	227.702
1.2	TAXES AND DUES PAYABLE (-)	45.187	42.048
1.2.1	Corporate Tax (Income Tax)	64.477	53.754
1.2.2	Withholding Tax	-	-
1.2.3	Other taxes and dues (***)	19.290	11.706
A.	NET PERIOD PROFIT (1.1-1.2)	205.425	185.654
1.3	PRIOR YEARS LOSSES (-)		
1.4	FIRST LEGAL RESERVE (-)		
1.5	OTHER STATUTORY RESERVES NEEDED TO BE KEPT IN THE COMPANY (-)		
B	DISTRIBUTABLE NET PERIOD PROFIT [(A-1.3-1.4-1.5)]	205.425	185.654
1.6	FIRST DIVIDEND TO SHAREHOLDERS (-)	-	-
1.6.1	To Owners of Ordinary Shares	-	-
1.6.2	To Owners of Preferred Stocks	-	-
1.6.3	To Owners of Preferred Stocks (Preemptive Rights)	-	-
1.6.4	To Profit Sharing Bonds	-	-
1.6.5	To Owners of the profit /loss Sharing Certificates	-	-
1.7	DIVIDEND TO PERSONNEL (-)	-	-
1.8	DIVIDEND TO BOARD OF DIRECTORS (-)	-	-
1.9	SECOND DIVIDEND TO SHAREHOLDERS (-)	-	-
1.9.1	To Owners of Ordinary Shares	-	-
1.9.2	To Owners of Preferred Stocks	-	-
1.9.3	To Owners of Preferred Stocks (Preemptive Rights)	-	-
1.9.4	To Profit Sharing Bonds	-	-
1.9.5	To Owners of the profit /loss Sharing Certificates	-	-
1.10	SECOND LEGAL RESERVE (-)	-	-
1.11	STATUS RESERVES (-)	-	-
1.12	EXTRAORDINARY RESERVES	-	-
1.13	OTHER RESERVES	-	-
1.14	SPECIAL FUNDS	-	-
II.	DISTRIBUTION FROM RESERVES	-	-
2.1	DISTRIBUTED RESERVES	-	-
2.2	SECOND LEGAL RESERVES (-)	-	-
2.3	SHARE TO SHAREHOLDERS (-)	-	-
2.3.1	To Owners of Ordinary Shares	-	-
2.3.2	To Owners of Preferred Stocks	-	-
2.3.3	To Owners of Preferred Stocks (Preemptive Rights)	-	-
2.3.4	To Profit Sharing Bonds	-	-
2.3.5	To Owners of the profit /loss Sharing Certificates	-	-
2.4	SHARE TO PERSONNEL (-)	-	-
2.5	SHARE TO BOARD OF DIRECTORS (-)	-	-
III.	EARNINGS PER SHARE	-	-
3.1	TO OWNERS OF STOCKS (TL)	0,5268	0,4761
3.2	TO OWNERS OF STOCKS (%)	52,68%	47,61%
3.3	TO OWNERS OF PREFERRED STOCKS (TL)	-	-
3.4	TO OWNERS OF PREFERRED STOCKS (%)	-	-
IV.	DIVIDEND PER SHARE		
4.1	TO OWNERS OF STOCKS (TL)	-	-
4.2	TO OWNERS OF STOCKS (%)	-	-
4.3	TO OWNERS OF PREFERRED STOCKS (TL)	-	-
4.4	TO OWNERS OF PREFERRED STOCKS (%)	-	-

(*) Since the profit distribution decision has not yet been approved by the Board of Directors, the profit has only been disclosed as distributable profit for the year 2016.

(**) The profit distribution table has been prepared from unconsolidated financial statements of the Company.

(***) Per the Banking Regulation and Supervision Agency, income associated with deferred tax assets shall not be considered as cash or internally generated source and accordingly such amounts taking part of net period profit shall not be included in profit distribution and capital increase. As of December 31, 2016 the Company has deferred tax income amounting TL 19.290 associated with the deferred tax asset (December 31, 2015: 11.706).

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

YAPI KREDİ FİNANSAL KİRALAMA A.O.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016

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

1 - ORGANISATION AND PRINCIPAL ACTIVITIES

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 by law number 6361 issued at December 13, 2012.

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. which is under the common control of 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.

The Board of Directors has approved the publication of consolidated financial statements of the Company on February 1, 2017.

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 BASIS OF PRESENTATION

2.1.1 Accounting standards

The Company maintains its books of account and prepares its consolidated financial statements in thousands of Turkish Lira (“TL”) in accordance with the communiqué “Uniform Chart of Accounts, Disclosures and Form and Nature of Financial Statements to be Issued By Leasing, Factoring and Consumer Finance Companies”(“Financial Statement’s Communiqué”) issued by the Banking Regulation and Supervision Agency (“BRSA”) in the Official Gazette dated 24 December 2014, numbered 28861; and in accordance with Turkish Accounting Standards/Turkish Financial Reporting Standards (“TAS/IFRS”) and their additions and comments issued by the Public Oversight Accounting and Auditing Standards’ Authority (“POA”). Leasing, factoring and consumer finance companies have to prepare and present their financial statements based on the format determined for such companies by the BRSA.

The consolidated financial statements have been prepared on historical cost basis except for the derivative financial instruments which are measured at fair market value. The Company’s investment in its associate is accounted for using the equity method.

YAPI KREDİ FİNANSAL KİRALAMA A.Ö.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Additional paragraph for convenience translation into English

The differences between accounting principles, as described in the preceding paragraphs, and accounting principles generally accepted in countries in which these financial statements are to be distributed and International Financial Reporting Standards (“IFRS”) have not been quantified in these financial statements. Accordingly, these financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

2.1.2 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.1.3 Going concern

The Company prepared its financial statements considering the going concern principal.

2.1.4 Currency used

Financial statements of the Company have been presented using the currency (functional currency) of the economic environment in which the Company operates. Financial position and the results of operations of the Company have been presented in Turkish Lira (“TL”) the current currency of the Company.

2.1.5 Consolidation Principles

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.

YAPI KREDİ FİNANSAL KİRALAMA A.O.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date. 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.

2.2. CHANGES IN ACCOUNTING POLICIES

2.2.1 Changes in accounting policies

Changes in accounting policies regarding the first time application of a new TAS/IFRS is applied based on the first time application requirements of the relevant TAS/IFRS, if any, otherwise changes in accounting policies are applied retrospectively and the prior period financial statements are restated accordingly. There is no major change in the accounting policies of the Company in the current year.

2.2.2 Change in accounting estimates and errors

The effect of a change in an accounting estimate is recognised prospectively in the period of the change, if the change affects that period only; or the period of the change and future periods, if the change affects both. There has not been any significant change in the accounting estimates of the Company in the current year. Material prior period errors are corrected retrospectively by restating the comparative amounts for the prior periods.

YAPI KREDİ FİNANSAL KİRALAMA A.O.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2.3 Amendments in standards and interpretations

New and amended standards and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2016 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of January 1, 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 January 1, 2016 are as follows:

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

TFRS 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 requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in TFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in TFRS 3 and other TFRSs except for those principles that conflict with the guidance in this TFRS. In addition, the acquirer shall disclose the information required by TFRS 3 and other TFRSs for business combinations. The amendments did not have an impact on the financial position or performance of the Company.

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

The amendments to TAS 16 and TAS 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.

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

TAS 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 TAS 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 TAS 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.

YAPI KREDİ FİNANSAL KİRALAMA A.O.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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

Public Oversight Accounting and Auditing Standards Authority (POA) of Turkey issued an amendment to TAS 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 TAS 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.

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

Amendments issued to TFRS 10 and TAS 28, to address the acknowledged inconsistency between the requirements in TFRS 10 and TAS 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 TFRS 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. The amendment is not applicable for the Company and did not have an impact on the financial position or performance of the Company.

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

Amendments issued to TFRS 10, TFRS 12 and TAS 28, to address the issues that have arisen in applying the investment entities exception under TFRS 10 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.

TAS 1: Disclosure Initiative (Amendments to TAS 1)

The amendments issued to TAS 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.

YAPI KREDİ FİNANSAL KİRALAMA A.O.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Annual Improvements to TFRSs - 2012-2014 Cycle

POA issued, Annual Improvements to TFRSs 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

The amendment did not have significant 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 consolidated financial statements are as follows. The Company will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

TFRS 15 Revenue from Contracts with Customers

In September 2016, POA issued TFRS 15 Revenue from Contracts with Customers. The new standard issued includes the clarifying amendments to IFRS 15 made by IASB in April 2016. 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). TFRS 15 effective date is January 1, 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 / the Group does not expect that the standard will have significant impact on the financial position or performance of the Company / the Group because contracts with customers in which the sale of goods is generally expected to be the only performance obligation thus are not expected to have any impact on the performance of the Company / the Group. Besides, currently trade discounts and volume rebates can be reliably measured on a quarterly basis accordingly they are recognised at annual and interim financial statements. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

YAPI KREDİ FİNANSAL KİRALAMA A.O.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

TFRS 9 Financial Instruments

In January 2016, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 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, TFRS 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. TFRS 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.

iii) The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA)

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of TFRS. The Company will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

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

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.

Annual Improvements - 2010–2012 Cycle

IFRS 13 Fair Value Measurement

As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Annual Improvements – 2011–2013 Cycle

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.

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 January 1, 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 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 January 1, 2017 with earlier application permitted. When the Company 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.

YAPI KREDİ FİNANSAL KİRALAMA A.Ö.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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 amendment are not applicable for the Company and will not have an impact on the financial position or performance of the Company.

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:

- 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
- 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 amendment 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.

YAPI KREDİ FİNANSAL KİRALAMA A.O.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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.

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.

YAPI KREDİ FİNANSAL KİRALAMA A.O.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of cash on hand, deposits at banks and highly liquid investments with maturity periods of less than three months and that are not subject to significant change in value (Note 4).

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 ("UCT") and Koç Holding A.Ş. group companies are considered and referred to as related parties (Note 25).

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

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

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

YAPI KREDİ FİNANSAL KİRALAMA A.O.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Financial Leases

(i) *As lessor*

Assets which are subject to leasing transactions are presented as a receivable which equals to the investment amount made for the related leasing transactions. Interest income is recognised over the term of the lease using the net investment method, which reflects a periodic constant rate of return. The income which is not accrued yet is booked as unearned finance income. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

(ii) *As lessee*

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Capitalized leased assets are depreciated over the estimated useful life of the asset.

Allowances for impairment of lease receivables

The lease receivables provision for the impairment of investments in direct finance leases is established based on a credit review of the receivables portfolio. The Company has set this provision in accordance with the Regulation of Financial Statements. According to the Regulation, specific provisions are set in following proportions: minimum 20% for collateralized lease receivables for which related collections are delayed between 150 and 240 days, minimum 50% for collateralized lease receivables for which related collections are delayed between 240 and 360 day and 100% for collateralized lease receivables for which related collections are delayed more than 1 year.

In accordance with the related Regulation, the Company also recognizes specific provision even if the overdue days are less than the days stated above or receivables are not overdue at all, by taking into account all the existing data regarding the creditor and based on the principals of reliability and prudence as indicated in the Communiqué about Preparation and Presentation of Financial Statements published in the Official Gazette dated 16 May 2005, numbered 25702.

In the Regulation of Financial Statements, it is stated that although it is not mandatory, a general provision which is not related to a specific transaction can be recognised for the losses arising from the principal or interest of lease receivables that are not over due or overdue less than 150 days but the amount of loss is not certain. In accordance with the Communiqué of Provisions, the Company sets a general provision for the lease receivables that have not been considered as doubtful yet.

Finance lease receivables and accounts receivables that cannot be recovered are written off and charged against the allowance for the impairment of lease and accounts receivables. Such receivables are written off after all the necessary legal proceedings have been completed and the amount of loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction from the provision for the impairment of the lease receivable and are recognized as income.

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Investment securities

Investment securities are classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Available-for-sale securities are initially recognised at their acquisition cost plus transaction costs which in total is considered as the fair value of these securities as of the acquisition date. Available-for-sale investments are subsequently re-measured at fair value based on quoted bid prices, or 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 shareholders' equity, unless there is a permanent decline in the fair values of such assets, in which case they are charged to the income statement. When the securities are disposed of, the related accumulated fair value adjustments are transferred to the income statement. The unlisted equity securities are valued at their cost (Note 5) minus impairments.

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 December 31, 2015 assets held for sale are stated at their book values.

Interest income and expense

Interest income and expenses are recognised in the income statement using effective interest method on an accrual basis.

Foreign exchange transactions

Transactions denominated in foreign currencies are accounted for 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 recognised in the income statement. Such balances are translated at period-end exchange rates.

Property and equipment

All property and equipment is carried at cost, restated equivalent to purchasing power at 31 December 2004, less depreciation. Depreciation is calculated on the restated amounts of property and equipment using the straight-line method over its estimated useful life as follows:

Furniture and fixtures	5-10 years
Machinery, equipment and installations	6 years
Leasehold improvements	shorter of rental period or useful life

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on the disposal of premises and equipment are determined in reference to their carrying amounts and are taken into account in determining operating profit.

Intangible assets

Intangible assets are measured at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical costs after the deduction of accumulated depreciation and the provision for value decreases. Intangible assets are amortised on a straight-line basis over 3-5 years.

Subsidiaries

The associate has significant effect on the Company. Significant effect is the participation power to investment in associate’s financial and operational policy decisions; however it is not a control or joint control over these policies.

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

Employment termination benefits

Obligations related to employee termination and vacation rights are accounted for in accordance with “International Accounting Standard for Employee Rights” (“TAS 19”) and are classified under “provision for employee benefits” account in the balance sheet.

Under the Turkish Labour Law, the Company is required to pay a specific amount to the employees who have retired or whose employment is terminated other than for the reasons specified in the Turkish Labour Law. Employment termination benefits represent the estimated present value of the total reserve of the future probable obligation of the Company arising in the case of the retirement of the employees calculated in accordance with the this Law (Note 18). The actuarial gain and losses occurred after 1 January 2013 have been recognized under equity in accordance with revised TAS 19 standard.

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.

Taxation on income

Corporate income tax

Corporate income tax is calculated according to the Tax Procedural Law, and tax expenses except corporate income tax are recognised in operating expenses.

Current tax assets and liabilities related to income taxes levied by the same taxation authority are offset accordingly.

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Deferred tax

The Company calculates and accounts for deferred income taxes for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with “Turkish Accounting Standard for Income Taxes” (“TAS 12”) and the related declarations of the BRSA concerning this standard. In the deferred tax calculation, in accordance with the tax legislation, the tax rate enacted as of the balance sheet date is used.

The main temporary differences comprise of unused investment allowances, the differences between the tax value and carrying value of lease receivables, valuation differences of derivative instruments and property and equipment, and provision for impairment of receivables (Note 23).

Deferred tax assets or deferred tax liabilities are recognized at the estimated amount that they will increase or decrease future tax payable in the periods where temporary differences will disappear. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised (Note 23).

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation, when devaluation is being crucial. The increase in the provision due to passage of time is recognised as interest expense.

Contingent liabilities and assets

Contingent liabilities which do not have high possibility of outflow of resources are not recognised in financial statements but disclosed in notes. Contingent assets which have high possibility of economic inflow are disclosed in notes and not recognized in financial statements.

Share capital and dividends

Ordinary shares are classified as capital. Dividends on ordinary shares are recognised in the period in which they are declared.

Finance lease income (Sales income)

Initial value of the assets which are subject to leasing transaction is recognised as leasing receivables in the balance sheet. The excess of aggregate contract lease rentals, over the original cost of related equipment, represents the total revenue to be recognised over the term of the lease. The revenue is recognised in order to provide a constant periodic rate of return on the net investment remaining in each lease.

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

2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Recognition of income and expense

Income and expenses are recognised on an accrual basis.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at fair value and are subsequently re-measured at their fair value. The Company's derivative transactions, even though providing effective economic hedges under the Company's risk management position, do not qualify for hedge accounting and are therefore classified as Trading Derivative Assets/Liabilities in the financial statements. The fair value gains and losses from these derivative transactions are recognised in income statement as other operating income/expense.

Fair values of forward foreign exchange contracts are determined based on the discounted cash flows.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities are borrowings and are initially recognised at their fair values less transaction costs that are directly attributable to the issue of the financial liability. Other financial liabilities are subsequently measured at amortized cost using the effective interest method and the interest expense recognized on an effective yield basis.

Trading derivative financial liabilities are derivative instruments which are not subject to hedge accounting under TAS 39.

Earnings per share

Earnings per share disclosed in the statements of income is determined by dividing the profit attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue 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 revaluation fund. 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. (Note 24).

Subsequent events

Certain subsequent events (events which require adjustments) that provides with additional information regarding the position of Company as at balance sheet date are recognised in the financial statements. Events that do not require adjustment are presented at the notes to these financial statements, if they have a certain level of importance.

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 SIGNIFICANT ACCOUNTING EVALUATIONS, ESTIMATES AND ASSUMPTIONS

Preparation of the financial statements requires estimates and judgments about the reported amount of assets and liabilities or contingent assets and liabilities and reported amount of income and expenses of the related period. Such estimates and judgments are based on the Company's best estimates regarding current events and transactions, however, the actual results may differ from these estimates.

These estimates are being reviewed regularly and, when necessary, corrections are made and the effects of these corrections are reflected to the income statement in the period in which the correction is made and in the following periods those are affected by these corrections.

Significant estimates and judgments made during the preparation of these financial statements are as follows:

- Impairment of available for sale assets (Note 5)
- Specific and general loan loss provisions recognized for the leasing receivables (Note 10, 16)
- Provisions with respect to the legal cases (Note 16)
- Deferred tax asset (Note 23)
- Employment termination benefits (Note 18)

3 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2016	31 December 2015
Trading derivative financial assets	1.862	424
Derivative financial instruments fair value differences	1.862	424

4 - BANKS

	31 December 2016	31 December 2015
Due from banks		
- demand deposits	10.918	7.961
- time deposits	84.927	10.539
	95.845	18.500

For the purposes of cash flow statements, cash and cash equivalents comprise:

	31 December 2016	31 December 2015
Due from banks	95.845	18.500
Accrued interest	(77)	(1)
	95.768	18.499

As of 31 December 2016, the Company has no blocked deposits (31 December 2015 - None).

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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4 - BANKS (Continued)

Demand deposits:

	31 December 2016	31 December 2015
	Amount (TL equivalent)	Amount (TL equivalent)
TL	5.350	1.255
EUR	4.519	3.840
USD	525	2.770
CHF	472	91
JPY	45	-
GBP	7	5
Total	10.918	7.961

Time deposits:

31 December 2016				31 December 2015		
		Amount (TL Equivalent)	Per-annum rate (%)		Amount (TL Equivalent)	Per-annum rate (%)
	Maturity			Maturity		
TL	January 2, 2017	84.927	8,5%-11,35%	January 4, 2016	3.700	9,5%
EUR	-	-	-	January 4, 2016	5.879	3%
USD	-	-	-	January 4, 2016	960	3%
Total		84.927			10.539	

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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5 - FINANCIAL ASSETS AVAILABLE FOR SALE (NET)

	31 December 2016	31 December 2015
Available-for-sale financial assets (carried at cost)	122	122

Available-for-sale financial assets at 31 December 2016 and 2015 are as follows:

Company	31 December 2016		31 December 2015	
	Amount	Share (%)	Amount	Share (%)
Yapı Kredi Bank Moscow	1.928	<1	1.928	<1
Yapı Kredi Bank Azerbaijan Closed Joint Stock Company	91	<1	91	<1
Yapı Kredi Yatırım Menkul Değerler A.Ş.	14	<1	14	<1
Koç Kültür Sanat ve Tanıtım Hizmetleri A.Ş.	10	4,9	10	4,9
Yapı Kredi Faktoring A.Ş.	7	<1	7	<1
	2.050		2.050	
Less: Provision for impairment (-)	(1.928)		(1.928)	
	122		122	

6 - TRADING DERIVATIVE FINANCIAL LIABILITIES

	31 December 2016	31 December 2015
Derivative financial instruments fair value differences	21.108	23
	21.108	23

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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7 - BORROWINGS

	31 December 2016			31 December 2015		
	Effective interest rate (%)	Original currency	TL	Effective interest rate (%)	Original currency	TL
Domestic banks:						
Fixed rate borrowings:						
- EUR	2,5%	115.578	428.782	2,2%	112.055	356.065
- USD	3,6%	86.280	303.637	2,8%	101.067	293.862
- TL	11,8%	176.262	176.262	13,5%	8.006	8.006
Floating rate borrowings:						
- USD	3,7%	60.384	212.504	3,2%	9.017	26.217
- EUR	2,2%	32.803	121.696	2,3%	49.864	158.447
			1.242.881			842.597
Foreign banks:						
Fixed rate borrowings:						
-EUR	2,7%	338.133	1.254.440	2,8%	157.837	501.543
-USD	4,0%	78.546	276.420	3,1%	78.198	227.368
-TL	-	-	-	14,0%	20.023	20.023
-CHF	1,2%	4.340	14.951	1,2%	5.328	15.598
Floating rate borrowings:						
-EUR	2,2%	696.119	2.582.533	2,3%	768.386	2.441.623
-USD	3,4%	247.469	870.892	3,0%	298.263	867.229
-CHF	0,6%	28.319	97.569	0,7%	25.079	73.425
			5.096.805			4.146.809
Total borrowings			6.339.686			4.989.406

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7 – BORROWINGS (Continued)

	31 December 2016	31 December 2015
Short term borrowings	176.262	28.029
Short term portion of long term borrowings	3.586.534	2.114.982
Total short term financial liabilities	3.762.796	2.143.011
Long term borrowings	2.576.890	2.846.395
Total long term financial liabilities	2.576.890	2.846.395
Total financial liabilities	6.339.686	4.989.406

Maturities of the financial liabilities are as follows:

	31 December 2016	31 December 2015
To be paid in 1 year	3.762.796	2.143.011
To be paid in 1-2 years	648.411	2.183.929
To be paid in 2-3 years	990.028	234.093
To be paid in 3-4 years	679.168	167.594
To be paid in 4-5 years	127.360	149.615
To be paid in 5-6 years	54.181	67.370
To be paid in 6-7 years	38.184	23.494
To be paid after 7 years	39.558	20.300
	6.339.686	4.989.406

8. SECURITIES ISSUED

	31 December 2016	31 December 2015
Securities issued	803.382	494.384
	803.382	494.384

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

8. SECURITIES ISSUED (Continued)

Securities issued as of December 31, 2016;

Securities	Nominal Amount	Currency	Date of Issue	Maturity Date	Simple Interest	Compound Interest	Interest
Bond	127.000.000	TL	August 5, 2016	August 3, 2018	10,99%	11,44%	Floating
Bill	120.000.000	TL	September,9 2016	March 6, 2017	10,61%	10,90%	Fixed
Bill	117.600.000	TL	July 19, 2016	January 13, 2017	10,52%	10,80%	Fixed
Bill	100.000.000	TL	December 23,2016	June 20, 2017	11,00%	11,31%	Fixed
Bill	95.000.000	TL	December 1, 2016	May 26, 2017	10,61%	10,90%	Fixed
Bond	83.000.000	TL	April,26 2016	April 24, 2018	10,55%	10,96%	Floating
Bill	65.000.000	TL	January 11,2016	January 9, 2017	12,45%	12,45%	Fixed
Bond	48.000.000	TL	June 7, 2016	June 5, 2018	12,23%	12,81%	Floating
Bond	39.500.000	TL	December11,2015	December 8, 2017	11,95%	12,48%	Floating

Securities issued as of December 31, 2015;

Securities	Nominal Amount	Currency	Date of Issue	Maturity Date	Simple Interest	Compound Interest	Interest
Bill	128.400.000	TL	December 11, 2015	June 7, 2016	11,54%	11,88%	Fixed
Bill	125.000.000	TL	November 10, 2015	April 29, 2016	11,23%	11,57%	Fixed
Bond	120.000.000	TL	August 8, 2014	August 5, 2016	11,23%	11,70%	Floating
Bill	75.000.000	TL	July 23, 2015	January 18, 2016	10,59%	10,88%	Fixed
Bond	39.500.000	TL	December 11, 2015	December 8, 2017	12,03%	12,59%	Floating
Bond	15.000.000	TL	November 10, 2015	November 7, 2017	11,27%	11,75%	Floating

9 - OTHER PAYABLES

Other payables 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 240.619 is shorter than 1 year.
(December 31, 2015: TL 511.630)

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

10 - LEASING TRANSACTIONS AND OVERDUE RECEIVABLES

	31 December 2016	31 December 2015
Lease receivables	9.741.549	8.063.505
Invoiced lease receivables	35.507	36.582
Gross lease receivables	9.777.056	8.100.087
Unearned interest income	(1.529.673)	(1.275.248)
Lease receivables	8.247.383	6.824.839
Overdue lease receivables	335.656	279.521
Provision for impaired lease receivables - Specific provisions	(277.442)	(242.100)
Overdue lease receivables, net	58.214	37.421
Provision for impaired lease receivables - Watch list provisions (Note 16)	(2.858)	(1.907)
Provision for impaired lease receivables - General provisions (Note 16)	(39.409)	(32.801)
Lease receivables, net	8.263.330	6.827.552
Receivables from leasing transactions	8.247.383	6.824.839
Assets to be leased	247.638	244.791
Advances given for leasing transactions	252.290	197.312
Total receivables from leasing transactions	8.747.311	7.266.942

As of December 31, 2016 and 2015, finance lease receivables can be analysed according to their interest types as follows:

	31 December 2016	31 December 2015
Fixed rate	9.343.349	7.896.101
Floating rate	398.200	167.404
	9.741.549	8.063.505

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

10 - LEASING TRANSACTIONS AND OVERDUE RECEIVABLES (Continued)

The maturity of finance lease receivables is as follows:

Period End	Lease Receivables	
	Gross	Net
	31 December 2016	31 December 2016
31 December 2017	2.875.288	2.345.534
31 December 2018	2.276.691	1.864.282
31 December 2019	1.799.878	1.541.490
31 December 2020	1.119.464	972.541
31 December 2021	712.957	627.005
31 December 2022 and over	992.778	896.531
	9.777.056	8.247.383

Period End	Lease Receivables	
	Gross	Net
	31 December 2015	31 December 2015
31 December 2016	2.301.663	1.879.776
31 December 2017	1.796.160	1.435.643
31 December 2018	1.384.528	1.172.906
31 December 2019	1.081.600	949.432
31 December 2020	685.212	612.123
31 December 2021 and over	850.924	774.959
	8.100.087	6.824.839

Net finance lease receivables can be analysed as follows:

	31 December 2016	31 December 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
	8.583.039	7.104.360
(Less) allowance for impairment	(319.709)	(276.808)
Net finance lease receivables	8.263.330	6.827.552

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

10 - LEASING TRANSACTIONS AND OVERDUE RECEIVABLES (Continued)

At December 31, 2016, collaterals of TL 12.672 (December 31, 2015: TL 17.530) were obtained for the doubtful finance lease receivables amounting to TL 335.656 (December 31, 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) in accordance with the terms determined in the Regulation of Financial statements.

The aging of finance lease receivables past due but not impaired is as follows:

	31 December 2016		31 December 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
More than 60 days	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 invoiced lease receivables is followed-up by the Company through the watch list. Remaining principal amount of the same lease receivables amounting to TL 267.654 is also followed-up through the watch list (December 31, 2015 - TL 17.978 invoiced amount, TL 162.040 remaining principal).

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

	31 December 2016			31 December 2015		
	Invoiced Amount	Remaining Principal	Total Amount	Remaining Principal	Invoiced Amount	Total Principal
3 – 12 months	9.014	48.647	57.661	5.763	22.394	28.157
1 year and more	125.420	152.575	277.995	112.586	138.778	251.364
	134.434	201.222	335.656	118.349	161.172	279.521

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

10 - LEASING TRANSACTIONS AND OVERDUE RECEIVABLES (Continued)

Movements in provision for doubtful lease receivables are as follows:

	31 December 2016	31 December 2015
1 January	276.808	235.721
Provision for impairment	57.262	68.972
Recoveries of amounts previously provided for (Note 22)	(14.361)	(27.263)
Write-off	-	(622)
31 December	319.709	276.808

As of December 31, 2016, total collaterals from the Company's customers for their outstanding exposures are TL 2.201.672 (December 31, 2015 - TL 1.820.631). The Company does not include collaterals that exceed the risk amounts in its risk reporting. The Company's collateral list which is prepared by this way is as follows:

	31 December 2016	31 December 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

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

10 - LEASING TRANSACTIONS AND OVERDUE RECEIVABLES (Continued)

As of December 31, 2016 lease receivables amounting to TL 176.389 (December 31, 2015: TL 91.888) have been restructured and they are followed-up through the watch list by the Company.

Industrial concentration for the gross finance lease receivables as of December 31, 2016 and December 31, 2015 are as follows:

	31 December 2016	%	31 December 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.

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. Assets related to these contracts may be re-leased to the same customer or to the other customers or; may be sold to the third parties, depending upon circumstances.

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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11 - PROPERTY AND EQUIPMENT

	1 January 2016	Additions	Disposals	31 December 2016
Cost				
Furniture and fixtures	543	36	-	579
Leasehold improvements	661	286	-	947
Machinery, equipment and installations	1.583	201	-	1.784
	2.787	523	-	3.310
Accumulated depreciation				
Furniture and fixtures	(503)	(13)	-	(516)
Leasehold improvements	(452)	(70)	-	(522)
Machinery, equipment and installations	(1.225)	(126)	-	(1.351)
	(2.180)	(209)	-	(2.389)
Net book value	607			921

	1 January 2015	Additions	Disposals	31 December 2015
Cost				
Furniture and fixtures	522	21	-	543
Leasehold improvements	575	86	-	661
Machinery, equipment and installations	1.480	103	-	1.583
	2.577	210	-	2.787
Accumulated depreciation				
Furniture and fixtures	(471)	(32)	-	(503)
Leasehold improvements	(351)	(101)	-	(452)
Machinery, equipment and installations	(1.069)	(156)	-	(1.225)
	(1.891)	(289)	-	(2.180)
Net book value	686			607

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

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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12 - INTANGIBLE ASSETS

	1 January 2016	Additions	Disposals	31 December 2016
Cost				
Rights	11.791	1.878	-	13.669
	11.791	1.878	-	13.669
Accumulated amortisation				
Rights	(8.341)	(1.566)	-	(9.907)
	(8.341)	(1.566)	-	(9.907)
Net book value	3.450			3.762
	1 January 2015	Additions	Disposals	31 December 2015
Cost				
Rights	10.015	1.776	-	11.791
	10.015	1.776	-	11.791
Accumulated amortisation				
Rights	(6.625)	(1.716)	-	(8.341)
	(6.625)	(1.716)	-	(8.341)
Net book value	3.390			3.450

13 – ASSOCIATES

	31 December 2016		31 December 2015	
Company name	Amount	Share (%)	Amount	Share (%)
Allianz Yaşam ve Emeklilik A.Ş.	227.471	19,93	207.545	19,93
	227.471		207.545	

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 Allianz Yaşam ve Emeklilik A.Ş. for full TL 188.107.812 on July 12, 2013. The Company's investment in its associate "Allianz Yaşam ve Emeklilik A.Ş." is accounted for using the equity method.

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

14 – PREPAID EXPENSES

	31 December 2016	31 December 2015
Financing expenses	34.351	40.260
Insurance expenses	8.408	10.107
Administration expenses	1.934	619
	44.693	50.986

15 - OTHER ASSETS

	31 December 2016	31 December 2015
Deductible VAT	28.754	-
Other	468	523
	29.222	523

16 - OTHER PROVISIONS

	31 December 2016	31 December 2015
General provision for lease receivables (Note 10)	39.409	32.801
Provision for legal proceedings	19.898	15.967
RUSF and provision regarding registered assets subject to financial leasing	3.913	4.146
Watch list provision for lease receivables (Note 10)	2.858	1.907
Expense accruals	1.147	836
Provision for personnel bonuses	2.340	2.250
	69.565	57.907

Legal cases against the Company:

The Company has provided for a total provision of TL 19.898 against certain pending legal cases as of December 31, 2016 (December 31, 2015: TL 15.967).

The movement of provisions for legal proceedings for the period ending December 31, 2016 and 2015 is as follows:

	31 December 2016	31 December 2015
1 January	15.967	12.393
Paid	-	(3)
Current period provision (Note 22)	3.931	3.577
31 December	19.898	15.967

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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17 - COMMITMENTS

Derivative instruments:

	31 December 2016		31 December 2015	
	Nominal Original currency	Nominal TL	Nominal Original currency	Nominal 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

	31 December 2016		31 December 2015	
	Nominal Original currency	Nominal TL	Nominal Original currency	Nominal TL
Forward currency sales				
USD	173.050	608.997	92.301	268.432
EUR	4.200	15.582	-	-
		624.579		268.432
		1.239.394		537.754

Guarantee letters given:

The Company has given TL 63.889 of total guarantee letters given (December 31, 2015 - TL 50.795) to courts, banks and customs.

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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18 – RESERVE FOR EMPLOYEE TERMINATION BENEFITS

	31 December 2016	31 December 2015
Provision for unused vacation	1.561	1.362
Provision for employment termination benefits	783	783
	2.344	2.145

The provision for employment termination benefits is provided for as explained below:

Under the Turkish Labour Law, the Company is required to pay termination benefits to each employee who has completed one year of service and for whom employment relations with the Company have been terminated without resignation or bad behaviour causes. The amount payable consists of one month's salary limited to a maximum of full TL 4.297 as of December 31, 2016 (December 31, 2015 – full TL 4.093 for each year of service).

The liability is not legally subject to any funding, as there is no funding requirement.

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.

The following actuarial assumptions have been used in the calculation of the total provision:

	31 December 2016	31 December 2015
Discount rate (%)	4,5	4,6
Turnover rate to estimate the probability of retirement (%)	10,00	9,36

The principal assumption is that the maximum liability of employment termination benefits for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of full TL 4.426 which is effective from January 1, 2017 (January 1, 2016 – full TL 4.093), has been taken into consideration in calculating the provision for employment termination benefits of the Company.

Movements in the provision for employment termination benefits during the year are as follows:

	31 December 2016	31 December 2015
1 January	783	710
Paid during the period	(308)	(285)
Service cost	284	326
Interest cost	22	32
31 December	781	783

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19 – SHAREHOLDERS' EQUITY

At December 31, 2016 and 2015, the shareholders' of the Company and their share capitals with historical amounts are as follows:

	31 December 2016		31 December 2015	
	Amount	Share in paid in capital (%)	Amount	Share in paid in capital (%)
Yapı ve Kredi Bankası A.Ş.	389.904	99,99	389.904	99,99
Other	24	0,01	24	0,01
Share capital	389.928	100	389.928	100
Share capital adjustment differences	(34.600)		(34.600)	
	355.328		355.328	

Share capital of the Company consists of 389.927.705 authorized shares with a nominal value of full TL 1 each.

The Company's registered capital ceiling is TL 389.928 (31 December 2015: TL 389.928).

Share capital adjustment differences represent the difference between total amount of capital adjusted in respect of inflation and the capital amount before inflation adjustment.

Profit reserves, retained earnings

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.

Profit distribution

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 offset 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.

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

19 – SHAREHOLDERS' EQUITY (Continued)

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

Per the Banking Regulation and Supervision Agency, income associated with deferred tax assets shall not be considered as cash or internally generated source and accordingly such amounts taking part of net period profit shall not be included in profit distribution and capital increase. As of December 31, 2016, the Company has deferred tax income amounting TL 19.290 associated with the deferred tax asset (December 31, 2015: 11.706).

The Company did not distribute dividends in 2016.

20 - OTHER LIABILITIES

	31 December 2016	31 December 2015
Advances received (*)	57.224	71.625
	57.224	71.625

(*) Advances received are related with the amounts received from customers regarding the financial leasing agreements.

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

21- OPERATING EXPENSES

Operating expenses for the period ended December 31, 2016 and 2015 are as follows:

	1 January - 31 December 2016	1 January - 31 December 2015
Personnel expenses	23.303	21.960
Audit and advisory expenses	2.232	2.615
Amortization expenses (Note 11,12)	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

22 - OTHER OPERATING INCOME/EXPENSES

	1 January - 31 December 2016	1 January - 31 December 2015
Other Operating Income		
Income from associates	39.853	27.781
Recoveries from prior periods' provisions for lease receivables	14.361	27.263
Gain on sale of property and equipment	331	5.196
Insurance agency income	-	1.784
Other	626	3.199
	55.171	65.223

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

22 - OTHER OPERATING INCOME/EXPENSES (Continued)

	1 January - 31 December 2016	1 January - 31 December 2015
Other Operating Expenses		
Provision for legal proceedings (Note 16)	3.931	3.577
Other	1	287
	3.932	3.864

23 - TAX ASSETS AND LIABILITIES

Corporate Tax Law numbered 5422 was altered by Law No.5520 on 13 June 2006 which is published at the Official Gazette numbered 26205 and dated 21 June 2006 and many of its articles have become effective retrospectively starting from 1 January 2006. Corporation tax rate in Turkey starting from 1 January 2006 is 20% (2015 – 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 utilised 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 from profit 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 in cash 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 office that 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.

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**EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2016 (CONTINUED)**

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

23 - TAX ASSETS AND LIABILITIES (Continued)

	31 December 2016	31 December 2015
Corporate taxes payable	64.940	54.828
Less: Prepaid taxes	(41.733)	(47.035)
Corporate tax payable, net	23.207	7.793
Social security premiums payable	746	302
Personnel income tax payable	357	415
Other tax payables	70	31
VAT payable	-	6.074
Total taxes payable	1.173	6.822

Taxes reflected on the income statement are summarized below for the periods ending as of December 31, 2016 and 2015:

	31 December 2016	31 December 2015
Current tax income/(expense)	(64.477)	(53.754)
Deferred tax income / (expense) effect	19.290	11.706
Total tax income / (expense)	(45.187)	(42.048)

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

	31 December 2016	31 December 2015
Profit before taxes	270.539	238.346
Theoretical tax expense with 20% tax rate	(54.108)	(47.669)
Non-deductible expenses and other additions (Net)	8.921	5.621
Current year tax expense	(45.187)	(42.048)

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

23 - TAX ASSETS AND LIABILITIES (Continued)

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 at the Official Gazette numbered 26133. 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 31 December 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 1 January 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 31 December 2005 in relation to investments which exhibit an integrity technically and economically and which were started prior to 1 January 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 31 December 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 31 December 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 31 December 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 8 January 2012 Therefore, the cancellation became effective with the publishing of the decision of the Constitutional Court at the Official Gazette. Consequently, the Company did not pay temporary taxes during first half of the year 2010.

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.

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

23 - TAX ASSETS AND LIABILITIES (Continued)

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.

Deferred Taxation

The Company calculates and accounts for deferred income taxes for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with “Turkish Accounting Standard for Income Taxes” (“TAS 12”). In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date.

The deferred tax asset and deferred tax liability have been netted off 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, 2012 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, 2013 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 2013, the amount previously recognized as tax deposit account was closed, added to the corporate tax as revenue and removed from deferred tax assets.

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

23 - TAX ASSETS AND LIABILITIES (Continued)

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

	Total temporary differences		Deferred tax assets/(liabilities)	
	31 December 2016	31 December 2015	31 December 2016	31 December 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
Financial leases accruals	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

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

23 - TAX ASSETS AND LIABILITIES (Continued)

Movement of the deferred tax asset/(liability) during the year is as follows:

	31 December 2016	31 December 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

24 - EARNINGS PER SHARE

	31 December 2016	31 December 2015
Net income for the period	225.352	196.298
Weighted average number of outstanding shares with a nominal value of full TL 1	389.927.705	389.927.705
Earnings per share (full TL)	0, 5779	0, 5034

25 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Balance sheet items	31 December 2016	31 December 2015
Due from banks (Cash and cash equivalents)		
Demand deposit		
<i>Shareholders</i>		
Yapı ve Kredi Bankası A.Ş.	10.697	7.797
<i>Other related parties</i>		
Yapı Kredi Bank Nederland N.V.	2	2
Time deposit		
<i>Shareholders</i>		
Yapı ve Kredi Bankası A.Ş.	84.927	10.539
	95.626	18.338

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

25 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Finance lease receivables:	31 December 2016	31 December 2015
Demir Export A.Ş.-Fernas İnş. A.Ş. Adi Ortaklığı(*)	197.531	194.741
Karsan Otomotiv San. Ve Tic. A.Ş.	63.440	67.949
Koç Üniversitesi	56.012	51.183
Heksagon Mühendislik Ve Tasarım A.Ş.	4.279	5.035
Sirena Marine 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.

	31 December 2016	31 December 2015
Borrowings:		
<i>Other related parties</i>		
Unicredit Bank Austria AG	2.003.700	2.405.761
Unicredito Italiano Spa	1.198.295	-
Unicredit Bank AG	90.036	91.141
	3.292.031	2.496.902

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

25 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	31 December 2016	31 December 2015
Trade Payables:		
<i>Associates</i>		
Allianz Yaşam ve Emeklilik A.Ş.	5.291	6.058
<i>Other related parties</i>		
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

	31 December 2016	31 December 2015
Off-balance sheet items:		
Guarantee letters received		
<i>Shareholders</i>		
Yapı ve Kredi Bankası A.Ş.	2.225	5.304
	2.225	5.304

	31 December 2016	31 December 2015
Derivative financial instruments:		
Foreign currency forward transactions		
<i>Shareholders</i>		
Forward currency purchases:		
Yapı ve Kredi Bankası A.Ş.	563.668	269.322
Forward currency sales:		
Yapı ve Kredi Bankası A.Ş.	571.791	268.373
	1.135.459	537.695

YAPI KREDİ FİNANSAL KİRALAMA A.O.

**EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2016 (CONTINUED)**

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

25- TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

Income statement items

	1 January - 31 December 2016	1 January - 31 December 2015
Interest income from finance leases:		
<i>Other related parties</i>		
Demir Export A.Ş.-Fernas İnş.Aş. Adi Ortaklığı	8.714	12.110
Karsan Otomotiv San. Ve Tic. 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 Marine Malta Ltd	25	200
Ferocom 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
Haremlık Gıda Dek.Ve Ekipmanla Rı San.Tic.Ltd.Şti.	-	-
Callus Bilgi Ve İletişim Hizmetleri A.Ş.	-	-
	20.563	27.536
	1 January - 31 December 2016	1 January - 31 December 2015
Interest income on bank deposits:		
<i>Shareholders</i>		
Yapı ve Kredi Bankası A.Ş.	1.944	668
Yapı ve Kredi Malta	-	7
	1.944	675

YAPI KREDİ FİNANSAL KİRALAMA A.O.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

25 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	1 January - 31 December 2016	1 January - 31 December 2015
Interest expenses of bank borrowings:		
<i>Shareholders</i>		
Yapı ve Kredi Bankası A.Ş.	165	393
<i>Other related parties</i>		
Unicredit Bank Austria AG	53.700	54.462
Unicredito Italiano Spa	18.391	-
Unicredit Bank AG	1.527	1.896
	73.783	56.751
	1 January - 31 December 2016	1 January - 31 December 2015
Rent expenses:		
<i>Shareholders</i>		
Yapı ve Kredi Bankası A.Ş.	1.235	1.105
	1.235	1.105
	1 January - 31 December 2016	1 January - 31 December 2015
Commission expenses:		
<i>Shareholders</i>		
Yapı ve Kredi Bankası A.Ş.	298	305
	298	305

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EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

25 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

	1 January – 31 December 2016	1 January – 31 December 2015
Service expenses:		
<i>Associates</i>		
Allianz Yaşam ve Emeklilik A.Ş.	19	29
<i>Shareholders</i>		
Yapı ve Kredi Bankası A.Ş.	511	919
<i>Other related parties</i>		
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

	1 January - 31 December 2016	1 January - 31 December 2015
Dividend income:		
<i>Associates</i>		
Allianz Yaşam ve Emeklilik A.Ş. (*)	19.927	17.137
<i>Other related parties</i>		
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.

	1 January - 31 December 2016	1 January - 31 December 2015
Payments made to members of the Board and key management personnel	2.535	2.222

YAPI KREDİ FİNANSAL KİRALAMA A.O.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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

26 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments and financial risk management

a. 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, 2013, 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. (31 December 2015: 19,6%)

b. Credit risk

Credit risk is the risk that the counterparty may be unable to meet the terms of the agreements. The Company is exposed to credit risk due to financial lease transactions. This risk is managed by mainly limiting the aggregate risk to any individual counterparty and by obtaining collaterals from these counterparties and periodic follow-up of collections from customers. 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 summarises the geographic distribution of the Company's assets and liabilities at December 31, 2016 and 2015.

31 December 2016	Assets	%	Liabilities	%
Turkey	8.774.247	95	2.456.932	33
European countries	202.745	2	4.143.119	55
Other	303.518	3	958.257	14
	9.280.510		7.558.308	
31 December 2015	Assets	%	Liabilities	%
Turkey	7.382.906	97	1.854.139	30
European countries	79.944	1	3.345.717	54
Other	175.735	2	941.879	16
	7.638.585	100	6.141.735	100

**CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH, SEE NOTE 2.1.1**

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EXPALANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

(Amounts expressed in New Turkish lira ("TL") unless otherwise stated.)

26 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Maximum amount of credit risk exposed

	31 December 2016				31 December 2015			
	Lease receivables	Other receivables	Derivative Financial Assets	Banks	Lease receivables	Other receivables	Derivative Financial Assets	Banks
Maximum amount of credit risk exposed as of reporting date (*)	8.263.330	256.693	1.862	95.845	6.827.552	208.068	424	18.500
- Maximum credit risk secured guarantees etc. (***)	377.475	-	-	-	287.248	-	-	-
A. Net book value of financial assets either not due or not impaired	8.172.467	256.693	1.862	-	6.755.456	208.068	424	
- Not due or not impaired (gross book value)	8.211.876	256.693	1.862	-	6.788.257	208.068	424	
- Impairment amount (-) (**)	(39.409)	-	-	-	(32.801)	-	-	-
- Net value secured by guarantees etc.	338.634	-	-	-	266.523	-	-	-
B Book value of financial assets with renegotiated conditions, Otherwise would be classified as past due or impaired	-	-	-	-	-	-	-	-
- Conditions are renegotiated (gross book value)	-	-	-	-	-	-	-	-
- Impairment amount (-) (**) (****)	-	-	-	-	-	-	-	-
C. Net book value of assets past due but not impaired	32.649	-	-	-	34.675	-	-	-
- Past due (gross book value)	35.507	-	-	-	36.582	-	-	-
- Impairment amount (-) (**) (****)	(2.858)	-	-	-	(1.907)	-	-	-
- Net value secured by guarantees etc	26.169	-	-	-	3.195	-	-	-
D. Net book value of assets impaired	58.214	-	-	-	37.421	-	-	-
- Past due (gross book value)	335.656	-	-	-	279.521	-	-	-
- Impairment amount (-)	(277.442)	-	-	-	(242.100)	-	-	-
- Net value secured by guarantees etc	12.672	-	-	-	17.530	-	-	-
E. Off-balance items exposed to credit risk	-	-	-	-	-	-	-	-

(*) The elements that increase the credibility such as guarantees received are not taken into account while determining the amount.

(**) In accordance with the Provisions Communiqué, the Company sets specific provision at the determined amounts even if the over due days of the receivables do not exceed the days indicated at the Communiqué considering reliability and prudence principals. Aging of the over due but not impaired lease receivables is presented in the Note 10.

(***) Collaterals that exceed the risk are not taken into account. The assets that are subject to lease agreements are not taken into account.

(****) Impairment is also calculated for the undue amounts of the related over due lease receivables. Undue lease receivables are classified in the Group A.

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EXPALANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

(Amounts expressed in New Turkish lira (“TL”) unless otherwise stated.)

26 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

c. 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 market risk under foreign exchange risk, interest rate risk and liquidity risk.

The Financial market policy is approved by the Board of Directors. It is the Company’s responsibility to assure regular compliance with these principles and limits.

As a leasing company, the Company is exposed to risks such as foreign exchange risk, interest rate risk and liquidity risk. Treasury and Foreign Relations Department mainly focuses on the structure of the Company’s assets and liabilities while managing these risks. Treasury and Foreign Relations Department’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; and in addition it tries to minimise the volatility of the results. Treasury and Foreign Relations Department also aims to satisfy the compliance to the Regulator’s requirements.

For the market risk management some general guidelines apply;

- Yapı ve Kredi Bankası A.Ş. (“YKB”) Risk Management and the Company’s Board of Directors are informed of and Board of Directors 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,
- Business Planning and Financial Reporting Department is independent from the Treasury and Foreign Relations Department and reports directly to general manager and management,
- Interest rate and foreign exchange risk are managed by Treasury and Foreign Relations Department within the predetermined 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.

d. Liquidity risks

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. Treasury and Foreign Relations Department has daily control over liquidity risk. To hedge against this risk, management has diversified funding sources, and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents. Moreover, the ability to fund the existing and prospective debt requirements and cover withdrawals at unexpected levels of demand is managed by maintaining the availability of adequate funding lines from shareholders and high quality investors.

The tables below analyses the assets and liabilities of the Company in relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity dates. Also the Company’s unearned and undue interests to be collected and paid related to its assets and liabilities are included to the table below.

YAPI KREDİ FİNANSAL KİRALAMA A.O.**EXPALANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

26 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

							31 December 2016	
	Book Value	inflows/outflows per agreement	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No definite maturity	Other
Trading derivative financial assets	1.862	1.862	1.862	-	-	-	-	-
Banks	95.845	95.845	84.927	-	-	-	10.918	-
Lease receivables	8.805.525	10.215.052	1.017.065	2.238.005	5.908.990	992.778	58.214	-
Available-for-sale financial assets and subsidiaries	227.593	227.593	-	-	-	-	227.593	-
Property and equipment	921	921	-	-	-	-	921	-
Intangible assets	3.762	3.762	-	-	-	-	3.762	-
Deferred tax assets	69.206	69.206	-	-	-	-	69.206	-
Assets held for sale	1.880	1.880	-	-	-	-	1.880	-
Other assets and prepaid expenses	73.915	73.915	4.842	18.857	17.313	3.681	29.222	-
Total assets	9.280.509	10.690.036	1.108.696	2.256.862	5.926.303	996.459	401.716	-
Trading derivative financial liabilities	21.108	21.108	21.108	-	-	-	-	-
Borrowings	6.339.686	6.590.561	826.126	3.033.226	2.595.149	136.060	-	-
Securities issued	803.382	861.320	311.024	232.999	317.297	-	-	-
Other payables	240.619	240.619	120.310	120.309	-	-	-	-
Other liabilities	57.224	57.224	57.224	-	-	-	-	-
Taxes payable and current year tax liability	24.380	24.380	24.380	-	-	-	-	-
Provisions	71.909	71.909	3.182	8.391	26.031	4.663	29.642	-
Total liabilities	7.558.308	7.867.121	1.363.354	3.394.925	2.938.477	140.723	29.642	-
Net liquidity position	1.722.201	2.822.915	(254.658)	(1.138.063)	2.987.826	855.736	372.054	-
Derivative financial instruments								
Cash inflow	614.815	614.815	614.815	-	-	-	-	-
Cash outflow	(624.579)	(624.579)	(624.579)	-	-	-	-	-

YAPI KREDİ FİNANSAL KİRALAMA A.O.**EXPALANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

26 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2015							
	Book Value	inflows/outflows per agreement	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	No definite maturity	Other
Trading derivative financial assets	424	424	424	-	-	-	-	-
Banks	18.500	18.500	10.539	-	-	-	7.961	-
Lease receivables	7.304.363	8.492.439	852.564	1.804.029	4.947.500	850.924	37.422	-
Available-for-sale financial assets and subsidiaries	207.667	207.667	-	-	-	-	207.667	-
Property and equipment	607	607	-	-	-	-	607	-
Intangible assets	3.450	3.450	-	-	-	-	3.450	-
Deferred tax assets	49.916	49.916	-	-	-	-	49.916	-
Assets held for sale	2.149	2.149	-	-	-	-	2.149	-
Other assets and prepaid expenses	51.509	56.100	8.555	9.090	29.712	8.220	523	-
Total assets	7.638.585	8.831.252	872.082	1.813.119	4.977.212	859.144	309.695	-
Trading derivative financial liabilities	23	23	23	-	-	-	-	-
Borrowings	4.989.406	5.157.774	382.340	1.841.017	2.821.306	113.111	-	-
Securities issued	494.384	520.831	75.000	384.718	61.113	-	-	-
Other payables	511.630	511.630	255.815	255.815	-	-	-	-
Other liabilities	71.625	71.625	71.625	-	-	-	-	-
Taxes payable and current year tax liability	14.615	14.615	14.615	-	-	-	-	-
Provisions	60.052	60.052	2.657	6.577	21.483	3.992	25.343	-
Total liabilities	6.141.735	6.336.550	802.075	2.488.127	2.903.902	117.103	25.343	-
Net liquidity position	1.496.850	2.494.702	70.007	(675.008)	2.073.310	742.041	284.352	-
Derivative financial instruments								
Cash inflow	269.322	269.322	240.043	29.279	-	-	-	-
Cash outflow	(268.373)	(268.373)	(239.297)	(29.076)	-	-	-	-

YAPI KREDİ FİNANSAL KİRALAMA A.Ö.

EXPALANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

26 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

e. 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. Treasury and Foreign Relations Department 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 Business Planning and Financial Reporting Department. A maximum limit of (+/-) EUR 5.500.000 (December 31, 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 foreign currency positions of the Company as of December 31, 2016 and 2015 are stated in the table below:

	TL Equivalent			
31 December 2016	Total	USD	EUR	Other
Assets				
Banks	5.568	525	4.519	524
Finance lease receivables	7.057.403	2.330.468	4.617.100	109.835
Total assets	7.062.971	2.330.993	4.621.619	110.359
Borrowings	6.163.424	1.663.453	4.387.451	112.520
Other payables	229.348	68.426	160.173	749
Other liabilities	42.158	10.139	32.004	15
Provisions	1.346	857	489	-
Total liabilities	6.436.276	1.742.875	4.580.117	113.284
Net foreign currency position (*)	626.695	588.118	41.502	(2.925)
Derivative financial instruments	(621.256)	(608.998)	(15.582)	3.323

(*) Had the impact of the currency difference arising from the transactions between the Company and its vendors, which would have been reflected to customers, been eliminated, the net foreign exchange position would have occurred as TL 616.469 in USD, TL 28.057 in EUR, TL (3.015) in other currencies and TL 641.511 in total.

YAPI KREDİ FİNANSAL KİRALAMA A.O.

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

26 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

	TL Equivalent			
31 December 2015	Total	USD	EUR	Other
Assets				
Banks	13.545	3.730	9.719	96
Finance lease receivables	5.638.718	1.882.962	3.669.730	86.026
Total assets	5.652.263	1.886.692	3.679.449	86.122
Borrowings	4.961.377	1.414.676	3.457.678	89.023
Other payables	472.136	186.060	284.541	1.535
Other liabilities	40.997	15.498	25.489	10
Provisions	789	364	425	-
Total liabilities	5.475.299	1.616.598	3.768.133	90.568
Net foreign currency position (*)	176.964	270.094	(88.684)	(4.446)
Derivative financial instruments	(163.729)	(268.432)	100.888	3.815

(*) Had the impact of the currency difference arising from the transactions between the Company and its vendors, which would have been reflected to customers, been eliminated, the net foreign exchange position would have occurred as TL 273.647 in USD, TL (99.015) in EUR, TL (3.987) in other currencies and TL 170.640 in total.

The foreign currency rates used by the Company at December 31, 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
USD	3,5192	2,9076
EUR	3,7099	3,1776

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**EXPALANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT
DECEMBER 31, 2016 (CONTINUED)**

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

26 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

31 December 2016	Profit/Loss		Equity (*)	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD by 10% against TL				
1. USD net asset/liability	58.812	(58.812)	58.812	(58.812)
2. Secured portion from USD Risk (-)	(60.900)	60.900	(60.900)	60.900
3. USD Effect – net (1+2)	(2.088)	2.088	(2.088)	2.088
Change of EUR by 10% against TL				
4. EUR net asset/liability	4.150	(4.150)	4.150	(4.150)
5. Secured portion from EUR risk (-)	(1.558)	1.558	(1.558)	1.558
6. EUR Effect – net (4+5)	2.592	(2.592)	2.592	(2.592)
Total (3+6)	504	(504)	504	(504)

31 December 2015	Profit/Loss		Equity (*)	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
Change of USD by 10% against TL				
1. USD net asset/liability	27.009	(27.009)	27.009	(27.009)
2. Secured portion from USD Risk (-)	(26.843)	26.843	(26.843)	26.843
3. USD Effect – net (1+2)	166	(166)	166	(166)
Change of EUR by 10% against TL				
4. EUR net asset/liability	(8.868)	8.868	(8.868)	8.868
5. Secured portion from EUR risk (-)	10.089	(10.089)	10.089	(10.089)
6. EUR Effect – net (4+5)	1.221	(1.221)	1.221	(1.221)
Total (3+6)	1.387	(1.387)	1.387	(1.387)

(*) Equity effect includes the amounts that will be reflected to the profit/loss statement.

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EXPALANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

26 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

f. 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% shift in the TL interest rate and a 2% shift in the foreign currency interest rates with all other variables being constant, there will be TL 49.204 (31 December 2015 – TL 38.490) decrease in the net present value of interest sensitive assets and liabilities.

The Company's financial instruments sensitive to interest rate as of December 31, 2016 and December 31, 2015 is presented below:

Financial instruments with floating interest rate:	31 December 2016	31 December 2015
Financial assets		
Lease receivables	398.200	167.404
Financial liabilities		
Borrowings	3.885.194	3.566.941
Securities issued	317.183	174.500

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EXPALANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

26 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

The tables below show an analysis of the Company's assets and liabilities at the balance sheet date according to the time remaining to their next interest rate change date and the maturity dates in the agreements.

	31 December 2016					
	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
Trading derivative financial assets	1.862	-	-	-	-	1.862
Banks	84.927	-	-	-	10.918	95.845
Lease receivables	840.247	1.779.486	4.861.616	766.034	558.142	8.805.525
Available-for-sale financial assets and subsidiaries	-	-	-	-	227.593	227.593
Property and equipment	-	-	-	-	921	921
Intangible assets	-	-	-	-	3.762	3.762
Prepaid expenses	-	-	-	-	44.693	44.693
Deferred tax assets	-	-	-	-	69.206	69.206
Assets held for sale	-	-	-	-	1.880	1.880
Other assets	-	-	-	-	29.222	29.222
Total assets	927.036	1.779.486	4.861.616	766.034	946.337	9.280.509
Trading derivative financial liabilities	21.108	-	-	-	-	21.108
Borrowings	2.364.759	2.719.218	1.255.709	-	-	6.339.686
Securities issued	-	672.382	131.000	-	-	803.382
Other payables	-	-	-	-	240.619	240.619
Other liabilities	-	-	-	-	57.224	57.224
Taxes payable and current year tax liability	-	-	-	-	24.380	24.380
Provisions	3.745	9.255	25.284	3.984	29.642	71.910
Total liabilities	2.368.504	3.400.855	1.411.993	3.984	372.973	7.558.308
Net repricing gap	(1.462.576)	(1.621.369)	3.449.623	762.050	594.472	1.722.201
Derivative financial instruments						
Cash inflow	614.815	-	-	-	-	614.815
Cash outflow	(624.579)	-	-	-	-	(624.579)
	31 December 2015					
	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
Trading derivative financial assets	424	-	-	-	-	424
Banks	10.539	-	-	-	7.961	18.500
Lease receivables	715.427	1.277.844	4.267.510	564.057	479.525	7.304.363
Available-for-sale financial assets and subsidiaries	-	-	-	-	207.667	207.667
Property and equipment	-	-	-	-	607	607
Intangible assets	-	-	-	-	3.450	3.450
Prepaid expenses	-	-	-	-	50.986	50.986
Deferred tax assets	-	-	-	-	49.916	49.916
Assets held for sale	-	-	-	-	2.149	2.149
Other assets	-	-	-	-	523	523
Total assets	726.390	1.277.844	4.267.510	564.057	802.784	7.638.585
Trading derivative financial liabilities	23	-	-	-	-	23
Borrowings	2.061.737	2.682.911	243.473	1.285	-	4.989.406
Securities issued	78.340	361.544	54.500	-	-	494.384
Other payables	-	-	-	-	511.630	511.630
Other liabilities	-	-	-	-	71.625	71.625
Taxes payable and current year tax liability	-	-	-	-	14.615	14.615
Provisions	3.236	6.583	21.984	2.906	25.343	60.052
Total liabilities	2.143.336	3.051.038	319.957	4.191	623.213	6.141.735
Net repricing gap	(1.416.946)	(1.773.194)	3.947.553	559.866	179.571	1.496.850
Derivative financial instruments						
Cash inflow	240.043	29.279	-	-	-	269.322
Cash outflow	(239.297)	(29.076)	-	-	-	(268.373)

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

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26 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Average interest rates applied to the financial instruments at December 31, 2016 and 2015 are as follows:

	31 December 2016			31 December 2015		
	US \$	EUR	TL	US \$	EUR	TL
	(%)	(%)	(%)	(%)	(%)	(%)
Assets						
Lease receivables	5,81	5,31	12,77	6,00	5,47	12,14
Time deposits	-	-	10,52	0,30	0,30	9,5
Liabilities						
Borrowings	3,60	2,36	11,12	2,94	2,39	11,13
Securities issued	-	-	11,34	-	-	11,33

g. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

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

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

The fair values of short term 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 book value and the fair value of the financial assets which are stated at their carrying amounts other than their fair values:

	Book value		Fair value	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Lease receivables, net	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
Securities issued	803.382	494.384	814.114	495.380

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 (CONTINUED)

(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

26 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

Fair value hierarchy in accordance with TFRS 7 that reflects the significance of the inputs used in determining the fair values of financial assets and liabilities, those are carried with their fair values on the balance sheet are as follows:

- Level 1: Financial assets and liabilities are valued at the stock exchange price in an active market for exactly the same 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 stock 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.

Hierarchy of financial instruments carried at fair value:

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

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

27 - SUBSEQUENT EVENTS

None.