A&T Finansal Kiralama A. Ş.

Financial Statements
As at and the Year Ended
31 December 2018
With Independent Auditors’ Report

26 April 2019

This report contains the “Independent Auditors’ Report on Financial Statements” comprising 3 pages and; the “Financial Statements and their explanatory notes” comprising 32 pages.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of A&T Finansal Kiralama A.Ş.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of A&T Finansal Kiralama A.Ş. ("the Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We *conducted* our audit in accordance with International Standards on Auditing ("ISA"s). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkey and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi

A member firm of KPMG International Cooperative

Erdal Tıkmak, SMMM
Partner
26 April 2019
İstanbul, Turkey

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A&T FİNANSAL KİRALAMA A.Ş.
STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)
AS AT 31 DECEMBER 2018

(Currency: Turkish Lira (TL), unless otherwise stated)

	Notes	31 December 2018	31 December 2017(*)
Assets:			
Cash and cash equivalents	10	59,254,709	39,380,184
Finance lease receivables	11	361,253,123	333,328,082
Tangible assets, net	13	4,357,107	4,632,952
Intangible assets, net	14	133,659	158,968
Deferred tax assets	9	631,344	279,142
Other assets	12	4,964,554	6,035,487
Total assets		**430,594,496**	**383,814,815**
Liabilities:			
Borrowings	15	305,245,137	264,931,044
Trade payables	16	6,912,673	15,589,365
Income tax payable	9	1,597,672	936,574
Employee benefits	18	3,133,461	2,153,541
Other liabilities	17	1,490,419	459,190
Total liabilities		**318,379,362**	**284,069,714**
Equity:			
Share capital	19	96,543,499	86,043,499
Reserves		3,610,302	3,101,678
Retained earnings		12,061,333	10,599,924
Total shareholders' equity		**112,215,134**	**99,745,101**
Total liabilities and shareholders' equity		**430,594,496**	**383,814,815**

(*) In accordance with the transition requirements of IFRS 9, the prior period financial statements and notes are not restated.

The notes on pages 5 to 32 are an integral part of these financial statements.

A&T FİNANSAL KİRALAMA A.Ş.
STATEMENT OF PROFİT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Currency: Turkish Lira (TL), unless otherwise stated)

	Notes	1 January - 31 December 2018	1 January - 31 December 2017(*)
Interest income on finance lease		34,096,831	24,272,815
Interest income on bank deposits		5,183,157	3,319,947
Income from leasing operations		**39,279,988**	**27,592,762**
Interest expense on borrowings		(10,736,871)	(6,704,971)
Net interest income		**28,543,117**	**20,887,791**
Trading income		56,957	47,340
Foreign exchange gain/(loss), net		(76,883)	44,999
Other operating income	7	1,267,304	528,934
Operating income		**1,247,378**	**621,273**
Marketing, general and administrative expenses	5	(1,831,784)	(1,533,801)
Salaries and employee benefits	6	(7,944,433)	(5,959,704)
Provision expenses for finance lease receivables		(1,359,280)	(621,948)
Depreciation and amortization	13, 14	(385,491)	(330,632)
Other operating expenses	8	(1,906,398)	(1,571,997)
Profit before income tax		**16,363,109**	**11,490,982**
Tax expense	9	(3,597,106)	(2,345,657)
Net profit for the year		**12,766,003**	**9,145,325**
Other comprehensive income		**(79,089)**	**44,027**
Other comprehensive income for the year, net of income tax		(79,089)	44,027
Total comprehensive income for the year		**12,686,914**	**9,189,352**

(*)In accordance with the transition requirements of IFRS 9, the prior period financial statements and notes are not restated.

The notes on pages 5 to 32 are an integral part of these financial statements.

A&T FİNANSAL KİRALAMA A.Ş.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

(Currency: Turkish Lira (TL), unless otherwise stated)

		Reserves			
	Share capital	Legal reserves	Actuarial losses, net of tax	Retained earnings	Total
Balances at 1 January 2017	**78,043,499**	**2,669,333**	**(147,635)**	**9,990,552**	**90,555,749**
Total comprehensive income for the year:					
Net profit for the year	-	-	-	9,145,325	9,145,325
Other comprehensive income	-	-	44,027	-	44,027
Total comprehensive income for the year	-	-	**44,027**	**9,145,325**	**9,189,352**
Transactions with owners, recorded directly in equity:					
Share capital increase	8,000,000	-	-	(8,000,000)	-
Transfer to legal reserves	-	535,953	-	(535,953)	-
Total transactions with owners	**8,000,000**	**535,953**	**-**	**(8,535,953)**	**-**
Balances at 31 December 2017(*)	**86,043,499**	**3,205,286**	**(103,608)**	**10,599,924**	**99,745,101**
Reported balances at 1 January 2018	**86,043,499**	**3,205,286**	**(103,608)**	**10,599,924**	**99,745,101**
Change in accounting policy (see note 3 (b))	-	-	-	(216,881)	(216,881)
Restated balances at 1 January 2018	**86,043,499**	**3,205,286**	**(103,608)**	**10,383,043**	**99,528,220**
Total comprehensive income for the year:					
Net profit for the year	-	-	-	12,766,003	12,766,003
Other comprehensive income	-	-	(79,089)	-	(79,089)
Total comprehensive income for the year	-	**-**	**(79,089)**	**12,766,003**	**12,686,914**
Transactions with owners, recorded directly in equity:					
Share capital increase	10,500,000	-	-	(10,500,000)	-
Transfer to legal reserves	-	587,713		(587,713)	-
Total transactions with owners	**10,500,000**	**587,713**	**-**	**(11,087,713)**	**-**
Balances at 31 December 2018	**96,543,499**	**3,792,999**	**(182,697)**	**12,061,333**	**112,215,134**

(*)In accordance with the transition requirements of IFRS 9, the prior period financial statements and notes are not restated.

The notes on pages 5 to 32 are an integral part of these financial statements.

A&T FİNANSAL KİRALAMA A.Ş.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

(Currency: Turkish Lira (TL), unless otherwise stated)

	Notes	1 January - 31 December 2018	1 January - 31 December 2017(*)
Cash flows from operating activities			
Profit for the year		12,766,003	9,145,325
Adjustments for:			
Current and deferred tax expense	9	3,597,106	2,345,657
Depreciation and amortization	13, 14	381,863	330,632
Change in provision for employee severance indemnity	18	179,341	696,479
Change in provision for vacation pay liability	18	405,166	177,723
Change in provision for employee severance indemnity for expatriates	18	409,936	72,465
Provision expenses/(reversal) for doubtful finance lease receivables		1,359,280	621,948
Net interest income		(28,543,117)	(20,887,791)
Other		(600,781)	266,753
Change in operating activities:			
Change in finance lease receivables		(27,951,948)	(54,135,718)
Change in other asset		1,070,933	(1,948,445)
Change in trade payables		(8,676,692)	10,025,248
Change in other liabilities		(292,364)	442,461
Interest received		38,088,145	24,347,248
Interest paid		(9,575,506)	(7,999,989)
Tax paid		(2,275,110)	(200,020)
Net cash used in operating activities		**(19,657,746)**	**(36,700,024)**
Cash flows from investing activities:			
Acquisition of property and equipment	13	(35,127)	(551,517)
Acquisition of intangible assets	14	(45,582)	-
Proceeds from sale of tangible and intangible assets		-	14,650
Net cash generated from investing activities		**(80,709)**	**(536,867)**
Cash flows from financing activities:			
Payments of borrowings		(1,064,004)	(498,005)
Proceeds of borrowings		40,076,202	31,116,935
Net cash generated from financing activities		**39,012,198**	**30,618,930**
Net increase/(decrease) in cash and cash equivalents		**19,273,743**	**(6,617,961)**
Effect of net foreign exchange difference on cash and cash equivalents		506,668	264,547
Cash and cash equivalents at beginning of the year	**10**	**39,312,674**	**45,666,088**
Cash and cash equivalents at 31 December	**10**	**59,093,085**	**39,312,674**

(*)In accordance with the transition requirements of IFRS 9, the prior period financial statements and notes are not restated.

The notes on pages 5 to 32 are an integral part of these financial statements.

NOTE 1 - ORGANIZATION AND THE NATURE OF OPERATIONS

A&T Finansal Kiralama Anonim Şirketi ("the Company") was established on 4 July 1997, pursuant to the license obtained from the Under secretariat of Treasury and Foreign Trade for the purpose of financial leasing as permitted by the law number 3226. The main shareholder of the Company is Arap Türk Bankası A.Ş with 99% of the shares.

The Company's leasing operations principally focused on machinery and equipment, medical tools, construction, and office equipment.

The number of personnel working for the Company as of 31 December 2018 is 22 (31 December 2017: 23).

Registered address of the company is as follows: Örnek Mahallesi Finans Çıkmaz Sokağı No:4 Ataşehir - İstanbul

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Financial reporting standards

The principal accounting policies adopted in the preparation of the financial statements at 31 December 2018 are set out below. These policies have been consistently applied to the year presented, unless otherwise stated.

The Company maintains its statutory books of account and prepares them in accordance with "Uniform Chart of Accounts of Leasing, Factoring and Finance Companies" "Accounting Standards and Financial Statements of Leasing, Factoring and Finance Companies" published by the Banking Regulation and Supervision Agency ("BRSA") on 4 December 2013 in the Official Gazette numbered 28861 and Turkish Accounting standards / Turkish Financial Reporting Standards ("TAS/TFRS").

These accompanying financial statements prepared are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS").

The Company has prepared the financial statements according to the going concern assumption.

The financial statements of the Company were authorized for issuance by the management on 26 April 2019.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation that ended at 31 December 2005, except for the derivative financial instruments at fair value through profit or loss which are measured at their respective fair values.

The methods used to measure fair values are discussed further in Note 4.

(c) Functional and presentation currency

These financial statements are presented in TL, which is the Company's functional currency.

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty that have the most significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- *Note 11* - Impairment in finance lease receivables

(e) Accounting for the effects of hyperinflation

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

(f) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted into TL at the exchange rates ruling at reporting date with the resulting exchange differences recognized in the statement of profit or loss as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in profit or loss as realised during the course of the year.

Foreign exchange rates used by the Company as at 31 December 2018 and 2017 are as follows:

	2018	**2017**
USD	5.2609	3.7719
EUR	6.0280	4.5155

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

(h) New standards and amendments

Standards issued but not yet effective and not early adopted

A number of new standards, interpretations of and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Company has not early adopted are as follows.

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 Investment Properties. IFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Company is assessing the potential impact of IFRS 16 on its financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. IFRIC 23 is effective from 1 January 2019, with earlier application is permitted. The Company is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle for applicable standards. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Company does not expect that application of these improvements to IFRSs will have significant impact on its financial statements.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

(h) New standards and amendments (continued)

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations that seek to clarify this matter. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of the amendments to IFRS 3.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

(a) Changes in accounting estimates and errors

If changes in accounting estimates are related to only one period, they are applied in the period when changes in estimates are made. If changes are related to future periods, they are applied both in the period when changes in estimates are made and future periods prospectively, there is no significant change in accounting estimates in current year

(b) Change in accounting policy

Significant changes in accounting policy are applied retrospectively and prior period financial statements are restated. There is no significant change in accounting policy in current year other than the disclosed below:

	31 December 2017	IFRS 9 classifications	IFRS 9 remeasurement (Expected Credit Loss)	1 January 2018
ASSETS				
Finance lease receivables	333,328,082	-	(271,101)	333,056,981
Deferred tax assets	279,142	-	54,220	333,362
LIABILITES				
Shareholders equity retained earnings	10,599,924	-	(216,881)	10,383,043

The Company has started to apply IFRS 9 as at 1 January 2018. The Company has not restated the comparative information for the financial instruments under IFRS 9 for 2017 and the cumulative effect of the first application of the standard has been presented in retained earnings in the current period's equity as at 1 January 2018.

(c) Financial Instruments

The Company has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application at 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The Company has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in equity as at 1 January 2018.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial Instruments

IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at fair value through profit or loss (with the condition of not impacting accounting mismatch significantly).

The Company measures its financial assets at amortized cost. The financial assets at amortized cost consist of leasing receivables and cash and cash equivalents. The classification is based on the characteristics of the contractual cash flows of the entity and the business model used by the entity for the management of the financial assets. The Company classifies its financial assets at the time of purchase.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise of cash and cash equivalents.

Borrowings

Borrowings are recognized initially at fair value, net of any transaction costs incurred. Subsequent to initial recognition, borrowings are measured at amortized cost with any difference between cost and redemption value being recognized in profit or loss over the period of the borrowings.

Minimum finance lease receivables

Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee are classified as minimum finance lease receivables. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned interest income and is recognized over the term of the lease using the effective interest rate method.

Derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in the statement of profit or loss when incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value through profit or loss.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. In this context, it has been necessary to evaluate how the economic factors that will be determined by weighting according to the probabilities of realization affect the ECLs. The new impairment model is applied to financial assets at fair value through other comprehensive income or measured at amortized cost (other than investments in equity instruments) and contract assets. The financial assets at amortized cost consist of leasing receivables and cash and cash equivalents.

Calculation of expected credit losses

Expected credit losses is calculated based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Probability of Default (PD): PD refers to the likelihood that a loan will default, which is usually set at 12 months, given certain characteristics:

- 12-month PD: as the estimated probability of default occurring within the next 12 months.
- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

LGD calculations are performed using historical data which best reflects current conditions. LGD summarizes all cash flows from customers subsequent to default. It covers all costs and collections that occur during the collection cycle, including collections from collaterals. It also includes the "time value of money" calculated by means of deducting costs and additional losses from the present value of collections.

Under IFRS 9, loss allowances are measured on either of the following bases:

• 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

• Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if there is a qualitative indicator like restructuring. The Company use 30 days past due criteria. The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held).
- The borrower is past due more than 90 day.

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Impairment of financial assets (Continued)

Calculation of expected credit losses (Continued)

Stage 1: 12-month expected credit loss represents the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date and calculated as the portion of lifetime expected credit losses. 12-month expected credit loss is calculated based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate.

Stage 2: When there is a significant increase in credit risk since origination, lifetime expected credit losses is calculated. Including multiple scenario usage, probability of default and loss given default rates are estimated through the life of the instrument. Estimated cash shortfalls are discounted by using the original effective interest rate.

Stage 3: Lifetime expected credit losses are recognized for the impaired leasing receivables. The methodology is similar to stage 2 and the probability of default and loss given default are taken into account as 100%.

Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

(e) Share capital

Ordinary shares

Incremental costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity.

Share capital increased pro-rata to existing shareholders is accounted for at par value as approved at the annual meeting of shareholders.

(f) Tangible assets

(i) Recognition and measurement

Items of tangible assets acquired before 1 January 2006 are measured at cost restated for the effects of inflation in TL units' current at 31 December 2005 pursuant to International Accounting Standard ("IAS 29") "Financial Reporting in Hyper Inflationary Economies" less accumulated depreciation and impairment losses. Tangible assets acquired after 31 December 2005 are measured at cost, less accumulated depreciation, and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of tangible assets have different useful lives, they are accounted for as separate items (major components) of tangible assets.

(ii) Subsequent costs

The cost of replacing part of an item of tangible assets is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of tangible assets are recognized in the statement of comprehensive income as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible assets.

The estimated useful lives are as follows:

	Years
Buildings	50
Office equipment	5
Furniture, fixture and vehicles	5

Leasehold improvements are amortized over the periods of the respective leases on a straight-line basis.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Intangible assets

Intangible assets represent computer software licenses. Intangible assets are measured at cost, less accumulated amortization, and impairment losses. Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

(h) Leased assets

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments for operating leasing are recognized as an expense in the statement of profit or loss on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

(i) Employee benefits

Reserve for employee severance payments

Provision for employment termination benefits represents the present value of the future probable obligation of the Company. According to the labour laws and regulations in Turkey, the Company is required to provide compensation payments to employees who retires, leaves or is dismissed due to any inappropriate act defined in Turkish Labour Law. In this context, provision for employment termination benefits that represents the present value of the future probable obligation of the Company, is calculated with defined actuarial estimations and accrued to the financial statements.

	31 December 2018	**31 December 2017**
Discount rate	5.02%	4.67%
Expected rate of salary / limit increase	1.62%	1.70%

(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(k) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(l) Related Parties

For the purpose of this report, the shareholders of the Company and the companies controlled by/associated with them are referred to as related parties. Related parties also include individual that are principal owners, management and members of the Board of Directors and their families.

(m) Revenue and Cost recognition

(i) Interest income from direct finance leases

The Company's finance leases consist of leases of vehicles and various equipments, including industrial machinery and office equipment. The excess of aggregate lease rentals plus the residual value over the cost of the leased asset constitutes the unearned lease income to be taken into income over the term of the lease and produce a constant periodic rate of return on the net cash investment remaining in each lease.

Fee and commission income is recognized when the corresponding service is provided.

(ii) Interest income and expense

Interest income and expense is recognized in profit or loss as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Income tax

Income tax expense comprises current and deferred tax. In case where gains/losses resulting from the subsequent measurement of the assets or liabilities are recognized in profit or loss, then the related current and/or deferred tax effects are also recognized in profit or loss. On the other hand, if such gains/losses are recognized as an item under equity, then the related current and/or deferred tax effects are also recognized directly in the equity.

Current taxes

Statutory income is subject to corporate tax at 22%. This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is no dividend distribution planned, no further tax charges are made.

In accordance with the regulation numbered 7061, published in Official Gazette on 5 December 2017 corporate tax rate for the years 2019, 2020 and 2021 will be 22%.

Dividends paid to the resident institutions and the institutions working through local offices or representatives are not subject to withholding tax. Withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

The prepaid taxes are calculated and paid at the rates valid for the earnings of the related years. The payments can be deducted from the annual corporate tax calculated for the whole year earnings. In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods. In Turkey, there is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of the 25th day of the fourth month following the close of the accounting period to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Deferred taxes

Deferred tax assets and liabilities are recognized on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Transfer pricing

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Accounting policies applied before 1 January 2018 for financial instrument

The Company's financial instruments are all non-derivative instruments. The Company has the following non-derivative financial assets: receivables from purchased or originated credit impaired assets, cash and cash equivalents and leasing receivables.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities -recognition and derecognition

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

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

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

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

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

Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment for financial assets.

Non-derivative financial assets - measurement

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, time and demand deposits at banks having original maturity less than 3 months and readily to be used by the Company or not blocked for any other purpose. Time deposits are measured at Amortized cost using the effective interest method. Demand deposits are measured at cost.

(iii) Non-derivative financial liabilities - measurement

The Company has the following non-derivative financial liabilities: borrowings, debt securities issued, finance lease payables and leasing payables.

All financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition the financial liabilities are measured at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 4 - DETERMINATION OF FAIR VALUES

As at 31 December 2018 and 2017, the carrying amounts and fair values of financial instruments are as follows:

	31 December 2018		31 December 2017		
	Fair value	Carrying amount	Fair value	Carrying amount	Level
Financial assets					
Finance lease receivables	322,665,000	361,253,123	298,265,738	333,328,082	3
Financial liabilities					
Borrowings	284,093,385	305,245,137	247,493,180	264,931,045	3

Fair value hierarchy overview

IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement (based on the application of judgement).

Fair value measurements are categorised into a three-level hierarchy, based on the type of inputs to the valuation techniques used, as follows:

Level 1 inputs are unadjusted quoted prices in active markets for items identical to the asset or liability being measured. As with current IFRS, if there is a quoted price in an active market, an entity uses that price without adjustment when measuring fair value. An example of this would be prices quoted on a stock exchange. The entity needs to be able to access the market at the measurement date. Active markets are ones where transactions take place with sufficient frequency and volume for pricing information to be provided. An alternative method may be used where it is expedient. The standard sets out certain criteria where this may be applicable. For example where the price quoted in an active market does not represent fair value at the measurement date. An example of this may be where a significant event takes place after the close of the market such as a business reorganization or combination.

The determination of whether a fair value measurement is based on level 2 or level 3 inputs depends on (i) whether the inputs are observable inputs or unobservable and (ii) their significance.

Level 2 inputs are inputs other than the quoted prices in determined in level 1 that are directly or indirectly observable for that asset or liability. They are likely to be quoted assets or liabilities for similar items in active markets or supported by market data. For example interest rates, credit spreads or yields curves. Adjustments may be needed to level 2 inputs and, if this adjustment is significant, then it may require the fair value to be classified as level 3.

Level 3 inputs are unobservable inputs. These inputs should be used only when it is not possible to use Level 1 or 2 inputs. The entity should maximise the use of relevant observable inputs and minimise the use of unobservable inputs. However, situations may occur where relevant inputs are not observable and therefore these inputs must be developed to reflect the assumptions that market participants would use when determining an appropriate price for the asset or liability. The general principle of using an exit price remains and IFRS 13 does not preclude an entity from using its own data. For example cash flow forecasts may be used to value an entity that is not listed. Each fair value measurement is categorised based on the lowest level input that is significant to it.

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 5 – MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended 31 December 2018 and 2017, marketing, general and administrative expenses comprised the following:

	1 January- 31 December 2018	1 January- 31 December 2017
Service from third parties	538,778	373,646
Office expenses	501,930	485,310
Insurance expenses	315,887	251,591
Taxes and duties	255,459	200,020
Rent expense	24,000	120,603
Other expenses	195,730	102,631
Total	**1,831,784**	**1,533,801**

NOTE 6 - SALARIES AND EMPLOYEE BENEFITS

For the years ended 31 December 2018 and 2017, salaries and employee benefits comprised the following:

	1 January- 31 December 2018	1 January- 31 December 2017
Wages and salaries	5,880,204	4,570,459
Other fringe benefits	544,483	428,374
Social security premiums	562,857	484,134
Change in employee termination and unused vacation provisions	956,889	476,737
Total	**7,944,433**	**5,959,704**

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 7 - OTHER OPERATING INCOME

For the years ended 31 December 2018 and 2017, other operating income comprised the following:

	1 January- 31 December 2018	1 January- 31 December 2017
Reversal of provisions	794,355	132,985
Income from costs charged to customers	165,797	228,714
Gain on sale of leased tangible assets	135,900	5,732
Other income	171,252	161,503
Total	**1,267,304**	**528,934**

NOTE 8 - OTHER OPERATING EXPENSE

For the years ended 31 December 2018 and 2017, other operating expense comprised the following:

	1 January- 31 December 2018	1 January- 31 December 2017
Insurance expenses related to lease contracts	1,291,600	754,411
Notary expenses	77,432	114,546
Fees and commission expense	140,530	106,402
Other expenses related to lease contracts	396,836	596,638
Total	**1,906,398**	**1,571,997**

NOTE 9 - TAXATION

Income tax expense comprised the following for the years ended 31 December 2018 and 2017:

	31 December 2018	31 December 2017
Corporate tax expense	3,872,781	2,608,937
Prepaid taxes	(2,275,110)	(1,672,363)
Income tax payable	**1,597,671**	**936,574**
Current year corporate tax expense	(3,872,781)	(2,608,937)
Deferred tax income / (expense)	275,675	263,280
Total	**(3,597,106)**	**(2,345,657)**

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 9 – TAXATION (Continued)

The breakdown of deductible and taxable temporary differences for which either deferred tax asset or deferred tax liability have been provided at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Deferred tax liabilities		
Difference between carrying values and tax base of property and equipment	144,790	131,920
Leasing income accruals	631,818	478,365
	776,608	**610,285**
Deferred tax asset		
Impairment in leasing receivables	547,244	298,885
Employment termination benefits	689,362	430,708
Other temporary differences	171,346	159,834
	1,407,952	**889,427**
Net deferred tax asset	**631,344**	**279,142**

The reported tax expense for the years ended 31 December 2018 and 2017 are different than the amounts computed by applying the statutory tax rate to profit before tax as shown in the following reconciliation:

		31 December 2018		31 December 2017
Reported profit before income taxes		**16,363,109**		**11,490,982**
Taxes on reported profit per statutory tax rate	(22) %	(3,599,884)	(20) %	(2,298,196)
Non-deductible expenses	(1) %	(182,901)	(2) %	(237,303)
Other	1%	185,679	2%	189,842
Income tax expense	**(22) %**	**(3,597,106)**	**(20) %**	**(2,345,657)**

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 10 - CASH AND CASH EQUIVALENTS

At 31 December, cash and cash equivalents comprised the following:

	31 December 2018	31 December 2017
Cash at banks - demand	13,153,882	3,824,847
Cash at banks - time	46,099,150	35,553,640
Cash on hand	1,677	1,697
Cash and cash equivalents at the statement of financial position	59,254,709	39,380,184
Less: Accrued interest income	161,624	67,510
Cash and cash equivalences at the statement of cash flows	**59,093,085**	**39,312,674**

At 31 December 2018, maturities of time deposits are less than three months (31 December 2017: less than three months).

As of 31 December 2018, weighted average interest rates applied to these time deposits are 1.50% and 23.51% for Euro and Turkish Lira deposits respectively (31 December 2017: 1.77%, 1.44% and 15.10% for USD, Euro and Turkish Lira deposits respectively).

NOTE 10 - FINANCE LEASE RECEIVABLE

At 31 December 2018 and 2017, finance lease receivable comprised of the following:

	31 December 2018	31 December 2017
Finance lease receivable	390,418,681	357,426,081
Invoiced lease receivables	13,195,227	8,133,553
Total lease receivables	**403,613,908**	**365,559,634**
Impaired finance lease receivables	2,822,078	2,488,535
Advances and investments related to financial leases	1,037,955	7,597,395
Gross finance lease receivables	**407,473,941**	**375,645,564**
Provision for impaired finance lease receivables	(2,487,476)	(1,494,418)
Unearned interest income	(43,733,342)	(40,823,064)
Finance lease receivable, net	**361,253,123**	**333,328,082**

Finance lease receivable consists of rentals receivable over the terms of leases. Per the lease agreements made with lessees, there is an insignificant residual value guaranteed to the lessor and the ownership of the items leased is transferred to the lessees at the end of the lease term.

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 11 - FINANCE LEASE RECEIVABLE (Continued)

The maturity profile of the finance lease receivable is as follows:

	31 December 2018	31 December 2017
2018	--	137,361,295
2019	165,353,660	96,466,318
2020	108,943,659	63,267,621
2021	55,683,138	29,024,259
2022	26,647,878	7,208,589
2023 and above	4,624,788	--
Total payments	**361,253,123**	**333,328,082**

The Company provides specific loss provision for its finance lease receivables. Specific bad debt provision includes individually identified finance lease receivable balances of customers which may ultimately be uncollectible due to customers' inability to repay and/or shortfall in the realizable value of collaterals. The movements of reserve for impaired finance lease receivables during the years ended 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Opening balance	1,494,418	1,005,454
Adjustment to the first application of IFRS 9 (Note 3)	271,101	--
Provision for the year	1,359,280	621,948
Collections	(637,323)	(132,984)
Ending balance	**2,487,476**	**1,494,418**

As at 31 December 2018, net finance lease receivable are as follows:

	31 December 2018
Neither past due nor impaired	339,104,908
Past due but not impaired	58,205,617
Impaired lease receivables	10,163,416
Total	**407,473,941**
Unearned interest income	(43,733,342)
Allowance for impairment losses	(2,487,476)
Net Finance Lease Receivables	**361,253,123**

As at 31 December 2017, net finance lease receivable are as follows:

	31 December 2017
Neither past due nor impaired	324,200,412
Past due but not impaired	8,133,553
Impaired lease receivables	2,488,535
Total	**334,822,500**
Allowance for impairment losses	(1,494,418)
Net Finance Lease Receivables	**333,328,082**

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 11 - FINANCE LEASE RECEIVABLE (Continued)

As at 31 December 2018, finance leasing receivables and the expected credit loss allowance for them is as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross finance lease receivables	339,104,908	58,205,617	10,163,416	407,473,941
Expected credit loss (-)	411,821	896,923	1,178,732	2,487,476

As of 31 December 2018 and 2017, the aging of the past due but not impaired finance lease receivable is as follows:

	31 December 2018		**31 December 2017**	
	Invoiced Amount	**Remaining Principal**	**Invoiced Amount**	**Remaining Principal**
0 - 30 days	8,185,494	12,114,952	6,244,108	46,381,572
31 - 60 days	2,279,149	12,471,541	1,165,383	8,320,616
61 - 90 days	1,160,604	11,996,252	548,654	3,912,607
91 - 150 days	1,569,980	24,743,050	175,408	1,337,730
		--		
Total	**13,195,227**	**61,325,795**	**8,133,553**	**59,952,525**

NOTE 12 - OTHER ASSETS

At 31 December 2018 and 2017, other assets comprised the following:

	31 December 2018	**31 December 2017**
Prepaid expenses	2,975,701	2,538,136
Financial leasing insurance receivables	1,650,063	1,892,459
VAT receivable	-	1,104,593
Personnel advances	150,552	137,747
Other assets	188,238	362,552
Total	**4,964,554**	**6,035,487**

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 13 – TANGIBLE ASSETS, NET

For the year ended 31 December 2018, the movement in tangible assets is as follows:

	Building	Furniture and Equipment	Motor Vehicles	Total
Cost				
At 1 January 2018	4,186,671	360,967	1,042,316	5,589,954
Additions	20,206	18,549	-	38,755
Disposals	-	-	-	-
At 31 December 2018	**4,206,877**	**379,516**	**1,042,316**	**5,628,709**
Accumulated Depreciations				
At 1 January 2018	(504,038)	(264,072)	(188,892)	(957,002)
Depreciation for the year	(83,767)	(31,429)	(199,404)	(314,600)
Disposals	-	-	-	-
At 31 December 2018	**(587,805)**	**(295,501)**	**(388,296)**	**(1,271,602)**
Net carrying value				
At 31 December 2018	**3,619,072**	**84,015**	**654,020**	**4,357,107**

For the year ended 31 December 2017, the movement in tangible assets is as follows:

	Building	Furniture and Equipment	Motor Vehicles	Total
Cost				
At 1 January 2017	4,145,474	296,155	490,799	4,932,428
Additions	41,197	79,462	551,517	672,176
Disposals	-	(14,650)	-	(14,650)
At 31 December 2017	**4,186,671**	**360,967**	**1,042,316**	**5,589,954**
Accumulated Depreciations				
At 1 January 2017	(420,985)	(250,503)	(78,385)	(749,873)
Depreciation for the year	(83,053)	(27,659)	(110,507)	(221,219)
Disposals	-	14,090	-	14,090
At 31 December 2017	**(504,038)**	**(264,072)**	**(188,892)**	**(957,002)**
Net carrying value				
At 31 December 2017	**3,682,633**	**96,895**	**853,424**	**4,632,952**

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 14 - INTANGIBLE ASSETS, NET

For the year ended 31 December 2018, the movement of intangible assets is as follows:

	Software
Cost:	
At 1 January 2018	619,996
Additions	45,582
Disposals	-
At 31 December 2018	665,578
Accumulated amortization:	
At 1 January 2018	(461,028)
Amortization for the year	(70,891)
Disposals	-
At 31 December 2018	(531,919)
Net carrying value as 31 December 2018	**133,659**

For the year ended 31 December 2017, the movement of intangible assets is as follows:

	Software
Cost:	
At 1 January 2017	619,996
Additions	-
Disposals	-
At 31 December 2017	619,996
Accumulated amortization:	
At 1 January 2017	(351,616)
Amortization for the year	(109,412)
Disposals	-
At 31 December 2017	(461,028)
Net carrying value as 31 December 2017	**158,968**

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 15 - BORROWINGS

At 31 December 2018, bank borrowings comprised the following:

	Interest rates range	Balance in original	Balance in TL
Fixed rate borrowings:			
USD	5.00% -8.75%	2,864,870	15,071,794
EUR	3.10% - 5.65%	12,111,660	73,009,085
Floating rate borrowings:			
USD	4.44% - 11.26%	1,473,063	7,749,640
EUR	1.98% - 3.00%	34,740,315	209,414,618
Total Borrowings			**305,245,137**

At 31 December 2017, bank borrowings comprised the following:

	Interest rates range	Balance in original	Balance in TL
Fixed rate borrowings:			
USD	5.00%	6,215,056	23,442,568
EUR	3.50%	9,235,306	41,702,021
Floating rate borrowings:	15.40%	2,025,667	2,025,667
USD	3.30% - 3.32%	931,088	3,511,972
EUR	1.82 %- 3.00%	43,018,230	194,248,816
Total Borrowings			**264,931,044**

As of 31 December 2018, no guarantees were given to lending institutions as collateral against loans obtained (31 December 2017: no guarantees were given to lending institutions as collateral against loans obtained).

NOTE 16 - TRADE PAYABLES

At 31 December 2018 and 2017, trade payables comprised of the following:

	31 December 2018	31 December 2017
Payables to suppliers	4,638,255	12,544,235
Advances received	2,217,302	2,952,046
Other payables	57,116	93,084
Total	**6,912,673**	**15,589,365**

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 17 - OTHER LIABILITIES

At 31 December 2018 and 2017, other liabilities comprised of the following:

	31 December 2018	31 December 2017
VAT payable	1,127,409	12,339
Income tax payable	261,135	211,346
Social securities premiums payable	95,482	87,737
Stamp tax payable	6,393	5,259
Provision for lawsuits	--	142,509
Total	**1,490,419**	**459,190**

There are no lawsuits filed against the Company as of 31 December 2018 (31 December 2017: TL 142,509). There are no provisions for lawsuits filed by the Company as of 31 December 2018 (31 December 2017: TL 142,509).

NOTE 18 - EMPLOYEE BENEFITS

Provision for Termination Indemnities:

Under Turkish Labour Law, the Company is required to pay employment termination benefits to each employee who has qualified. Also, employees are required to be paid their retirement pay provisions who retired by gaining right to receive retirement pay provision.

The liability has no legal funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of its employees.

International Accounting Standards require actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year service will be increased in line with inflation. Accordingly, the discount rate used represents a level apart from inflation. The maximum amount of TL 5,434.42 has been taken into consideration in calculating the provision for employment termination benefits of the Company at 31 December 2018 (31 December 2017: TL 4,732.48) employee benefits comprised of the following:

Movement of the provision for employment termination benefits is as follows:

	31 December 2018	31 December 2017
Vacation pay liability	1,378,101	972,935
Reserve for employee severance indemnity	861,297	696,479
Reserve for employee severance indemnity for expatriates	894,063	484,127
Total	**3,133,461**	**2,153,541**

Movements in the reserve for employee severance indemnity are as follows:

	31 December 2018	31 December 2017
Opening balance (1 January)	696,479	624,014
Service cost	55,316	65,621
Interest cost	22,629	61,878
Paid during the year	(14,523)	-
Actuarial losses	101,396	(55,034)
Ending balance (31 December)	**861,297**	**696,479**

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 19 - SHAREHOLDERS' EQUITY

Share capital

At 31 December 2018, the Company's statutory nominal value of authorized and paid-in share capital is TL 95,500,000 comprising of 95,500,000 registered shares having par value of TL 1 nominal each. Adjustment to share capital represents the restatement effect of the contributions to share capital due to the inflation accounting (IAS 29).

The shareholders of the Company and their ownership percentages at 31 December 2018 and 2017 are as follows:

	31 December 2018		**31 December 2017**	
	Shares (%)	**Nominal amount**	**Shares (%)**	**Nominal amount**
Arap Türk Bankası A.Ş.	99.98	95,480,900	99.98	84,983,000
Salih Hatipoğlu	0.005	4,775	0.005	4,250
Erdem Özenci	0.005	4,775	0.005	4,250
Feyzullah Küpeli	0.005	4,775	0.005	4,250
Aziz Aydoğduoğlu	0.005	4,775	0.005	4,250
Adjustment to share capital		1,043,499		1,043,499
Total paid-in share capital	**100**	**96,543,499**	**100**	**86,043,499**

Legal reserves

The legal reserves consist of first and second reserves, in accordance with the Turkish Commercial Code. The first legal reserve appropriated out of the statutory profit at the rate of 5% until the total reserve reaches a maximum of 20% of the Company's paid-in capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the Company's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital. As of 31 December 2017, the Company's statutory legal reserves amounted to TL 3,792,999 (31 December 2017: TL 3,205,286).

NOTE 20 - FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks during the course of its operations:

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk.

The Company management has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 20 - FINANCIAL RISK MANAGEMENT (Continued)

Credit Risk

The Company is subject to credit risk through its leasing operations. The Credit Analysis Department of the Company is responsible for the management of the credit risk. The limits are being allocated to the customers at an amount of the asset subject to the finance lease contract. In new lease transactions the credibility of the customers are reevaluated and the limits revised accordingly. Sectoral analysis and follow ups are being made periodically and the customers in the risky sectors are being monitored on an ongoing basis. The analysis of customers' creditworthiness is made in accordance with the qualitative and quantitative factors such as the firm's operations, shareholder structure, financial structure, the relations of the firm with other financial institutions.

The collaterals other than the assets subject to finance lease contracts obtained for the finance lease receivables as of 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Warranty	3,010,934,674	2,209,243,278
Promissory notes	929,129,403	791,664,857
Pledges	273,987,406	219,175,183
Pledges on vehicles	24,520,523	24,433,086
Guarantees received	3,508,081	2,610,963
Guaranty cheques	1,094,699	607,315
Cash blockage	196,709	112,888
Guarantees letter	--	250,000
Total	**4,243,371,495**	**3,248,097,570**

As at 31 December 2018 and 2017, sectorial distribution for the performing finance lease receivables is as follows:

	31 December 2018	%	31 December 2017	%
Manufacturing	216,188,291	54	186,451,803	51
Real Estate	74,827,488	19	34,367,171	9
Agriculture	52,022,737	13	52,742,376	14
Construction	42,191,974	10	61,670,188	17
Commerce	5,164,376	1	4,172,870	1
Mining	5,080,895	1	7,645,122	1
Transportation	3,210,703	1	10,326,459	2
Health and Social Services	2,345,559	1	4,211,833	3
Education	1,612,981	--	2,329,595	1
Other	968,904	--	1,642,217	1
Total	**403,613,908**	**100**	**365,559,634**	**100**

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 20 - FINANCIAL RISK MANAGEMENT (Continued)

Foreign currency risk:

The Company is exposed to currency risk through transactions (such as leasing operations and borrowings) in foreign currencies. The main measurement currencies of its foreign exchange operations are EUR and USD. As the currency in which the Company presents its financial statements is TL, the financial statements are affected by movements in the exchange rates against TL.

As at 31 December 2018, the Company's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

	USD	EUR	Other	Total
Assets				
Cash and cash equivalents	451,917	20,126,316	-	20,578,233
Finance lease receivable	22,231,323	266,831,364	-	289,062,687
Other assets	712,794	2,995,727	-	3,708,521
Total assets	**23,396,034**	**289,953,407**	**-**	**313,349,441**
Liabilities				
Bank borrowings	22,821,433	282,423,704	-	305,245,137
Trade payables	668,967	4,402,451	-	5,071,418
Total liabilities	**23,490,400**	**286,826,155**	**-**	**310,316,555**
Net balance sheet position	**(94,366)**	**3,127,252**	**-**	**3,032,886**

As at 31 December 2017, the Company's foreign currency assets and liabilities may be analyzed as follows (TL equivalents):

	USD	EUR	Other	Total
Assets				
Cash and cash equivalents	4,170,959	16,257,434	-	20,428,393
Finance lease receivable	25,734,484	231,982,815	-	257,717,299
Other assets	800,621	2,769,881	-	3,570,502
Total assets	**30,706,064**	**251,010,130**	**-**	**281,716,194**
Liabilities				
Bank borrowings	26,954,539	235,950,839	-	262,905,378
Trade payables	3,411,574	10,071,376	-	13,482,950
Total liabilities	**30,366,113**	**246,022,215**	**-**	**276,388,328**
Net balance sheet position	**339,951**	**4,987,915**	**-**	**5,327,866**

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 20 - FINANCIAL RISK MANAGEMENT (Continued)

Currency risk sensitivity analysis

A 10 percent devaluation of the TL against the following currencies as at 31 December 2018 and 2017 would have increased equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2018		31 December 2017	
	Profit or loss	Equity	Profit or loss	Equity
USD	(9,437)	(9,437)	33,853	33,853
EUR	312,725	312,725	497,844	497,844
Total	**303,288**	**303,288**	**531,897**	**531,897**

Interest rate risk:

The Company's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprise at different times or in differing amounts. In the case of floating rate assets and liabilities the Company is also exposed to basis risk, which is the difference in reprising characteristics of the various floating rate indices. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Company's business strategies.

As of 31 December 2018, the interest rate maturity analysis of the monetary items is as follows:

	Up to 3 months	3 months to 1 year	1 to 5 years	5 years and above	Non-Interest Bearing	Total
Assets:						
Cash and cash equivalents	46,099,150	-	-	-	13,155,558	59,254,708
Finance lease receivables	54,680,123	111,035,502	195,537,498	-	-	361,253,123
Other assets	1,683,686	-	-	-	8,402,979	10,086,665
Total Assets	**102,462,959**	**111,035,502**	**195,537,498**	**-**	**21,558,537**	**430,594,496**
Liabilities:						
Bank borrowings	134,473,683	91,377,389	79,394,065	-	-	305,245,137
Trade payables	-	-	-	-	6,912,673	6,912,673
Provisions	-	-	-	-	3,133,461	3,133,461
Tax Payable and Other liabilities	3,088,090	-	-	-	-	3,088,090
Total Liabilities	**137,561,773**	**91,377,389**	**79,394,065**	**-**	**10,046,134**	**318,379,361**
Net interest position	**(35,098,814)**	**19,658,113**	**116,143,433**	**-**	**11,512,403**	**112,215,135**

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 20 - FINANCIAL RISK MANAGEMENT (Continued)

As of 31 December 2017, the interest rate maturity analysis of the monetary items is as follows:

	Up to 3 months	3 months to 1 year	1 to 5 to 5 years	5 years and above	Non-Interest Bearing	Total
Assets:						
Cash and cash equivalents	35,553,639	-	-	-	3,826,544	39,380,183
Finance lease receivables	49,558,017	87,612,640	196,157,424	-	-	333,328,081
Other assets	5,921,513	-	-	-	3,383,377	9,304,890
Total Assets	**91,033,169**	**87,612,640**	**196,157,424**	**-**	**7,209,921**	**382,013,154**
Liabilities:						
Bank borrowings	170,376,860	76,333,036	18,221,149	-	-	264,931,045
Trade payables	-	-	-	-	15,589,363	15,589,363
Tax Payable and Other liabilities	-	-	-	-	-	-
Total Liabilities	**170,376,860**	**76,333,036**	**18,221,149**	**-**	**15,589,363**	**280,520,408**
Net interest position	**(79,343,691)**	**11,279,604**	**177,936,275**	**-**	**(8,379,442)**	**101,492,746**

The table below shows the effects of changes in interest rates on the financial statements of the Company. The sensitivity of the profit or loss is the effect of possible changes in the interest rates on the net interest income of floating rate financial assets and liabilities as of 31 December 2018. The other variables, especially exchanges rates, are assumed to be fixed in this analysis. The same method is applied for 31 December 2017.

	31 December 2018		**31 December 2017**	
Increase / (decrease) in net profit	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Floating rate financial liabilities	(2,171,643)	2,171,643	(1,977,608)	1,977,608
Total, net	**(2,171,643)**	**2,171,643**	**(1,977,608)**	**1,977,608**

Liquidity risk:

Liquidity risk arises in the general funding of the Company's activities and in the management of positions. It includes both risk of being unable to fund assets at appropriate maturities and rates and risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Company has access to funding sources from banks, its suppliers and its shareholders. The Company continuously assesses liquidity risk by identifying and monitoring changes in funding required in meeting business goals and targets set in terms of the overall Company strategy. In addition, a portfolio of liquid assets is held as a part of the Company's liquidity risk management strategy.

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 20 - FINANCIAL RISK MANAGEMENT (Continued)

The table below represents the book values and the gross amount of un-discounted cash flows of financial liabilities to the nearest contract maturities.

Presentation of contractual liabilities based on their outstanding maturities:

31 December 2018	Gross Nominal Outflow	Book Value	Demand	1-3 Months	3-12 Months	Above 1 year
Borrowings	306,309,141	305,245,137	-	72,847,313	75,093,594	157,304,230
Trade payables	6,912,673	6,912,673	-	-	6,912,673	-
Total	**312,157,810**	**312,157,810**	**--**	**72,847,313**	**82,006,267**	**157,304,230**

31 December 2017	Gross Nominal Outflow	Book Value	Demand	1-3 Months	3-12 Months	Above 1 year
Borrowings	264,931,044	263,926,720	-	54,874,840	58,085,712	150,966,168
Trade payables	15,589,363	15,589,363	-	-	15,589,363	-
Total	**280,520,407**	**276,516,083**	**-**	**54,874,840**	**73,675,075**	**150,966,168**

NOTE 21 - COMMITMENTS AND CONTINGENCIES

Legal proceedings:

Due to the nature of its business the Company is involved in a number of claims and legal proceedings arising in the ordinary course of business. It is the opinion of the management and its professional advisors that such claims are either without merit can be successfully defended or will not have a material adverse effect on the Company's financial position.

Letters of credit:

At 31 December 2018 and 2017, contingent liabilities arising from letters of credit comprised of the following:

	2018	2017
EURO	3,357,008	8,292,716
USD	--	2,029,282
TL	194,954	--
Total	**3,551,962**	**10,321,998**

Letters of guarantee:

At 31 December 2018, letters of guarantee amounting to TL 606,138 (31 December 2017: TL 1,316,359) were given mainly to legal authority.

(Currency: Turkish Lira ("TL") unless otherwise stated)

NOTE 22 - RELATED PARTIES

For the purpose of this report, the shareholders of the Company, Arap Türk Bankası A.Ş, the ultimate shareholder of the Company and the shareholders of Arap Türk Bankası A.Ş, Libyan Arab Foreign Bank, Türkiye İş Bankası A.Ş, and T.C Ziraat Bankası A.Ş are referred to as related parties. A number of transactions are entered into with the related parties in the normal course of business. These transactions were carried out on an arms-length basis.

At 31 December 2018 and 2017, bank deposits at related parties were as follows:

	31 December 2018	31 December 2017
T. İş Bankası AŞ	4,555,771	3,161,199
Arap Türk Bankası AŞ	333,463	113,593
TC Ziraat Bankası AŞ	1,139,012	543,761
Total	**6,028,246**	**3,818,553**

At 31 December 2018 and 2017, related party balances other than bank deposits are as follows:

	31 December 2018	31 December 2017
Borrowings	272,799,338	218,771,721
Finance lease receivable	2,243,312	2,929,906

As of 31 December 2018 maturity of the loans obtained from related banks vary between 11 March 2019 and 21 December 2021 (31 December 2017: 11 March 2019 and 28 November 2020). The interest rates of the loans vary between 1.98% and 11.25% (31 December 2017: between 1.82% and 15.40%).

For the year ended 31 December 2018 and 2017, related party transactions were as follows:

	31 December 2018	31 December 2017
Income		
Interest income on time deposits	2,710	3,900
Finance lease interest income	125,721	146,700
Expense		
Interest expense on borrowings	9,165,276	5,268,194
Off-balance sheet		
Letter of guarantee	606,138	1,316,359

For the year ended 31 December 2018, the Company paid to executive members and key management personnel amounting to TL 2,747,755 (31 December 2017: TL 2,090,991) as fringe benefit.

NOTE 23 – SUBSEQUENT EVENTS

None.