

**Alternatif Finansal Kiralama A.Ş.**

Financial Statements  
As at and for the year ended  
31 December 2017 With  
Independent Auditors' Report Thereon

KPMG Bağımsız Denetim ve Serbest  
Muhasebeci Mali Müşavirlik  
Anonim Şirketi

6 March 2018

*This report includes "independent auditors' report"  
comprising 4 pages and "financial statements  
together with their explanatory notes" comprising  
37 pages.*

# Alternatif Finansal Kiralama AŞ

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors' of Alternatif Finansal Kiralama Anonim Şirketi:

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Alternatif Finansal Kiralama A.Ş. ("the Company"), which comprise the statement of financial position as at 31 December 2017, 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 2017, 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 (ISAs). 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### *Key Audit Matters*

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

#### *Impairment of the finance lease receivables carried at amortised cost*

See Note 7 Finance to the financial statements.

<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The appropriateness of allowance for impairment losses on finance lease receivables is a key area of judgment for management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of impairment losses on finance lease receivables.</p>	<p>We assessed and tested the design and operating effectiveness of the controls over impairment calculations including the quality of underlying data and systems. For allowance for impairment losses on finance lease receivables calculated on an individual basis we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. This included taking into consideration the impact of forbearance. Finally, we assessed and tested the design and operating effectiveness of the controls over related disclosures including the disclosures for forbearance and cover values.</p>

#### *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.



### *Auditors' 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 auditors' 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

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

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

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.  
A member firm of KPMG International Cooperative



Funda Aslanoglu  
Partner

6 March 2018  
Istanbul, Turkey

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**ALTERNATİF FİNANSAL KİRALAMA A.Ş.****STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2017**

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

	Notes	31 December 2017	31 December 2016
<b>ASSETS</b>			
Cash and cash equivalents	5	49,428	99,033
Finance lease receivables	7	1,605,998	1,228,283
Other assets and prepaid expenses	10	37,963	52,879
Property and equipment, net	8	845	464
Intangible assets, net	9	1,213	607
Deferred tax assets	15	13,174	15,871
<b>Total assets</b>		<b>1,708,621</b>	<b>1,397,137</b>
<b>LIABILITIES AND EQUITY</b>			
Funds borrowed	11	1,242,491	1,042,486
Debt securities issued	12	243,063	151,924
Account payables	13	27,611	39,687
Derivative financial instruments held for trading	6	8,716	2,432
Other liabilities	14	20,238	18,937
Other provisions	16	139	136
Reserve for employee benefits	17	2,751	2,306
<b>Total liabilities</b>		<b>1,545,009</b>	<b>1,257,908</b>
<b>Equity</b>			
Share capital	18	36,477	36,477
Legal reserves		4,618	3,491
Retained earnings		122,517	99,261
<b>Total equity</b>		<b>163,612</b>	<b>139,229</b>
<b>Total liabilities and equity</b>		<b>1,708,621</b>	<b>1,397,137</b>

The accompanying notes set out on pages 5 to 37 form an integral part of these financial statements.



**ALTERNATİF FİNANSAL KİRALAMA A.Ş.****STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

	Notes	2017	2016
Interest income from finance leases		114,571	87,455
Interest income on placements and transactions with banks		1,188	1,440
<b>Total interest income</b>		<b>115,759</b>	<b>88,895</b>
Interest expense on funds borrowed		(42,721)	(31,973)
Interest expense on debt securities issued		(27,407)	(16,336)
<b>Net interest income</b>		<b>45,631</b>	<b>40,586</b>
Impairment loss on finance lease receivables	7	(9,064)	(7,607)
Foreign exchange gains and (losses), net		3,772	6,037
Other income/(expense), net	24	584	694
<b>Operating profit</b>		<b>40,923</b>	<b>39,710</b>
Marketing and administrative expenses	21	(3,922)	(4,035)
Salaries and employee benefits	22	(9,600)	(8,568)
Depreciation and amortisation expenses	8,9	(321)	(325)
<b>Profit before income tax</b>		<b>27,080</b>	<b>26,782</b>
Tax expense	15	(2,697)	(4,017)
<b>Net profit for the year</b>		<b>24,383</b>	<b>22,765</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>24,383</b>	<b>22,765</b>
Basic earnings per share attributable to the equity holders of the Company	20	0.00488	0.00455

The accompanying notes set out on pages 5 to 37 form an integral part of these financial statements.

**ALTERNATİF FİNANSAL KİRALAMA A.Ş.****STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

	Notes	Share capital	Legal reserves	Retained earnings	Total
<b>Balance at 1 January 2016</b>		<b>36,477</b>	<b>2,750</b>	<b>77,237</b>	<b>116,464</b>
Transfers		-	741	(741)	-
Total comprehensive income for the year		-	-	22,765	22,765
<b>Balance at 31 December 2016</b>		<b>36,477</b>	<b>3,491</b>	<b>99,261</b>	<b>139,229</b>
<b>Balance at 1 January 2017</b>		<b>36,477</b>	<b>3,491</b>	<b>99,261</b>	<b>139,229</b>
Transfers	19	-	1,127	(1,127)	-
Total comprehensive income for the year		-	-	24,383	24,383
<b>Balance at 31 December 2017</b>		<b>36,477</b>	<b>4,618</b>	<b>122,517</b>	<b>163,612</b>

The accompanying notes set out on pages 5 to 37 form an integral part of these financial statements.

**ALTERNATİF FİNANSAL KİRALAMA A.Ş.****STATEMENT OF CASH FLOW  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

	Notes	2017	2016
<b>Cash flows from operating activities</b>			
Net profit for the year		24,383	22,765
Adjustments for:			
Depreciation and amortisation	8,9	321	325
Increase in provision for employee severance payments	17	153	146
Increase in provision for employee bonuses	17	1,800	1,560
Impairment loss on finance lease receivables	7	9,064	7,607
Deferred tax expense	15	2,697	4,017
Interest received		115,759	88,895
Interest paid		(168,311)	(51,385)
Unrealised foreign currency losses		29,381	(7,592)
Re-measurement (gain) /loss of derivative financial instruments held for trading		6,284	969
<b>Net cash from operating activities before changes in operating assets and liabilities</b>		<b>21,531</b>	<b>67,307</b>
Net increase in finance lease receivables		(390,233)	(285,839)
Net decrease in other assets	10	14,916	(24,219)
Net (increase)/decrease in accounts payable	14	1,573	26,074
Net (increase)/decrease in other liabilities		(227)	2,300
Employee benefits paid	17	(40)	(52)
<b>Net cash used in operating activities</b>		<b>(374,011)</b>	<b>(281,736)</b>
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	8	(631)	(209)
Acquisition of intangible assets	9	(865)	(296)
Proceedings from sale of property and equipment	8	220	925
<b>Net cash from/(used in) investing activities</b>		<b>(1,276)</b>	<b>420</b>
<b>Cash flows from financing activities</b>			
Proceeds/ (repayments) from funds borrowed		242,401	263,741
Proceeds from issued debt securities		91,139	9,836
<b>Net cash from financing activities</b>		<b>333,540</b>	<b>273,577</b>
Net decrease/(increase) in cash and cash equivalents		(20,216)	59,568
Effect of exchange rate changes on cash and cash equivalents		(29,381)	7,592
Cash and cash equivalents at beginning of year		99,021	31,861
<b>Cash and cash equivalents at end of year</b>		<b>49,424</b>	<b>99,021</b>

The accompanying notes set out on pages 5 to 37 form an integral part of these financial statements.

## **ALTERNATİF FİNANSAL KİRALAMA A.Ş.**

### **NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017**

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

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#### **NOTE 1 - REPORTING ENTITY**

Alternatif Finansal Kiralama AŞ ("the Company") was established in February 1997, in order to operate in Turkey pursuant to the licence obtained from the Undersecretariat of Treasury for the purpose of financial leasing as permitted by the law number 3226. The Company started leasing operations in 1997 and its registered head office address is 19 Mayıs Caddesi, Golden Plaza No: 3 Kat: 5, Şişli-İstanbul, Turkey.

The financial statements of the Company are authorized for issue by the Board of Directors on 6 March 2018. The General Assembly has the power to amend the financial statements after its issue.

As of 31 December 2017, the Company has 56 employees (2016: 57).

The Company is mainly engaged in leasing of various equipment, construction machinery including industrial machinery and real-estate equipment. The Company operates predominantly in one geographical region, Turkey.

The Company's main shareholder is Alternatifbank A.Ş. and the ultimate shareholder is the Commercial Bank (P.S.Q.C.). Anadolu Endüstri Holding A.Ş. decided to use to right to share sales on 18 July 2013 according to "Shareholder's Agreement" which was signed with The Commercial Bank (P.S.Q.C.), and Anadolu Endüstri Holding A.Ş. sold their 25% of the shares of Alternatifbank A.Ş. to The Commercial Bank (P.S.Q.C.) on 19 December 2016. After this transaction the Commercial Bank (P.S.Q.C.) has become 100% indirect shareholder of Alternatif Finansal Kiralama A.Ş.

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

##### **Basis of presentation of financial statements**

The financial statements are prepared in accordance with the International Financial Reporting Standards ("IFRS").

The financial statements are presented in TL, which is the Company's functional currency. All financial information is presented in thousand TL has been rounded, except when otherwise indicated.

Turkish tax legislation required all leased assets be capitalised on the balance sheet of the lessor whether the lease is operating or finance lease until 1 July 2003. In accordance with amendments in Turkish tax law dated 24 April 2003, the lessors started to apply rules similar to IAS 17: "Leases" for the leasing transactions they entered after 1 July 2003 in their statutory financial statements.

The financial statements have been prepared on the historical cost convention except for the derivative financial instruments held for trading measured at fair value.

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

**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017**

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

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting for the effects of hyperinflation**

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%.

The cumulative three-year inflation rate in Turkey was 35.6% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute. This, together with the sustained positive trend in quantitative factors, such as the stabilization in capital and money markets, decrease in interest rates and the appreciation of TL against the USD and other hard currencies have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006. Therefore, IAS 29 has not been applied in the preparation of the accompanying financial statements beginning from 1 January 2006.

**Change in accounting policies, accounting estimates and errors**

Changes in accounting policies or fundamental accounting errors are applied retrospectively and the financial statements for the prior periods are restated. If changes in accounting estimates relate only for one period, changes are applied in the current period but if changes in estimates related to more than one period, changes are applied both in the current and following periods prospectively. Any material accounting error detected is applied retrospectively and prior year financial statement is restated, accordingly.

**Related parties**

For the purpose of these financial statements, the shareholders, key management personnel and Board members, the companies controlled by or affiliated with them are considered and referred to as related parties (Note 23).

**Due from other banks**

Amounts due from other banks are recorded when the Company advances money to counterparty banks with no intention of trading the resulting receivable, due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

**Derivative financial instruments**

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The fair values of derivative financial instruments that are quoted in active markets are determined from quoted market prices in active markets including recent market transactions. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques, including discounted cash flow models. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. Fair values of derivatives are carried as assets when positive and as liabilities when negative. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Derivative financial instruments are classified as held for trading (Note 6).

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting for leases (where the Company is a lessor)**

When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable. All costs that are directly attributable to the investment in direct finance lease are capitalised at initial recognition as part of the investment in direct finance lease and amortised via effective interest rate method. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. The profit recognised on sale of leased assets is recorded as gain on liquidation of investments.

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

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

**Accounting for leases (where the Company is a lessee)**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

**Allowance for impairment losses on lease receivables**

An allowance for impairment losses on finance lease receivables and other receivables is established if there is objective evidence that the Company will not be able to collect all amounts due as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the receivables.

Objective evidence that a financial lease receivable is impaired includes observable data that comes to the attention of the Company about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- (c) the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that finance lease receivable because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of finance lease receivable since the initial recognition of those assets, although the decrease cannot yet be identified with the individual finance lease receivable in the Company, including:
  - (i) adverse changes in the payment status of borrowers in the; or
  - (ii) national or local economic conditions that correlate with defaults on the assets in the Company.

# ALTERNATİF FİNANSAL KİRALAMA A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Allowance for impairment losses on finance lease receivables (continued)

If there is objective evidence that an impairment loss on finance lease receivable carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial lease receivable's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the financial lease receivable is reduced through use of an allowance account. The amount of the loss is recognized in income statement. Impairment and uncollectibility are measured and recognized individually for receivables that are individually significant and on a portfolio basis for a group of similar receivables that are not individually identified as impaired.

A write off is made when all or part of a receivable is deemed uncollectible or in the case of debt forgiveness. Write offs are charged against previously established allowances and reduce the principle amount of a receivable. Recoveries of receivables written off in earlier period are included in income.

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

#### Property and equipment

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

Buildings	50 years
Equipment, furniture and fixtures	5 years

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

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

#### Intangible assets

Intangible assets are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets mainly comprise of rights and amortised by using the straight-line method over their useful lives of 5 years.

#### Financial liabilities

Financial liabilities including borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequently, financial liabilities are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the financial liability using the effective yield method. All borrowing costs are recognized in profit or loss in the period in which they are incurred.

# ALTERNATİF FİNANSAL KİRALAMA A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

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### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### *a. Income taxes currently payable*

Income taxes ("corporation tax") currently payable are calculated based in accordance with the Turkish tax legislation (Note 15).

Taxes other than on income are recorded within other income / (expense) (Note 23).

##### *b. Deferred income taxes*

Deferred tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The rates enacted, or substantively enacted, at the balance sheet date are used to determine the deferred tax.

Deferred tax assets resulting from temporary differences in the recognition of expense for income tax, and for financial reporting purposes are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provision is not recognised for future operating losses.

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.

#### Employee benefits

##### Reserve for employee severance payments

Reserve for employee severance payments represents the present value of the estimated total provision of the future probable obligation of the Company arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. In accordance with existing social legislation and Turkish Labour Law in Turkey, the Company is required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service (Note 17).



**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Employee benefits (continued)**

**Reserve for employee severance payments (continued)**

According to the TAS 19 that is revised by Public Oversight Accounting and Auditing Standards Authority with the Communiqué published in Official Gazette on 12 March 2013 numbered 28585, in the calculation of the employment termination benefit liabilities of the Bank, the recognition option of the actuarial gains and losses derived from the changes in actuarial assumptions or the differences between actuarial assumptions and realizations in the income statement has been eliminated which is effective for annual periods beginning on or after 1 January 2013.

**Short term employee benefits**

Other short-term benefits includes vacation pay liabilities and employee bonuses. In accordance with the existing labor law in Turkey, the employer is obliged to pay for unused leave days in case the employee is entitled to permission and leaves work. Vacation pay liability is the amount of undiscounted total liability that corresponds to the vacation days for which employees are entitled but have not yet used them.

**Accounts payable**

Accounts payable are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. The Company management considers that the carrying amount of accounts payable approximates their fair value.

**Revenue recognition**

Direct finance leases consist of full-pay-out leases for various types of equipment. The excess of aggregate contract lease rentals, plus the nominal residual value, over the original cost of the related equipment represents the total revenue to be 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.

Future gross lease rentals receivable, net of unearned future lease income, are classified as the net investment in direct financing leases. Gross rentals due, but not received at the balance sheet date are classified as receivable lease payments outstanding.

**Interest income and expense**

Interest income and expense are recognised in the profit or loss for all instruments measured at amortised cost using the effective interest method.

**Foreign currency transactions**

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

**Reporting of cash flows**

For the purposes of statement of cash flows, cash and cash equivalents include balances of cash and due from banks with original maturity periods of less than three months (Note 5).

**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 set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Share capital**

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

**Events after the reporting period**

Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

The Company adjusts its financial statements to reflect adjusting events after the reporting period and discloses the material non-adjusting events after the reporting period in the notes to the financial statements.

**Comparative Information**

The accompanying financial statements have been prepared including comparative information in order to enable readers to understand the trends in the financial position, performance and cash flows of the Company.

Where necessary, comparative information have been reclassified to conform to changes in presentation in the current year so that the reclassification will result in a more appropriate presentation of events or transactions.

**New standards and interpretations not yet adopted**

New standards, interpretations 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. The Company will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, after the new standards and interpretations become in effect.

***IFRS 9 Financial Instruments***

The last version of IFRS 9 issued in July 2014, replaces the existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement". It also carries forward the guidance on recognition, classification, measurement and derecognition of financial instruments from IAS 39 to IFRS 9. The last version of IFRS 9 includes a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements and also includes guidance issued in previous versions of IFRS 9. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

It is not anticipated a significant impact on the total equity as a result of the impairment calculation based expected credit loss model in accordance with IFRS 9. The impact of implementation for this standard is based on the assessments made so far. As of the transition date, it is still ongoing the revisions on the accounting policies, relevant processes and internal controls. Accordingly, there might be changes in the anticipated impact of IFRS 9 on the financials until announcement of the first time adoption financial statement including the opening balance sheet as of 1 January 2018. Besides, the Company will calculate deferred tax on the expected credit losses calculated on stage 1 and 2 loans and the impact regarding calculated deferred tax asset will be accounted under equity during transition.

# ALTERNATİF FİNANSAL KİRALAMA A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

### NOTE 3 - FINANCIAL RISK MANAGEMENT

#### a. Market risk

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

The core business of the Company is to serve clients' financial needs; therefore typically the Company acts as a commercial institution, an activity which could expose the Company to risks such as foreign exchange risk, interest rate risk and liquidity risk.

#### b. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location.

The Company seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or Company's customers in specific locations or businesses. It also obtains security when appropriate.

The table below summaries the geographic distribution of the Company's assets and liabilities:

<b>2017</b>	<b>Assets</b>	<b>%</b>	<b>Liabilities</b>	<b>%</b>
Turkey	1,694,447	99.17	895,208	57.94
European countries	9,864	0.58	536,412	34.72
Other	4,310	0.25	113,389	7.34
	<b>1,708,621</b>	<b>100</b>	<b>1,545,009</b>	<b>100</b>
<b>2016</b>	<b>Assets</b>	<b>%</b>	<b>Liabilities</b>	<b>%</b>
Turkey	1,395,954	99.92	910,374	72.37
European countries	866	0.06	240,395	19.11
Other	317	0.02	107,139	8.52
	<b>1,397,137</b>	<b>100</b>	<b>1,257,908</b>	<b>100</b>

#### Maximum exposure to credit risk

	<b>2017</b>	<b>2016</b>
Credit risk exposures relating to balance sheet items:		
Due from banks	49,428	99,033
Finance lease receivables, net	1,605,998	1,228,283
Receivables from insurance policies	2,474	2,095

# ALTERNATİF FİNANSAL KİRALAMA A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

### NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

#### c. Currency risk

Foreign currency risk is a result of the Company's assets and liabilities denominated in foreign currencies. The Company has a foreign currency position as a result of its operations. The table below summarizes the Company's exposure to foreign currency exchange rate risk.

2017	Foreign Currency				
	USD	EUR	CHF	GBP	Total
<b>Assets</b>					
Cash and cash equivalents	15,772	31,650	694	-	48,116
Finance lease receivables	283,193	911,055	-	-	1,194,248
Other assets and prepaid expenses	3,441	26,764	-	-	30,205
<b>Total assets</b>	<b>302,406</b>	<b>969,469</b>	<b>694</b>	<b>-</b>	<b>1,272,569</b>
<b>Liabilities</b>					
Funds borrowed	350,535	826,424	-	-	1,176,959
Account payables	6,150	15,599	-	377	22,126
Derivative financial instruments held for trading	-	8,716	-	-	8,716
Other liabilities	2,703	12,181	-	-	14,884
<b>Total liabilities</b>	<b>359,388</b>	<b>862,920</b>	<b>-</b>	<b>377</b>	<b>1,222,685</b>
<b>Net balance sheet position</b>	<b>(56,982)</b>	<b>106,549</b>	<b>694</b>	<b>(377)</b>	<b>49,884</b>
<b>Net off-balance sheet position</b>					
Derivative assets	57,628	16,120	-	-	73,748
Derivative liabilities	-	131,683	-	-	131,683

# ALTERNATİF FİNANSAL KİRALAMA A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

### NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

#### c. Currency risk (continued)

2016	Foreign Currency				
	USD	EUR	CHF	GBP	Total
<b>Assets</b>					
Cash and cash equivalents	35,612	63,143	-	-	98,755
Finance lease receivables	254,626	697,434	-	-	952,060
Other assets and prepaid expenses	22,027	23,447	-	-	45,474
<b>Total assets</b>	<b>312,265</b>	<b>784,024</b>	<b>-</b>	<b>-</b>	<b>1,096,289</b>
<b>Liabilities</b>					
Funds borrowed	288,660	696,535	-	-	985,195
Account payables	20,172	15,106	336	320	35,934
Derivative financial instruments held for trading	-	2,432	-	-	2,432
Other liabilities	6,229	7,896	-	-	14,125
<b>Total liabilities</b>	<b>315,061</b>	<b>721,969</b>	<b>336</b>	<b>320</b>	<b>1,037,686</b>
<b>Net balance sheet position</b>	<b>(2,796)</b>	<b>62,055</b>	<b>(336)</b>	<b>(320)</b>	<b>58,603</b>
<b>Net off-balance sheet position</b>					
Derivative assets	-	-	-	-	-
Derivative liabilities	-	61,604	-	-	61,604

At 31 December 2017, assets, liabilities and off-balance sheet derivative financial instruments denominated in foreign currency were translated into TL by using a foreign exchange rate of and TL 3.7719 = USD 1, TL 4.5155= EUR 1 (2016: TL 3.5192 = USD 1, TL 3.7099= EUR 1) .

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

	2017		2016	
	Profit and loss	Equity	Profit and loss	Equity
USD impact	65	65	(280)	(280)
EUR impact	(901)	(901)	45	45
CHF impact	69	69	(34)	(34)
GBP impact	(38)	(38)	(32)	(32)
<b>Total</b>	<b>(805)</b>	<b>(805)</b>	<b>(301)</b>	<b>(301)</b>

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

# ALTERNATİF FİNANSAL KİRALAMA A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

### NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

#### d. Liquidity risk

Liquidity risk is the possibility that the Company will be unable to fund its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. The Company's policy is to match cash outflow mainly arising from repayments of the funds borrowed and cash inflow mainly arising from lease receivables maintained in the portfolio. Repayment schedules of leasing contracts made with the customers are structured considering the funding and equity base of the Company.

In addition, the Company maintains reasonable amount of cash at bank in order to protect itself against the risk of deviation from the expected in and out cash flows in an unfavourable manner.

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

	Up to 3	3 to 12	Over	No definite	
2017	months	months	1 year	maturity	Total
Funds borrowed	300,987	338,983	661,039	-	1,301,009
Debts securities issued	114,000	134,826	-	-	248,826
<b>Total liabilities</b>	<b>414,987</b>	<b>473,809</b>	<b>661,039</b>	<b>-</b>	<b>1,549,835</b>
Cash and cash equivalents	47,765	-	-	1,663	49,428
Finance lease receivables	212,748	471,556	1,109,327	32,690	1,826,321
<b>Assets held for managing liquidity risk (contractual maturity dates)</b>	<b>260,513</b>	<b>471,556</b>	<b>1,109,327</b>	<b>34,353</b>	<b>1,875,749</b>
2016	Up to 3	3 to 12	Over	No definite	Total
	months	months	1 year	maturity	
Funds borrowed	214,147	555,146	310,210	-	1,079,503
Debts securities issued	153,830	-	-	-	153,830
<b>Total liabilities</b>	<b>367,977</b>	<b>555,146</b>	<b>310,210</b>	<b>-</b>	<b>1,233,333</b>
Cash and cash equivalents	98,255	-	-	778	99,033
Finance lease receivables	151,910	349,614	855,434	32,361	1,389,319
<b>Assets held for managing liquidity risk (contractual maturity dates)</b>	<b>250,165</b>	<b>349,614</b>	<b>855,434</b>	<b>33,139</b>	<b>1,488,352</b>

# ALTERNATİF FİNANSAL KİRALAMA A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

### NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

#### e. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value or future cash flows of financial instruments. The Company is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Company manages this risk by matching the re-pricing of assets and liabilities through risk management strategies. The table below summarizes the average year-end interest rates by major currencies for monetary financial instruments:

Assets	2017 (%)			2016 (%)		
	USD	EUR	TL	USD	EUR	TL
Cash and cash equivalents	0.95	0.70	8.00	3.30	2.05	8.00
Finance lease receivables	6.92	5.13	16.71	6.71	5.17	15.75
<b>Liabilities</b>						
Funds borrowed	4.51	3.33	14.33	4.19	3.15	12.07
Debt securities issued	-	-	14.21	-	-	10.94

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

2017	Up to 3 months	3 to 12 months	Over 1 year	Non-interest bearing	Total
<b>Assets</b>					
Cash and cash equivalents	47,765	-	-	1,663	49,428
Finance lease receivables	184,293	402,721	986,294	32,690	1,605,998
Other assets and prepaid expenses	-	-	-	37,963	37,963
Property and equipment, net	-	-	-	845	845
Intangible assets, net	-	-	-	1,213	1,213
Deferred tax assets	-	-	-	13,174	13,174
<b>Total assets</b>	<b>232,058</b>	<b>402,721</b>	<b>986,294</b>	<b>87,548</b>	<b>1,708,621</b>
<b>Liabilities</b>					
Funds borrowed	591,097	651,394	-	-	1,242,491
Debt securities issued	113,267	129,796	-	-	243,063
Account payables	-	-	-	27,611	27,611
Derivative financial instruments held for trading	-	-	-	8,716	8,716
Other liabilities	-	-	-	20,238	20,238
Other provisions	-	-	-	139	139
Reserve for employee benefits	-	-	-	2,751	2,751
<b>Total liabilities</b>	<b>704,364</b>	<b>781,190</b>	<b>-</b>	<b>59,455</b>	<b>1,545,009</b>
<b>Net re-pricing gap</b>	<b>(472,306)</b>	<b>(378,469)</b>	<b>986,294</b>	<b>28,093</b>	<b>163,612</b>

# ALTERNATİF FİNANSAL KİRALAMA A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

### NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

#### e. Interest rate risk (continued)

2016	Up to 3 months	3 to 12 months	Over 1 year	Non-interest bearing	Total
<b>Assets</b>					
Cash and cash equivalents	98,255	-	-	778	99,033
Finance lease receivables	131,528	292,647	771,747	32,361	1,228,283
Other assets and prepaid expenses	-	-	-	52,879	52,879
Property and equipment, net	-	-	-	464	464
Intangible assets, net	-	-	-	607	607
Deferred tax assets	-	-	-	15,871	15,871
<b>Total assets</b>	<b>229,783</b>	<b>292,647</b>	<b>771,747</b>	<b>102,960</b>	<b>1,397,137</b>
<b>Liabilities</b>					
Funds borrowed	356,683	642,229	43,574	-	1,042,486
Debt securities issued	151,924	-	-	-	151,924
Account payables	-	-	-	39,687	39,687
Derivative financial instruments held for trading	-	-	-	2,432	2,432
Other liabilities	-	-	-	18,937	18,937
Other provisions	-	-	-	136	136
Reserve for employee benefits	-	-	-	2,306	2,306
<b>Total liabilities</b>	<b>508,607</b>	<b>642,229</b>	<b>43,574</b>	<b>63,498</b>	<b>1,257,908</b>
<b>Net re-pricing gap</b>	<b>(278,824)</b>	<b>(349,582)</b>	<b>728,173</b>	<b>39,462</b>	<b>139,229</b>

The sensitivity analyses below have been determined based on the exposure to interest rates for both non-derivatives and derivative instruments, if any, at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2017 would decrease/increase by TL 3,053 (2016: decrease/increase by TL 229). This is mainly attributable to the Company's exposure to interest rates on its variable rate funds borrowed.

#### f. Operational risk

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



## ALTERNATİF FİNANSAL KİRALAMA A.Ş.

### NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

#### NOTE 3 - FINANCIAL RISK MANAGEMENT (Continued)

##### 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 the Company could realise in a current market exchange.

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

The fair values of certain financial assets excluding finance lease receivables and funds borrowed are considered to approximate their respective carrying values due to their short-term nature. Fair value of floating rate funds borrowed and debt securities in issue is considered to approximate their carrying values.

The table below indicates the fair value of the financial assets which are stated at their carrying amounts:

	2017	2016
<b>Financial Assets</b>		
Finance lease receivables - Carrying amount	1,605,998	1,228,283
Finance lease receivables - Fair value	1,620,184	1,253,204
<b>Financial Liabilities</b>		
Funds borrowed - Carrying amount	1,242,491	1,042,486
Funds borrowed - Fair value	1,237,674	1,046,449
Debt securities issued - Carrying amount	243,063	151,924
Debt securities issued - Fair value	243,063	151,924

The following tables present the Company's assets and liabilities that are measured at fair value:

31 December 2017	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss				
- Derivative instruments held for trading	-	8,716	-	8,716
<b>Total liabilities</b>	<b>-</b>	<b>8,716</b>	<b>-</b>	<b>8,716</b>
31 December 2016	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit and loss				
- Derivative instruments held for trading	-	2,432	-	2,432
<b>Total liabilities</b>	<b>-</b>	<b>2,432</b>	<b>-</b>	<b>2,432</b>

# ALTERNATİF FİNANSAL KİRALAMA A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

### NOTE 4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

#### a. Capital management

According to 12<sup>th</sup> article of "regulation on the Establishment and Operations of Leasing, Factoring, and Consumer Finance Companies" which was published in the Official Gazette dated 24 April 2013 and numbered 28627, total shareholders' equity cannot be less than 3% of total assets of the Company. As of 31 December 2016, the related ratio is 12%. Therefore, as of 31 December 2016 there is no breach of the lending limits.

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

#### b. Allowance for impairment losses on finance lease receivables

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

#### c. Deferred tax asset recognition

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

### NOTE 5 - CASH AND CASH EQUIVALENTS

	2017	2016
Demand deposits	341	198
Time deposits	971	80
<b>Total TL denominated demand and time deposits at banks</b>	<b>1,312</b>	<b>278</b>
Foreign currency denominated demand deposits at banks (original maturity less than 3 months)	1,322	580
Foreign currency denominated time deposits at banks (original maturity less than 3 months)	46,794	98,175
<b>Total foreign currency denominated demand and time deposit at banks</b>	<b>48,116</b>	<b>98,755</b>
<b>Total demand and time deposits at banks</b>	<b>49,428</b>	<b>99,033</b>

For the purposes of cash flow statements, cash and cash equivalents amounting to TL 49,424 (2016: TL 99,021) and comprised from due from banks excluding accrued interest.

## ALTERNATİF FİNANSAL KİRALAMA A.Ş.

### NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

#### NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS HELD FOR TRADING

The Company has the following derivative instruments as at 31 December 2017 and 31 December 2016:

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms.

<b>2017</b>			
	<b>Contract/notional</b>	<b>Fair values</b>	
	<b>Amount</b>	<b>Assets</b>	<b>Liabilities</b>
<b>Derivatives held for trading</b>			
Swap purchase / sale transactions	288,690	-	8,716
<b>Total derivative assets/ (liabilities) held for trading</b>	<b>288,690</b>	<b>-</b>	<b>8,716</b>
<b>2016</b>			
	<b>Contract/notional</b>	<b>Fair values</b>	
	<b>Amount</b>	<b>Assets</b>	<b>Liabilities</b>
<b>Derivatives held for trading</b>			
Swap purchase / sale transactions	124,628	-	2,432
<b>Total derivative assets/ (liabilities) held for trading</b>	<b>124,628</b>	<b>-</b>	<b>2,432</b>

**ALTERNATİF FİNANSAL KİRALAMA A.Ş.****NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017**

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

**NOTE 7 - FINANCE LEASE RECEIVABLES**

	2017	2016
Gross finance lease receivables	1,772,783	1,341,711
Invoiced lease receivables	20,847	15,247
<b>Gross finance lease receivables</b>	<b>1,793,630</b>	<b>1,356,958</b>
Unearned finance income	(220,323)	(161,036)
<b>Finance lease receivables</b>	<b>1,573,307</b>	<b>1,195,922</b>
Impaired lease receivables	60,362	69,345
Allowance for impairment loss on lease receivables	(27,671)	(36,984)
<b>Finance lease receivables, net</b>	<b>1,605,998</b>	<b>1,228,283</b>

At 31 December 2017 and 2016, finance lease receivables according to its interest variability is as follows:

	2017	2016
Fixed rate	1,455,735	985,301
Floating rate	117,572	210,621
<b>Finance lease receivables</b>	<b>1,573,307</b>	<b>1,195,922</b>

At 31 December 2017 and 2016, the finance lease receivables have the following collection plans:

Period end	2017	2017
	Gross	Net
31 December 2018	684,303	587,013
31 December 2019	527,397	450,226
31 December 2020	350,411	320,890
31 December 2021	148,791	137,525
31 December 2022 and after	82,728	77,653
	<b>1,793,630</b>	<b>1,573,307</b>

Period end	2016	2016
	Gross	Net
31 December 2017	501,628	424,215
31 December 2018	374,721	328,881
31 December 2019	257,172	234,370
31 December 2020	147,638	138,081
31 December 2021 and after	75,799	70,375
	<b>1,346,958</b>	<b>1,195,922</b>

**ALTERNATİF FİNANSAL KİRALAMA A.Ş.****NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017**

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

**NOTE 7 - FINANCE LEASE RECEIVABLES (Continued)**

Finance lease receivables can be analysed as follows:

	2017	2016
Neither past due nor impaired	1,552,460	1,180,675
Past due but not impaired	20,847	15,247
Impaired	60,362	69,345
<b>Gross</b>	<b>1,633,669</b>	<b>1,265,267</b>
Less: allowance for impairment losses	(27,671)	(36,984)
<b>Net finance lease receivables</b>	<b>1,605,998</b>	<b>1,228,283</b>

As at 31 December 2017, TL 7,465 of the total collaterals (2016: TL 11,125) are related with the impaired finance lease receivables amounting to TL 60,362 (2016: TL 69,345).

The ageing of past due but not impaired finance lease receivables are as follows:

	2017		2016	
	Invoiced Amount	Remaining Principal	Invoiced Amount	Remaining Principal
0-30 days	14,633	189,031	10,380	159,730
31-60 days	3,210	24,631	2,857	29,203
61-90 days	3,004	14,170	2,010	13,412
	<b>20,847</b>	<b>227,832</b>	<b>15,247</b>	<b>202,345</b>

The ageing of impaired finance lease receivables is as follows:

	2017	2016
91-150 days	2,160	10,618
151-240 days	5,284	4,630
241-365 days	9,630	6,698
366 days and over	43,288	47,399
	<b>60,362</b>	<b>69,345</b>

Movements in provision for impaired finance lease receivables are as follows:

	2017	2016
<b>At 1 January</b>	<b>(36,984)</b>	<b>(29,377)</b>
Impairment loss	(9,935)	(8,996)
Recoveries of amounts previously impaired (including foreign exchange differences)	871	1,389
Write-off (*)	18,377	-
<b>At 31 December</b>	<b>(27,671)</b>	<b>(36,984)</b>

(\*) The write-off balance consists of the reversal of allowance of impairment loss on the sold impaired finance lease receivables to a local asset management company on 29 May 2017. The effect of FX valuation amounting to TL 5,575 is not included in the table above.

## ALTERNATİF FİNANSAL KİRALAMA A.Ş.

### NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

#### NOTE 7 - FINANCE LEASE RECEIVABLES (Continued)

Economic sector risk concentrations for the finance lease receivables are as follows:

	2017	%	2016	%
Construction	302,283	19	234,775	20
Other Production Industry	260,630	18	228,852	5
Textile	250,230	16	235,395	20
Metal Processing	241,526	15	191,874	15
Wholesaling and Retailing	154,031	10	107,807	9
Other Services	91,713	6	56,423	18
Mining	70,343	4	26,407	2
Transportation and Warehousing	63,703	3	34,170	3
Agriculture	58,187	4	43,324	4
Health	25,908	2	18,181	2
Electricity and Gas	22,067	1	7,025	1
Food, Beverage & Tobacco	19,731	1	9,060	1
Tourism	9,967	1	186	-
Real Estate Brokerage	2,988	-	2,443	-
	<b>1,573,307</b>	<b>100</b>	<b>1,195,922</b>	<b>100</b>

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

As of 31 December 2017 neither past due nor impaired finance lease receivables amounting to TL 191,051 (2016: TL 149,811) and past due but not impaired receivables amounting to TL 10,822 (2016: TL 10,137) have been renegotiated, rescheduled or revised.

Depending on the customers' inability to repay its obligations arising from financial leases or other similar economic factors, the Company cancelled some of the lease contracts signed with its customers. These related assets may be re-leased to the same customer or to the other customers or; may be sold to the third parties, depending upon circumstances.

As of 31 December 2017 and 2016, the Company obtained the following collaterals from its customers except the goods subjected to finance lease agreements:

	2017	2016
Mortgages	172,556	160,242
Pledged assets	50,270	46,001
Capital share transfer	38,702	-
Buyback guarantees	35,053	25,550
Cash blockage	16,210	698
Transfer of rights of receivables	7,549	2,286
Guarantee letters	4,463	1,006
Cheques received	3,587	2,237
Life insurance	1,987	5,041
Guarantee notes	37	34
	<b>330,414</b>	<b>243,095</b>

Finance lease receivables are further analysed as a part of the balance sheet in the notes: related party transactions (Note 23) and financial risk management (Note 3).

**ALTERNATİF FİNANSAL KİRALAMA A.Ş.****NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017**

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

**NOTE 8 - PROPERTY AND EQUIPMENT**

	<b>Land and Buildings</b>	<b>Equipment, Furniture and Fixtures</b>	<b>Total</b>
1 January 2017, net book value	301	163	464
Additions	570	61	631
Disposals	(187)	(33)	(220)
Depreciation charge for the year	-	(62)	(62)
Depreciation effects of disposals	1	31	32
<b>31 December 2017</b>	<b>685</b>	<b>160</b>	<b>845</b>

**31 December 2017**

Cost	691	991	1,682
Accumulated depreciation	(6)	(831)	(837)
<b>Net book value</b>	<b>685</b>	<b>160</b>	<b>845</b>

	<b>Land and Buildings</b>	<b>Equipment, Furniture and Fixtures</b>	<b>Total</b>
1 January 2016, net book value	1,059	161	1,220
Additions	133	76	209
Disposals	(900)	(25)	(925)
Depreciation charge for the year	(1)	(55)	(56)
Depreciation effects of disposals	10	6	16
<b>31 December 2016</b>	<b>301</b>	<b>163</b>	<b>464</b>

**31 December 2016**

Cost	308	963	1,271
Accumulated depreciation	(7)	(800)	(807)
<b>Net book value</b>	<b>301</b>	<b>163</b>	<b>464</b>

## ALTERNATİF FİNANSAL KİRALAMA A.Ş.

### NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

#### NOTE 9 - INTANGIBLE ASSETS

	<b>Total</b>
1 January 2017, net book value	607
Additions	865
Amortisation charge for the year	(259)
<b>31 December 2017</b>	<b>1,213</b>

#### 31 December 2017

Cost	3,232
Accumulated amortisation	(2,019)
<b>Net book value</b>	<b>1,213</b>

	<b>Total</b>
1 January 2016, net book value	580
Additions	296
Amortisation charge for the year	(269)
<b>31 December 2016</b>	<b>607</b>

#### 31 December 2016

Cost	2,367
Accumulated amortisation	(1,760)
<b>Net book value</b>	<b>607</b>

#### NOTE 10 - OTHER ASSETS AND PREPAID EXPENSES

	<b>2017</b>	<b>2016</b>
Equipment to be leased	25,707	42,683
Prepaid expenses	8,802	7,034
Receivables from insurance policies	2,474	2,095
Prepaid taxes	210	242
VAT deductible	128	226
Other	642	599
<b>Total</b>	<b>37,963</b>	<b>52,879</b>

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



**ALTERNATİF FİNANSAL KİRALAMA A.Ş.**

**NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017**

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

**NOTE 11 - FUNDS BORROWED**

		2017			2016		
		Original Amount	TL Equivalent	Interest Rate (%)	Original Amount	TL Equivalent	Interest Rate (%)
Fixed interest	EUR	70,160	316,805	3.23	126,555	469,506	3.14
	USD	52,853	199,359	4.51	36,741	129,298	3.99
	TL	65,532	65,532	14.33	57,291	57,291	12.07
Floating interest	EUR	2,520	11,380	3.14	6,941	25,749	2.90
	USD	10,057	37,933	4.09	20,290	71,405	4.75
<b>Short-term</b>			<b>631,009</b>			<b>753,249</b>	
Fixed interest	EUR	39,668	179,121	3.44	54,255	201,281	3.19
	USD	-	-	-	5,001	17,600	4.00
Floating interest	EUR	70,672	319,118	3.37	-	-	-
	USD	30,023	113,243	4.64	19,992	70,356	4.03
<b>Medium/long - term</b>			<b>611,482</b>			<b>289,237</b>	
<b>Total</b>			<b>1,242,491</b>			<b>1,042,486</b>	

Floating rate funds borrowed bear interest at rates fixed in advance for periods of three and six months. Repayments of medium/long-term funds borrowed are as follows:

	2017		2016	
	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate
2017	-	-	656,095	97,154
2018	581,696	49,313	118,013	35,331
2019	63,977	119,228	100,868	35,025
2020	115,144	267,780	-	-
2021	-	22,760	-	-
2022	-	22,593	-	-
<b>Total</b>	<b>760,817</b>	<b>481,674</b>	<b>874,976</b>	<b>167,510</b>

**ALTERNATİF FİNANSAL KİRALAMA A.Ş.****NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017**

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

**NOTE 12 - DEBT SECURITIES ISSUED**

	<b>2017</b>	<b>2016</b>
Bonds issued	243,063	151,924
	<b>243,063</b>	<b>151,924</b>

The Company's issued debt securities details are as follows:

**31 December 2017**

Type	ISIN Code	Nominal Amount Issued	Maturity Date	Amount	Interest Rate	Interest Payment Term
Bond	TRFALFK11818	114,000	18 January 2018	113,267	14.00	On maturity date
Bond	TRFALFK41815	134,826	6 April 2018	129,796	14.40	On maturity date
		<b>248,826</b>		<b>243,063</b>		

**31 December 2016**

Type	ISIN Code	Nominal Amount Issued	Maturity Date	Amount	Interest Rate	Interest Payment Term
Bond	TRFALFK11719	67,710	17 January 2017	67,381	11.00	On maturity date
Bond	TRFALFK31717	86,120	3 March 2017	84,543	10.90	On maturity date
		<b>153,830</b>		<b>151,924</b>		

## ALTERNATİF FİNANSAL KİRALAMA A.Ş.

### NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

#### NOTE 12 - DEBT SECURITIES ISSUED (Continued)

Coupon interest rates of the bonds and treasury bills issued by the Company in 2017 and 2016 are fixed.

		2017			2016		
	Original Amount	TL Equivalent	Interest Rate (%)	Original Amount	TL Equivalent	Interest Rate (%)	
<b>Short-term</b>		<b>243,063</b>			<b>151,924</b>		
Fixed interest	TL	243,063	14,21	151,924	151,924	10.94	
<b>Total</b>		<b>243,063</b>			<b>151,924</b>		

#### NOTE 13 - ACCOUNT PAYABLES

	2017	2016
Payables to suppliers	15,990	31,066
Insurance policy payables	11,426	8,519
Other	195	102
<b>Total</b>	<b>27,611</b>	<b>39,687</b>

#### NOTE 14 - OTHER LIABILITIES

	2017	2016
Advances received	18,221	16,649
Prepayments from customers	1,635	1,791
Other taxes payable	294	326
Value Added Tax ("VAT") payable	58	27
Other	30	144
<b>Total</b>	<b>20,238</b>	<b>18,937</b>

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

#### NOTE 15 - TAXATION

Components of income tax expenses for the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
Deferred tax expense	(2,697)	(4,017)
	<b>(2,697)</b>	<b>(4,017)</b>

While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%. This rate is applied to tax base which is calculated by adding certain non deductible expenses for tax purposes and deducting certain exemptions (like dividend income) and other deductions on accounting income. If there is no dividend distribution, no further tax charges are made.

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

## ALTERNATİF FİNANSAL KİRALAMA A.Ş.

### NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

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#### NOTE 15 – TAXATION (Continued)

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 of the following month and payable by the 17th day of the second month following each calendar quarter end by companies. Advance tax paid by corporations is credited against the annual corporation tax liability. If, despite offsetting, there remains a paid advance tax amount, it may be refunded or offset against other liabilities to the government.

In accordance with Tax Law No: 5024 "Law Related to Changes in Tax Procedure Law, Income Tax Law and Corporate Tax Law" that was published on the Official Gazette on 30 December 2003 to amend the tax base for non-monetary assets and liabilities, effective from 1 January 2004, the income and corporate taxpayers will prepare the statutory financial statements by adjusting the non-monetary assets and liabilities according to inflation adjustments. In accordance with the aforementioned law's provisions, in order to apply inflation adjustment, the cumulative inflation rate (State Institute of Statistics-Wholesale Price Indices) over the last 36 months and 12 months must exceed 100% and 10%, respectively. Inflation adjustment has not been applied as these conditions were not met for the years ended 31 December 2017 and 2016.

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

Tax returns are open for 5 years from the beginning of the year that follows the date of filing 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.

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.

As of 31 December 2017, there is no current year tax loss, as a result there is no corporation tax expense.

As of 31 December 2016, there is no current year tax loss, as a result there is no corporation tax expense.

#### **Exemption for investment allowance**

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

- 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.

## ALTERNATİF FİNANSAL KİRALAMA A.Ş.

### NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

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#### NOTE 15 – TAXATION (Continued)

##### Exemption for investment allowance (continued)

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, 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 2010. Therefore, the cancellation went into effect with the publishing of the decision of the Constitutional Court at the Official Gazette.

A new arrangement in the application of investment allowance went into effect with the Law No. 6009 Article 5 which is published in Official Gazette No. 27659 dated 1 August 2010. With this new legislation in line with the decision of the Constitutional Court, the utilisation of investment allowances deferred from the year 2005 is not limited for a time period of limitation but limited to 25% of earnings.

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or held in a special account under shareholder's equity for five years.

At the meeting of the Constitutional Court dated 9 February 2012, it was resolved that the clause "However, the amount that will be deducted as investment allowance cannot exceed 25% of the related earning in determination of tax base." which was added to the first paragraph of temporary article 69 of the Income Tax Law through Article 5 of the Law No. 6009 is in violation of the Constitutional Law and that clause should be cancelled. The stay of execution decision by the Constitutional Court has become effective upon promulgation in the Official Gazette No. 28208 dated 18 February 2012.

##### **Deferred taxes:**

Under IAS 12, which deals with income taxes, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilized and deferred tax assets should be reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Based on the decision of the Constitutional Court mentioned above, the Company Management recognized deferred tax assets on the unused investment allowance amounting to TL 4,652 which has been calculated based on its best estimates.

# ALTERNATİF FİNANSAL KİRALAMA A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

### NOTE 15 – TAXATION (Continued)

#### Deferred taxes (continued):

As of 31 December 2017 and 2016 the Deferred tax assets and liabilities are attributable to the following items:

	Temporary differences		Deferred tax assets /(liabilities)	
	2017	2016	2017	2016
Unused investment allowances without stoppage	21,145	42,976	4,652	8,595
Unused investment allowances with stoppage	29,996	26,204	660	52
Allowance for impairment loss on finance receivables	23,957	30,158	5,031	6,032
Provision for employee benefits	979	2,306	196	461
Remeasurement of derivative instruments	8,716	2,432	1,917	486
Unearned income	139	1,604	31	321
Provision for personel performance bonus	1,800	136	396	27
Expense is not written yet from branch commission payments	1,503	-	331	-
Difference between carrying value and tax base of property and equipment and intangibles	773	-	170	-
Other	-	679	-	135
<b>Deferred tax assets</b>			<b>13,384</b>	<b>16,109</b>
Trade debtors currency difference provisions	-	(106)	-	(21)
Finance lease receivables	(443)	-	(97)	-
Expense not written yet from branch commission payments	-	(751)	-	(150)
Difference between carrying value and tax base of property and equipment and intangibles	-	(341)	-	(67)
Other	(563)	-	(113)	-
<b>Deferred tax liabilities</b>			<b>(210)</b>	<b>(238)</b>
<b>Deferred tax assets, net</b>			<b>13,174</b>	<b>15,871</b>

Movement of the net deferred tax asset is as follows:

	2017	2016
<b>At January 1</b>	<b>15,871</b>	<b>19,888</b>
Deferred tax recognized in profit or loss	(2,697)	(4,017)
<b>At the reporting date</b>	<b>13,174</b>	<b>15,871</b>

### NOTE 16 - OTHER PROVISIONS

	2017	2016
Legal provisions	139	136
<b>Total</b>	<b>139</b>	<b>136</b>

At 31 December 2017, the Company is involved in number of legal disputes, The Company's lawyer's advice that, owing the developments in some of these cases; it is probable that the company will be found liable. Therefore, the management has recognised a provision as the best estimate of the amount to settle these potential obligations.

## ALTERNATİF FİNANSAL KİRALAMA A.Ş.

### NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

#### NOTE 17 - RESERVE FOR EMPLOYEE BENEFITS

	2016	2016
Provision for personnel performance bonus	1,800	1,560
Reserve for employee severance payments	660	487
Vacation pay liability	291	259
	<b>2,751</b>	<b>2,306</b>

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

The liability is not funded, as there is no funding requirement.

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

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

	2017	2016
Discount rate (%)	4.72	3.76
Turnover rate to estimate the probability of retirement (%)	6.00	6.50

The principal assumption is that the maximum liability for each year of service will increase in line with inflation.

Movement of the reserve for employee severance payments for the year is as follows:

	2017	2016
<b>1 January</b>	<b>487</b>	<b>393</b>
Service cost	195	134
Interest cost	18	12
Paid during the year	(40)	(52)
<b>31 December</b>	<b>660</b>	<b>487</b>

## ALTERNATİF FİNANSAL KİRALAMA A.Ş.

### NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

#### NOTE 18 - SHARE CAPITAL

At 31 December 2017, the Company's authorised share capital consists of 5,000,000,000 shares with a par value of Kuruş 1 each (2016: 5,000,000,000 shares with a par value of Kuruş 1 each). The Company does not have any preferred shares in accordance with its main agreement.

As of 31 December 2017, the Company's historical subscribed and issued share capital was TL 50,000 (historical terms) (31 December 2016: TL 50,000). The composition of shareholders and their respective percentages of ownership can be summarized as follows:

	2017		2016	
	%	Amount	%	Amount
Alternatifbank A.Ş	100	50,000	100	50,000
Other (*)			-	-
<b>Total in historical TL</b>	<b>100</b>	<b>50,000</b>	<b>100</b>	<b>50,000</b>
Restatement effect		(13,523)		(13,523)
		<b>36,477</b>		<b>36,477</b>

\* Company's 700 shares with a value of 7 TL (Full TL) are belong to the 4 investors.

Each shareholder has voting rights equivalent to their number of shares.

In accordance with the Share Transfer Agreement signed between Anadolu Endüstri Holding A.Ş and Alternatifbank A.Ş. and the Banking Regulation and Supervision Agency's authorization numbered 5558 dated 24 October 2013, Alternatifbank A.Ş. purchased on 8 November 2013, 19 November 2013 and 18 December 2013, 2,727,259,500 shares amounting to 95.8% of total shares from Anadolu Endüstri Holding A.Ş, and 118,990,100 shares from other shareholders. As a result Alternatifbank A.Ş. holds 100% of shares.

#### NOTE 19 - RETAINED EARNINGS AND LEGAL RESERVES

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

The Company has decide to transfer retained earnings amounting TL 1,127 to legal reserves.

Dividends Paid and Proposed:

Final dividends are not accounted for until they have been ratified at the Annual General Meeting.

#### NOTE 20 - EARNINGS PER SHARE

Earnings per share disclosed in the statement of profit or loss are determined by dividing net income by the weighted average number of shares outstanding during the period concerned.

	December 31, 2017	December 31, 2016
Profit attributable to equity holders of the Company	24,383	22,765
Weighted average number of ordinary shares in issue (thousand)	50,000	50,000
<b>Basic earnings per thousand share (expressed in full TL)</b>	<b>0.00488</b>	<b>0.00455</b>



## ALTERNATİF FİNANSAL KİRALAMA A.Ş.

### NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

#### NOTE 21 - MARKETING AND ADMINISTRATIVE EXPENSES

	2017	2016
Transportation expenses	1,014	828
Consultancy expenses	798	1,347
Rent expenses	579	526
Information technology system expenses	388	299
Sundry taxes	354	322
Office expenses	314	286
Communication expenses	199	172
Representation expenses	183	175
Printing and stationary expenses	85	61
Other expenses	8	19
	<b>3,922</b>	<b>4,035</b>

#### NOTE 22 - SALARIES AND EMPLOYEE BENEFITS

	2017	2016
Wages and salaries	6,142	5,687
Compulsory social security contributions	916	792
Other employee benefits	529	485
Increase in provision for employee benefits	2,013	1,604
	<b>9,600</b>	<b>8,568</b>

#### NOTE 23 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

##### a) Balances with related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Company is controlled by Alternatifbank A.Ş. (the Shareholder Company) which owns 100 % of the Company's shares. The ultimate owner of the Company is The Commercial Bank (P.S.Q.C.). For the purpose of these financial statements, the Shareholder Company, and their affiliated companies are referred to as "related parties". Related parties also include individuals that are principal owners, management and members of the Company's Board of Directors and their families.

# ALTERNATİF FİNANSAL KİRALAMA A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

### NOTE 23 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

#### (a) Balances with related parties (continued):

A summary of the major transactions and balances with related parties during the related periods were as follows:

	2017	2016
<b>Due from banks</b>		
<b>Demand deposits</b>		
Alternatifbank A.Ş.	21	177
<b>Time deposits</b>		
Alternatifbank A.Ş.	47,765	54,682
	<b>47,786</b>	<b>54,859</b>
<b>Borrowing</b>		
Alternatifbank A.Ş.	161,426	102,716
United Arab Bank P.J.S.C.	113,243	106,430
	<b>274,669</b>	<b>209,146</b>

#### (b) Transactions with related parties:

	2017	2016
<b>Trading derivative liabilities</b>		
Alternatifbank A.Ş.	41,754	18,550
	<b>41,754</b>	<b>18,550</b>
<b>Trading derivative assets</b>		
Alternatifbank A.Ş.	39,165	17,573
	<b>39,165</b>	<b>17,573</b>

# ALTERNATİF FİNANSAL KİRALAMA A.Ş.

## NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

### NOTE 23 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES (Continued)

#### (b) Transactions with related parties (continued):

	2017	2016
<b>Income from derivatives</b>		
Alternatifbank A.Ş.	283	403
	<b>283</b>	<b>403</b>
<b>Expense on derivatives</b>		
Alternatifbank A.Ş.	3,839	575
	<b>3,839</b>	<b>575</b>
<b>Interest income on placements and transactions with banks</b>		
Alternatifbank A.Ş.	760	1,097
	<b>760</b>	<b>1,097</b>
<b>Interest expense on funds borrowed</b>		
Alternatifbank A.Ş.	7,762	3,703
United Arab Bank P.J.S.C.	5,835	4,301
The Commercial Bank (P.S.Q.C.)	-	2,506
	<b>13,597</b>	<b>10,510</b>
<b>Service expenses</b>		
Alternatifbank A.Ş.	471	401
	<b>471</b>	<b>401</b>
<b>Commission expenses</b>		
Alternatif Menkul Değerler A.Ş.	929	635
Alternatifbank A.Ş.	399	610
United Arab Bank P.J.S.C.	221	93
The Commercial Bank (P.S.Q.C.)	-	110
	<b>1,549</b>	<b>1,448</b>

#### (c) Off-balance sheet items

	2017	2016
<b>Guarantee letters</b>		
Alternatifbank A.Ş.	1,203	1,202
	<b>1,203</b>	<b>1,202</b>
<b>Letters of credits</b>		
Alternatifbank A.Ş.	901	4,786
	<b>901</b>	<b>4,786</b>

As of 31 December 2017, the Company has time deposits amounting to USD 4,091, EUR 6,945 and TL 970 at related party bank Alternatifbank A.Ş. with an average interest rate of 0.95%, 0.70% and %8.00 respectively (31 December 2016: USD 5,099, EUR 9,880 and TL 80 at related party bank - Alternatifbank A.Ş. with an average interest rate of 1.70, %1.20 ve %8.00 respectively). Also the Company has demand deposits at related party bank (Alternatifbank A.Ş) amounting TL 21 (31 December 2016: TL 177).

#### (d) Key Management's Remuneration:

As of 31 December 2017, the executive members and key management personnel of the Company's management received and accrued salaries and bonuses total amounting to TL 2,737 (2016: TL 2,605).

## ALTERNATİF FİNANSAL KİRALAMA A.Ş.

### NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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

#### NOTE 24 - OTHER INCOME / (EXPENSES), NET

	2017	2016
Commission income, net	3,002	2,660
Bank charges and commissions	(2,147)	(2,207)
Sundry expenses	(430)	(337)
Increase in legal provision	(25)	(94)
Other	184	672
	<b>584</b>	<b>694</b>

Sundry agreement income / (expenses) consists of tax, legal, expertise, translation and other expenses which have been reimbursed by clients.

#### NOTE 25 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of activities, the Company undertakes commitments and incurs certain contingent liabilities that are not presented in these financial statements. The following is a summary of significant commitments and contingent liabilities at 31 December 2017 and 2016.

TL 537 and TL 433 of rent expenses were reflected as of 31 December 2017 and 2016 respectively in the income statements due to the operating lease agreement for vehicles.

Future minimum lease payments under operating lease agreements are as follows:

	2017	2016
Next 1 year	516	363
1 year through 5 years	523	422
Total	<b>1,039</b>	<b>785</b>

#### Other commitments:

At 31 December 2017, the Company obtained letters of credits and guarantee letters amounting to TL 34,793 (2016: TL 36,545) and submitted to various public authorities.

#### NOTE 26 - EVENTS AFTER THE REPORTING PERIOD

The Company plans to increase capital by TL 50,000 in 2018.