

2016

ANNUAL

REPORT

İŞ LEASING



COINTE



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CORPORATE
PROFILE

İŞ LEASING MAKES OPTIMUM USE OF ITS POTENTIAL AND REMAINS AS THE TRUSTED CHOICE FOR INVESTMENT THANKS TO ITS HIGH QUALITY SERVICE UNDERSTANDING.

Shareholding Structure

Shareholder	Share (%)
Türkiye İş Bankası A.Ş.	27.79
Türkiye Sınai Kalkınma Bankası A.Ş.	28.56
Camiş Yatırım Holding A.Ş.	0.83
T. Şişe ve Cam Fab. A.Ş.	0.08
Nemtaş Nemrut Liman İşletmeleri A.Ş.	0.07
Publicly Held	42.67

42.7% OF İŞ LEASING'S SHARES ARE TRADED ON BORSA İSTANBUL.

42.7%

A MEMBER OF İŞBANK GROUP, İŞ LEASING WAS INCORPORATED IN 1988.

1988

İş Leasing is one of the first leasing companies established in Turkey following the enactment of the Leasing Law in 1985. The Company was incorporated in İstanbul on 09 March 1988, as a partnership of Türkiye İş Bankası (İşbank) Group with IFC, a member of the World Bank Group, and Société Generale Group of France.

While 1990s marked the emergence phase of the leasing sector in Turkey, İş Leasing has been the company to introduce many innovative products including lease syndication, aircraft lease facility, and sale-and-leaseback, and undertook a pioneering role in driving the Turkish leasing sector.

In 1995, İşbank Group acquired all the shares held by its foreign shareholders, and added further momentum to the activities of İş Leasing. Having gone public in 2000, 42.7% of İş Leasing's shares are currently being traded on Borsa İstanbul under the ticker symbol "ISFIN". İşbank Group holds the remaining 57.3% of İş Leasing's shares, along with full management control over the Company.

Attracting the long-term savings of small investors and of institutional investment funds owing to its sustainable profitability performance, the Company makes optimum use of its potential and remains as the trusted choice for investment thanks to its high quality service understanding.

Differentiating products and services that cater to customer needs

- Differentiating service quality through innovative and flexible products
- Privileged customized solutions aligned with evolving trends
- Implementations that provide distinctive customer experience through smart business processes
- High competence, vast experience and good implementation capability
- Extensive and efficient service network
- Customer relationship management delivering fast and effective solutions

Continuous smart and privileged service through investments into technological infrastructure

- Constant investment into technology
- Continuously upgraded unmatched technological infrastructure
- Fast and efficient technology solutions developed on full integration notion, a first in the sector

Focus on competent human resource

- Practices that build on the competence and productivity of human resources
- HR policies focused on employee satisfaction
- Award-winner feedback&suggestion practices
- Objective, performance-based appraisal

Sustainable growth and profitability

- Effective capital base supporting sustainable growth
- Solid asset quality
- Operating income backed by successful business models
- Advanced evaluation and measuring infrastructure
- Proactive control system and efficient risk management

Efficient resource management

- Efficient capital utilization
- Operational efficiency and superior employee productivity
- Low-cost funding ability enabled by high credibility
- Effective funding structure and safe liquidity level
- Broad resource and product diversity

STRATEGIC PRINCIPLES





COMPANY PERFORMANCE

INCREASE IN THE NUMBER OF TRANSACTIONS

14%

GROWTH IN LEASING PORTFOLIO

21.7%

MARKET SHARE

8.9%

INCREASE IN THE NUMBER OF CUSTOMERS

17%

One of the pioneers of the Turkish leasing sector, İş Leasing has taken place among the most preferred companies for leasing transactions in our country in 2016 owing to its solid and dynamic structure. Having registered USD 562 million in transaction volume in 2016, the Company preserved its strong position in the industry with 8.9% market share in leasing receivables.

Through careful implementation of its disciplined and consistent growth strategy, İş Leasing secured 21.7% growth year-on in its leasing portfolio; along the same line, the Company's total assets expanded 34% to reach TL 7.5 billion.

In 2016, İş Leasing posted TL 103,6 million in net profit and TL 830 million in shareholders' equity. Thanks to advanced techniques employed in credit risk management, coupled with careful and effective processes, the Company's NPL ratio remained significantly below the sector's average.

In the period ahead, İş Leasing will keep pioneering the sector with its innovative financial products and services, while carrying out its activities along the healthy growth and sustainable profitability axes.

During 2016, the steps the Company has taken towards sustainable growth kept reflecting on economic performance indicators at an increasing extent, and the rises secured both in the number of transactions and in transaction volumes positioned İş Leasing among the sector's leading companies once again.

(TL THOUSAND)	2016	2015	Change (%)
Total Assets	7,479,986	5,580,838	34.0
Factoring Receivables, Net	2,985,556	1,951,274	53.0
Leasing Receivables, Net	4,000,900	3,287,101	21.7
Shareholders' Equity	830,203	738,408	12.4
Net Profit/Loss	103,657	82,003	26.4
Return on Assets (RoA) (%)	1.6	1.6	
Return on Equity (RoE) (%)	13.2	11.7	
Debt / Equity	8.0	6.6	
Cost / Revenue (%)	38	37	

İŞ LEASING REGISTERED AN ROE OF 13.2% IN 2016.

13.2%

NET PROFIT OF İŞ LEASING CLOSED IN ON TL 103.6 MILLION IN 2016.

TL 103.6 MILLION

FINANCIAL INDICATORS

TOTAL ASSETS OF İŞ LEASING EXPANDED BY 34% IN 2016.





STOCK, ASSESSMENT AND RATING

Stock Performance

During 2016 when global economic growth lost pace, geopolitical risks were aggravated and their negative effects on Turkey's macroeconomic balances began to be felt, İŞ Leasing carried out its activities along sustainable and healthy growth axis, and continued to take place among the sector's leading companies with its innovative products and services.

Publicly-held since 2000 and 42.7% of its shares traded on BIST, İŞ Leasing remained the sector's most important benchmark stock with an average trading volume of 564,746 transactions in 2016. İŞ Leasing preserves its strong position in the sector with its effective capital base supporting sustainable growth, solid asset quality, dynamic and competent human resources, and advanced corporate governance practices.

Corporate Governance

İŞ Leasing believes in the necessity of an effective corporate governance system to successfully attain its goals through

continuous development, and hence, implements and continually furthers the best corporate governance practices. Maintaining a communication with its stakeholders built on the principles of accuracy, transparency, fairness and accountability, İŞ Leasing was assigned a corporate governance rating score of 9.17 on a scale of 10 by SAHA Rating in 2016. The score earned offers further evidence of the Company's superior compliance with corporate governance principles. İŞ Leasing is included in the BIST Corporate Governance Index and the World Corporate Governance Index (WCGI).

Credit Rating

Having its credit rating renewed every year pursuant to its commitment to corporate governance principles and its transparency principles, İŞ Leasing was assigned a national rating of AA+ and a foreign currency rating of BBB- by Fitch Ratings in 2016.

Foreign Currency			Turkish Lira			National		
Long Term	Short Term	Outlook	Long Term	Short Term	Outlook	Long Term	Support Rating	Outlook
BBB-	F3	Negative	BBB-	F3	Negative	AA+	2	Negative



COMMUNICATION
BUILT ON ACCURACY,
TRANSPARENCY,
FAIRNESS AND
ACCOUNTABILITY





MURAT BİLGİÇ
CHAIRMAN OF THE BOARD OF DIRECTORS

MESSAGE FROM THE CHAIRMAN

Dear Stakeholders,

Before presenting for your approval the annual report, financial statements and net profit distribution proposal, which provide a summary of the 2016 performance of İş Leasing and which have been drawn up in accordance with the Capital Market Law and applicable legislation, I would like to share our opinion regarding the developments in the world and national economy, the risks and opportunities facing the leasing sector, and achievements of İş Leasing.

In 2016, low growth persisted in global economy, geopolitical risks in our near geography began to come to life, and Turkey's macroeconomic balances were negatively affected by the extraordinary events that stemmed from domestic dynamics.

AFTER GROWING RAPIDLY IN THE FIRST TWO QUARTERS OF 2016, THE TURKISH ECONOMY REGISTERED 2.2% GROWTH OVER THE COURSE OF THE FIRST NINE MONTHS OF THE YEAR.

2.2%

LEASING VOLUME CONTRACTED BY 4% ANNUALLY AND STOOD AT USD 6.1 BILLION.

USD 6,1 BILLION

Despite the expansionary monetary policies that have long been in place on a global scale, country economies have yet to recapture the strong growth tendencies they have exhibited before 2008. After growing rapidly in the first two quarters of 2016, the Turkish economy registered 2.2% growth over the course of the first nine months of the year due to the political developments that took place in the summer months and the contraction in tourism. With the support of the relief measures introduced in the last quarter of the year coupled with public outlays, it is anticipated that 2016 will be closed with a growth rate in the order of 2.5% -3.0%.

The Turkish lira depreciated against the currencies of developed countries particularly in the second half of 2016 due to the external and internal developments, and as a result, investment demand by the private sector and the business volume of our sector shrank. In 2016, the overall sector's new leasing volume stood at USD 6.1 billion, down by 4% on an annual basis.

Despite the volatile economic environment and the pressure the rising exchange rates put on our sector, İş Leasing was able to expand its business volume at a rate that outdid the sector's average thanks to the proactive sales

policies pursued, the accurately formed mix of delivery channels, and risk-sensitive credit management. Preserving its financial structure amid a climate of intense competition, İş Leasing will continue to consolidate its strong position also in the years ahead.

I would like to take this opportunity to thank, on behalf of the Board of Directors and myself, all our stakeholders who made our 2016 performance possible.

Murat Bilgiç

Chairman of the Board of Directors



HASAN K. BOLAT
GENERAL MANAGER AND MEMBER OF THE
BOARD OF DIRECTORS

MESSAGE FROM
THE GENERAL
MANAGER

Dear Stakeholders,

The developments in global and national economy in 2016 played a repressive role on the operations of the leasing sector.

Although the first two quarters of 2016 exhibited a positive growth performance, internal and external events in the second half of the year decelerated

economic activity at a significant extent, and caused the manufacturing industry to postpone or somewhat curb their investments during the course of the year. This negative climate led to 4% contraction in the annual new transaction volume of the leasing sector, keeping it at USD 6.1 billion in 2016.

IN 2016, THE NUMBER OF CUSTOMERS OF İŞ LEASING INCREASED BY 17%, WHEREAS THE NUMBER OF TRANSACTIONS WENT UP BY 14%.

17%

DURING 2016, SHAREHOLDERS' EQUITY OF İŞ LEASING GREW BY 12.4% TO USD 830 MILLION.

TL 830 MILLION

Nevertheless, a noteworthy event was the reduction of certain taxes levied on transactions and of intermediation costs such as charges that resulted from the regulatory changes concerning our sector. Another important development of the reporting period has been the inclusion of movables in addition to immovables in the sale-and-leaseback scope without a tax burden.

İş Leasing continues on sustainable and profitable growth track.

İş Leasing preserved its consistent performance and healthy growth in 2016 on the back of its professional management and employee teams, strong command of the market and the sector, focused channel strategy, and synergetic cooperation developed with İşbank.

In 2016, İş Leasing outdid the sector in a number of indicators: During the reporting period, the Company increased

the number of its clients by 17%, and the number of its transactions by 14%. Transaction volume of the Company grew by 23% to TL 1.7 billion, whereas leasing receivables expanded by 21.7% and reached TL 4 billion in the same timeframe. Total consolidated assets of İş Leasing went up by a remarkable 34% to TL 7.5 billion, and its shareholders' equity reached TL 830 million, up by 12.4%. Having booked TL 104 million in profit with a record rise of 26.4% in 2016, İş Leasing maintained its return on assets (RoA) at 1.6%, and its return on equity (RoE) was 13.2%.

İş Leasing builds a healthy portfolio structure with respect to profitability and composition of risks, and increases the concentration of its customers in the areas of heavy-duty and construction machinery, machinery & equipment, and real property, which act as the engines of the sector. As a result, more than 60% of the Company's portfolio is constituted by SMEs.

In 2017, İş Leasing will keep supporting especially small-sized companies from diverse sectors and continue to help them realize their investments by way of leasing solutions. The Company's areas of focus for 2017 include, in particular, clean energy investments and collaborations with vendors.

We have faith in the growth potential of Turkey and of the leasing sector, as well as in the strength of our entrepreneurs. I would like to extend my thanks and respect to our Board of Directors, to all our business partners, employees and investors, who have a share in the achievements of our Company that makes a difference with its knowledge and vision.

Hasan K. Bolat

General Manager and Member of the Board of Directors



ACHIEVING
DISTINCTION FROM
THE COMPETITION
THROUGH
INNOVATIVE
PRODUCTS AND
PRIVILEGED
SERVICE



IN 2016, THE RATIO OF NON-PERFORMING LOANS TO THE LEASING PORTFOLIO WENT UP BY 4% TO 6.3%.

2016 HAS BEEN A PRODUCTIVE YEAR; DESPITE THE PRESSURE STEMMING FROM INTENSE COMPETITION, THE AFTER-TAX PROFITABILITY OF THE OVERALL SECTOR WAS REGISTERED AS 12.5%.

12.5%

FINANCIAL
LEASING SECTOR

Having started 2016 with a moderate growth target, the financial leasing sector suffered 4% decline in its transaction volume, which went down to USD 6.1 billion, due to the negative developments in the investment climate.

In 2016, the investment climate in our country was adversely affected by the global economic fluctuations, and the fast depreciation of the Turkish lira in the aftermath of the domestic uncertainty environment, the aggravated terror climate, and regional geopolitical sensitivity; hence, new leasing volume shrank by 4% to USD 6.1 billion.

During the year, the arrangements that expanded the scope of sale-and-leaseback implementation and resolved the issues stemming from the regulations

by reducing intermediation costs and improving the competitive environment served to motivate the sector.

Over the course of 31 years since its debut, the Turkish financial leasing sector has facilitated total investments worth USD 81 billion. Denoting the share the leasing sector takes from investments, the penetration rate, which was 6.03% in 2015, stood at 5.7% in the second quarter of 2016.

During 2016, the leasing sector's receivables grew by 19.9% to TL 44 billion, while non-performing loans increased by 25% year-on, whereas the ratio of non-performing loans to the leasing sector picked up by 4% to reach 6.3%.

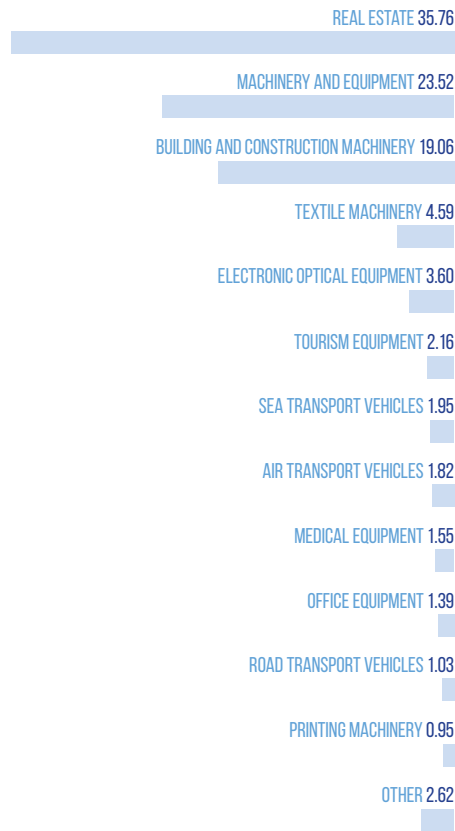
2016 has been a productive year; despite the pressure stemming from intense competition, after-tax profitability of the overall sector was registered as 12.5%. The performance of the leasing sector, which still presents development and growth potential, is closely correlated with economic growth and stability. In connection with the ongoing uncertainty environment, Turkey's growth dynamics and global developments, the financial leasing sector is projected to follow a flat course in 2017 and reach a transaction volume of USD 6 billion.

İŞ LEASING OFFERS SERVICE TO ITS CUSTOMERS WITH 15 BRANCHES ACROSS TURKEY.

15 BRANCHES

İŞ LEASING
IN THE SECTOR

2016 EQUIPMENT DISTRIBUTION



2016 SECTORAL DISTRIBUTION



HAVING ASSERTED A MORE EMPHATIC PRESENCE IN THE AREAS OF HEAVY-DUTY AND CONSTRUCTION MACHINERY AND MANUFACTURING MACHINERY AND EQUIPMENT ON THE BACK OF PRODUCTIVE COOPERATIONS IT HAS DEVELOPED WITH VENDORS, İŞ LEASING ALSO KEPT GROWING IN THE FIELD OF ENERGY INVESTMENTS.

İŞ LEASING PROVIDES SOLID FINANCING SUPPORT OF ANY SCALE TO INVESTORS FROM ANY SECTOR THANKS TO ITS EFFECTIVE FUNDING STRUCTURE.

QUALITY SERVICE

Türkiye leasing Enjoying a special place defined with performance, quality and high credibility in the Turkish leasing sector, İş Leasing offers leasing service to an extensive customer portfolio consisting of large, medium and small-sized companies.

The competitive strength of İş Leasing is underpinned by its ability to develop innovative products aligned with evolving trends, the speed, flexibility and efficiency of service delivery, and customer-focused approach to business.

Lending increased contribution to economy with the investments it provides funding with, İş Leasing successfully performed and maintained its effectiveness in the market in 2016

on the back of risk and portfolio management policies that make up the components of its sustainable growth strategy.

Delivering service via 15 branches across Turkey, İş Leasing increased the number of its customers by 17% and the number of transactions by 14% thanks to strong customer relationship management carried out within the frame of smart business processes and productivity.

İş Leasing provides solid financing support of any scale to investors from any sector thanks to its effective funding structure. Having asserted a more emphatic presence in the areas of heavy-duty and construction machinery and manufacturing machinery and

equipment on the back of productive cooperations it has developed with vendors, İş Leasing also kept growing in the field of energy investments. Other sectors that came to the forefront for İş Leasing in 2016 included food, textile, healthcare, machinery/chemicals, manufacturing, tourism and construction sectors.

Regularly widening its customer base with its innovative product and privileged service understanding, İş Leasing sustained its strong position in the sector with its flexible infrastructure that is able to keep abreast of changes, high competence and implementation capability.

İŞ LEASING OFFERS CUSTOMIZED FINANCIAL SOLUTIONS ALIGNED WITH EVOLVING TRENDS.

Services

Having defined customer satisfaction as its primary goal, İş Leasing delivers customized, flexible and high quality leasing solutions to its customers with its team made up of expert professionals.

İş Leasing believes that the successful results it has attained in the sector despite intense competition is directly correlated with the ability to respond to customer expectations and differentiating service delivery capability. Below are some of the advantages the Company enjoys owing to the financial, technological and logistical resources at its disposal:

- Nationwide presence secured through branches organized all over Turkey and through İşbank branches,
- Ability to provide affordable financing costs,
- Privileged customized solutions aligned with evolving trends, and
- Cooperations established with vendors.

İş Leasing focuses on producing alternative solutions that suit its customers' financial structures, are aligned with their cash cycles, and will increase their profitability in short and long-term.

Transforming efficient and productive business strategies into successful performance results also in 2016, İş Leasing constantly kept working to offer the financial leasing product to a more extensive customer base, and continued to take place among the most preferred companies for leasing transactions.

ACTIVITIES

OFFERING THE FINANCIAL LEASING PRODUCT TO A MORE EXTENSIVE CUSTOMER BASE



İŞ LEASING EFFECTIVELY MANAGES THE RISK DISTRIBUTION OF ITS PORTFOLIO THANKS TO ADVANCED RISK MANAGEMENT SYSTEMS IN PLACE AND ESTABLISHED RISK CULTURE.

PORTFOLIO AND RISK APPROACH OF İŞ LEASING IS BUILT ON SUSTAINABLE BALANCE.

İŞ FAKTORING, AN SUBSIDIARY OF İŞ LEASING, CARRIED ON WITH ITS SUSTAINABLE GROWTH IN 2016.

Portfolio

For İŞ Leasing, risk management is one of the foundation stones of growth and development. Providing financing support to various sectors, the Company distributes risks over different sectors in a balanced manner, and keeps an optimum portfolio at a sustainable composition.

İŞ Leasing effectively manages the risk distribution of its portfolio thanks to advanced risk management systems in place and established risk culture. Securing broad geographical coverage and sectoral diversity in its customer portfolio thanks to its extensive service network across Turkey, the Company is also noted for its non-performing loans ratio that is below the sector's average.

Having attained 17% rise in the number of customers serviced and 14% in the number of transactions in 2016, İŞ Leasing regularly includes new establishments in its portfolio with its differentiating services; along this line, leased equipment span over a broad range, while securing product diversity.

İş Faktoring

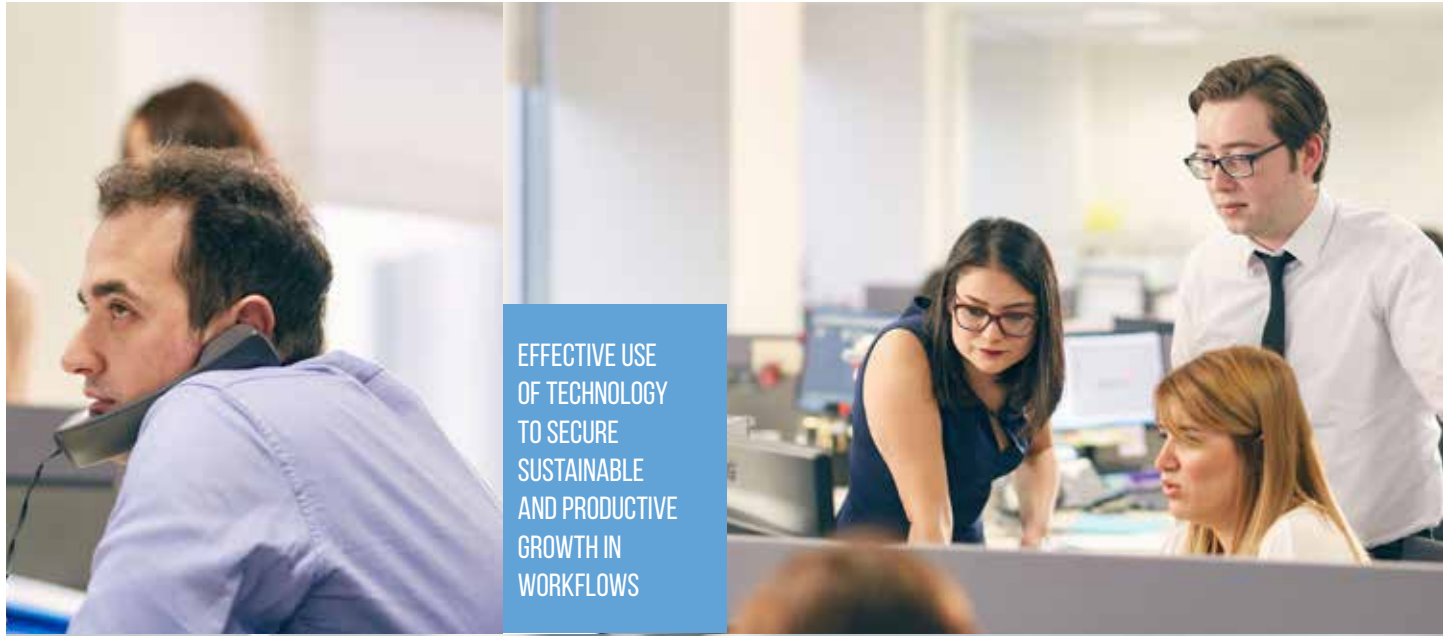
İş Faktoring was incorporated in 1993 as an associate of İşbank. Possessing a broad customer base composed of

companies from diverse sectors, İş Faktoring delivers factoring service in domestic and international markets in financing, guarantee and collection areas via its Head Office and four branches operating in Ankara, Gebze, Adana and Bursa. İş Faktoring has been a member of Factors Chain International (FCI), the most important international factoring initiative in the world, since its incorporation. This membership allows the company to support its customers' international factoring transactions with an extensive correspondent network.

One of the top three players in its sector, İş Faktoring carried on with its sustainable growth in 2016. The company's total factoring receivables reached TL 2.9 billion as at 31 December 2016, and positively decoupled from its peers in terms of credit growth, profitability and NPL performance.

Having ended 2016 posting TL 9.2 billion in turnover, and TL 3 billion in total assets, İş Faktoring booked a net profit of TL 33 million.

In its rating report dated 16 December 2016, Fitch Ratings assigned İş Faktoring a long term foreign currency rating and a national rating of BBB-, with a negative outlook.



EFFECTIVE USE
OF TECHNOLOGY
TO SECURE
SUSTAINABLE
AND PRODUCTIVE
GROWTH IN
WORKFLOWS

ACTIVITIES



IN ORDER TO ACHIEVE CONTINUITY IN SMART AND PRIVILEGED SERVICE, INVESTMENTS INTO TECHNOLOGICAL INFRASTRUCTURE ARE CARRIED ON UNINTERRUPTEDLY.

Information Technology

Based on its awareness that technology is the key to ensuring sustainable and productive growth in business processes, İş Leasing uninterruptedly carried on with its investments in this area also in 2016.

Business Intelligence platform launched across the Company is being constantly upgraded to give access to trends in workflows and forward-looking projections, and to facilitate more effective use of data for management decisions.

Credit allocation modeling and decision-making mechanism automation project has been initiated. The aim of the initiative is to let the system handle and quickly respond to applications for allocations particularly below a certain scale. Slated for completion during 2017, the initiative will secure increase in employee productivity and calibration in allocation decisions.

After-Sales Services and Disaster Recovery Center represent two key elements of İş Leasing's customer-focused approach to service. Offering service with a call center infrastructure and aimed at rendering customer satisfaction continuous, After-Sales Services Unit is a significant service point for customers' after-sales support requests. Updated with the latest technology, the Disaster Recovery Center is the assurance of 24/7 uninterrupted service delivery to customers under any circumstance.

Human Resources and Training

HR strategy of İş Leasing is to manage its "human resource" in the best manner in line with the Company's vision, mission and goals, and to form a high value-added team that will make a difference in the sector and maximize the Company's competitiveness. Accordingly, the HR mission is defined as being the most preferred company by employees in the leasing sector and to render employee satisfaction continuous.

BEING THE MOST PREFERRED COMPANY BY EMPLOYEES IN THE LEASING SECTOR AND TO RENDER EMPLOYEE SATISFACTION CONTINUOUS.



DURING 2016, THE SOCIAL ACTIVITY CLUB WAS SET UP WHICH WILL FURTHER BOOST EMPLOYEE LOYALTY, ALLOW AFTER-HOURS SOCIALIZATION AMONG EMPLOYEES, AND BRING THEM TOGETHER IN SOCIAL ACTIVITIES.



ACTIVITIES

In line with its identified strategies, İŞ Leasing targets to build its HR practices upon solid foundations and to increase operational efficiency in its work processes. In the light of evolving expectations and business conduct, the Competence Glossary covering behavioral characteristics and skills actively used in all recruitment, promotion, training and performance appraisal processes, has been updated based on the consultancy received from SHL, a business partner specialized in the area of human resources. Furthermore, all HR and performance management processes are being migrated to a new software platform, and will be vested in a self-serve format for all employees during 2017.

For İŞ Leasing, individual efficiency and productivity make the basis of corporate success. To this end, İŞ Leasing conducts systematic training activities focused on supporting professional and personal development of its employees, aligned with career plans, and encompassing the culture aspect. Within this context, the Company plans training programs that will secure technical and competence enhancements for all of its employees through Development Academy, which is being formed in the light of business plans, departmental training need analysis and performance outputs.

Employee Efficiency Questionnaire is regularly administered in an effort to identify the Company's strengths and improvement areas. The results from the questionnaire are used to draw the roadmap towards improvement areas and necessary action plans are implemented.

Set up with the objective of increasing communication between the Company and the employees, allowing employees to voice their opinions and submit improvement proposals in relation to the working environment, corporate climate and any topic of importance to them, the Employee Committee continues to turn a careful ear to the employees.

During 2016, the Social Activity Club was set up which will further boost employee loyalty, allow after-hours socialization among employees, and bring them together in social activities. Created by volunteer employees and backed by the Company, the club organizes shows, events and trips at certain intervals. The club will carry on with its activities in 2017.



İŞ LEASING
MANAGES ITS
HUMAN RESOURCE
IN THE BEST
MANNER IN
LINE WITH THE
COMPANY'S VISION,
MISSION AND
GOALS.



BOARD OF DIRECTORS



MURAT BİLGİÇ
Chairman

Born in Ankara in 1968. Mr. Murat Bilgiç was graduated from the International Relations Department of the Middle East Technical University, Faculty of Economic and Administrative Sciences in 1990. He holds a Master's degree in Money-Banking-Finance from the University of Birmingham. He attended the Advanced Management Program in Harvard Business School. Mr. Bilgiç began his career at İşbank in 1990 as an Assistant Inspector on the Board of Inspectors. He became an Assistant Manager in 1999 at the Corporate Loans Underwriting Department and became a Region Manager at the same department in 2002. He became the Head of Corporate Loans Underwriting Department in 2008. He was appointed Deputy Chief Executive on 25 March 2016. Since 09 June 2016, Mr. Bilgiç is the Chairman of the Board of Directors of İş Leasing.



BAHATTİN ÖZARSLANTÜRK
Vice Chairman

Born in 1971, Mr. Özarslantürk is a graduate of Division of English Management of Istanbul University. Starting his job career as an assistant credit specialist in Türkiye İş Bank Zincirlikuyu Branch in 1994, Mr. Özarslantürk is appointed to Accounting Department in 2000. Mr. Özarslantürk has served in Risk Management Department between 2001 and 2002, and as a credit specialist in Corporate Credits Department in 2002, and is appointed as assistant manager in 2002. He has served as Regional Manager in Corporate Credits Department in 2006, and as Branch Manager in Hadımköy Commercial Branch, and as Branch Manager in Güneşli Corporate Branch, and is appointed as Commercial Credits Underwriting Department head in 2013. Mr. Özarslantürk is currently working as Head of Commercial Credits Allocation Department.



PROF. DR. M. HAKAN BERUMENT
Independent Member

Born in 1965, Mr. Berument is a graduate of Division of Economy of Middle East Technical University. Completed his post-graduate study in economics in University of Kentucky, and completed his doctorate study in University of North Carolina at Chapel Hill in 1994. Worked as academician in University of North Carolina between 1991 and 1994, and as visiting assistant associate professor in Wake Forest University between 1994 and 1995, and as assistant associate professor in Bilkent University between 1995 and 1999, and as Senior Economist in the Turkish Central Bank in 1999, and as assistant associate professor in Bilkent University between 1999 and 2003, and as associate professor in the same university between 2003 and 2007, and became a professor in 2007. Mr. Berument is currently an academician in Division of Economy of Bilkent University. Mr. Berument is elected as independent member of Board of Directors of İş Leasing on 29 March 2012.

BOARD OF DIRECTORS



PROF. DR. M. BAHA KARAN
Independent Member

Having graduated from Business Administration Division of Middle East Technical University in 1978, Mr. Karan completed his doctorate study in Business Administration Division of Gazi University in 1984. After working as Associate Professor in Business Administration Division of Hacettepe University between 1996 and 2002, Mr. Karan is working as Professor in the same University since 2003. Worked as Founder Manager in Financial Researches Center of Hacettepe University between 1998 and 2004, as Vice Dean in Economic and Administrative Sciences Faculty of Hacettepe University between 2007 and 2009, and as President of Business Administration Division of Hacettepe University between 2009 and 2012 and currently is working as academician Business Administration Division of Hacettepe University. Furthermore, Mr. Karan has also served as chairman, director and executive in various different international professional organizations such as Multinational Finance Society and Professional Risk Managers' International Association (PRMIA).



HASAN K. BOLAT
General Manager / Member

Born in 1966, Mr. Bolat is graduated from Ankara University, Faculty of Political Sciences, Division of International Relations. Starting his job career as an inspector in Türkiye İş Bank in 1988, Mr. Bolat is appointed as Şişli branch vice manager in 1996. After serving as Gaziosmanpaşa branch manager between 2000 and 2002, and as Dudullu Industrial branch manager between 2002 and 2003, and as commercial credits regional manager between 2003 and 2007, and as SME credits department head between 2007 and 2013. Mr. Bolat is further working is a member of board of directors of Efes Varlık Yönetim A.Ş. since 28 March 2013. Mr. Bolat is appointed as İş Leasing General Manager on 07.03.2013 and also serves as the Chairman of the Leasing Representation Board.



SONER BENLİ
Member

Born in 1969, Mr. Benli is graduated from London City University Business School Msc, Banking and Finance Department. After starting his career as assistant inspector in Türkiye İş Bank in 1994, Mr. Benli is appointed as Vice Manager in Risk Management Department of Türkiye İş Bankası A.Ş. in 2002, and as Group Manager in the same department in 2006. Thereafter, Mr. Benli is appointed as Commercial Credits Allocation Department Unit Manager in 2007, and as Credit Risk Management and Portfolio Monitoring Department Manager in 2010. He is appointed as Head of Retail Credits in the Underwriting Department in 2012. Mr Benli is currently working as Head of Retail Credits in the Underwriting Department.

BOARD OF DIRECTORS



O. TUFAN KURBANOĞLU
Member

Born in 1971, Mr. Kurbanoğlu is a graduate of Division of Public Management of Middle East Technical University. Starting his job career as an inspector in Türkiye İş Bank in 1993, Mr. Kurbanoğlu is appointed as Vice Manager in Corporate Credits Monitoring and Follow-up Department in 2002. Mr. Kurbanoğlu has served as vice manager between 2002 and 2006, and as Regional Manager in Retail Credits Monitoring and Follow-up between 2011 and 2014, and is appointed as Commercial and Corporate Credits Monitoring and Follow-up Department head in 2004. Mr. Kurbanoğlu is currently working as Head of Commercial and Corporate Credits Monitoring and Follow-up Department.



KEMAL ŞAHİN
Member

Born in 1967, Mr. Şahin is graduated from Middle East Technical University, Faculty of Business Administration. After starting his job career as vice inspector in Türkiye İş Bankası in 1988, Mr. Şahin has been appointed as Vice Manager to the Bank's Subsidiaries Division in 1998. At present, he is working as Unit Manager in Subsidiaries Division of T. İş Bankası. In addition, Mr. Şahin is also serving as a member of Board of Directors of JSC Isbank Georgia, İş Faktoring A.Ş. and Arab Turkish Bank as well.



ŞAHİSMAİL ŞİMŞEK
Member

Born in 1968, Mr. Şimşek is graduated from Ankara University, Faculty of Political Sciences, Department of Finance. After starting his job career as an officer in Türkiye İş Bankası Yenişehir / Ankara branch in 1992, Mr. Şimşek has worked as Unit Supervisor, II. Manager and Vice Manager in Sultanhamam branch between 1995 and 2007, and as Unit Manager in Commercial Banking Product Directorate between 2007 and 2012, and as Branch Manager in Avcılar Commercial Banking Branch between 2012 and 2016. Mr. Şimşek has been appointed as Commercial Banking Sales Division Manager in 2016 and is still continuing to work as Commercial Banking Sales Division Manager.

BOARD OF DIRECTORS



Buğra Avcı
Member

Born in 1975, Mr. Avcı is graduated from Bilkent University, Faculty of Business Administration. After starting his job career as a credit specialist in Türkiye İş Bankası in 1988, Mr. Avcı has worked in Individual Banking Marketing and Corporate Banking Marketing Divisions between 2000 and 2007. He has worked as vice manager in Corporate Banking Product Division in 2007, and as Corporate and Commercial Banking Product Division Pricing Unit Manager in 2011. Mr. Avcı has been appointed as Commercial Banking Product Manager in 2015, and is still continuing to work as Commercial Banking Product Manager.



Hasan Hepkaya
Member

Born in 1981, Mr. Hepkaya is graduated from Hacettepe University, Faculty of Business Administration. Having started his career at Garanti Leasing in 2003, he then worked in various positions in the Corporate Marketing and Project Finance departments of Türkiye Sınai Kalkınma Bankası A.Ş. between 2005 and 2014, before serving as Project Finance Manager from 2014 through 2016. Mr. Hepkaya was appointed as Corporate Marketing Manager on 01 January 2017.

SENIOR MANAGEMENT



NİDA ÇETİN
Deputy General Manager
Financial Management,
Treasury&Financial Institutions,
Information Technology, Human
Resources, Investor Relations

Mrs. Cetin was born in 1971 and holds a BA degree in business administration from Middle East Technical University. Starting her career in 1993 at Coopers&Lybrand as an auditor, Mrs. Cetin served as financial controller between 1996-1997 at Bausch&Lomb. Having joined İş Leasing in 1997, Mrs. Cetin has held positions including financial controller and group manager of finance, and has been serving as assistant general manager since 2000.



DİLEK SEZER
Assistant General Manager,
Marketing, Sales, Purchasing,
Operation

Mrs. Sezer was born in 1970 and holds a BA degree in business administration from Marmara University. Starting her career in 1991 at TYT Leasing, Mrs. Sezer joined İş Leasing in 1992 and has held various positions, including marketing manager and marketing group manager. Mrs. Sezer has been serving as assistant general manager at İş Leasing since 2006.



BANU ALTUN
Assistant General Manager
Credits, Risk Follow-up, Legal

Mrs. Altun was born in 1972 and is a graduate of economics (english) from Marmara University. Mrs. Altun joined İşbank in 1994 as assistant specialist, was appointed as assistant manager in the corporate credits department in 2002, as manager of the corporate credits assignment department in 2007. Mrs. Altun has been serving as assistant general manager at İş Leasing since 2010.

SENIOR MANAGEMENT



ESMA TOKER
Sales Manager



ONAN KELEŞ
Treasury and Financial Institutions
Manager



A. BERRİN AKÇAL
1. Credits Manager



SERKAN SIRAK
2. Credits Manager



NESLİHAN ORUÇ
Financial Management Manager



ONUR TUFAN
Risk Monitoring Manager



PINAR UZUNALI
Purchasing Manager



SEYİTHAN AYVAZOĞLUYÜKSEL
Law Affairs Manager



NURAN GÜNEŞ BOZKURT
Legal Counselor

SENIOR MANAGEMENT



R. SEMİH NABİOĞLU
Head of Internal Audit



ALTAN İYİGÜN
Marketing Manager



ASLI ANAKÖK
Human Resources Unit Manager



A. MURAT YILDIRIM
Information Technologies Unit
Manager



BURAK KARSLI
Operations Unit Manager

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CONVENIENCE TRANSLATION INTO ENGLISH OF THE INDEPENDENT
AUDITOR'S REPORT RELATED TO ANNUAL REPORT ORIGINALLY ISSUED IN
TURKISH

Board of Directors of İş Finansal Kiralama Anonim Şirketi

Report on the Audit of Board of Directors' Annual Report Based on Standards on Auditing which is a Component of The Turkish Auditing Standards Published by The Public Oversight Accounting and Auditing Standards Authority ("POA")

We have audited the accompanying annual report of İş Finansal Kiralama Anonim Şirketi (the "Company") and its subsidiaries (the "Group"), for the year ended 31 December 2016.

Board of Directors' Responsibility for the Annual Report

Pursuant to the article 514 of the Turkish Commercial Code numbered 6102 ("TCC") and Communiqué on the Principles of Financial Reporting In Capital Markets numbered II – 14.1 ("Communiqué"), management is responsible for the preparation of the annual report fairly and consistent with the consolidated financial statements and for such internal control as management determines is necessary to enable the preparation of such annual report.

Auditor's Responsibility

Our responsibility is to express an opinion on the Group's annual report based on our audit in accordance with article 397 of the TCC and Communiqué whether the financial information included in the accompanying annual report is consistent with the audited (consolidated) financial statements expressed in the auditor's report of the Group dated 27 January 2017 and provides fair presentation.

Our audit has been conducted in accordance with the Standards on Auditing which is a component of the Turkish Auditing Standards ("TAS") published by the POA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information included in the annual report is consistent with the consolidated financial statements and provide fair presentation. An audit also includes performing audit procedures in order to obtain audit evidence about the historical financial information. The procedures selected depend on the auditor's judgment. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinio

Opinion

In our opinion, the financial information included in the annual report is consistent, in all material respects, with the audited financial statements and provides a fair presentation.

Report on Other Regulatory Requirements

In accordance with the third clause of the article 402 of TCC, no material issue has come to our attention that shall be reported about the Group's ability to continue as a going concern in accordance with TAS 570 Going Concern.

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

Funda Aslanoğlu, SMMM
Partner



28 February 2017
İstanbul, Türkiye

BRIEF ANNUAL REPORT OF THE BOARD OF DIRECTORS

The analysis and assessment of the Board of Directors with regard to financial situation and operating results, and degree of realization of the scheduled activities and operations, and situation of the Company against the established strategic goals:

In 2016, with its transaction volume of 562 million USD, and its market share of 8,9%, İŞ Leasing maintained its strong positioning in the sector. Having increased its leasing portfolio by 21.7% over the past year, the Company further increased its total assets by 34.0% to 7.5 billion TL. With a net profit of 103,7 million TL in 2016, the Company recorded a return on equity of 13.2%. As a result of developed techniques applied and care and due diligence shown in credit risk management, the Company's non-performing debts ratio of leasing receivables continued to remain far below the sector average, and was recorded as 4.7%. In 2016, by issuing bonds of 1.647 million TL in total in domestic bond market, and by diversifying its fund sources through borrowing new finances of 350 million USD in total from reputable domestic and foreign credit institutions, İŞ Leasing continued its effective and efficient policies aimed at extending the maturities of funds borrowed. Aiming to grow in a disciplined manner, the Company acts selectively in growth in order to effectively and efficiently manage the profit margin pressure increasing as a result of competition, and does not compromise on its strategy of covering the public in its transaction volume, and of creating a portfolio of good quality.

Determination and assessment as to whether the capital of the Company is actually depleted or whether the Company is deeply in debt or not:

As of the end of 2016, capital of the Company is 600,3 million TL, and we have no finding showing, and are not of the opinion, that the capital of the Company is actually depleted or the Company is deeply in debt.

Whether the targets determined in the past periods have been reached or not, and whether the general assembly decisions have been performed or not, and if not reached or performed, the reasons thereof, and assessments:

In 2016, the Company has recorded operating results in tandem with its strategic goals thanks to its dynamic balance sheet management and by focusing on sustainable growth strategies.

All decisions taken in the General Assembly meetings in the past period have been performed.

Information on direct or indirect subsidiaries of the Company and its shareholding rates:

Information on direct or indirect subsidiaries of the Company and its shareholding rates are presented in details in the footnote no. 9 of financial statements.

Information on donations and grants made during the year:

Donations and grants made by the Company in 2016 are 100 thousand TL.

Lawsuits which are brought forward against the Company, and may affect its financial situation and activities, and probable results thereof:

During the period, the Company has been involved in many lawsuits as the defendant side as a part of its ordinary activities. Accordingly, there exists no legal action or legal proceedings which are not disclosed in footnotes of consolidated financial statements or for which the required provisions and reserves are not set aside and which may make material adverse effects on the financial situation or operating results of the Company.

BRIEF ANNUAL REPORT OF THE BOARD OF DIRECTORS

Transactions of the controlling shareholders, directors, top echelon executives and their spouses and blood relatives and relatives by marriage up to second degree with the Company or its affiliates, which may cause conflicts of interests with the Company or its affiliates:

None.

Opinions and comments of the Board of Directors regarding internal control system and internal audit activities:

Internal control system of the Company covers control and monitoring activities developed by the executive management in order to ensure that the daily operations of the Company are carried out effectively and efficiently within the frame of the established policies, guidelines and limits, and aims to establish a structure ensuring that the control culture is adopted and maintained throughout the Company.

On the other hand, internal audit system of the Company covers the inspection, auditing and reporting processes carried out independently from the executive management in order to ensure that all operations and activities, also including internal control and risk management, are performed in accordance with the policies, strategies and goals, and that the Company assets are protected and maintained.

Our Board of Directors has assigned the Audit Committee for supervision, assessment and direction of initiatives and works within the scope of internal control and internal audit activities. Internal Audit, Internal Control and Risk Management Units, reporting to the Board of Directors through the Audit Committee, ensures that risk culture is created, developed and improved throughout the Company through its risk-based audit approach. The Audit Committee of the Company periodically assesses the efficiency of internal control system and the results of internal control activities through internal audit reports prepared and issued by the Internal Audit, Internal Control and Risk Management Units, and shares with the Board of Directors its proposals and suggestions on the actions required to be taken with respect to the findings of the said reports.

Explanations on administrative and juridical sanctions imposed on the Company and members of its managerial body due to practices and acts in conflict with the laws:

None.

Information on private audits and public audits conducted during the accounting period:

During 2016 accounting period, the Company has been subject to a limited independent audit as of 30.06.2016, and to an independent audit as of 31.12.2016 by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Muşavirlik A.Ş. Furthermore, as a requirement of full certification of corporate tax, the Company's financial statements have been subject to tax audit in quarterly periods by DRT Yeminli Mali Muşavirlik A.Ş.

BRIEF ANNUAL REPORT OF THE BOARD OF DIRECTORS

Legal transactions and actions performed with the parent company, or an affiliate of parent company, in favor of the parent company or any affiliate thereof under direction of parent company; and all other measures taken or avoided to be taken in favor of the parent company or any affiliate thereof in the past activity year; and according to the conditions and circumstances known by them as of the time the legal transaction is performed or the measure is taken or is avoided to be taken, whether an appropriate counter-obligation is provided in each legal transaction or not, and whether the measure taken or avoided to be taken has caused damages to the company or not, and if the company has incurred damages, whether such damages are offset and balanced or not:

There exists no legal transactions and actions performed with the parent company of the Company, or an affiliate of parent company, in favor of the parent company or any affiliate thereof under direction of parent company; and no measures taken or avoided to be taken in favor of the parent company or any affiliate thereof in the past activity year.

“Conclusion” section of the Affiliation Report:

During 2016 activity year, within the frame of the relevant provisions of the Turkish Commercial Code, our Company is affiliated to the group of companies of T. İş Bankası A.Ş. Pursuant to article 199 of the Turkish Commercial Code, our Company’s Board of Directors has incorporated the following statement in its affiliation report issued about its relations with its parent company and with affiliates of its parent company: “With respect to all transactions performed by the Company and its parent company and the affiliates thereof during the activity year of 01.01.2016 – 31.12.2016, to the best of its knowledge, all legal transactions and actions performed in favor of the parent company or any affiliate thereof under direction of parent company, and all measures taken or avoided to be taken in favor of the parent company or any affiliate thereof in 2016 activity year have been considered and evaluated. We hereby declare that our Company has not incurred damages due to a transaction conducted in 2016 within the knowledge of the Company.”

CHANGES WITHIN THE REPORT PERIOD

Increase in the Share Capital

The paid-in capital of the Company has been increased from TL 530,302,645 to TL 600,302,645 with a portion of TL 70,000,000 funded by 2015 profit shares allocated in the form of share certificates in line with the 2015 yearly profit distribution proposal approved by shareholders in the Annual General Assembly held on 25 March 2016, and distribution of the bonus shares have been completed on 17 June 2016, the capital increase processes have been completed on 20 June 2016.

Annual General Assembly Held Within the Period

The Company's 2015 Annual General Assembly has been held at the address of İş Kuleleri, Kule 1 Kat:41 4.Levent / İstanbul on 25 March 2016. Ordinary General Assembly Meeting of 2015 was held with the presence of the shareholders representing 600,000,000 Group A and 31,440,441,938 Group B shares from 53,030,264,500 shares corresponding to the Company's total equity of TL 500,302,645. In the meeting, the motions filed by the shareholders with respect to the agenda topics have been approved in unanimity.

Profit Distribution

According to the Profit Distribution Table submitted by the Board of Directors and approved by the General Assembly of Shareholders within the framework of the Decision No. 2322 and dated 19.02.2016 of the Company's Board of Directors, it has been resolved that the shareholders be distributed as first dividend 2.000 thousand TL of cash and in the form of bonus share the whole of the sum 70.000 thousand TL which is calculated based on the Company's distributable net profit of the year of 77.929 thousand TL as found by deducting the statutory primary reserve of 4.074 thousand TL, which is calculated based on the profit figure of 81.481 thousand TL included in the statutory records of the Company, from, and adding the donation of 1 thousand TL made during the year to the Company's net profit of the year of 82.003 thousand TL, which is taken as the basis of the profit distribution in accordance with the Capital Markets Laws and Regulations; a cash dividend of 18.000 thousand TL be distributed as cash dividend from the Company's extraordinary reserves; the deferred tax expenses of 2.488 thousand TL as included to the Company's consolidated net profit of the year be transferred to the extraordinary reserves account after being deducted from the deferred tax reserves which is consisted of the Company's undistributed tax revenues in the previous periods; the distribution of the shares to be deposited as profit share be started after the approval of the issue certificates for the referred shares by the Capital Markets Board; and the cash dividend distribution be completed until 31.03.2016. Distribution of the cash dividends has been completed on 30.03.2016, and distribution of the bonus shares has been completed on 17.06.2016.

Changes in Articles of Association

During the period of 01.01.2016 – 31.12.2016, no amendment has been made in the Articles of Association, and in the course of increase of our Company's registered share capital from TL 600,000,000 to TL 1,200,000,000 and Company's share capital from TL 461,503,000 to TL 530,302,645, Article 6 "Capital and Types of Shares" of our Company's Articles of Association has been amended, and these amendments have been registered respectively on 05.04.2016 and 20.06.2016.

COMPANY RISK POLICIES

Credit Risk

Overall Principles Regarding the Credit Risk Management Process:

1. The procedures and standards regarding transactions causing credit risk are set down in writing and announced to all employees concerned. As a general principle, the procedures and standards are reviewed at least annually and updated when needed.
2. Transactions causing credit risk with counterparty exposure must be conducted so as not create a concentration and be characterized as "well-diversified" by considering the level of risk. For this purpose, credit risk is monitored by criteria such as counterparty, collateral, sector, maturity and currency.
3. The credit worthiness of the counterparty is assessed by concrete data. For this purpose, a rating and/or grading system has been established and is used as a decision-supporting tool. A satisfactory performance of the counterparty with regard to liabilities is not based on the liquidity of collateral as a principle.
4. In transactions causing credit risk, the standards for acquiring collateral from the counterparty is determined in writing. The types of collateral to be obtained must be in conformity with regulations, conducted activities, market conditions and the essence of this policy.
5. Signs of complications observed in all variables that might hinder the counterparty in the fulfillment of its liabilities and which are both systemic and unique to the debtor, are evaluated as early warning signals.

To fulfill this purpose, credit risk is monitored closely by the Board of Directors. Problematic assets should be transformed into normal assets in a short period of time by judgment of efficiency. The economic value of the asset in question must be more than the resource to be allocated for this purpose.

Market Risk

Overall Principles Regarding the Market Risk Management Process:

1. Transactions performed in money and capital markets must be conducted so as not to cause a concentration of parameters such as instrument, maturity, currency, type of interest accrual and be characterized as "well- diversified" by considering the level of risk. As part of diversification, parameters such as maturity, monetary unit, etc. Are monitored to avoid concentration.
2. Monitoring of the credit worthiness of issuers of financial instruments causing market risk is given particular importance. In this context, the issuer should hold an "investment grade" level rating from a credit risk rating organization or must be at the "healthy" category in internal ratings.

COMPANY RISK POLICIES

Liquidity Risk

Overall Principles Regarding the Liquidity Risk Management Process:

1. The primary priority is the compliance of the firm's liquidity risk to the limits set down in legislation and conformance of this risk with the basic strategies of the firm.
2. In order to maintain efficiency and sustainability in liquidity management, a range of available funds, markets, instruments and maturities must be utilized for maximum diversification.
3. In managing liquidity risk, a portfolio structure is formed to derive profit from and comply with market risk management functions, and a risk-return balance is consistently monitored without compromising liquidity requirements.
4. The firm prepares and applies an Emergency State Action and Funding Plan for extraordinary periods.

Operational Risk

Overall Principles Regarding the Operational Risk Management Process:

1. Within the firm, there is a business continuity plan approved by the Board of Directors that displays the continuity of activities in the event of extraordinary conditions, minimizing monetary and reputational loss, clearly defining the duties and responsibilities of employees in such situations, the priority of activities and the manner in which these activities will be carried out. The functionality of the plan is reviewed regularly and results are reported to the Board of Directors. Required actions are taken with respect to non-functional issues.
2. The firm must reserve and back up important documents and information apart from the regular field of activity in a safe location.
3. Operational risks must be assessed in terms of the probability of occurrence as well as the level of the effect in the event of occurrence, and necessary measures must be taken.
4. The firm systematically monitors and reports core operational risk indicators and loss data and implements the necessary measures.

PROFIT DISTRIBUTION POLICY

Principles as to profit distribution of our Company are set down in Article 26 of the Articles of Association.

Distribution of profit in our Company is decided by the General Assembly of Shareholders in line with proposals of the Board of Directors by considering the provisions of the Turkish Commercial Code, the Capital Markets Law and other laws and regulations applicable on our Company.

As profit distribution policy, it is contemplated that at least 30% of the distributable profit will be distributed in the form of cash dividends and/or dematerialized shares, providing that there exists no setback in the global and national economic conditions, and the Company's financial standing and capital adequacy ratios are at the specified levels.

Cash dividend payments are effected by no later than the end of second month following the date of meeting of the General Assembly of Shareholders where the profit distribution decision is taken. Profit share distribution in the form of bonus shares is effected upon receipt of legal permissions and licenses.

Our capital does not contain any share privileged in terms of profit shares.

No founder's jouissance shares are issued, and no profit share is paid to our Directors and employees. The Company may distribute profit share advances to its shareholders within the frame of provisions of relevant article of the Capital Markets Law. The provisions of the relevant legislation are complied with in calculation and distribution of profit share advances.

DISCLOSURE POLICY

General Framework of the Disclosure Policy

Our company provides all relevant financial information as well as other explanations and disclosures in line with the provisions of Law no. 6361 on Financial Leasing, Factoring And Financing Companies regulations pursuant to this law, the Capital Market Board legislation, the Turkish Commercial Code and the regulations governing the Exchange İstanbul where our stocks are traded. Bearing in mind generally accepted accounting principles as well as corporate governance principles, we pursue a comprehensive policy to provide information to the public at large.

The underlying goal of the disclosure policy is to ensure that shareholders, investors, employees, clients, creditors and other interested parties are provided access to the necessary information and explanations – with the exception of those related to trade secrets – in a timely, accurate, complete and comprehensive fashion, under equal conditions and as easily and inexpensively as possible.

Our company has actively adopted corporate governance principles, and in the context of informing the public, it exerts utmost effort to implement the requirements of the applicable legislation and international best practices. The İş Finansal Kiralama A.Ş. Disclosure Policy, which has been prepared with this aim in mind, has been put into effect upon approval by the Board of Directors. Modifications to the Disclosure Policy are disclosed to the public after approval by the Board of Directors. A current version of our Disclosure Policy is provided at our website.

Authorization and Responsibility

The Board of Directors is responsible for the supervision, monitoring and development of company's information policy. A Corporate Governance Committee consisting of three board members has been formed to monitor our company's compliance with corporate governance principles and provide suggestions to the Board while the Investor Relations Unit has been mandated to coordinate the information function.

The Investor Relations Unit

Our company has formed an Investor Relations Unit with the aim of establishing relations with our shareholders in a regulated fashion and efficiently responding to investor requests. The operations of the unit are being regularly reported to the Board of Directors and the Corporate Governance Committee.

Means and Methods in Disclosing Information to the Public

The methods and means used in informing the public within the framework of the Financial Leasing Legislation, the Capital Market Legislation, the Turkish Commercial Code and other concerned legislations are described below:

- Financial statements are prepared quarterly on a consolidated basis in accordance with International Accounting Standards and Turkey Accounting Standards as required by the Capital Market Board (CMB) including related footnotes and explanations as well as the independent audit report. These are sent to the Public Disclosure Platform (PDP) within legal time limits and are published on our company's website. Financial statements are also translated into English and published on the website.

DISCLOSURE POLICY

- Financial statements prepared according to International Accounting Standards are also sent quarterly to the Association of Financial Institutions.
- Unconsolidated financial statements prepared according to International Accounting Standards and related information are also sent quarterly to Banking Regulation and Supervision Agency (BRSA), which are published as aggregated (Total Industry) on the BRSA website.
- Information on special circumstances required in the Capital Market Board (CMB) legislation is sent to the Public Disclosure Platform (PDP) within the required time limits. As a company policy, the disclosures of special circumstances are signed by the Assistant General Manager responsible from finance and the Accounting Manager; however should these be not in the office, they are being signed by responsible to be determined by the General Manager and submitted to the PDP. Disclosures of special circumstances are submitted to electronically reported under PDP system. Within 1 business day after the information is disclosed to the public, disclosures of special circumstances are published on our website and are accessible for further 5 years.
- Appropriate announcements are sent to the Commercial Registry Gazette and to daily newspapers in the event of changes to the articles of association, of meetings of the General Assembly, or capital increases.
- Our regular general assembly meetings are held within legal time frames every year and all activities performed to ensure the participation of shareholders to the general assembly are documented. The information regarding general assembly meetings is provided under our website www.isleasing.com.tr, to facilitate direct access of all shareholders. Starting from the date of invitation for general assembly, the annual report, financial statements and notes, profit distribution proposal, information memorandum prepared on relevant items of agenda of the general assembly, other relevant documents regarding agenda items, current articles of association, proposal on amendments of articles of association with explanation are provided for the scrutiny of our shareholders at our headquarters.
- Quarterly Operations Reports are prepared in accordance with Capital Market Board (CMB) legislation and corporate governance principles and upon approval of Board of Directors, submitted to PDP and published at our website. Company Annual Report, prepared every year prior to the General Assembly in both Turkish and English in a manner to include any relevant information and explanations is made available to shareholders and published on our website at (www.isleasing.com.tr).
- It is not planned to hold regular discussions and meetings with the press. When it appears necessary or in order to respond to requests from members of the press, certain announcements are made in the written and visual media. Announcements to written and visual media and data distribution institutions may be made by the Chairman of the Board of Directors, the General Manager or his deputy and other persons designated by those authorities.
- In the Communiqué on Material Events Subject to Disclosure, the future-oriented assessments are defined as “assessments which contain future plans and predictions considered as insider information, or which give an idea to investors about the issuer’s future activities, and financial situation and performance”. Where the future-oriented assessments are intended to be made public through press and media or other means of communication, the same information is further announced through PDP (Public Disclosure Platform) concurrently. In the case of a material change in the future-oriented assessments already made public, the public is separately informed thereabout. Future-oriented prospects are made public with a prior written approval of the General Manager or the Deputy General Manager authorized by the Board of Directors of our Company.
- All meeting requests from shareholders are positively responded to and meetings are organized within the shortest possible time frame. From time to time teleconferences are organized by the Investor Relations Unit to provide information to shareholders and stakeholders. Such information is posted in Turkish and English on our website (www.isleasing.com.tr) to timely provide them to all market participants under equal conditions.

DISCLOSURE POLICY

- In order to convey the company's sectoral performance, financial results, vision, strategies and targets to shareholders in a most efficient manner, the Investor Relations Unit accepts meeting requests from shareholders, investment houses, analysts and investors, actively arranges meetings and road-shows with interested parties and visits investors both in Turkey and abroad. Furthermore, to achieve effective publicity of our Company, The Investor Relations Unit prepares presentations and reports which are posted in Turkish and English on our website (www.isleasing.com.tr) to timely provide them to all market participants under equal conditions.
- Upon request of our shareholders, creditors, rating agencies and organizations doing research on our company, financial statements and related information are sent by the Investor Relations Unit via e-mail. Within the framework of corporate governance principles, in the section "Special to the Investor" which is posted both in Turkish and in English on our website (www.isleasing.com.tr), detailed information and data are given on our company. Every question from shareholders and other parties is answered by way of e-mails, letters, or telephone and similar means through the coordination of the Investor Relations Unit.

Other Disclosures

Disclosures other than those mentioned above are made available to the public in line with the authorizations specified in the list of authorized signatories.

Corporate Website of İş Finansal Kiralama A.Ş. (www.isleasing.com.tr)

Our Company's website is used actively and frequently to inform the public. Prepared in both Turkish and English, the website contains the information and data determined by the regulatory authorities and required by the principles of corporate governance. The site contains announcements on upcoming General Assembly meetings, agenda items and related information, documents and reports and procedures for participating in the General Assembly meeting. In addition, the company's disclosure policy and ethical standards are also featured on the website. The web site is monitored and kept up to date by the Investor Relations Unit.

Monitoring News and Rumors About the Company

- In order to follow-up the news and rumors about our company appearing on press-publication organs or web sites, the services of a company specialized in media monitoring services are being utilized. All news appearing about our company is sent by the service provider to our company on a daily basis.
- In the event that news or rumors appear on written and visual media which are of significance to affect stakeholders investment decisions or the value of capital market instruments, are not originated by representative authorized persons of the Company, have a different content than the information previously made public through disclosure documents; an immediate disclosure is made to the public as to the validity and completeness of such information. In the event the information necessitates declaration of special circumstances, then the disclosure is made in the form of disclosure of special circumstances.

Deferring Disclosure of Internal Information

Bearing the responsibility, our company may defer the disclosure of internal information in order to prevent damage to its legal rights and interests. No disclosure is made to the public regarding the internal information during the deferment period. Our company is responsible to take all kinds of measures to prevent the deferral from forming a risk of deceiving the public and the information is kept confidential during the deferment period.

Measures to ensure the confidentiality of information are subject to Board of Directors approval. By the time the reasons for deferral are eliminated, an announcement is made to public and immediately to PDP; containing the internal information, the decision to defer and the reasons for deferral.

DISCLOSURE POLICY

Criteria in Determining Persons with Administrative Responsibility

When determining the persons who have administrative responsibility, the duties of such individuals within the company and the content of information accessed by such persons are taken as criteria. Accordingly, managers and other employees having information on only a part of the operations of the company and who have limited access to information about all activities are not evaluated in the context of the persons having access to inside information.

In this context, Board Members and Auditors, the General Manager and Assistant General Manager as well as the unit managers and some company employees with access to complete information about the company such as asset-liability structure, profit and loss, cash flows, strategic objectives, etc. and authority to administrative decisions that may affect the company at a macro-level are identified as persons with administrative responsibility.

The Announcements of the Statements Regarding the Company's Indirect or Direct Legal and Commercial Relations due to Capital, Management and Audit with real and legal persons

The Company's statements regarding its indirect or direct legal and commercial relations due to capital, management and audit with real and legal persons, are done within the framework of the CMB's regulations.

Confidentiality of Information to be Disclosed to the Public

- All information of the Company, encountered during the period of service which are in the nature of trade secret, and are not desired to be known by persons other than those authorized by the Company, shall be considered as "Company Information". All employees are obligated to protect company information during and after the termination of their service.
- Company Ethical Rules, outlining the rules of professional ethics and the sanctions to be applied by the company in case of discordance, in accordance with existing laws and regulations, are published and announced to all staff. Necessary measures are taken to prevent the usage of insider information.
- The list of persons with access to internal information is kept up-to-date within the company. Persons having access are required to keep such information confidential until it is announced to the public by a declaration of special circumstances. In order to ensure confidentiality until the declaration of special circumstances, company employees with access to internal information are informed about their responsibilities arising from relevant legislation. Independent auditors, consultants or other persons and institutions rendering services and having temporary access to internal information are contractually covered with a confidentiality clause.

COMPANY ETHICAL PRINCIPLES

I. GENERAL PROVISIONS:

ARTICLE 1. PURPOSE AND SCOPE:

Basic purpose of the Professional Ethical Principles of the Association of Financial Institutions (the "Association"), applicable on all kinds of relations and affairs of companies, being members of the Association, with each other or with their customers, shareholders or employees, or with other entities and institutions, is to maintain the continuity of professional reputation, and to protect stability, trust and confidence in the relevant sectors with regard to fields of business of financial leasing, factoring and finance companies.

İş Finansal Kiralama A.Ş. Ethical Principles ("Ethical Principles") determines and sets down the rules and principles required to be complied with in all kinds of relations and affairs of İş Finansal Kiralama A.Ş. (the "Company") with the Association members, and with its customers, shareholders and employees ("Employees"), and with other entities and institutions, and forms a basis for sanctions to be imposed by the Company in the case of breach of these principles.

Ethical Principles will be published in the Company's corporate internet site (www.isleasing.com.tr) and the Company's internal publications. It is the responsibility of Managers of the Company to communicate these Ethical Principles to all Employees, and to ensure that the Employees place the required importance on these rules, and to endeavor and show leadership for compliance with these rules. The Board of Directors, Senior Management, Managers and Employees are all liable to comply with these principles.

ARTICLE 2. GROUNDS:

These Ethical Principles are relied upon the "Financial Leasing, Factoring and Finance Companies Professional Ethical Principles" published and made effective by the Association of Financial Institutions (the "Association") on 18 March 2015, and the provisions of "Corporate Governance Communiqué" published by the Capital Markets Board.

ARTICLE 3. GENERAL PRINCIPLES:

For the sake of trust and stability in financial markets, and for effective operation of crediting systems by also taking into consideration the requirements of economic development, and for prevention of practices and actions which may cause substantial damages in economy, and with a view to safeguarding the social interests and for protection of environment, the Company and the Employees perform their duties and functions and take actions in tandem with the following general principles.

A) HONESTY

In performing its activities, and in all its relations with its customers, Employees, shareholders, group companies, and with Association members, vendors, and other entities and institutions, the Company adheres to and acts in line with the principle of honesty.

B) NEUTRALITY:

The Company does not discriminate between its Employees and customers, and refrains from acting in a biased and prejudiced way.

In providing its services to its Customers, the Company does not make any discrimination on the basis of such differences as national or ethnic origin, religion, financial and social status, or gender.

C) RELIABILITY:

In all of its services and actions, the Company gives clear, understandable and true information to its customers and offers its customer services completely and timely, within a mutual trust atmosphere.

D) TRANSPARENCY:

The Company keeps its customers informed clearly, understandably and explicitly about such issues as rights and obligations, benefits and risks of products and services provided to the customers.

COMPANY ETHICAL PRINCIPLES

E) SAFEGUARDING THE SOCIAL INTERESTS, AND RESPECT FOR ENVIRONMENT:

In all its activities and operations, in addition to profitability, the Company makes a point of giving support to social and cultural activities in the light of the principles of safeguarding the social interests and of respect for environment.

F) PREVENTION OF LAUNDERING OF CRIME REVENUES:

Within the framework of international norms and national applicable laws, the Company adopts it as an important principle to fight against laundering of crime revenues and against corruptions and similar other crimes, and does its best in order to enter into cooperation with both Association members and other entities and institutions and concerned authorities. The Company internally takes the necessary measures and organizes training programs for its Employees in connection therewith.

G) INSIDER TRADING:

The Company takes all kinds of actions in order to prevent use of insider information.

II. RELATIONS OF COMPANY WITH PUBLIC ENTITIES AND ADMINISTRATIONS:

ARTICLE 4. RELATIONS WITH PUBLIC ENTITIES AND ADMINISTRATIONS:

In its relations with public entities and administrations, the Company acts in line with honesty, accountability and transparency principles, and ensures that all information, documents and records requested for audit and control purposes pursuant to the laws are provided accurately, completely and timely.

Other than issues which are solely concerned with the Company itself, the Company will inform the Association before taking comments and opinions of public entities and administrations on issues which may ultimately be binding on the Financial Leasing Sector.

III. RELATIONS WITH MEMBERS OF THE ASSOCIATION:

ARTICLE 5. EXCHANGE OF INFORMATION:

To the extent allowed by the applicable laws and regulations, the Company exchanges information with members of the Association accurately and systematically on all and any subjects whatsoever.

ARTICLE 6. PERSONNEL MOVEMENTS:

The Company refrains from all kinds of acts which may lead to unfair competition about employment of personnel.

In spite of freedom of contract and movement in terms of employment of personnel pursuant to the Labor Act and other relevant applicable laws and regulations, the Company takes care to ensure that its personnel recruitments do not interrupt services of other companies. The Company acts honestly and objectively in providing information that may be requested by other companies about its ex-employees.

ARTICLE 7. COMPETITION:

The Company considers and treats competition as a legitimate contest among all companies operating in financial leasing, factoring and finance sector enabling the market actors to take their economic decisions freely. Therefore, in its activities carried out within free market economy, the Company avoids all kinds of acts, behaviors and statements which may lead to unfair competition, within the frame of principles of not only safeguarding its own interests, but also:

- a) ensuring continuity of trust in financial leasing, factoring and finance companies in general; and
- b) endeavoring for further development of the sector; and
- c) safeguarding joint interests of market players.

This principle is both valid for the Company as a separate legal personality, and covers the acts, behaviors and statements of Managers and Employees of the Company as well.

COMPANY ETHICAL PRINCIPLES

ARTICLE 8. ADVERTISEMENTS AND PROMOTIONS:

In its advertisements and promotions aimed at promotion and marketing of both its own financial products and the products and services of members of the Association, the Company complies with the laws and general ethical rules, and acts honestly and realistically, and refrains from all kinds of acts or behaviors which may damage the prestige and reputation of its sector, and may misrepresent its sector.

In its advertisements and promotions, the Company does not use any words or phrases defaming or humiliating other Association members or products and services of other Association members.

IV. RELATIONS OF COMPANY WITH ITS CUSTOMERS:

ARTICLE 9. INFORMATION OF CUSTOMERS:

With respect to all kinds of products and services offered to its customers, the Company gives true, accurate and complete information to its customers in a timely manner at all stages of service relations and in all aspects, by strictly complying with the limitations set forth in the applicable laws.

ARTICLE 10. CUSTOMER SECRETS:

The Company is under obligation to keep in strict confidence all kinds of information and documents of customers and not to divulge them to third parties, other than persons and entities who are clearly and legally authorized to request information and documents.

ARTICLE 11. SERVICE QUALITY:

The Company considers service quality as a condition precedent of meeting the customer needs and expectations through top quality services to be provided. The Company makes sure that two basic elements of this concept, i.e. technological infrastructure and qualified human resources, are used for continuous development in service quality.

The Company provides services of the same quality and same level to all customers. However, identification of target markets, and differentiation of organizational structure and product range or mix according to the target masses, or adoption of different approaches towards customers in different risk groups cannot be construed as a discrimination among customers or as categorization of customers.

ARTICLE 12. CUSTOMER COMPLAINTS:

The Company establishes a system capable of responding to all kinds of questions of its customers with respect to its services, and keeps its customers informed about the services.

The Company delves into causes of customer complaints, and takes actions required for non-repetition of just complaints. The Company informs its Employees for correction of mistakes leading to complaints and for prevention of repetition thereof.

ARTICLE 13. SECURITY:

The Company takes all kinds of technical and legal actions for the sake of transactional security in all and any service environments due to changing service channels and technological developments. The Company informs its customers about actions taken by itself and actions required to be taken by the customers.

COMPANY ETHICAL PRINCIPLES

V. RELATIONS WITH EMPLOYEES:

The Company adopts a strategy respectful for rights and interests of its Employees and applying contemporary human resources policies. The Company accepts and treats collaboration and solidarity as important elements of work environment; encourages mutual respect; assures continuity of peace at work; creates appropriate environments where the Employees may express themselves and uses such environments for development of the Company and its Employees; and supports social events and activities of the Employees based on voluntary participation.

ARTICLE 14. GENERAL QUALIFICATIONS OF EMPLOYEES:

The Company makes sure that its Employees have the knowledge and the sense of responsibility necessitated by their job positions and duties.

ARTICLE 15. RECRUITMENT AND CAREER DEVELOPMENT:

The Company provides equal opportunities both in recruitment and in career development without any discrimination among its Employees. Departing from the principle of best management of human resources, the Company provides training courses, seminars and similar other facilities needed by its Employees to reach the knowledge level according to the necessities of the time and the profession.

In professional promotion of its Employees, the Company takes into account not only their knowledge, skills and personal successes, but also their loyalty to Ethical Principles and their care shown in implementation of principles.

ARTICLE 16. REPRESENTATION PRINCIPLES AND WORK ENVIRONMENT:

The Company issues internal regulations requiring its Employees to be clean and well-groomed in line with reputation of profession and knowing that they represent the Company.

The Company takes actions in order to increase motivation of its Employees in all service units and for the sake of provision of service under better conditions, and creates a healthy and safe work environment.

The Company takes required actions in order to prevent all kinds of harassment, especially mobbing, and holds an investigation in the case of allegations thereof. If a mobbing act is detected as a result of investigation, it takes the required actions and applies the sanctions required as per the pertinent laws.

ARTICLE 17. WORKING HOURS:

The Company ensures that adequate personnel of a number fit for the workload are recruited and employed. It organizes its Employees in such manner to use them with maximum efficiency within working hours, and shows maximum efforts to ensure that overtime work is not needed, and the Employees regularly use their annual leaves.

ARTICLE 18. RIGHTS OF EMPLOYEES:

The Company assures that all rights of the Employees arising out of the applicable laws and regulations are recognized and granted fully, accurately and timely.

ARTICLE 19. RELATIONS OF EMPLOYEES WITH CUSTOMERS:

The Company issues internal regulations precluding its Employees from:

- a) entering into non-ethical relations with customers such as debt/credit and surety relations; and
- b) getting gifts from existing or potential customers; and
- c) deriving personal benefits from their own business relations or from opportunities of customers by using their personal positions.

COMPANY ETHICAL PRINCIPLES

VI. PROFESSIONAL RULES AND ETHICAL PRINCIPLES TO BE ABIDED BY COMPANY EMPLOYEES:

ARTICLE 20. PROFESSIONAL RULES AND ETHICAL PRINCIPLES TO BE ABIDED BY EMPLOYEES:

The Employees are obliged:

- a) to comply with the current applicable laws and regulations in the course of performance of their job duties; and
- b) to keep their customers informed about benefits and risks of products and services offered to them; and
- c) to provide unbiased and fair services to customers receiving the same services; and
- d) not to disclose any secrets of the Company and its customers, which come to their knowledge in the course of performance of their job duties, to third parties other than the authorities legally and clearly authorized to request them; and
- e) not to cause any loss of reputation of the Company in their works and behaviors; and
- f) not to engage in activities which may lead to their identification as a "Commercial Enterprise" or as an "Artisan or Tradesman"; and
- g) not to act contrary to justice, integrity, honesty, reliability and social responsibility principles; and
- h) to enter into cooperation and to establish respectful and attentive communication with other employees in tandem with joint purposes and motives in performing their job duties and obligations; and
- i) not to use the assets and resources of the Company inefficiently and for non-intended purposes; and
- j) not to derive personal benefits from their own business relations or from opportunities of customers by using their personal positions; and
- k) to immediately refuse offers made to them for provision of benefits, and to report such offers to official authorities and their superiors; and
- l) to direct potential customers first of all to the Company; and
- m) not to enter into non-ethical relations with customers such as debt/credit and surety relations; and
- n) not to accept gifts from existing or potential customers other than common usage and practices; and
- o) to assume responsibility and accountability with respect to their duties in the course of performance of services; and
- p) not to ruin the reputation of the Company and other financial institutions and not to engage in defamatory or humiliating acts towards business partners, shareholders, employees and customers by using their own identity or by concealing their identity or by using misleading identities in media and social media environments, profile accounts or other communications; and
- q) not to take acts binding on the Company, and not to give deceptive and untrue statements by overriding their authority in performance of their job duties.

ARTICLE 21. DEVELOPMENT OF ETHICAL PRINCIPLES OF COMPANIES:

The Company may at any time and in its sole option make proposals to the Board of Directors of the Association for development and if required, for amendment and revision of the Ethical Principles.

VII. RELATIONS OF COMPANY WITH THE ASSOCIATION:

ARTICLE 22. RELATIONS WITH THE ASSOCIATION:

In its relations with the Association, the Company acts in line with honesty and transparency principles, and ensures that all requested information, documents and records are transmitted accurately, completely and timely.

The Company will not make public:

- a) information about other members of the Association; and
- b) correspondences exchanged by the Association with public entities and administrations; and
- c) agreements signed by the Association with its service providers, advisors and consultants; and
- d) any kind of confidential information and documents sent and provided by the Association.

COMPANY ETHICAL PRINCIPLES

VIII. RELATIONS OF COMPANY WITH ITS SHAREHOLDERS:

ARTICLE 23. RELATIONS WITH SHAREHOLDERS:

The Company protects the rights and interests of shareholders as outlined and determined by the applicable laws, and shows maximum efforts to create value against resources provided by shareholders. The Company makes sure that the required information is disclosed to shareholders and to public accurately, completely and timely. The resources, assets and working time of the Company are managed efficiently on the basis of sustainable growth and profitability.

IX. OTHER PROVISIONS:

ARTICLE 24. COMPLIANCE WITH LAWS AND LEGAL ACTIONS:

The Company complies with all laws and regulations within the fields of business of the Company, and all policies and working principles published by the Board of Directors of the Company. The Company establishes the systems required for keeping of all operational and legal records completely and in accordance with the laws, and keeps all records, and issues all reports. The Company ensures that agreements signed with other persons and entities are open, clear and understandable and compliant with laws and the Ethical Principles. Other than those authorized in accordance with the principles and limits set forth in the signature circular or the relevant special authorization certificate, the Company takes actions to prevent any Employee from entering into engagements binding on the Company.

ARTICLE 25. PUBLIC DISCLOSURE:

The Company publishes all public disclosures, statements or bulletins through its legal representatives in compliance with the laws. The Company ensures that disclosures that are newsworthy or for promotion purposes are made by the Company representatives designated in accordance with the information policy of the Company. Information requests of third parties, which are by nature in confidential category for the Company, are responded within the knowledge of the Top Management.

ARTICLE 26. CONFIDENTIALITY:

The Company and its Employees know that all financial and trade secrets of the Company, and all information which, if disclosed, may weaken the competitive power of the Company, and personnel rights and information, and agreements signed with business partners are "confidential" by nature, and they protect and keep them in strict confidence. Information and documents obtained as a requirement of business may in no case and for no purpose whatsoever be shared with unauthorized persons or entities inside or outside the Company, and be used for speculative purposes or personal interests.

ARTICLE 27. DETECTION OF BREACHES, AND SANCTION:

Transactions or acts alleged to be contrary to the Association's Ethical Principles and Professional Rules and Decisions are first of all evaluated in the relevant sector committees, and then presented to the decision of the Board of Directors of the Association. If the Board of Directors of the Association decides that a company has breached these Ethical Principles, then it may inflict an administrative fine pursuant to article 42.3 of the Law no. 6361, and it is separately reported to the Banking Regulation and Supervision Authority.

ARTICLE 28. EFFECTIVE DATE:

These Ethical Principles have entered into force as of 30.06.2015.

DECLARATION OF CORPORATE GOVERNANCE RULES

Istanbul, 09 February 2017

To the Board of Directors of İş Finansal Kiralama A.Ş.;

DECLARATION OF CORPORATE GOVERNANCE RULES

According to the "Communiqué of Corporate Governance" Number: II-17.1 of the Capital Markets Board appeared in the Gazette No: 28871 dated on 03.01.2014, all companies traded on Borsa İstanbul (BİST) are requested to provide a declaration of compliance with Corporate Governance Principles and a compliance report within their annual report and website. Within the framework of the Capital Market Legislation, our company's yearly compliance report on principles of corporate governance has been provided on our website (www.isleasing.com.tr) and our annual reports since 2005.

The implementation and application of corporate governance principles in our company is regarded very beneficial both for our company's interests as well as for the development of capital markets locally and abroad. The application of corporate governance principles in our company is a continuous and dynamic process, pervading in all applications.

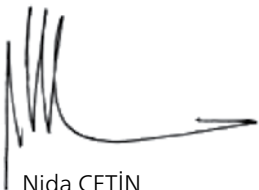
Under this context, being listed under the corporate governance index of Borsa İstanbul, as a result of the rating process performed by Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş. in 2016, considering the emphasis on corporate governance rules, the willingness to perform this process consistently and dynamically and the improvement realized in the process since the previous rating score, corporate governance rating score of our company has been rated as 9.17 (91.68) and the rating report has been announced to public. This rating report has also been shared with the public under our company website (www.isleasing.com.tr), concerning to increase this corporate governance rating score, the protection of rights of shareholders, informing the public and maintaining transparency and the adjustment to the said rules in decisions and transactions concerning stakeholders and Board of Directors are aimed and in this context, effort for corporate governance compliance is maintained under the supervision of our committee.

Within this framework, the Compliance Report on Principles of Corporate Governance for 2016 prepared in light of our company's priorities on this subject, which is disclosing applied and unapplied aspects of the governance principles has been provided as Appendix.

The compliance report on principles of corporate governance, prepared for our annual report in accordance with corporate governance principles and company governance applications, has been surveyed by our committee, evaluated to be appropriate based on our above declaration and submitted to your perusal.

Best Regards,

İş Finansal Kiralama A.Ş.
Corporate Governance Committee



Nida ÇETİN
Member



Kemal ŞAHİN
Member



Prof. Dr. M. Baha KARAN
Chairman

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

1. Compliance Report on Corporate Governance Principles

Within the frame of the Corporate Governance Principles set down in the “Communiqué on Corporate Governance”, No. II-17.1, of the Capital Markets Board (“CMB”) promulgated in the Official Gazette edition 28871 on 03 January 2014, this statement deals with the following responsibilities of İş Finansal Kiralama Anonim Şirketi (the “Company”) on regulation of relations with shareholders, enlightenment of public, transparency, and regulation of relations with stakeholders, and determination of duties, powers and responsibilities of the Board and its committees and their executives.

İş Leasing, as a strong and leading company in the financial leasing sector, is using its rights and fulfilling its responsibilities in its relations with its employees and customers and other relevant parties, particularly its shareholders, within the frame of an efficient and effective management and supervision system based on accountability, equality, transparency and responsibility, being the global elements of its corporate governance approach.

Being conscious and cognizant of the fact that a good corporate governance practice may be ensured only through determination of a management strategy, and creation of an effective risk management and internal control mechanism, and formulation of ethical rules, and management of investor relations and performance of public disclosure obligations at the required quality level within the scope of information policy, and efficiency in formation and activities of the Board, it is a goal of the Company to assure maximum compliance with the said principles.

Corporate governance applications of the Company are being regularly and independently rated since 2009, and the latest of these ratings was conducted in 2016 by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (“Saha Rating”) who assigned our Company the corporate governance principles compliance rating of “9.17” over full rating of “10”. The Company is listed on BİST Corporate Governance Index, also it was included to the World Corporate Governance Index (WCGI) which was published by Saha Rating on 1 July 2016.

The Company has its operations in full compliance with all of the compulsory items included to the corporate governance principles by implementing all required policies and measures. Governance and internal control mechanisms as established by the Company are actively and efficiently put into operation, and any corporate governance risks as may be identified are actively managed. The rights of the shareholders and stakeholders are fairly observed, and public disclosure and transparency subject are given maximum care and importance.

Structure and modus operandi of the Board are in the best practices category, However, the Company has not yet ensured full compliance with some rules and articles included in the corporate governance principles, though not mandatory, and the reasons of such non-compliance are explained and justified under the following headings.

Details of compliance initiatives and works are presented in the relevant sections of this report.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

PART I - SHAREHOLDERS

2. Shareholder Relations Unit

There is an Investor Relations Unit, in charge of relations with shareholders is in the Company.

Name and Surname	Position	Telephone Number	E-Mail Address
Nida Çetin	Deputy General Manager	0 212 350 74 00	nidacetin@isleasing.com.tr
Onan Keleş	Manager	0 212 350 74 50	onankeles@isleasing.com.tr
Neslihan Oruç	Manager	0 212 350 74 70	neslihanoruc@isleasing.com.tr
Ayşe Perk	Assistant Manager	0 212 350 74 78	ayseperk@isleasing.com.tr
Firuze Kutlu	Supervisor	0 212 350 74 72	firuzekutlu@isleasing.com.tr

Investors Relations Unit reports directly to the Assistant General Manager Ms. Nida Çetin. Ms. Nida Çetin and Ms. Neslihan Oruç have got Capital Markets Advanced Level License and Corporate Governance Rating Specialization License certificates.

Activities of this unit are being regularly reported to the Board and the Corporate Governance Committee. The main duties and functions of the Investor Relations Unit are primarily:

- To ensure that records relating to shareholders are kept accurately, safely and up-to-date;
- To satisfy the written information demands of shareholders with regard to the Company, except for confidential information and/or trade secrets which have not yet been made public;
- To ensure that the meetings of the General Assembly are held in accordance with the applicable laws, the articles of association and other internal bylaws and regulations of the Company;
- To prepare the documents for use by shareholders in the General Assembly meetings;
- To ensure that the voting results are duly recorded, and reports on voting results are sent to shareholders;
- To supervise and monitor all and any matters relating to enlightenment of public, also including the applicable laws and regulations and the Company's information policy;
- To prepare and issue information reports for domestic and foreign investors, and if and to the extent needed, to organize presentations and meetings.

All of 2 verbal, 2 written information demands received from shareholders during the report period have been met by the Investor Relations Unit and shareholder records have been kept up-to-date.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

3. The Use of Shareholders' Rights of Obtaining Information

All kinds of information demands of shareholders, except for trade secrets or non-public information, are satisfied and met within the frame of the applicable laws.

Information demands of shareholders are reviewed and assessed at a minimum at the level of Deputy General Manager, and are met diligently, accurately and completely in such manner to fairly reflect the truth, in the soonest time possible, subject to limitations as to trade secrets and confidential information.

For the sake of effective use of shareholding rights, explanations on the frequently asked questions and all information about the developments affecting the use of rights are made public via the Company's internet website, while individual demands are being met by the relevant Unit. The information demands of shareholders about the legal and commercial relations between the Company and natural persons or legal entities being directly or indirectly related or affiliated to the Company in terms of capital, management or supervision are also met and satisfied to the extent allowed by the applicable laws.

Pursuant to the applicable laws, minority shareholders have the right to request the General Assembly to appoint a special auditor to inspect and audit some specific events and matters. None of the shareholders of the Company has requested the General Assembly to appoint a special auditor during 2016. However, the demand of appointment of special auditor is not incorporated as an individual right in the articles of association of the Company.

4. General Assembly Meetings

During the report period, one General Assembly meeting has been held, namely the 2015 Annual Ordinary Meeting of the General Assembly.

The 2015 annual ordinary General Assembly has been held on 25.03.2016 in accordance with the applicable laws and regulations, and the Company's articles of association and other internal bylaws. All procedures required to be completed prior to the General Assembly meeting have been carried out in accordance with the corporate governance principles, and decisions taken in the General Assembly meeting have been made public in a timely manner.

The 2015 Annual Ordinary Meeting of the General Assembly has been held with participation of our shareholders representing 60.42%, i.e. TL 20.4 million of the paid capital of TL 530,302,645 of our Company.

The meeting has not been attended by media or stakeholders other than shareholders.

As the Company's articles of association does not contain a clause allowing participation of media and stakeholders, other than shareholders, in the General Assembly meetings, neither media nor stakeholders, other than shareholders, are accepted to the meetings of the General Assembly.

The call for meeting, containing information about the place, date, time and agenda of the meeting, and a sample form of power of attorney required there in for, is made public no later than three weeks prior to the date of meeting in the Turkish Trade Registry Gazette, and Dünya newspaper, and the Public Disclosure Platform, and is separately published in the Company's internet website as well.

Information on the meeting has been further sent within the same period of time by registered mail, return requested, to the shareholders registered in the share book of the Company. All meeting-related information may also be retrieved from the Company's internet website.

Before the meeting, the financial statements and reports, the annual report, profit distribution proposal, information document prepared about the agenda topics of the General Assembly meeting, other documents relied upon in agenda topics, and last version of the articles of association have been kept ready and open for inspection by shareholders in the Company's headquarters and internet website.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

At all stages of the meetings, shareholders are allowed to ask questions and raise proposals and motions. Shareholders have used their right to ask questions in the meetings, and the questions asked in the meetings have been instantly answered, as also clarified in the relevant meeting minutes.

We are showing maximum effort for facilitation of participation in the General Assembly, and no negative feedback has so far been received from shareholders in relation therewith.

Minutes of the General Assembly meetings have been circulated to shareholders at the end of meeting, and have separately been published in the Public Disclosure Platform and the Company's internet website in order to inform the shareholders who could not participate in the meeting.

Donations and grants made by the Company during the report period are detailed below, and these donations and grants will be presented to the information of shareholders as a separate agenda topic in the 2016 Annual Ordinary Meeting of the General Assembly. (Amounts are expressed in Turkish Lira.)

The Donation Campaign for The Martyrs, their Relatives and Veterans of the 15th of July	TL 100,000
The Educational Volunteers Foundation of Turkey (TEGV)	TL 300
Total	TL 100,300

5. Voting and Minority Rights

Pursuant to the articles of association, each share gives one voting right to its holder.

Though none of the shares in the share capital of the Company has a voting privilege, the Group "A" shareholders have the privileges of nomination of Directors and internal auditors and of giving consent to all and any amendments in the articles of association.

The Company does not have any mutual participation or shareholding relations with any other company.

The Board of Directors elected by the General Assembly does not contain any minority interest representative.

However, the Board of Directors contains 2 independent directors who do not represent any shareholder of the Company. The Company's articles of association do not cover any minority interests recognized in favor of holders of shares lower than one-twentieth of the share capital.

6. Dividend Rights and Profit Distribution Policy

No shares privileged in terms of participation in the sharing of profit of the Company exist.

Full text of the profit distribution policy of the Company which has been approved by the General Assembly of Shareholders and disclosed to public is included in the annual report.

It was resolved in the Ordinary General Assembly Meeting in 2015 that, of the net profit of the period which is taken as the basis for the calculation of the profit distribution in accordance with the laws and regulations on Capital Markets Board, TL 2,000 thousand be distributed as cash and TL 70,000 thousand be distributed as first dividend in the form of bonus share and TL 18,000 thousand be distributed as cash dividend from the extraordinary reserves, and cash dividend distribution was completed on 30.03.2016 and bonus share distribution was completed on 17.06.2016.

7. Transfer of Shares

The Company's articles of association do not contain clauses restricting the transfer of shares.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

PART II – INFORMING THE PUBLIC AND TRANSPARENCY

8. Disclosure Policy

As updated, the up-to-date versions of the disclosure policy of the Company are made public, and are presented to shareholders for information purposes in the General Assembly meetings. Disclosure policy is published in Turkish and in English in the Company's internet website and annual report.

The Investor Relations Unit is responsible for management of disclosure policy. Employees of the unit are given below:

Name and Surname	Position	Telephone Number	E-mail Address
Nida Çetin	Deputy General Manager	0 212 350 74 00	nidacetin@isleasing.com.tr
Onan Keleş	Manager	0 212 350 74 50	onankeles@isleasing.com.tr
Neslihan Oruç	Manager	0 212 350 74 70	neslihanoruc@isleasing.com.tr
Ayşe Perk	Assistant Manager	0 212 350 74 78	ayseperk@isleasing.com.tr
Firuze Kutlu	Supervisor	0 212 350 74 72	firuzekutlu@isleasing.com.tr

To the best of the Company's knowledge, there is no material change in the management and activities of the Company planned for the future periods.

9. Company's Website and Its Contents

The Company's website is at the address of www.isleasing.com.tr.

The Company's website which has been published both in Turkish and in English languages covers all subjects stipulated in the corporate governance principles.

The Company's website is kept current within the frame of the "Corporate Governance Communiqué" no. II-17.1.

10. Annual Report

The Company's Activity Report is prepared in conformance with the principles laid down in the Capital Markets Board's Communiqués No. II-14.1 on "Principles of Financial Reporting in Capital Markets" and No. II-17.1 on "Corporate Governance", is independently audited and disclosed to the public.

Furthermore, the annual report also covers the minimum contents specified in the "Regulation on Determination of Minimum Contents of Yearly Annual Report of Companies" issued and published by the Customs and Trade Ministry of the Republic of Turkey.

Annual report is detailed enough to ensure access of the public to complete and accurate information about the Company's activities, and the report further contains information referred to in the corporate governance principles.

PART III - STAKEHOLDERS

11. Information to Stakeholders

Stakeholders are persons, entities or interest groups being related to activities of the Company or having an interest in achievement of objectives of the Company. Accordingly, stakeholders are determined as shareholders, employees, creditors, customers, suppliers, public entities and institutions, non-governmental organizations and potential savors who may consider to invest in the Company.

The stakeholders policy of the Company formulated within the frame of its corporate governance principles has been made public, and is also published in the Company's website. Said policy contains provisions relating to protection and information of stakeholders and their participation in management, as well as information about human resources policy, and relations with customers and suppliers.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

Stakeholders are given information via material disclosures, general assembly meeting minutes, annual activity reports, financial reports, public disclosure platform and the Company's website.

Employees are informed about issues relating to objectives and fields of the Company through performance assessment meetings. Furthermore, memoranda of information published via the corporate portal established as an internal sharing system of the Company are also accessible by all employees.

A mail address of icdenetim@isleasing.com.tr has been formed in order to enable the employees to report to the Internal Audit Unit any events or issues which do not comply with the applicable laws and are considered to constitute a risk. For reporting of operational losses, the "Operational Loss Event Data Entry" screen on the portal is being actively used by the employees. In addition, the reportings of stakeholders to the Investor Relations Unit with respect to unlawful and unethical transactions of the Company are further transmitted to the Corporate Governance Committee and the Audit Committee through the "Investor Relations Form" included in the Company's website.

12. Inclusion of Stakeholders in Company Management

The Company's articles of association do not contain any clause pertaining to participation of stakeholders in the Company management. However, the Board of Directors includes independent directors as an assurance for equal protection of the rights and interests of shareholders and other stakeholders within the decisions taken.

Before material decisions are taken, to which extent the stakeholders will be affected therefrom is also taken into consideration.

The Company conducts "Employee Satisfaction Survey" for taking the opinions and active participation of its employees in the decision-making processes, and the results of this survey are announced to the employees after being assessed by the company's management.

Through this system, suggestions of employees aimed at improvement of their job and working conditions are collected and evaluated, and the suggestions found feasible are taken into consideration in formulation of the Company policies.

With a view to supporting the innovative and creative skills of employees, an "Employee Suggestion Platform" is operated in the Company portal in order to systematically assess and evaluate the suggestions for improvements and to actualize the suggestions found fit and feasible, and those who make such actualized suggestions are rewarded so as to encourage the innovative and creative contributions of employees.

With a view to creating an alternative platform where the employees may express their ideas and opinions in the Company, and developing improvement suggestions on internal working atmosphere, cooperation and corporate climate, etc. issues, an "Employee Committee" has been established in 2015. The Committee is comprised of members elected by voting by all departments of the Company. Suggestions developed and reports prepared by the "Employee Committee" meeting at least three times a year are presented to the Company management, and the suggestions found appropriate are implemented by the Company management.

13. Human Resources Policy

Main principles of human resources policy of the Company are outlined below:

- The principle of leveling the playing field and providing equal opportunities to candidates in equal conditions in recruitment is adopted, and recruitment criteria are determined in writing.
- Ultimate attention is shown to ensure reliable and high standards in and to improve the working atmosphere and conditions in line with the needs.
- In decisions as to training, appointment and promotion, in addition to the existing objective data, the Company's interests are also taken into consideration.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

- Decisions taken about the employees and developments affecting them are shared with the employees.
- With the intention of contributing to personal and performance development of employees, training plans are prepared, and employees are taken to training within the frame of a yearly training plan.
- No discrimination of race, religion, language and sex is allowed among the employees, and respect is shown to human rights, and employees are protected against internal physical and emotional mobbing acts.

During the report period, no complaint of discrimination has been received by the Company management from employees.

In addition to direct communication between the Company and its employees, the suggestions and opinions of the employees are regularly shared with the Company through an Employee Committee comprised of members elected by voting by all departments of the Company.

Job definitions, individual goals and performance and rewarding criteria are determined and announced by the Company management to employees.

14. Ethical Rules and Social Responsibility

Ethical rules of the Company have been made public and are published also in the Company's website.

The projects financed in this context are ensured to be in compliance with the laws pertaining to environment and public health.

As a requirement of its social responsibility, the Company is taking actions for recycling of used paper, and is giving support to social responsibility projects deemed fit and eligible.

PART IV – THE BOARD OF DIRECTORS

15. Structure and Composition of the Board of Directors

The Board of Directors is composed of non-executive members, other than the General Manager, and Chairman of the Board of Directors and General Manager are different persons.

The Company has two Directors satisfying the independence criteria stipulated in the corporate

It has been decided that the duties of nomination committee will be performed by the Corporate Governance Committee in the Company, and the committee has nominated two independent member nominees, and has presented to the Board of Directors on 08.03.2016 a committee report of the same date discussing whether the nominees meet the independence criteria or not.

Name and Surname	Position	Executive/Non-executive	Term Of Office
Murat Bilgiç	Chairman	Non-executive	2 years
Bahattin Özarslantürk	Vice Chairman	Non-executive	2 years
M. Hakan Berument	Independent Member	Non-executive	2 years
M. Baha Karan	Independent Member	Non-executive	2 years
Hasan K. Bolat	Member/General Manager	Executive	2 years
Soner Benli	Member	Non-executive	2 years
O. Tufan Kurbanoglu	Member	Non-executive	2 years
Kemal Şahin	Member	Non-executive	2 years
Şahismail Şimşek	Member	Non-executive	2 years
Buğra Avcı	Member	Non-executive	2 years
Hasan Hepkaya	Member	Non-executive	2 years

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

Curriculum vitae of the Directors are as follows:

Murat Bilgiç (Chairman)

Born in Ankara in 1968. Mr. Murat Bilgiç was graduated from the International Relations Department of the Middle East Technical University, Faculty of Economic and Administrative Sciences in 1990. He holds a Master's degree in Money-Banking-Finance from the University of Birmingham. He attended the Advanced Management Program in Harvard Business School. Mr. Bilgiç began his career at İşbank in 1990 as an Assistant Inspector on the Board of Inspectors. He became an Assistant Manager in 1999 at the Corporate Loans Underwriting Department and became a Region Manager at the same department in 2002. He became the Head of Corporate Loans Underwriting Department in 2008. He was appointed Deputy Chief Executive on 25 March 2016. Since 09 June 2016, Mr. Bilgiç is the Chairman of the Board of Directors of İş Leasing.

Bahattin Özarslantürk (Member)

Born in 1971, Mr. Özarslantürk is a graduate of Division of English Management of İstanbul University. Starting his job career as an assistant credit specialist in İşbank Zincirlikuyu Branch in 1994, Mr. Özarslantürk is appointed to Accounting Department in 2000. Mr. Özarslantürk has served in Risk Management Department between 2001 and 2002, and as a credit specialist in Corporate Credits Department in 2002, and is appointed as assistant manager in 2002. He has served as Regional Manager in Corporate Credits Department in 2006, and as Hadımköy Commercial Banking Branch Manager in 2009 and Güneşli Corporate Banking Branch Manager in 2011, Mr. Özarslantürk is appointed as the Commercial Credits Allocation Department Manager on 28 February 2013, and is still serving as Commercial Credits Allocation Department Manager.

Prof. Dr. M. Hakan Berument (Independent Member)

Born in 1965, Mr. Berument is a graduate of Division of Economy of Middle East Technical University. Completed his post-graduate study in economics in University of Kentucky, and completed his doctorate study in University of North Carolina at Chapel Hill in 1994. Worked as academician in University of North Carolina between 1991 and 1994, and as visiting assistant associate professor in Wake Forest University between 1994 and 1995, and as assistant associate professor in Bilkent University between 1995 and 1999, and as Senior Economist in the Turkish Central Bank in 1999, and as assistant associate professor in Bilkent University between 1999 and 2003, and as associate professor in the same university between 2003 and 2007, and became a professor in 2007. Mr. Berument is currently an academician in Division of Economy of Bilkent University. Mr. Berument is elected as independent member of Board of Directors of İş Leasing on 29 March 2012.

Prof. Dr. Mehmet Baha Karan (Independent Member)

Having graduated from Business Administration Division of Middle East Technical University in 1978, Mr. Karan completed his doctorate study in Business Administration Division of Gazi University in 1984. After working as Associate Professor in Business Administration Division of Hacettepe University between 1996 and 2002, Mr. Karan is working as Professor in the same University since 2003. Worked as Founder Manager in Financial Researches Center of Hacettepe University between 1998 and 2004, as Vice Dean in Economic and Administrative Sciences Faculty of Hacettepe University between 2007 and 2009, and as President of Business Administration Division of Hacettepe University between 2009 and 2012 and currently is working as academician Business Administration Division of Hacettepe University. Furthermore, Mr. Karan has also served as chairman, director and executive in various different international professional organizations such as Multinational Finance Society and Professional Risk Managers' International Association (PRMIA).

Hasan K. Bolat (Member)

Born in 1966, Mr. Bolat is graduated from Ankara University, Faculty of Political Sciences, Division of International Relations. Starting his job career as an inspector in İşbank in 1988, Mr. Bolat is appointed as Şişli Branch Vice Manager in 1996. After serving as Gaziosmanpaşa Branch Manager between 2000 and 2002, and as Dudullu Industrial Branch Manager between 2002 and 2003, and as Commercial Credits Regional Manager between 2003 and 2007, and as SME Credits Department Head between 2007 and 2013. Mr. Bolat is appointed as İş Leasing General Manager on 07.03.2013. Mr. Bolat currently works as Chairman of the Representation Board of Leasing Sector.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

Soner Benli (Member)

Born in 1969, Mr. Benli is graduated from London City University Business School Msc, Banking and Finance Department. After starting his career as assistant inspector in İşbank in 1994, Mr. Benli is appointed as Vice Manager in Risk Management Department of İşbank in 2002, and as Group Manager in the same department in 2006. Thereafter, Mr. Benli is appointed as Commercial Credits Allocation Department Unit Manager in 2007, and as Credit Risk Management and Portfolio Monitoring Department Manager in 2010. He is appointed as Head of Retail Credits in the Underwriting Department in 2012. Mr. Benli is currently working as Head of Retail Credits in the Underwriting Department.

O. Tufan Kurbanoglu (Member)

Born in 1971, Mr. Kurbanoglu is a graduate of Division of Public Management of Middle East Technical University. Starting his job career as an inspector in İşbank in 1993, Mr. Kurbanoglu is appointed as Vice Manager in Corporate Credits Monitoring and Follow-up Department in 2002. Mr. Kurbanoglu has served as vice manager between 2002 and 2006, and as Regional Manager in Retail Credits Monitoring and Follow-up between 2011 and 2014, and is appointed as Commercial and Corporate Credits Monitoring and Follow-up Department Head in 2014. Mr. Kurbanoglu currently works as Head of Commercial and Corporate Credits Monitoring and Follow-up Department.

Şahismail Şimşek (Member)

Born in 1968, Mr. Şimşek is graduated from Ankara University, Faculty of Political Sciences, Department of Finance. After starting his job career as an officer in Türkiye İş Bankası Yenişehir / Ankara branch in 1992, Mr. Şimşek has worked as Unit Supervisor and Vice Manager in Sultanhamam branch between 1995 and 2007, and as Unit Manager in Commercial Banking Product Directorate between 2007 and 2012, and as Branch Manager in Avcılar Commercial Banking Branch between 2012 and 2016. Mr. Şimşek has been appointed as Commercial Banking Sales Division Manager in 2016 and is still continuing to work as Commercial Banking Sales Division Manager.

Buğra Avcı (Member)

Born in 1975, Mr. Avcı is graduated from Bilkent University, Faculty of Business Administration. After starting his job career as a credit specialist in Türkiye İş Bankası in 1988, Mr. Avcı has worked in Individual Banking Marketing and Corporate Banking Marketing Divisions between 2000 and 2007. He has worked as vice manager in Corporate Banking Product Division in 2007, and as Corporate and Commercial Banking Product Division Pricing Unit Manager in 2011. Mr. Avcı has been appointed as Commercial Banking Product Manager in 2015, and is still continuing to work as Commercial Banking Product Manager.

Hasan Hepkaya (Member)

Born in 1981, Mr. Hepkaya holds a degree in business administration from Hacettepe University. Having started his career at Garanti Leasing in 2003, he then worked in various positions in the Corporate Marketing and Project Finance departments of Türkiye Sınai Kalkınma Bankası A.Ş. between 2005 and 2014, before serving as Project Finance Manager from 2014 through 2016. Mr. Hepkaya was appointed as Corporate Marketing Manager on 01 January 2017.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

Independence statements of independent members of the Board of Directors are as follows:

INDEPENDENCE STATEMENT

I, the undersigned, hereby declare, state and warrant:

- That I have not served as a director to İş Finansal Kiralama A.Ş. for more than six years in total during the recent ten years;
- That no direct or indirect employment, capital or other material commercial relations have been established in the recent five years between the Company, or any one of the related parties of the Company, or other legal entities connected in management and capital terms to the shareholders directly or indirectly holding 5% or more shares in the capital of the Company on one hand, and me and my spouse and my blood relatives and relatives by marriage up to third degree on the other hand;
- That during the recent five years I have not worked in or served as a director to service providers managing the operations and organization of the Company as a whole or in part within the frame of contracts, and particularly, the firms engaged in audit, rating and consultancy services for the Company;
- That during the recent five years I have not worked as partner, employee or director in any one of the firms supplying material services and products to the Company;
- That if I hold shares due to my office in the Board of Directors, I hold less than 1% of shares, and my shares are not preferential or privileged;
- That I have the required professional training, knowledge and experience as required for performance of my duties assumed by me as an independent member of the Board of Directors; and
- That I am deemed a resident of Turkey according to the Income Tax Law; and
- That I have strong ethical standards, professional reputation and experience which enable me to make positive contributions to operations and activities of the Company, and to protect my neutrality in conflicts of interests among the partners of the Company, and to give decisions freely in consideration of the rights of stakeholders;

therefore, I am going to perform my duties and functions as a director of the Company as an independent member of the Board of Directors.

Name & Surname: Prof. Dr. M. Hakan BERUMENT

Date: 25.03.2016



COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES**INDEPENDENCE STATEMENT**

I, the undersigned, hereby declare, state and warrant:

- That I have not served as a director to İş Finansal Kiralama A.Ş. for more than six years in total during the recent ten years;
- That no direct or indirect employment, capital or other material commercial relations have been established in the recent five years between the Company, or any one of the related parties of the Company, or other legal entities connected in management and capital terms to the shareholders directly or indirectly holding 5% or more shares in the capital of the Company on one hand, and me and my spouse and my blood relatives and relatives by marriage up to third degree on the other hand;
- That during the recent five years I have not worked in or served as a director to service providers managing the operations and organization of the Company as a whole or in part within the frame of contracts, and particularly, the firms engaged in audit, rating and consultancy services for the Company;
- That during the recent five years I have not worked as partner, employee or director in any one of the firms supplying material services and products to the Company;
- That if I hold shares due to my office in the Board of Directors, I hold less than 1% of shares, and my shares are not preferential or privileged;
- That I have the required professional training, knowledge and experience as required for performance of my duties assumed by me as an independent member of the Board of Directors;
- That I am deemed a resident of Turkey according to the Income Tax Law;
- That I have strong ethical standards, professional reputation and experience which enable me to make positive contributions to operations and activities of the Company, and to protect my neutrality in conflicts of interests among the partners of the Company, and to give decisions freely in consideration of the rights of stakeholders;

therefore, I am going to perform my duties and functions as a director of the Company as an independent member of the Board of Directors.

Name & Surname: Prof. Dr. M. Baha KARAN

Date: 25.03.2016



COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

The Company has not imposed certain rules pertaining to outside jobs of the Directors, and the guidelines determined in the corporate governance principles are complied with in connection therewith.

Outside jobs and duties of the Directors are as below:

Name and Surname	Company	Position
Murat Bilgiç	Türkiye İş Bankası A.Ş. / Group company	Deputy General Manager
	JSC Isbank / Group company	Member of Board of Directors
	JSC Isbank Georgia/ Group company	Chairman of Board of Directors
	İşbank AG / Group company	Member of Board of Directors
Bahattin Özarslantürk	Türkiye İş Bankası A.Ş. / Group company	Commercial Credits Allocation Department Manager
Prof. Dr. M. Hakan Berument	Bilkent University / Out of Group	Academician
	Economic Research Forum / Out of Group	Researcher
	Society of Economic Studies / Out of Group	Member of Board of Directors
Prof. Dr. M. Baha Karan	Hacettepe University / Out of Group	Academician
	Anadolu Hayat Emeklilik A.Ş. / Group company	Independent member of Board of Directors
	Hacettepe University Center for Energy Markets Application and Research / Out of Group	Member of Board of Directors
	Center for Energy and Value Issues / Out of Group	Vice Chairman
	Multinational Finance Society / Out of Group	Chairman of Board of Directors
Soner Benli	Türkiye İş Bankası A.Ş. / Group company	Retail Credits in the Underwriting, Department Manager
O. Tufan Kurbanoğlu	Türkiye İş Bankası A.Ş. / Group company	Commercial and Corporate Credits Monitoring and Follow-up / Department Manager
Kemal Şahin	Türkiye İş Bankası A.Ş. / Group company	Subsidiaries Department / Unit Manager
	Trakya Yatırım Holding A.Ş. / Group company	Chairman of Board of Directors
	Topkapı Yatırım Holding A.Ş. / Group company	Chairman of Board of Directors
	Camiş Yatırım Holding A.Ş. / Group company	Deputy Chairman of Board of Directors
	JSC Isbank Georgia	Member of Board of Directors
	Arap-Türk Bankası A.Ş.	Member of Board of Directors
	İş Faktoring A.Ş.	Member of Board of Directors
Şahismail Şimşek	Türkiye İş Bankası A.Ş. / Group company	Commercial Banking Sales Department / Department Manager
Buğra Avcı	Türkiye İş Bankası A.Ş. / Group company	Commercial Banking/ Product Manager
Hasan Hepkaya	Türkiye Sınai Kalkınma Bankası A.Ş. / Group company	Corporate Marketing / Department Manager

During the report period, no event which eliminates the independence of the Directors has occurred.

The Directors have been elected in line with a motion presented by Group "A" Privileged Shareholders in the annual ordinary meeting of the General Assembly, and there is no female member among the Board of Directors.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

16. Fundamental Principles of the Board of Directors' Activities

The Board of Directors meets as often as required for effective performance of its duties.

Agenda of the Board meetings is prepared by the Chairman of the Board of Directors in due consultation with other directors and General Manager. Information and documents relating to the topics included in the agenda of a Board meeting are presented to the Directors for their consideration through an equal information flow an adequate time beforehand. Calls for the Board meetings are first made verbally by phone, and later in writing by e-mail, and the General Management secretariat is assigned for calls and information process.

A total of 4 Board meetings are held during 2016.

Date	Decision No.	Participation	Decision Quorum
25.03.2016	2335	11 directors attended.	Unanimous vote
15.06.2016	2364	11 directors attended.	Unanimous vote
02.09.2016	2390	10 directors attended.	Unanimous vote
16.12.2016	2411	10 directors attended.	Unanimous vote

Questions asked and comments made by the directors in the meetings, and if any, the justification of votes on decisions are recorded in the minutes of decisions. None of the directors has given a dissenting vote in 2016 meetings.

Board of Directors' meetings take place at the Company's headquarters, and important decisions of the Board of Directors are announced to the public via Public Disclosure Platform and published in the Company's corporate website.

Authorizations and responsibilities of the Board Members of the Company are clearly defined in the Articles of Association and the Company's authorized signatory list. The Board of Directors plays a leading role in the maintenance of efficient communication and settlement of possible disputes between the Company and the shareholders and is in close cooperation with the Relations with the Shareholders Unit.

According to articles of association of the Company, the Directors do not have any cast vote or veto right. Pursuant to the articles of association of the Company, the Board of Directors meets majority of the members, and takes its decisions with affirmative vote of majority of the members present in the meeting. There is no internal company regulation relating to formal requirements of Board meetings.

In 2016, all related party transactions and transaction principles have been submitted to the approval of the Board of Directors. All relevant decisions have been taken by unanimous vote and there was no related-party or significant transaction which was not approved by independent members of the board and therefore needed to be submitted to the General Assembly. There was no decision taken to the General Assembly due to a related party or significant transaction either. "Executive Liability Insurance" was taken for the compensation of the possible damages of the Company and the third parties due to the faults of the Board members and executives of the Company during their execution of their duties.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

17. Number, Structure and Independence of Committees Appointed by the Board of Directors

Within the frame of the "Communiqué on Corporate Governance", No. II-17.1, of CMB ("Communiqué"), an Audit Committee to perform the duties of Audit Committee of Board of Directors, and a Risk Management Committee to perform the duties of the Committee for Early Detection of Risks, and a Corporate Governance Committee to perform the duties of the Committee for Nominating Committee and Remuneration Committee are formed within the organization of the Board of Directors.

Audit Committee

The two-member Audit Committee is chaired by M. Hakan Berument, a non-executive Independent Member of the Board of Directors. Other member of the Committee is Prof. Dr. M. Baha Karan, a non-executive Independent Member of the Board of Directors.

Duties and operating principles of the Audit Committee have been approved and put into effect by our Board of Directors, and the committee is working within the frame of these principles.

Regulation for Audit Committee Article 1 Purpose and Scope

This Regulation covers the establishment of an Audit Committee, and regulation of the duties and responsibilities of this Committee as well as its operational procedures in order to ensure that the Board of Directors fulfills its supervisory and audit duties and responsibilities in a healthy manner.

Article 2 Justification

This Regulation has been prepared based on the Corporate Governance Communiqué of the Capital Markets Board.

Article 3 Establishment of the Audit Committee

An audit committee is established by at least two members to be selected from among the Board members. The members of the Committee elect a Chairman among themselves.

All of the Committee members are elected from among the independent members of the Board.

If possible, at least one of the members of the Audit Committee should be elected from the Board members having a minimum 5 years of experience in audit/accounting and finance topics.

Committee membership automatically ends upon the termination of the Board membership of the relevant member.

Article 4 Duties and Responsibilities of the Audit Committee

The duties and responsibilities of the Audit Committee have been outlined below.

- The Audit Committee supervises the operation and efficiency of the Company's accounting system, disclosure of its financial information, its independent audit and its internal control and internal audit system.
- The selection of the independent audit firm, commencement of the independent audit process after preparing the independent audit contracts, and the subsequent works of the independent audit firm at all times is conducted under the supervision of the Audit Committee.
- The Audit Committee determines the name of the independent audit firm and the services to be procured from it, and submits this list to the approval of the Board of Directors.
- The Audit Committee determines the methods and criteria to apply to the processing and settling of the complaints sent to the Company regarding the Company's accounting, internal control and audit system, and the independent audit as well as the treatment of the Company's disclosures made by the Company's employees on the subjects of the independent audit within the framework of the confidential principle.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

- The Audit Company submits in writing to the Board of Directors its assessments on the accuracy and authenticity of the annual and interim financial statements to be disclosed to public and the conformance of these statements with the accounting principles adopted by the Company also by taking the opinions of the Company's managers and independent auditors.
- The Audit Committee also performs other works and assignments to be assigned to it by the Board of Directors.

Article 5 The Audit Committee's Operation Principles and Procedures

- The Audit Committee meets at least once every three months and at least four times annually.
- The Committee meets with the attendance of all its members, and the decision quorum for the Committee is the majority of the present.
- The Committee keeps a minute book and all decisions taken by the Committee are recorded in this book under a separate log number.
- The results of the Committee's meetings are issued as an official report which includes the assessments and decisions together with their justifications, and submitted to the Board of Directors within at least one month following the relevant meeting.
- The decisions of the Committee take effect upon the approval by the Board of Directors.
- The Audit Committee immediately sends its determinations, assessments and suggestions regarding the area of its responsibility to the Board of Directors in writing.
- The activities and the meeting results of the Committee are announced at the annual activity report. The annual activity report also provides how many times the Audit Committee has submitted written notifications to the Board of Directors during the given fiscal year.
- The Audit Committee may invite other people to its meetings as needed to get their opinions on a subject.
- Internal Audit Unit determines the agenda of the meetings, makes the calls for the meetings, ensures the communication between the members of the Committee, keeps the minute book, and fulfills other secretarial works of the Committee
- The resources and support needed by the Committee during the execution of its duty are provided by the Board of Directors.
- Subject to the approval of the Board of Directors, the Committee may benefit from the opinions of the independent experts as may be needed on a subject related with its activities requiring specialization. The charge of such consultancy services needed by the Committee is paid by the Company.
- The members of the Audit Committee conduct their duties within the framework of the principles of independence and neutrality.

Article 6 Validity

The clauses of this Regulation take effect on the date approved by the Board of Directors and are executed by the Board of Directors.

Relevant Decisions of the Board of Directors

Decision	Effective Date	Revision	Relevant Articles
27.05.2014 / 2151	27.05.2014	1.0	All

During 2016, the Audit Committee has met ten times and has taken fourteen decisions. In its meetings, the Committee has reviewed and assessed the following issues:

- The audit plan and operational plan of internal control and risk management prepared by the Company for 2017 has been discussed and approved.
- The distribution of roles within the Committee was determined and the chairman of the committee was selected.
- It has been established that the consolidated financial statements and their footnotes and the activity reports were prepared in accordance with the relevant laws and regulations and the generally accepted principles and standards also by taking the opinions of the Company's executives, and were submitted to the approval of the General Assembly for being disclosed to the public.
- It has been established that the Committee found no negative evidence regarding the transfer of the commercial transactions of the Company to the accounting records during the period, operation and effectiveness of the internal control system, performance of the tax and legal obligations and that due procedures were pursued.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

- Determinations, opinions and suggestions found as a result of the audit activities realized by the Internal Audit and Internal Control units have firstly been shared and assessed together with the performers of such procedures, and it has been ensured that required complementary and preventive action was taken.
- Internal control, file control, department/unit audit reports prepared by the Internal Audit and Internal Control units during the period have been examined and submitted to the approval of the Board of Directors.

Corporate Governance Committee

The Corporate Governance Committee is at the same time performing the functions of Nomination Committee and Remuneration Committee. The Company's Corporate Governance Committee is composed of three members.

Chaired by the non-executive Independent Board Member Mr. M. Baha Karan, the Corporate Governance Committee is consisted of two members: non-executive Board Member Mr. Kemal Şahin and Ms. Nida Çetin, to whom Investors Relations Unit reports.

Regulation for Corporate Governance Committee

Article 1 Purpose and Scope

This Regulation covers the establishment of a Corporate Governance Committee and regulation of the duties and responsibilities of this Committee as well as its operational principles and procedures in order to ensure that the Board of Directors fulfills its duties and responsibilities on corporate governance in a healthy manner.

The duties of the Nominating Committee and Compensation Committee will be fulfilled by the Corporate Governance Committee until their establishment.

Article 2 Justification

This Regulation has been prepared based on the Corporate Governance Communiqué of the Capital Markets Board.

Article 3 Establishment of the Corporate Governance Communiqué

Corporate governance Committee is established by appointment of at least two members from among the Board members and the Manager of the Investor Relations Unit/Department.

The members of the Committee elect a Chairman among themselves. The Chairman of the Committee is elected from among the independent members of the Board. Persons who are not Board members but having specialization on their subjects can also become members to the Corporate Governance Committee.

If the Corporate Governance Committee has two members elected from the Board of Directors, both of these members are required to be from the independent members of the Board; and if the Committee has more than two board members, then majority of these members should be independent members. General Manager cannot become a member of the Committee.

The Manager of the Investors Relations Unit/Department is required to work full-time in the company and be positioned as a member of the Corporate Governance Committee.

Corporate Governance Committee membership automatically ends upon the termination of the Board membership.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

Article 4 Duties and Responsibilities of the Corporate Governance Committee

The duties and responsibilities of the Corporate Governance Committee have been outlined below.

- The Corporate Governance Committee establishes whether or not the corporate governance principles are duly applied in the Company, and determines the reasons if they are not applied and lay down the conflicts of interest emerging due to the non-application of these principles in the Company, and advises the Board of Directors for the improvement of the corporate governance applications.
- The Corporate Governance Committee supervises the activities of the Company's Investment Relations Department.
- The Committee lays down the fundamental principles regarding the communication of the Company with the investors, and reviews these principles on a regular basis.
- The Corporate Governance Committee, together with the Investors Relations Department, further submits to the Board of Directors its advice for the improvement of the communication between the Company and the shareholders, and the elimination and settlement of the possible disputes in between.
- The Corporate Governance Committee reviews the Corporate Governance Principles Compliance Report of the Company prior to its being published in the Company's annual activity report, and submits its opinions to the Board of Directors.
- The Corporate Governance Committee prepares its advice and assessments for the identification or amendment of the Company's Disclosure Policy and submits it to the Board of Directors. It also oversees to ensure that the Disclosure Policy covers at least the minimum obligatory content laid down by the laws and regulations regarding the communication of the Company with the stakeholders, and it reviews the content, quality, consistency and accuracy of the documents, presentations and explanations to ensure that they are prepared in accordance with the Disclosure Policy.
- The Corporate Governance Committee works for infusing the corporate governance culture into the Company and its adoption by the managers and employees at all levels. It follows the domestic and international developments on corporate governance front and monitors their possible effects for the Company.
- The duties and responsibilities of the Corporate Governance Committee on nominations have been outlined below.
- The Corporate Governance Committee works for setting up a transparent system for the identification, assessment and training of the candidates for board membership and the managerial positions with administrative responsibility and for adoption of proper policies and strategies on this subject.
- The Corporate Governance Committee makes regular assessments on the structure and productivity of the Board of Directors and submits its advice on possible changes to the Board of Directors.
- The Corporate Governance Committee is responsible for performing the jobs regarding the nomination of the independent member candidates for the Board which are stipulated by the laws and regulations and which are compulsory for the Group including the Company as announced by the Board each year.

The duties and responsibilities of the Corporate Governance Committee on the salaries and remunerations have been outlined below:

- The Corporate Governance Committee lays down and oversees the principles, criteria and practices to apply to the compensations of the members of the Board of Directors and executives with administrative responsibility in view of the Company's long term targets.
- It submits to the Board of Directors its suggestions about the wages to be offered to the Board members and executives with administrative responsibility as set forth, also in consideration with the degree of realization of the criteria applicable to such compensation.
- It provides its assessments and suggestions on the creation and amendment of the Company's compensation policy which sets the compensation principles for the members of the Board of Directors and the managers with administrative responsibility, and submits its opinions to the Board of Directors.

The Corporate Governance Committee also fulfills other duties and responsibilities within its area of responsibility as may be delegated to it by the Board of Directors.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

Article 5 The Corporate Governance Committee's Operation Principles and Procedures

- The Corporate Governance Committee meets at least once every three months and four times annually.
- The Committee meets with the attendance of all its members and takes its decisions by majority vote.
- The Committee keeps a decision book and the decisions taken by the Committee are recorded in this book with a log number.
- The results of the Committee's meetings are issued as an official report and the assessments and decisions of the Committee are submitted to the Board of Directors within at least one month following the relevant meeting of the Committee.
- The decisions of the Committee take effect upon the approval of the Board of Directors.
- The Corporate Governance Committee immediately submits its findings, assessments and suggestions on the area of its work and responsibility to the Board of Directors in writing.
- The Corporate Governance Committee may invite other people to its meetings as needed to get their opinions on a subject.
- The Investor Relations Unit/Department determines the agenda of the meetings, makes the calls for the meetings, ensures the communication within the members of the Committee, keeps the minute book, and fulfills other secretarial works of the Committee.
- The resources and support needed by the Committee during the execution of its duty are provided by the Board of Directors.
- Subject to the approval of the Board of Directors, the Committee may benefit from the opinions of the independent experts as may be needed on a subject related with its activities requiring specialization. The charge of such consultancy services needed by the Committee is provided by the Company.
- The members of the Corporate Governance Committee conduct their duties within the framework of the principles of independence and neutrality.

Article 6 Validity

The clauses of this Regulation take effect on the date approved by the Board of Directors and are executed by the Board of Directors.

Relevant Decisions of the Board of Directors

Decision	Validity	Revision	Relevant Articles
27.05.2014 / 2151	27.05.2014	1.0	All

During 2016, the Corporate Governance Committee has met six times and taken six decisions. In its meetings, the Corporate Governance Committee has reviewed and assessed the following issues:

- The report on compliance with the corporate governance principles prepared by the Company to cover the 2015 activity period has been examined and submitted to the Board of Directors.
- The increase in the remunerations of the Company's employees in 2016 was determined and submitted to the approval of the Board of Directors.
- The distribution of roles within the Committee was determined and the chairman of the committee was selected.
- The offers for the candidates to the Independent Board Members who will take place in the Board of Directors have been assessed by considering whether or not the candidates bear the independence criteria and the report for the independent board members was submitted to the Board of Directors.
- The operation and efficiency of the Investors Relations Unit was discussed, and it was established that due procedures were pursued during informing the investors and making disclosures to the public.
- It was established that due procedures were pursued on the subject of the implementation of the Corporate Governance Principles and that there were no significant complaints sent by the stakeholders to the Company.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

Early Detection of Risk Committee

The two-member Early Detection of Risk Committee is chaired by Mr. M. Hakan Berument, a non-executive Independent Member of the Board of Directors. Other member of the Committee is Mr. Kemal Şahin, a non-executive Member of the Board of Directors.

Duties and operating principles of the Early Detection of Risk Committee have been approved and put into effect by our Board of Directors, and the committee is working within the frame of these principles.

Regulation for Early Detection of Risk Committee

Article 1 Purpose and Scope

This Regulation covers the establishment of the Early Detection of Risk Committee and regulation of the duties and responsibilities as well as the operation procedures and principles of this Committee in order to ensure the Board of Directors fulfills its duties and responsibilities in the area of risk management in a well manner.

Article 2 Justification

This Regulation has been prepared based on the Article 378 of the Turkish Commercial Code and the Corporate Governance Communiqué published by the Capital Markets Board.

Article 3 Establishment of the Early Detection of Risk Committee

Early Detection of Risk Committee is established comprising at least two members to be elected from among the members of the Board of Directors.

Committee members elect a Chairman from among them. The Committee's Chairman should be elected from among the independent members of the Board of Directors. Persons who are not members of the Board of Directors but specialized on their areas can become members of the Committee.

Both members of the Committee have to be independent members of the Board of Directors if the Committee is consisted of two members, and majority of the Committee members should be independent if the Committee is consisted of more than two members. General Manager cannot be a member of the Committee.

The membership to the Early Detection of Risk Committee ends upon the termination of the Board membership of the relevant member, if applicable.

Article 4 Duties and Responsibilities of the Early Detection of Risk Committee

- Early Detection of Risk Committee conducts works aimed at early perception of risks that may imperil the existence, development and sustenance of the Company; taking the required measures regarding the identified risks; and management of such risks.
- It submits in writing to the Board of Directors its suggestions and opinions regarding the establishment and development of the Company's risk management system capable of minimizing the effects of the risks for all stakeholders including mainly the shareholders.
- It reviews the Company's risk management system at least once a year.
- It supervises the realization of the risk management applications in accordance with the decisions of the Board of Directors and the Committee.
- It reviews the determinations and assessments regarding the risk management that will be included to the Company's annual activity report.
- Early Detection of Risk Committee also fulfills other duties and responsibilities in its area of responsibility as may be assigned to it by the Board of Managers.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

Article 5 Operation Principles and Procedures of Early Detection of Risk Committee

- Early Detection of Risk Committee meets at least every three months and at least four times a year.
- The Committee meets with the attendance of all its members, and the decision quorum for the Committee is the majority of the present.
- The Committee keeps a minute book where the decisions taken are recorded with a separate log number.
- The results of the Committee's meetings are issued as an official report which includes the assessments and decisions together with their justifications, and submitted to the Board of Directors within at least one month following the relevant meeting.
- The Committee's decisions take effect upon the approval of the Board of Directors.
- The Early Detection of Risk Committee immediately sends its determinations, assessments and suggestions regarding the area of its responsibility to the Board of Directors in writing.
- Early Detection of Risk Committee may invite other persons to its meetings and take their opinions as it may deem necessary.
- Setting the agenda of the Committee's meeting, making calls for the meeting, ensuring the communication with the Committee members, keeping the minute book and other secretarial works of the Committee are performed by the unit in charge of the risk management.
- All kinds of resources and support needed during the Committee's fulfilment of its duty are provided by the Board of Directors.
- The Committee may benefit from the opinions of the independent experts as it may need regarding its activities subject to the approval of the Board of Directors. The fee of the consultancy service needed by the Committee is paid by the Company.
- The members of the Early Detection of Risk Committee fulfill their duties in compliance with the principles of independence and neutrality.

Article 6 Validity

The provisions of this Regulation take effect on the date of their approval by the Board of Directors and are executed by the Board of Directors.

Relevant Board Decisions

Decision	Validity	Revision	Relevant Articles
27.05.2014 / 2151	27.05.2014	1.0	All

During 2016, the Early Detection of Risk Committee has met eight times and has taken thirteen decisions. In its meetings, the Committee has reviewed and assessed the following issues:

- The distribution of roles within the Committee was determined and the chairman of the committee was selected.
- Periodical risk reports prepared by the Risk Management Unit have been assessed by the Committee; it was established that the risks provided in the reports were within the limits of individual risks and total risks as laid down by the Board of Directors; and these reports were submitted to the information of the Board of Directors.
- Risk management systems have been reviewed and relevant works have been conducted and submitted to the Board of Directors regarding the updating of the risk management strategies and policies as will be pursued by the Company for the purpose of implementation of the required actions and management of the risks.

As per the principle no. 4.5.3 of the Corporate Governance Principles, all members of the Audit Committee are Independent Directors. Chairman of Early Risk Detection Committee and Corporate Governance Committee are also Independent Directors, while other committee members are elected from among non-executive Directors.

COMPLIANCE REPORT ON CORPORATE GOVERNANCE PRINCIPLES

18. Risk Management and Internal Control Mechanism

Potential risks that may be incurred by the Company are defined in the Risk Catalogue. Risk policies have been formulated for risk categories which are materially important for the activities and operations of the Company. All of the current practices, procedures and work flows have been made compliant with the risk policies, and the relevant internal control processes have been established.

Intra-company applications and audits are performed by the Internal Audit, Internal Control and Risk Management units. Early Detection of Risks Committee regularly reviews the processes related with the measurement, assessment and management of risks, and report its activities to the Board of Directors on a monthly basis. Additionally, Audit Committee also monitors the efficiency of the Company's risk management and internal control activities and reports its findings to the Board of Directors.

19. Strategic Goals of Company

Strategic goals of the Company are formulated by the Board of Directors by considering the competition conditions, general economic conjuncture, overall expectations in national and international financial markets, and mid- and long- term objectives of the Company. The formulated strategies and goals are discussed and evaluated comprehensively and in all respects by the Board of Directors and the Company management. Strategies and goals are approved by the Board of Directors, and the Company General Management is responsible for implementation thereof.

Developments relating to the approved strategies and goals are reported to the Board of Directors on monthly basis. In its meetings, the Board of Directors reviews the place of the Company in its market segment, the Company's activities and operations, the level of achievement of yearly budget figures and goals, the financial structure and performance, and compliance of reporting and activities with international standards. If the goals cannot be achieved, the reasons thereof and the measures that may be taken in relation therewith are evaluated. The Board of Directors meets regularly in order to perform its supervision and audit functions effectively and continuously.

20. Financial Rights

All rights, interests and remunerations given to the Company's employees as well as the criteria used in determination thereof have been identified by the pricing policy and submitted to the information of the partners as a separate article in the general assembly meeting, and are published in the Company's website.

The amounts of remunerations paid to the Directors are determined by the General Assembly. No fringe benefits or fees other than remunerations are paid to the Directors. Remunerations of independent members of the Board of Directors are paid directly to them, and remunerations of other directors are paid to the corporations they are representing in the Board of Directors. During 2016, a total sum of TL 1,135 thousand has been paid to the members of board of directors.

Top executives of the Company are paid a bonus payment once a year in addition to their remuneration. Additionally, the Company's top executives are assigned an official company car plus a mobile phone. The total of the remunerations and other benefits offered to the top executives stood at TL 2,510 thousand in 2016.

Loans or credits are not made available to the Directors and executives, and credit facility is not extended through a third party under the name of personal credit, or collaterals and guarantees such as surety are not granted to them.

DECLARATION OF AUDIT COMMITTEE ON INTERNAL CONTROL ENVIRONMENT

İş Finansal Kiralama A.Ş. Declaration of Audit Committee on Internal Control Environment

İş Leasing has regulated the fundamental duties, authorities and responsibilities regarding its risk management and internal control activities via the "Internal Control, Risk Management and Internal Audit Activities Procedure", approved and released by the Board of Directors. The Board of Directors has appointed the Audit Committee to monitor, evaluate and manage the activities carried out under internal control and internal audit procedures.

The internal control system of the company targets to establish and maintain a company-wide internal control culture internalized by all employees, as a contributing approach covering all operations. The internal audit system on the other hand, comprises the identification and application of precautions designed to eliminate factors threatening, endangering or having the probability to endanger assets, data, information and personnel safety; and to ensure the compliance of company operations to legal and internal regulations. Through its risk based audit approach, the Internal Audit and Risk Management Department, which is reporting to the Board of Directors via the Audit Committee, assures the implementation of above referred actions by contributing to the formation, development and improvement of a company-wide risk culture.

The procedures regarding company operations, work flows, segregation of duties, authorizations and limits are continually reviewed and updated in parallel with changing conditions, risks and needs. Activity work flows incorporate complete and adequate controls addressing identified risks, hereby allowing a controlled execution of operations. Functional segregation of duties, transaction approval authorizations and limits, system controls, post transaction controls and other transaction specific controls ensure the execution of activities continuously in an efficient, correct and safe manner.

The facts, arguments and suggestions determined through the auditing activity of the Internal Audit and Risk Management Department are first communicated and evaluated with the related executing parties. By this token, preemptive and complementary measures are implemented swiftly while accommodating and applicable solutions are introduced. All this activity is monitored closely and evaluated by the Internal Audit and Risk Management Department as well as the executing parties.

The Audit Committee periodically evaluates the effectiveness of the internal control system and the results of internal control activities through internal audit reports prepared by the Internal Audit and Risk Management Department; and shares its suggestions regarding the measures to be taken in relation to the reported findings with the Board of Directors. In the light of all these considerations, the Committee has not detected any downside effect regarding the efficiency of company's internal control system and results of internal control operations, and has concluded that it is duly acted.

İstanbul, 27 January 2017

President of Audit Committee and Board Member
M. Hakan BERUMENT

Audit Committee and Board Member
M. Baha KARAN

GENERAL MEETING AGENDA

CONCERNING THE ORDINARY ASSEMBLY MEETING OF İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ TO BE HELD ON 27 MARCH 2017

AGENDA

1. Opening and forming of the meeting's Presidential Board;
2. Reading and discussing the Board of Directors' Annual Report, Declaration of Compliance on Corporate Governance Principles and Independent Auditor Report relating to 2016 activities and operations;
3. Reading, discussing and approval of Financial Statements of 2016;
4. Release of the Directors;
5. Discussing and deciding the Profit Distribution Proposal of the Board of Directors, determining the Profit Distribution Date;
6. Approval of Directors elected as per article 363 of the Turkish Commercial Code and article 9 of the Articles of Association for the seats vacated in the Board of Directors during the period;
7. Election of Directors and determination of their term of office, and information of the shareholders about the outside duties and jobs of the Directors and their justification, according to the existing registered Articles of Association;
8. Determination of remunerations payable to the Directors;
9. Giving permission to persons named by the relevant applicable laws for performance of the transactions referred to in articles 395 and 396 of the Turkish Commercial Code;
10. Giving information about the transactions mentioned in article 1.3.6 of the Corporate Governance Principles;
11. Presentation of the revised Disclosure Policy to the General Assembly for information purposes;
12. Election of Independent Audit Firm.
13. Informing the General Assembly about the donations made in 2016;
14. Determination of the upper limit for donations to be made within the year 2017 pursuant to 5th paragraph of article 19 of the Capital Markets Law;

Venue of Meeting: İş Kuleleri, 34330, İş Bankası Oditoryum Binası, 4.Levent – İstanbul

Date of Meeting: 27 March 2017, 14:00 hours

KAR DAĞITIM ÖNERİSİ

BOARD DECISION REGARDING FINANCIAL STATEMENTS

İstanbul, 27 January 2017

To the Board of Directors of İŞ FİNANSAL KİRALAMA A.Ş.

I submit the subjects regarding the approval and disclosure of the audited consolidated financial statements and notes for the period 01.01.2016 – 31.12.2016 for your approval.

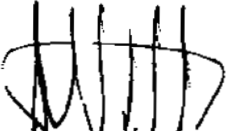


Hasan K. BOLAT
General Manager

It is decided to admit the Head Office's proposal above.

Decision Number: 2419

Decision Date: 27.01.2017



Murat BİLGİÇ
Chairman



Bahattin ÖZARSLANTÜRK
Vice President



M. Hakan BERUMENT
Member



M. Baha KARAN
Member



Hasan K. BOLAT
Member



Soner BENLİ
Member



O. Tufan KURBANOĞLU
Member



Kemal ŞAHİN
Member



Şahismail ŞİMŞEK
Member



Buğra AVCI
Member



Hasan HEPKAYA
Member

AUDIT COMMITTEE DECISION

İŞ FİNANSAL KİRALAMA A.Ş. AUDIT COMMITTEE

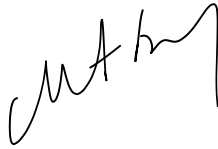
Decision No: 116
Decision Date: 27.01.2017
Decision No: 2017.116
Meeting Hour: 11:00
Agenda Item No: 1

SUBJECT: Regarding financial statements of the period 01.01.2016 – 31.12.2016

We confirm that the consolidated financial statements and footnotes of the Company pertaining to the period 01.01.2016 – 31.12.2016 which have been subject to an independent audit are accurate and that they have been prepared in accordance with the relevant legislation as well as with generally accepted accounting principles and standards. We have also consulted with the executives in charge of the company during our audit. We deem it appropriate to submit the said financial statements and their footnotes to the Board of Directors for approval and public disclosure.



M. Hakan BERUMENT
Chairman of Committee



Mehmet Baha KARAN
Member

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016

(CONVENIENCE TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS AND RELATED DISCLOSURES AND FOOTNOTES ORIGINALLY ISSUED IN TURKISH, SEE NOTE 2.1)

INDEPENDENT AUDITORS' REPORT



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Beykoz 34805 İstanbul

To the Board of Directors of İş Finansal Kiralama Anonim Şirketi,

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of İş Finansal Kiralama A.Ş. ("the Company") and its subsidiary (collectively referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, profit or loss other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Banking Regulation and Supervision Agency ("BRSA") Accounting and Reporting Legislation which includes "Communiqué on Uniform Chart of Accounts and Prospectus to be implemented by Financial Leasing, Factoring and Financing Companies" published in the Official Gazette numbered 28861 dated 24 December 2013 and "Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies", communiqués, and circulars and, announcements made by BRSA and requirements of Turkish Accounting Standards for the matters not regulated by the aforementioned legislations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Independent Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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


Report on Other Legal and Regulatory Requirements

Pursuant to the fourth paragraph of Article 398 of Turkish Commercial Code ("TCC") no. 6102; Auditors' Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Company on 27 January 2017.

Pursuant to the fourth paragraph of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that for the period 1 January 2016 - 31 December 2016, the Company's bookkeeping activities are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

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



✓ Funda Aslanoğlu, SMMM
Partner

27 January 2017
Istanbul, Turkey

Additional paragraph for convenience translation to English

The accounting principles summarized in Note I Section Three, differ from the accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the consolidated financial statements and IFRS.

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

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İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2016

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

ASSETS	Notes	Audited Current Period 31 December 2016			Audited Prior Period 31 December 2015		
		TL	FC	TOTAL	TL	FC	TOTAL
I. CASH		-	-	-	-	-	-
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Net)	4	6.664	511	7.175	5.853	4.536	10.389
2.1 Financial Assets Held for Trading		6.664	-	6.664	4.670	-	4.670
2.2 Financial Assets at Fair Value Through Profit or Loss		-	-	-	-	-	-
2.3 Derivative Financial Assets Held for Trading		-	511	511	1.183	4.536	5.719
III. BANKS	5	88.620	287.867	376.487	1.578	224.146	225.724
IV. RECEIVABLES FROM REVERSE REPURCHASE AGREEMENTS		-	-	-	-	-	-
V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	6	25.176	-	25.176	22.919	-	22.919
VI. FACTORING RECEIVABLES	7	2.542.131	442.584	2.984.715	1.612.297	333.480	1.945.777
6.1 Discounted Factoring Receivables		614.378	797	615.175	433.174	-	433.174
6.1.1 Domestic		625.606	797	626.403	444.050	-	444.050
6.1.2 Foreign		-	-	-	-	-	-
6.1.3 Unearned Income (-)		(11.228)	-	(11.228)	(10.876)	-	(10.876)
6.2 Other Factoring Receivables		1.927.753	441.787	2.369.540	1.179.123	333.480	1.512.603
6.2.1 Domestic		1.927.564	-	1.927.564	1.179.123	-	1.179.123
6.2.2 Foreign		189	441.787	441.976	-	333.480	333.480
VII. FINANCING LOANS		-	-	-	-	-	-
7.1 Retail Loans		-	-	-	-	-	-
7.2 Credit Loans		-	-	-	-	-	-
7.3 Instalment Commercial Loans		-	-	-	-	-	-
VIII. LEASE RECEIVABLES	8	1.434.997	2.486.156	3.921.153	1.152.834	2.096.392	3.249.226
8.1 Lease Receivables		1.371.791	2.350.691	3.722.482	1.130.833	2.049.314	3.180.147
8.1.1 Finance Lease Receivables		1.663.719	2.597.146	4.260.865	1.368.549	2.298.104	3.666.653
8.1.2 Operational Lease Receivables		-	5	5	-	-	-
8.1.3 Unearned Income (-)		(291.928)	(246.460)	(538.388)	(237.716)	(248.790)	(486.506)
8.2 Leasing Contracts in Progress		55.208	41.231	96.439	17.869	19.649	37.518
8.3 Advances Given for Lease Transactions		7.998	94.234	102.232	4.132	27.429	31.561
IX. OTHER RECEIVABLES	15	4.648	2.884	7.532	3.303	2.297	5.600
X. NON-PERFORMING RECEIVABLES	7, 8	43.174	37.419	80.593	40.699	2.673	43.372
10.1 Non-Performing Factoring Receivables		39.388	-	39.388	36.640	-	36.640
10.2 Non-Performing Financing Loans		-	-	-	-	-	-
10.3 Non-Performing Lease Receivables		146.710	44.726	191.436	138.479	8.003	146.482
10.4 Specific Provisions (-)		(142.924)	(7.307)	(150.231)	(134.420)	(5.330)	(139.750)
XI. DERIVATIVE FINANCIAL ASSETS HELD FOR RISK MANAGEMENT		-	-	-	-	-	-
11.1 Fair Value Hedges		-	-	-	-	-	-
11.2 Cash Flow Hedges		-	-	-	-	-	-
11.3 Net Foreign Investment Hedges		-	-	-	-	-	-
XII. INVESTMENTS HELD TO MATURITY (Net)		-	-	-	-	-	-
XIII. SUBSIDIARIES (Net)		-	-	-	-	-	-
XIV. ASSOCIATES (Net)		-	-	-	-	-	-
XV. JOINT VENTURES (Net)		-	-	-	-	-	-
XVI. TANGIBLE ASSETS (Net)	10	17.429	-	17.429	17.135	-	17.135
XVII. INTANGIBLE ASSETS (Net)	11, 12	2.590	-	2.590	1.752	-	1.752
17.1 Goodwill		166	-	166	166	-	166
17.2 Other Intangibles		2.424	-	2.424	1.586	-	1.586
XVIII. PREPAID EXPENSES	15	21.236	-	21.236	21.455	-	21.455
IXX. CURRENT PERIOD TAX ASSETS	23	567	-	567	18	-	18
XX. DEFERRED TAX ASSETS	13	32.193	-	32.193	33.418	-	33.418
XXI. OTHER ASSETS	15	2.067	174	2.241	1.903	93	1.996
SUBTOTAL		4.221.492	3.257.595	7.479.087	2.915.164	2.663.617	5.578.781
XXII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)	14	899	-	899	2.057	-	2.057
22.1 Assets Held For Sale		899	-	899	2.057	-	2.057
22.2 Assets of Discontinued Operations		-	-	-	-	-	-
TOTAL ASSETS		4.222.391	3.257.595	7.479.986	2.917.221	2.663.617	5.580.838

The accompanying notes are an integral part of these consolidated financial statements.

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS AT 31 DECEMBER 2016

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

LIABILITIES	Notes	Audited Current Period 31 December 2016			Audited Prior Period 31 December 2015		
		TL	FC	TOTAL	TL	FC	TOTAL
I. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	4	-	63.777	63.777	-	68.471	68.471
II. FUNDS BORROWED	16	2.775.681	2.386.005	5.161.686	1.752.054	1.967.404	3.719.458
III. FACTORING PAYABLES		-	-	-	-	-	-
IV. LEASE OBLIGATIONS	18	-	-	-	-	-	-
4.1 Finance Lease Obligations		-	-	-	-	-	-
4.2 Operational Lease Obligations		-	-	-	-	-	-
4.3 Other		-	-	-	-	-	-
4.4 Deferred Finance Lease Expenses (-)		-	-	-	-	-	-
V. DEBT SECURITIES ISSUED (Net)	19	1.232.536	-	1.232.536	941.201	-	941.201
5.1 Bills		1.110.391	-	1.110.391	686.567	-	686.567
5.2 Asset-Backed Securities		-	-	-	-	-	-
5.3 Bonds		122.145	-	122.145	254.634	-	254.634
VI. MISCELLANEOUS PAYABLES	17	28.460	52.265	80.725	9.536	40.246	49.782
VII. OTHER LIABILITIES	17	18.620	46.666	65.286	11.158	25.596	36.754
VIII. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT		-	-	-	-	-	-
8.1 Fair Value Hedges		-	-	-	-	-	-
8.2 Cash Flow Hedges		-	-	-	-	-	-
8.3 Net Foreign Investment Hedges		-	-	-	-	-	-
IX. TAXES AND DUTIES PAYABLE	20	6.546	-	6.546	2.861	-	2.861
X. PROVISIONS	21	8.213	2.587	10.800	6.665	2.723	9.388
10.1 Restructuring Reserves		-	-	-	-	-	-
10.2 Reserves For Employee Benefits	22	7.415	-	7.415	5.993	-	5.993
10.3 Other Provisions		798	2.587	3.385	672	2.723	3.395
XI. DEFERRED INCOME		56	-	56	9	-	9
XII. CURRENT PERIOD TAX LIABILITY	23	28.371	-	28.371	14.506	-	14.506
XIII. DEFERRED TAX LIABILITY		-	-	-	-	-	-
XIV. SUBORDINATED LOANS		-	-	-	-	-	-
SUBTOTAL		4.098.483	2.551.300	6.649.783	2.737.990	2.104.440	4.842.430
XV. PAYABLES RELATED TO ASSETS FOR SALE AND DISCONTINUED OPERATIONS		-	-	-	-	-	-
15.1 Held For Sale		-	-	-	-	-	-
15.2 Discontinued Operations		-	-	-	-	-	-
XVI. SHAREHOLDERS' EQUITY		830.203	-	830.203	738.408	-	738.408
16.1 Paid-in Capital	25	600.303	-	600.303	530.303	-	530.303
16.2 Capital Reserves	25	1.938	-	1.938	1.938	-	1.938
16.2.1 Share Premiums		-	-	-	-	-	-
16.2.2 Share Cancellation Profits		-	-	-	-	-	-
16.2.3 Other Capital Reserves		1.938	-	1.938	1.938	-	1.938
16.3 Accumulated Other Comprehensive Income that will not be Reclassified to Profit or Loss	25	15	-	15	217	-	217
16.4 Accumulated Other Comprehensive Income that may be Reclassified subsequently to Profit or Loss	25	3.766	-	3.766	1.746	-	1.746
16.5 Profit Reserves	26	92.487	-	92.487	100.484	-	100.484
16.5.1 Legal Reserves		33.296	-	33.296	28.133	-	28.133
16.5.2 Statutory Reserves		-	-	-	-	-	-
16.5.3 Extraordinary Reserves		59.191	-	59.191	72.351	-	72.351
16.5.4 Other Profit Reserves		-	-	-	-	-	-
16.6 Profit or Loss		103.657	-	103.657	82.003	-	82.003
16.6.1 Prior Periods Profit/Loss		-	-	-	-	-	-
16.6.2 Current Period Profit/Loss		103.657	-	103.657	82.003	-	82.003
16.7 Non-Controlling Interests	24	28.037	-	28.037	21.717	-	21.717
TOTAL LIABILITIES AND EQUITY		4.928.686	2.551.300	7.479.986	3.476.398	2.104.440	5.580.838

The accompanying notes are an integral part of these consolidated financial statements.

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OFF BALANCE SHEET ITEMS AS AT 31 DECEMBER 2016

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

OFF-BALANCE SHEET ITEMS		Notes	Audited Current Period 31 December 2016			Audited Prior Period 31 December 2015		
			TL	FC	TOTAL	TL	FC	TOTAL
I.	IRREVOCABLE FACTORING TRANSACTIONS		62.084	19.745	81.829	50.022	14.269	64.291
II.	REVOCABLE FACTORING TRANSACTIONS		177.982	35.966	213.948	224.007	10.827	234.834
III.	COLLATERALS RECEIVED	40	19.712.954	31.235.335	50.948.289	16.058.766	23.019.647	39.078.413
IV.	COLLATERALS GIVEN	28	525.878	-	525.878	12.076	-	12.076
V.	COMMITMENTS		91.520	298.621	390.141	51.193	115.364	166.557
5.1	Irrevocable Commitments		-	72.386	72.386	14.131	38.963	53.094
5.2	Revocable Commitments		91.520	226.235	317.755	37.062	76.401	113.463
5.2.1	Lease Commitments		91.520	226.235	317.755	37.062	76.401	113.463
5.2.1.1	Finance Lease Commitments		91.520	226.235	317.755	37.062	76.401	113.463
5.2.1.2	Operational Lease Commitments		-	-	-	-	-	-
5.2.2	Other Revocable Commitments		-	-	-	-	-	-
VI.	DERIVATIVE FINANCIAL INSTRUMENTS		1.067.139	1.181.362	2.248.501	679.444	729.623	1.409.067
6.1	Derivative Financial Instruments for Risk Management		-	-	-	-	-	-
6.1.1	Fair Value Hedges		-	-	-	-	-	-
6.1.2	Cash Flow Hedges		-	-	-	-	-	-
6.1.3	Net Foreign Investment Hedges		-	-	-	-	-	-
6.2	Derivative Financial Instruments Held For Trading		1.067.139	1.181.362	2.248.501	679.444	729.623	1.409.067
6.2.1	Forward Foreign Currency Purchases/Sales	28	-	-	-	5.829	5.815	11.644
6.2.2	Swap Purchases/Sales	28	1.067.139	1.181.362	2.248.501	673.615	723.808	1.397.423
6.2.3	Put/call options		-	-	-	-	-	-
6.2.4	Futures purchases/sales		-	-	-	-	-	-
6.2.5	Others		-	-	-	-	-	-
VII.	ITEMS HELD IN CUSTODY		315.510	73.415	388.925	279.600	33.644	313.244
TOTAL OFF-BALANCE SHEET ITEMS			21.953.067	32.844.444	54.797.511	17.355.108	23.923.374	41.278.482

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

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

INCOME STATEMENT	Notes	Audited Current Period 01.01-31.12.2016	Audited Prior Period 01.01-31.12.2015
I. OPERATING INCOME	31	459.186	399.331
 FACTORING INCOME		173.420	134.492
1.1 Factoring Interest Income		160.625	124.856
1.1.1 Discounted		39.953	46.447
1.1.2 Other		120.672	78.409
1.2 Factoring Commission Income		12.795	9.636
1.2.1 Discounted		2.783	2.950
1.2.2 Other		10.012	6.686
 LEASE INCOME		285.766	264.839
1.3 Finance Lease Income		285.688	264.839
1.4 Operational Lease Income		78	-
1.5 Fees and Commission Income on Lease Operations		-	-
II. FINANCING EXPENSES (-)	34	(320.589)	(284.800)
2.1 Interest Expense on Funds Borrowed		(190.966)	(204.585)
2.2 Interest Expense on Factoring Payables		-	-
2.3 Interest Expense of Finance Leasing Expenses		-	-
2.4 Interest Expense on Securities Issued		(116.417)	(71.895)
2.5 Other Interest Expenses		-	-
2.6 Fees and Commissions Paid		(13.206)	(8.320)
III. GROSS PROFIT/LOSS (I+II)		138.597	114.531
IV. OPERATING EXPENSES (-)	32	(55.300)	(46.916)
4.1 Personal Expenses		(32.945)	(28.110)
4.2 Employee Severance Indemnity Expense		(729)	(558)
4.3 Research and Development Expenses		-	-
4.4 General Administration Expenses		(19.767)	(18.126)
4.5 Other		(1.859)	(122)
V. GROSS OPERATING PROFIT/LOSS (III+IV)		83.297	67.615
VI. OTHER OPERATING INCOME	33	409.225	315.365
6.1 Interest Income on Bank Deposits		7.112	6.489
6.2 Interest Income on Reverse Repurchase Agreements		-	-
6.3 Interest Income on Securities Portfolio		144	129
6.3.1 Interest Income on Financial Assets Held for Trading		144	129
6.3.2 Interest Income on Financial Assets at Fair Value Through Profit or Loss		-	-
6.3.3 Interest Income on Financial Assets Available For Sale		-	-
6.3.4 Interest Income on Financial Assets Held to Maturity		-	-
6.4 Dividend Income		2.611	3.800
6.5 Trading Account Income		228.197	138.069
6.5.1 Income From Derivative Financial Instruments		228.197	138.069
6.5.2 Other		-	-
6.6 Foreign Exchange Gains		152.799	151.062
6.7 Others		18.352	15.816
VII. PROVISION FOR LOSSES ON NON-PERFORMING RECEIVABLES (-)	35	(22.651)	(48.482)

The accompanying notes are an integral part of these consolidated financial statements.

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016

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

INCOME STATEMENT	Notes	Audited Current Period 01.01-31.12.2016	Audited Prior Period 01.01-31.12.2015
VIII. OTHER OPERATING EXPENSES (-)	36	(323.914)	(224.720)
8.1 Impairment Losses on Securities Portfolio		(400)	-
8.1.1 Impairment Losses on Financial Assets at Fair Value Through Profit or Loss		(400)	-
8.1.2 Impairment Losses on Financial Assets Available For Sale		-	-
8.1.3 Impairment Losses on Financial Assets Held to Maturity		-	-
8.2 Impairment Losses on Non-Current Assets		-	(602)
8.2.1 Impairment Losses on Tangible Assets		-	(602)
8.2.2 Impairment Losses on Assets Held for Sale and Discontinued Operations		-	-
8.2.3 Impairment Losses on Goodwill		-	-
8.2.4 Impairment Losses on Other Intangible Assets		-	-
8.2.5 Impairment Losses on Subsidiaries, Associates and Joint Ventures		-	-
8.3 Losses From Derivative Financial Instruments		(318.029)	(220.598)
8.4 Foreign Exchange Losses		-	-
8.5 Other		(5.485)	(3.520)
IX. NET OPERATING PROFIT/LOSS (V+.....+VIII)		145.957	109.778
X. INCOME RESULTED FROM MERGER		-	-
XI. GAIN/LOSS ON NET MONETARY POSITION		-	-
XII. PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (IX+X+XI)		145.957	109.778
XIII. INCOME TAX EXPENSE FROM CONTINUING OPERATIONS (±)	37	(35.130)	(22.514)
13.1 Current Tax Charge		(33.854)	(19.913)
13.2 Deferred Tax Charge (-)		(1.276)	(2.601)
13.3 Deferred Tax Benefit (+)		-	-
XIV. NET PROFIT FROM CONTINUING OPERATIONS (XII±XIII)		110.827	87.264
XV. INCOME FROM DISCONTINUED OPERATIONS		-	-
15.1 Income from Assets Held for Sale		-	-
15.2 Gain on Sale of Associates, Subsidiaries and Jointly Controlled Entities		-	-
15.3 Other Income from Discontinued Operations		-	-
XVI. EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
16.1 Expense on Assets Held for Sale		-	-
16.2 Loss on Sale of Associates, Subsidiaries and Jointly Controlled Entities		-	-
16.3 Other Expenses from Discontinued Operations		-	-
XVII. PROFIT FROM DISCONTINUED OPERATIONS BEFORE TAX (XV-XVII)		-	-
XVIII. INCOME TAX EXPENSE FROM DISCONTINUED OPERATIONS (±)		-	-
18.1 Current Tax Charge		-	-
18.2 Deferred Tax Charge (-)		-	-
18.3 Deferred Tax Benefit (+)		-	-
XIX. NET PROFIT FROM DISCONTINUED OPERATIONS (XVII+XVIII)		-	-
XX. NET PROFIT FOR THE PERIOD		110.827	87.264
20.1 NON-CONTROLLING INTERESTS		(7.170)	(5.261)
20.2 EQUITY HOLDERS OF THE COMPANY		103.657	82.003
EARNINGS PER SHARE	38	0,17	0,14
Earnings Per Share from Continued Operations		0,17	0,14
Earnings Per Share from Discontinued Operations		-	-
DILUTED EARNINGS PER SHARE	38	0,17	0,14
Earnings Per Share from Continued Operations		0,17	0,14
Earnings Per Share from Discontinued Operations		-	-

The accompanying notes are an integral part of these consolidated financial statements.

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

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

PROFIT/LOSS AND OTHER COMPREHENSIVE INCOME STATEMENT		Notes	Audited Current Period 01.01-31.12.2016	Audited Prior Period 01.01-31.12.2015
I.	CURRENT PERIOD PROFIT/LOSS		110.827	87.264
II.	OTHER COMPREHENSIVE INCOME		2.057	(675)
2.1	Items that will not be Reclassified to Profit or Loss		(202)	(66)
2.1.1	Tangible Assets Revaluation Increases/Decreases		-	-
2.1.2	Intangible Assets Revaluation Increases/Decreases		-	-
2.1.3	Employee Benefits Re-Measuring Loss/Income	22	(253)	(82)
2.1.4	Other Comprehensive Income that will not be Reclassified to Profit or Loss		-	-
2.1.5	Taxes related with Comprehensive Income that will not be Reclassified to Profit or Loss		51	16
2.1.5.1	Current Tax Income/Expense		-	-
2.1.5.2	Deferred Tax Income/Expense		-	-
2.2	Items that may be Reclassified subsequently to Profit or Loss		2.259	(609)
2.2.1	Foreign Exchange Differences for Foreign Currency Transactions		-	-
2.2.2	Value Increases or Decreases on Assets Held for Sales		2.259	(609)
2.2.3	Cash Flow Hedge Income/Losses		-	-
2.2.4	Net Investment Hedge Income/Losses		-	-
2.2.5	Other Comprehensive Income that may be Reclassified subsequently to Profit or Loss		-	-
2.2.6	Taxes related with Comprehensive Income that may be Reclassified subsequently to Profit or Loss		-	-
2.2.6.1	Current Tax Income/Expense		-	-
2.2.6.2	Deferred Tax Income/Expense		-	-
III.	TOTAL COMPREHENSIVE INCOME (I+II)		112.884	86.589

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

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

CHANGES IN EQUITY	Note	Paid-in Capital	Capital Reserves	Share Premium	Share Cancellation Profits	Other Capital Reserves	Other Accumulated Comprehensive Income that will be not reclassified to Profit/Loss		
							1	2	3
Prior Period (01.01 – 31.12.2015) (Reviewed)									
I. Balance at the Beginning of the Period (31.12.2014)		461.503	-	-	-	1.938	-	283	-
II. Correction Made According to TAS 8		-	-	-	-	-	-	-	-
2.1 Effect of Correction of Errors		-	-	-	-	-	-	-	-
2.2 Effect of Changes in Accounting Policies		-	-	-	-	-	-	-	-
III. New Balance (I+II)	25	461.503	-	-	-	1.938	-	283	-
IV. Total Comprehensive Income		-	-	-	-	-	-	(66)	-
V. Cash Capital Increase		-	-	-	-	-	-	-	-
VI. Capital Increase from internal reserves		68.800	-	-	-	-	-	-	-
VII. Paid-in-Capital Inflation Adjustment		-	-	-	-	-	-	-	-
VIII. Convertible Bonds		-	-	-	-	-	-	-	-
IX. Subordinated Loans		-	-	-	-	-	-	-	-
X. Increases/Decreases due to other changes		-	-	-	-	-	-	-	-
XI. Profit for the Period		-	-	-	-	-	-	-	-
XII. Profit Distribution		-	-	-	-	-	-	-	-
12.1 Dividend Paid		-	-	-	-	-	-	-	-
12.2 Transfer to Reserves		-	-	-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-	-	-
Balance at the End of the Period (31.12.2015)		530.303	-	-	-	1.938	-	217	-
Current Period (01.01. –31.12.2016) (Reviewed)									
I. Balance at the Beginning of the Period (31.12.2015)		530.303	-	-	-	1.938	-	217	-
II. Correction Made According to TAS 8		-	-	-	-	-	-	-	-
2.1 Effect of Correction of Errors		-	-	-	-	-	-	-	-
2.2 Effect of Changes in Accounting Policies		-	-	-	-	-	-	-	-
III. New Balance (I+II)	25	530.303	-	-	-	1.938	-	217	-
IV. Total Comprehensive Income		-	-	-	-	-	-	(202)	-
V. Cash Capital Increase		-	-	-	-	-	-	-	-
VI. Capital Increase from internal reserves	25	70.000	-	-	-	-	-	-	-
VII. Paid-in-Capital Inflation Adjustment		-	-	-	-	-	-	-	-
VIII. Convertible Bonds		-	-	-	-	-	-	-	-
IX. Subordinated Loans		-	-	-	-	-	-	-	-
X. Increases/Decreases due to other changes		-	-	-	-	-	-	-	-
XI. Profit for the Period		-	-	-	-	-	-	-	-
XII. Profit Distribution		-	-	-	-	-	-	-	-
12.1 Dividend Paid		-	-	-	-	-	-	-	-
12.2 Transfer to Reserves		-	-	-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-	-	-
Balance at the End of the Period (31.12.2016)		600.303	-	-	-	1.938	-	15	-

1. Revaluation increase/decrease of property and equipment,
2. Employee benefits re-measuring income/loss,
3. Other (Other comprehensive income related with equity pick up investment portions and accumulated other comprehensive income components that will not be re-classified to profit/loss)
4. Foreign currency translation differences for foreign operations,
5. Net change in fair value of available-for-sale financial assets,
6. Other (Cash flow hedge income/(losses), accumulated other comprehensive income components that may re-classified subsequently to profit/loss)

Other Accumulated Comprehensive
Income that may be reclassified
subsequently to Profit/Loss

4	5	6	Profit Reserves	Legal Reserves	Statutory Reserves	Extraordinary Reserves	Other Profit Reserves	Current Period Profit/Loss	Prior Period Profit/Loss	Net Current Period Profit/Loss	Non-Controlling Interest	Total Equity
-	2.243	-	105.652	24.202	-	81.450	-	78.632	146	78.486	16.568	666.819
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	2.243	-	105.652	24.202	-	81.450	-	78.632	146	78.486	16.568	666.819
-	(497)	-	-	-	-	-	-	-	-	-	(112)	(675)
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	(68.800)	-	-	-	(68.800)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	82.003	-	82.003	5.261	87.264
-	-	-	63.632	3.931	-	(9.099)	68.800	(78.632)	(146)	(78.486)	-	(15.000)
-	-	-	(15.000)	-	-	(15.000)	-	-	-	-	-	(15.000)
-	-	-	78.632	3.931	-	5.901	68.800	(78.632)	(146)	(78.486)	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	1.746	-	100.484	28.133	-	72.351	-	82.003	-	82.003	21.717	738.408
-	1.746	-	100.484	28.133	-	72.351	-	82.003	-	82.003	21.717	738.408
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	1.746	-	100.484	28.133	-	72.351	-	82.003	-	82.003	21.717	738.408
-	2.020	-	-	-	-	-	-	-	-	-	239	2.057
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	(70.000)	-	-	-	(70.000)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	62.003	5.163	-	(13.160)	70.000	(82.003)	-	(82.003)	(1.089)	(21.089)
-	-	-	(18.000)	-	-	(18.000)	-	(2.000)	-	(2.000)	(1.089)	(21.089)
-	-	-	80.003	5.163	-	4.840	70.000	(80.003)	-	(80.003)	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	3.766	-	92.487	33.296	-	59.191	-	103.657	-	103.657	28.037	830.203



İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	Audited Current Period 01.01-31.12.2016	Audited Prior Period 01.01-31.12.2015
A. CASH FLOWS FROM OPERATING ACTIVITIES			
1.1 Operating Profit Before Changes in Operating Assets And Liabilities		172.705	169.512
1.1.1 Interests Received/Lease Income		447.548	398.790
1.1.2 Interest Paid/Lease Expenses		(328.735)	(264.265)
1.1.3 Lease Expenses		-	-
1.1.4 Dividends Received		2.611	2.636
1.1.5 Fees and Commissions Received		12.795	9.636
1.1.6 Other Income		(83.506)	151.138
1.1.7 Collections from Non-performing Receivables	33	12.170	2.876
1.1.8 Payments to Personnel and Service Suppliers		(30.115)	(26.091)
1.1.9 Taxes Paid		(19.355)	(7.093)
1.1.10 Others		159.292	(98.115)
1.2 Changes in Operating Assets and Liabilities		(276.304)	(629.168)
1.2.1 Net (Increase) Decrease in Factoring Receivables		(1.049.182)	(516.967)
1.2.2 Net (Increase) Decrease in Financing Loans		-	-
1.2.3 Net (Increase) Decrease in Lease Receivables		(343.959)	(144.989)
1.2.4 Net (Increase) Decrease in Other Assets		1.810	7.151
1.2.5 Net Increase (Decrease) in Factoring Payables		-	-
1.2.6 Net Increase (Decrease) in Lease Payables		-	-
1.2.7 Net Increase (Decrease) in Funds Borrowed		1.062.623	29.173
1.2.8 Net Increase (Decrease) in Due Payables		-	-
1.2.9 Net Increase (Decrease) in Other Liabilities		52.404	(3.536)
I. Net Cash Used in Operating Activities		(103.599)	(459.656)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
2.1 Cash Paid for Purchase Of Associates, Subsidiaries and Joint-ventures		-	-
2.2 Cash Obtained From Sale of Associates, Subsidiaries and Joint-Ventures		-	-
2.3 Purchases of Tangible and Intangible Assets	10, 11	(7.159)	(1.886)
2.4 Proceeds From Sale of Tangible and Intangible Assets	10	4.669	5
2.5 Cash Paid for Purchase of Financial Assets Available for Sale		-	-
2.6 Proceeds From Sale of Financial Assets Available for Sale		-	-
2.7 Cash Paid for Purchase of Held-to-Maturity Investment Securities		-	-
2.8 Proceeds from Sale of Held-to-Maturity Investment Securities		-	-
2.9 Other		-	-
II. Net cash used in investing activities		(2.490)	(1.881)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
3.1 Cash obtained from funds borrowed and securities issued		1.987.131	1.154.518
3.2 Cash used for repayment of funds borrowed and securities issued		(1.709.638)	(631.830)
3.3 Equity instruments issued		-	-
3.4 Dividends paid	25	(21.089)	(15.000)
3.5 Payments for finance leases		-	-
3.6 Other		-	-
III. Net Cash From Financing Activities		256.404	507.688
IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents		388	(569)
V. Net Increase in Cash and Cash Equivalents		150.703	45.582
VI. Cash and Cash Equivalents at the Beginning of the Period	5	225.718	180.136
VII. Cash and Cash Equivalents at the End of the Period	5	376.421	225.718

The accompanying notes are an integral part of these consolidated financial statements.

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2016

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

İŞ FİNANSAL KİRALAMA A.Ş. PROFIT DISTRIBUTION TABLE (**)	Current Period 31 December 2016	Prior Period 31 December 2015
I. DISTRIBUTION OF CURRENT PERIOD PROFIT		
1.1 CURRENT PERIOD PROFIT	138.787	104.517
1.2 TAXES AND DUES PAYABLE (-)	(35.130)	(22.514)
1.2.1 Corporate Tax (Income Tax)	(33.854)	(19.913)
1.2.2 Withholding Tax	-	-
1.2.3 Other taxes and dues	(1.276)	(2.601)
A. NET PERIOD PROFIT (1.1 - 1.2)	103.657	82.003
1.3 PRIOR YEARS' LOSSES (-)	-	-
1.4 FIRST LEGAL RESERVE (-)	-	(4.074)
1.5 OTHER STATUTORY RESERVES NEEDED TO BE KEPT IN THE COMPANY (-) (*)	-	-
B. DISTRIBUTABLE NET PERIOD PROFIT [(A-1.3+1.4+1.5)]	-	77.929
1.6 FIRST DIVIDEND TO SHAREHOLDERS (-)	-	72.000
1.6.1 To Owners of Ordinary Shares (***)	-	72.000
1.6.2 To Owners of Preferred Stocks	-	-
1.6.3 To Owners of Preferred Stocks (Preemptive Rights)	-	-
1.6.4 To Profit Sharing Bonds	-	-
1.6.5 To Owners of the profit/loss Sharing Certificates	-	-
1.7 DIVIDEND TO PERSONNEL (-)	-	-
1.8 DIVIDEND TO BOARD OF DIRECTORS (-)	-	-
1.9 SECOND DIVIDEND TO SHAREHOLDERS (-)	-	-
1.9.1 To Owners of Ordinary Shares	-	-
1.9.2 To Owners of Preferred Stocks	-	-
1.9.3 To Owners of Preferred Stocks (Preemptive Rights)	-	-
1.9.4 To Profit Sharing Bonds	-	-
1.9.5 To Owners of the profit/loss Sharing Certificates	-	-
1.10 SECOND LEGAL RESERVE (-)	-	-
1.11 STATUS RESERVES (-)	-	-
1.12 EXTRAORDINARY RESERVES	-	5.929
1.13 OTHER RESERVES	-	-
1.14 SPECIAL FUNDS	-	-
II. DISTRIBUTION FROM RESERVES		
2.1 DISTRIBUTED RESERVES	-	-
2.2 SECOND LEGAL RESERVES (-)	-	-
2.3 SHARE TO SHAREHOLDERS (-)	-	-
2.3.1 To Owners of Ordinary Shares	-	18.000
2.3.2 To Owners of Preferred Stocks	-	-
2.3.3 To Owners of Preferred Stocks (Preemptive Rights)	-	-
2.3.4 To Profit Sharing Bonds	-	-
2.3.5 To Owners of the profit/loss Sharing Certificates	-	-
2.4 SHARE TO PERSONNEL (-)	-	-
2.5 SHARE TO BOARD OF DIRECTORS (-)	-	-
III. EARNINGS PER SHARE		
3.1 TO OWNERS OF STOCKS (TL)	0,1727	0,1546
3.2 TO OWNERS OF STOCKS (%)	17,27%	15,46%
3.3 TO OWNERS OF PREFERRED STOCKS (TL)	-	-
3.4 TO OWNERS OF PREFERRED STOCKS (%)	-	-
IV. DIVIDEND PER SHARE		
4.1 TO OWNERS OF STOCKS (TL)	-	0,1697
4.2 TO OWNERS OF STOCKS (%)	-	16,97%
4.3 TO OWNERS OF PREFERRED STOCKS (TL)	-	-
4.4 TO OWNERS OF PREFERRED STOCKS (%)	-	-

(*) Comprises of donations made by the Company that shall be added to distributable net period profit.

(**) The Board of Directors has not made any decision regarding profit distribution for the year 2016.

(***) The dividend amounting to TL 20.000 has been distributed in cash, the dividend amounting to TL 70.000 has been distributed in the form of bonus shares for the year 2015.

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

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

1. ORGANIZATION AND OPERATIONS OF THE COMPANY

İş Finansal Kiralama A.Ş. ("the Company") was incorporated on 9 March 1988 to operate in Turkey in accordance with Finance Lease, Factoring and Financing Companies Law No: 6361. The core business of the Company is leasing operations, both domestic and abroad, and it started its leasing operations in July 1988. The head office of the Company is located at İş Kuleleri Kule: 1 Kat: 6 34330 Levent-İstanbul/Turkey.

The Company has purchased nominal shares of İş Faktoring A.Ş. ("İş Faktoring") amounting to TL 12.517 in consideration of USD 10.952.375 on 11 August 2004. The Company owns 78,23% of the İş Faktoring A.Ş. and it has been consolidated in the accompanying financial statements.

The Company and its subsidiary run their operations in accordance with "Finance Lease, Factoring and Financing Companies Law" published on the Official Gazette no. 28496 dated 13 December 2012 and "Regulation on Principles for Establishment and Operations of Finance Lease, Factoring and Financing Companies" of Banking Regulation and Supervision Agency ("BRSA").

The ultimate parent of the Company is Türkiye İş Bankası A.Ş. The main shareholders of the Company are Türkiye İş Bankası A.Ş. with 27,79% and Türkiye Sınai Kalkınma Bankası A.Ş. ("TSKB") with 28,56% participation. The Company's 42,67% of shares are publicly traded and listed on the Borsa İstanbul.

As at 31 December 2016, the Company and its subsidiary ("the Group") have 246 employees (31 December 2015: 234 employees).

Dividend Payable

As at 31 December 2016, the Company does not have any dividend payable.

Approval of the Financial Statements

The consolidated financial statements as at 31 December 2016 have been approved by the Board of Directors of the Company and authorized for issue as at 27 January 2017. The General Assembly and/or legal authorities have power to amend the consolidated financial statements after its issue.

2. BASIS OF THE FINANCIAL STATEMENTS

2.1 Basis of the Presentation

Accounting Standards Applied

The Group prepared accompanying consolidated financial statements due to the "Communiqué on Uniform Chart of Accounts and Prospectus to be implemented by Financial Leasing, Factoring and Financing Companies" and "Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies" the published in the Official Gazette dated 24 December 2013 and numbered 28861 and Turkish Accounting Standards, Turkish Financial Reporting Standards and other regulations, communiqués, and circulars announced by the Banking Regulation and Supervision Agency (all together refer to as "BRSA Accounting and Reporting Legislation") in respect of accounting and financial reporting.

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

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

2. BASIS OF THE FINANCIAL STATEMENTS (Continued)

2.1 Basis of the Presentation (Continued)

Accounting Standards Applied (Continued)

The financial statements have been prepared on the historical cost basis, except for the financial instruments measured at fair value. Determination of historical cost is generally based on the fair value amount paid for the assets.

Additional Paragraph for Convenience Translation to English

The differences between accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying financial statements are to be distributed, and International Financial Reporting Standards (“IFRS”), may have significant influence on the accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position and consolidated results of operations in accordance with the accounting principles generally accepted in such countries and IFRS.

Functional and Reporting Currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

Preparation of Financial Statements in Hyperinflationary Periods

The consolidated financial statements of the Group have been adjusted for the effects of inflation in accordance with TAS 29 “Financial Reporting in Hyperinflationary Economies” until 31 December 2004. By a circular issued on 28 April 2005, BRSA and by a decision taken on 17 March 2005, Capital Markets Board of Turkey (“CMB”) declared that the application of inflation accounting has been ceased to be applied for the companies operating in Turkey starting from 1 January 2005, since the provisions of hyperinflationary economy do not exist anymore. Accordingly, non-monetary assets and liabilities, and components of equity as at 31 December 2016 were adjusted for the effects of inflation that lasted till 31 December 2004 for the items acquired before 31 December 2004 and the items which were acquired after 1 January 2005 were accounted for at their respective nominal amounts.

Comparative Information and Restatement of the Prior Periods’ Consolidated Financial Statements

The Group’s consolidated financial statements are prepared comparatively with the prior period in order to provide information on the financial position and performance of the Group. When the presentation or classification of financial statements is changed, prior period’s financial statements are also reclassified in line with the related changes in order to sustain consistency and all significant changes are explained.

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

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

2. BASIS OF THE FINANCIAL STATEMENTS (Continued)

2.1 Basis of the Presentation (Continued)

Accounting estimates

The preparation of consolidated financial statements in accordance with BRSA Accounting and Reporting Legislation requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, information about significant accounting estimates used are described in the following notes:

Note 4 – Financial assets and liabilities at fair value through profit or loss

Note 7 – Factoring receivables

Note 8 – Lease receivables

Note 21 – Provisions

Note 22 – Employee benefits

Note 28 – Provisions, contingent assets and liabilities

Basis of Consolidation

The details of the Group’s subsidiary as at 31 December 2016 and 31 December 2015 are as follows:

<u>Subsidiary</u>	<u>Establishment and operation location</u>	<u>Shareholding rate</u> %	<u>Voting right rate</u> %	<u>Core business</u>
İş Faktoring A.Ş.	Istanbul	78,23	78,23	Factoring operations

The accompanying consolidated financial statements include the accounts of the Company and its subsidiary on the basis set out in “Subsidiaries” section below. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

As at 31 December 2016 and 31 December 2015, the Company owns 78,23% of İş Faktoring A.Ş.. As the Company has the power to control the operations of the İş Faktoring A.Ş., the financial statements of İş Faktoring A.Ş. have been fully consolidated in the accompanying consolidated financial statements.

(ii) Transactions eliminated on consolidation

Financial statements of İş Faktoring A.Ş. have been fully consolidated in the accompanying financial statements and the investment balance in the Company’s statement of financial position have been eliminated against the paid-in capital of İş Faktoring A.Ş.. Intra-group balances, transactions and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The accounting policies of the subsidiary have been adjusted when necessary to align them with the policies adopted by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

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

2. BASIS OF THE FINANCIAL STATEMENTS (Continued)

2.1 Basis of the Presentation (Continued)

Basis of Consolidation (Continued)

(iii) Non-controlling interests

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group’s equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest in equity since the date of the combination.

Offsetting

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

2.2 Changes in Accounting Policies

The accounting policies applied for the period ended 31 December 2015 have been applied consistently for the year ended 31 December 2016 in preparing these financial statements.

2.3 Changes in Accounting Estimates and Errors

If the changes in accounting estimates relate to a specific period, they are applied in the period they relate to whereas if the changes are related to future periods, they are applied both in the period the change is made and prospectively in the future periods. There has not been any significant change in the accounting estimates of the Group in the current period.

Material accounting errors are adjusted retrospectively and prior periods’ consolidated financial statements are restated.

2.4 Changes in Standards and Interpretations

The Group applied all of the relevant and required TAS as at 31 December 2016.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 31 December 2016, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below;

IFRS 9 – Financial instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from TAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

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

3. SIGNIFICANT ACCOUNTING POLICIES

a. Revenue

Finance lease income: Initial value of leased assets at the beginning of the leasing period under the Finance Lease, factoring and Financing Companies Law No: 6361 is recognized as finance lease receivables in the consolidated statement of financial position. Interest income resulting from the difference between the total finance lease receivables and the investment value of the leased assets are recognized in the period in which the relevant receivable portion for each accounting period is distributed over the related period using the fixed interest rate through the leasing period. The interest income not accrued yet is followed up under the account of unearned interest income.

Factoring revenue: Consists of factoring interest and commission income collected or accrued on advances given to the customers.

Factoring commission income is a certain percentage of the total amount of invoices subject to factoring transactions.

Other interest income is accrued based on the effective interest which equals the estimated cash flows to net book value of the related asset.

Dividend income from equity share investments is recognized when the shareholders have the right to receive the dividend.

Commissions collected or paid on any transactions are recorded on accrual basis.

b. Tangible Assets

Tangible assets, acquired before 1 January 2005 are carried at restated cost for the effects of inflation in TL units current at the 31 December 2004 less accumulated depreciation and impairment losses, and tangible assets acquired after 31 December 2004 are carried at acquisition cost less accumulated depreciation and impairment losses.

Tangible assets are depreciated over the estimated useful lives of the related assets on a straight-line basis over the cost. The estimated useful lives, residual values and depreciation method are reviewed at each reporting period and corrected if necessary.

Leasehold improvements are depreciated over their respective lease periods.

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

The estimated useful lives for the current and comparative periods are as follows:

<i>Definition</i>	<i>Years</i>
Furniture and fixtures	5 years
Other tangible assets	5 years
Vehicles	5 years
Operational Leasing Assets	3 years

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Tangible Assets (Continued)

Gains and losses on disposal of an item of tangible assets are determined by comparing the proceeds from disposal with the carrying amount of tangible assets, and are recognized net within other operating income/expense in the consolidated income statement.

The Group has changed the valuation method for tangible fixed assets and in accordance with Standards on Tangible assets (TAS 16) it has adopted the revaluation method in 2015. Appraisal value has been reflected in the financial statements.

c. Intangible Assets

Intangible assets include computer software, licenses and goodwill. Intangible assets acquired before 1 January 2005 are carried at restated cost for the effects of inflation in TL units current at the 31 December 2004 less accumulated amortisation and impairment losses and intangible assets acquired after 31 December 2004 are carried at acquisition cost less accumulated amortisation and impairment losses. The estimated useful lives, residual values and amortization method of intangible assets other than goodwill are reviewed at each reporting date. Amortization is charged on a straight-line basis over their estimated useful lives. The intangible assets are comprised of computer software and licenses. The useful lives of intangible assets are 5 years.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their useful lives. Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding five years).

The estimated useful life and amortization method of intangible assets are reviewed at each reporting period and corrected if necessary.

d. Impairment of Non-Financial Assets

Assets that have an indefinite useful life, like goodwill, are not subject to amortization, but tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impaired non-financial assets other than goodwill are reviewed for possible reversal of the impairment at each reporting date.

e. Borrowing Costs

All borrowing costs are recorded in the income statement on accrual basis.

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Financial Assets Held For Sale

Assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in the consolidated income statement. Gains are not recognized in excess of any cumulative impairment loss.

g. Financial Instruments

Financial assets

All financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: "financial assets as at fair value through profit or loss ("FVTPL")", "held-to-maturity investments ("HTM")", "available-for-sale ("AFS")" financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated under this category upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or achieved more relevant accounting measurement. Derivatives are also categorized as held for trading unless they are designated as hedges.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized using effective interest method.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Financial Instruments (Continued)

Financial assets (Continued)

Available for sale financial assets

Quoted equity investments and quoted certain debt securities held by the Group that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. The Group also has investments in unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial assets and stated at cost since their value cannot be reliably measured. Gains and losses arising from changes in fair value are recognized in other comprehensive income and presented under the marketable securities revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the marketable securities revaluation reserve is transferred to profit or loss.

Dividends on available-for-sale equity instruments are recognized in the profit or loss when the Group’s right to receive the dividends is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the exchange rate valid at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Finance lease receivables, factoring receivables and other receivables

Finance lease receivables, factoring receivables and other receivables are carried at fair value at initial recognition and they are carried at amortized cost subsequent to initial recognition, using the effective interest method.

Provision for doubtful finance lease receivables, factoring receivables and other receivables are recognized as an expense and written off against the profit for the year. Provision for non-performing receivables is allocated assessing the Group’s loan portfolio, quality and risk and considering the economic conditions and other factors including the related legislation against the potential losses that may be resulted from the current finance lease and factoring receivables. In accordance with the “Regulation on Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies” published in the Official Gazette dated 24 December 2013 and numbered 28861 and the “Communiqué on Procedures and Principles for the Provisions to be set aside by Financial Leasing, Factoring and Financing Companies for their Receivables” published in the Official Gazette dated 20 July 2007 and numbered 26588 by BRSA, the Group’s specific provision rate allocated for the below finance lease receivables considering their collaterals as at 1 January 2008 are as follows: 20%, at a minimum, for finance lease receivables overdue more than 150 days not exceeding 240 days, 50%, at a minimum, for finance lease receivables overdue more than 240 days not exceeding 360 days; and 100%, at a minimum, for finance lease receivables overdue more than 1 year.

The Group classifies its overdue finance lease receivables not exceeding 360 days as under the “Non-Performing Receivables” and classifies its finance lease receivables overdue more than 1 year under “Non-Performing Receivables”.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Financial Instruments (Continued)

Financial assets (Continued)

In accordance with the above-mentioned Communiqué, specific provision rate allocated for the factoring receivables considering their collaterals are as follows: 20%, at a minimum, for factoring receivables overdue more than 90 days not exceeding 180 days; 50%, at a minimum, for factoring receivables overdue more than 180 days not exceeding 360 days; and 100%, at a minimum, for factoring receivables overdue more than 1 year.

While the Group provides 100% provision for doubtful factoring receivables which do not have worthy collaterals without considering the time intervals above, the Group provides provision for its other doubtful receivables having possibility of recovery based on the time intervals mentioned above.

When the Group annuls overdue foreign currency leasing contracts, it converts foreign currency receivables into TL using the exchange rate at the annulment date and does not evaluate such amounts starting from the annulment date. Since invoice issuance for such receivables is ceased, the Group also ceases its income accrual calculation starting from the annulment date.

Other receivables that have fixed or determinable payments that are not quoted in an active market are also classified in this category. These receivables are measured at amortized cost using the effective interest method less any impairment.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are subject to impairment testing at each reporting date to determine whether there is any indicator of impairment for financial asset or financial asset group. An entity shall assess at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. That loss event or events must also have an impact on the estimated future cash flows of the financial asset or group of financial assets. For the financial assets which are measured at amortized cost, except for finance lease receivables and factoring receivables stated above, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by impairment loss directly for all financial assets with the exception of finance lease receivables and factoring receivables where the carrying amount is reduced through the use of an allowance account. When a receivable is uncollectible, it is written off against the allowance account. Changes in allowance accounts are recognized in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed the amortized cost that would have been impaired.

Increase in fair value of available for sale equity instruments subsequent to impairment is recognized in directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments with maturities of three months or less than three months from date of acquisition and that are readily convertible to cash and are subject to an insignificant risk of changes in value.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Financial Instruments (Continued)

Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL and stated at fair value, with any resulting gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss includes any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on effective interest method.

The effective interest method that calculates the amortized cost of a financial liability and allocates interest expense over the relevant period. The effective interest rate discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to net present value of financial liabilities

Derivative financial instruments and hedge accounting

The Group’s activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Group uses derivative financial instruments (primarily foreign currency forward and currency swap contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured at fair value at subsequent reporting dates. Although some of the derivative transactions provide economic hedging, since all necessary conditions for hedge accounting have not been met, the Group classifies these transactions as held for trading and therefore, changes in the fair value of derivative financial instruments are recognized in profit or loss as they arise.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Business Combinations

The acquisitions of subsidiaries are accounted for by using the purchase method. The cost of the acquisition is measured at the aggregate of fair value, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for the control of the acquiree. The acquiree’s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under TFRS 3 “Business Combinations” are recognized at fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with TFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations”, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. When the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, excess amount is recognized immediately in profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling party’s proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

i. Effects of Changes in Exchange Rates

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in TL, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
USD	3,5192	2,9076
EUR	3,7099	3,1776
GBP	4,3189	4,3007
CHF	3,4454	2,9278
100 JPY	3,0025	2,4078
AUD	2,5366	2,1154

In preparation of the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the prevailing exchange rates at the transaction date. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value is determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Earnings Per Share

Earnings per share presented in the accompanying consolidated income statement is determined by dividing net income by the weighted average number of shares in issue during the year.

In Turkey, companies can increase their share capitals by issue of "Bonus Shares" to their shareholders from their retained earnings. In computing earnings per share, such issues of "Bonus Shares" are treated as issued shares. Accordingly, the retrospective effect for those share issues is taken into consideration in determining the weighted-average number of shares outstanding used in this computation.

k. Events After the Reporting Period

Subsequent events means the events occurred between the reporting date and the authorization date for the announcement of the financial statements. In accordance with TAS 10 "Events After Reporting Period Date"; post-balance sheet events that provide additional information about the Group's position at the balance sheet dates (adjusting events) are reflected in the consolidated financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

l. Provisions, Contingent Liabilities and Contingent Assets:

In accordance with TAS 37 "Provisions, Contingent Liabilities and Contingent Assets", a provision is recognized when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the specified criteria are not met, the Group discloses the related issues in the accompanying notes. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability if the time value of the money is significant to the provision.

Contingent assets are disclosed in the notes and not recognized unless they are realized.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. Leases

- Group as Lessor

The Group’s accounting policies over finance leases are disclosed in note (g).

- Group as Lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss in accordance with the Group’s general policy on borrowing costs. Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Lease incentives received or to be received to enter into an operating lease are also recognized in the profit or loss on a straight-line basis over the lease term.

n. Segment Reporting

The Group has two different operating segments, leasing and factoring, that is used by management to make decisions about resources to be allocated to the segments and assess their performance, and for which discrete financial information is available (Note 29).

o. Taxes on Income

Turkish Tax Legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Income tax expense or credit comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o. Taxes on Income (Continued)

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

Deferred taxes related to fair value measurement of available for sale assets are charged or credited to Other Comprehensive Income and subsequently recognized in profit or loss together with the deferred gains that are realized.

p. Employee Benefits/Reserve for Employee Termination Benefits

In accordance with the existing social legislation in Turkey, the Group is required to make certain lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are recognized in the accompanying consolidated financial statements as accrued. The computation of the liability is based upon the retirement pay ceiling announced by the government.

In accordance with TAS 19 "Employee Benefits", the Group calculated the employee severance indemnities incurred due to retirement of its employees by discounting the future liabilities to their present values, by using actuarial method and reflected to the consolidated financial statements. The main estimates used are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Discount rate	3,43%	3,51%
Expected rate of salary/limit increase	7,80%	7,00%
Probability of retirement	100%	100%

r. Statement of Cash Flows

The Group presents statement of cash flows as an integral part of its financial statements to inform the users of financial statements about its ability to manage changes in its net assets, its financial structure and the amount and timing of its cash flows under changing conditions.

In the statement of cash flows, the cash flows for the period are reported with a classification of operating, investment and financing activities. Cash flows related with operating activities compose of the cash flows arising from core operations of the Company. Cash flows related with investment activities compose of cash flows that the Group generates from or uses in investment activities (tangible and financial investments). Cash flows related with financing activities represent resources that the Group uses for financing activities and the reimbursements of such resources.

s. Share Capital and Dividends

Common shares are classified as equity. Dividends on common shares are reclassified as dividend payables by netting off from the retained earnings in the period in which they are approved and disclosed.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

t. Related Parties

In accordance with TAS 24 "Related Party Disclosures" shareholders, key management and board members, in each case together with companies controlled by or affiliated with them, and associated companies are considered and referred to as related parties. Related party transactions consist of the transfer of the assets and liabilities between related parties by a price or free of charge. For the purpose of the accompanying consolidated financial statements, shareholders of the Company, the companies controlled by/ associated with them, key management and the Board members of the Company are referred to as related parties (Note 9).

4. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial Assets held for trading:

As at 31 December 2016 and 31 December 2015, details of financial assets held for trading are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Debt securities issued by private sector (*)	400	-	402	-
Impairment Provision of Private Sector Securities Common Stocks and Bond (*)	(400)	-	-	-
Mutual funds	6.664	-	4.268	-
	6.664	-	4.670	-

(*) In its meeting held on 11 February 2016, Borsa İstanbul A.Ş. (Istanbul Stock Exchange) Board of Directors has decided to delist the debt instruments coded TRSAYNS51619, TRSAYNSK1619 and TRSAYNS21711 ISIN of Aynes Gıda Sanayi ve Ticaret A.Ş., the debt instruments of which are listed in BIST Debt Instruments Market Definite Trading Market, due to failure of the named Company in its coupon payment of 2 February 2016 relating to its debt instrument coded TRSAYNS51619 ISIN. The coupon payments and the principal payment of the debt instrument coded TRSAYNSK1619 ISIN included in the assets of the Company have not been made by Aynes Gıda Sanayi ve Ticaret A.Ş., the Company has recognized allowance for impairment losses on the debt instrument amounting to its total carrying amount.

The Group has investments in Türkiye İş Bankası A.Ş. mutual funds amounting to TL 785 (31 December 2015: TL 443).

Derivative Financial Assets and Liabilities Held For Trading:

Derivative financial instruments are measured at their fair values. Favorable fair value changes of derivative financial instruments are recognized under derivative financial assets held for trading and unfavorable fair value changes of derivative financial instruments are recognized under derivative financial liabilities held for trading.

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
<u>Derivative Financial Assets Held For Trading</u>				
Forwards	-	-	5	-
Currency swaps	-	511	1.178	4.536
	-	511	1.183	4.536
	31 December 2016		31 December 2015	
	TL	FC	TL	FC
<u>Derivative Financial Liabilities Held For Trading</u>				
Forwards	-	-	-	-
Currency swaps	-	63.777	-	68.471
	-	63.777	-	68.471

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5. BANKS

As at 31 December 2016 and 31 December 2015, the details of the banks are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Demand Deposits	4.578	18.244	1.578	14.610
Time Deposits	84.042	269.623	-	209.536
	88.620	287.867	1.578	224.146

The details of the time deposits as at 31 December 2016 are as follows:

Currency	Interest Rate %	Maturity	31 December 2016
TL	10,85%	02.01.2017	84.042
USD	2,00%	02.01.2017	107.271
Euro	1,00%-2,10%	02.01.2017-23.01.2017	162.352
			353.665

The details of the time deposits as at 31 December 2015 are as follows:

Currency	Interest Rate (%)	Maturity	31 December 2015
USD	0,20%-1,90%	01.01.2016-04.01.2016	99.745
Euro	1,00%-1,50%	04.01.2016-01.02.2016	109.791
			209.536

As at 31 December 2016, TL 262.368 portion of total foreign currency deposits (31 December 2015: TL 192.022) and TL 88.418 portion of total TL deposits (31 December 2015: TL 1.164) consist of accounts at the Company's main shareholder, Türkiye İş Bankası A.Ş.

The reconciliation of carrying value of cash and cash equivalents in the accompanying consolidated statement of financial position and the statement of cash flow is as follows:

	31 December 2016	31 December 2015
Demand deposits	22.822	16.188
Time deposits (1-3 months) (excluding accrual)	353.599	209.530
Cash and cash equivalents	376.421	225.718

As at 31 December 2016 and 31 December 2015, there is no blockage on cash and cash equivalents.

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6. FINANCIAL ASSETS AVAILABLE FOR SALE

As at 31 December 2016 and 31 December 2015, details of financial assets available for sale are as follows:

Name of the investment	Core business	Incorporation and location	Voting right (%)	Ownership Rate (%)		Carrying Amount	
				31 December 2016	31 December 2015	31 December 2016	31 December 2015
<u>Quoted Investments:</u>							
İş Yatırım Menkul Değerler A.Ş. (İş Yatırım)	Investment and Securities Services	İstanbul	4,86	4,86	4,86	21.795	19.464
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	Private Equity	İstanbul	0,89	0,89	0,89	955	1.069
<u>Unquoted investments:</u>							
Yatırım Finansman Menkul Değerler A.Ş.	Investment and Securities Services	İstanbul	0,06	0,06	0,06	39	39
İş Net Elektronik Bilgi Üretim Dağ. Tic. ve İletişim Hiz. A.Ş. (İş Net)	Inf. Comm. and Techn. Services	İstanbul	1,00	1,00	1,00	347	347
Efes Varlık Yönetimi A.Ş.	Asset Management	İstanbul	10,00	10,00	10,00	2.000	2.000
TOTAL						25.176	22.919

7. FACTORING RECEIVABLES

As at 31 December 2016 and 31 December 2015, details of factoring receivables are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
<u>Short-term factoring receivables (*)</u>		
Domestic factoring receivables	2.548.649	1.614.627
Export and import factoring receivables	436.237	329.783
Factoring interest income accrual	11.057	12.243
Unearned interest income	(11.228)	(10.876)
	<u>2.984.715</u>	<u>1.945.777</u>
<u>Non-performing factoring receivables (**)</u>	39.388	36.640
Provision for non-performing factoring receivables (**)	(38.547)	(31.143)
	<u>2.985.556</u>	<u>1.951.274</u>

(*) Consists of factoring receivables of the subsidiary, İş Faktoring A.Ş., which is owned by the Company with the ownership percentage of 78,23%.

(**) Presented under the non-performing receivables in the accompanying consolidated statement of financial position.

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7. FACTORING RECEIVABLES (Continued)

As at 31 December 2016, the average interest rates applicable for the factoring receivables are 13,67% for TL, 4,33% for USD, 4,27% for EUR and 5,94% for GBP (31 December 2015: 14,93% for TL, 4,58% for USD and 5,60% for EUR and 6,63% for GBP).

The details of the factoring receivables based on types of factoring transactions are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Domestic irrevocable	1.652.065	978.528
Foreign irrevocable	27.282	24.736
Domestic revocable	891.704	639.266
Foreign revocable	414.505	308.744
	<u>2.985.556</u>	<u>1.951.274</u>

Except for its non-performing receivables for which provision provided, the Group has TL 20.895 amount of overdue factoring receivables as at the reporting date (31 December 2015: TL 220). There is a balance of TL 205 in the restructured factoring receivables account, which would become overdue or doubtful had it not been restructured (31 December 2015: None). As a security for these receivables, the Group holds a contractual guarantee.

The Group's collaterals for factoring receivables are as follows (if the amount of collaterals exceeds the amount of receivables during the calculation of collaterals, only the corresponding portion of the receivable is included in the below table):

<u>Collateral type</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Cheques	533.007	505.195
Mortgages	8.809	2.919
Letters of guarantee	5.282	3.301
	<u>547.098</u>	<u>511.415</u>

Except for its collaterals, the Group has TL 2.438.458 amount of leasing contract sureties as at the reporting date (31 December 2015: TL 1.439.860).

The aging of non-performing factoring receivables is as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Up to 90 days	535	3.047
Between 90 – 180 days	326	1.050
Between 180 – 360 days	1.687	5.058
Over 360 days	36.840	27.485
	<u>39.388</u>	<u>36.640</u>

The Group has contractual sureties as collateral for the above non-performing factoring receivables.

The movement of provision for non-performing factoring receivables is as follows:

	<u>1 January- 31 December 2016</u>	<u>1 January- 31 December 2015</u>
Provision at the beginning of the period	(31.143)	(24.348)
Provision set during the period	(9.058)	(6.971)
Collections	1.654	176
Provision at the end of the period	<u>(38.547)</u>	<u>(31.143)</u>

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8. LEASE RECEIVABLES

A. Financial Lease Receivables

As at 31 December 2016 and 31 December 2015, details of finance lease receivables are as follows:

<u>31 December 2016</u>	<u>Short Term</u>	<u>Long Term</u>	<u>Total</u>
Invoiced finance lease receivables	51.894	-	51.894
Finance lease income accruals	20.839	-	20.839
Non-performing finance lease receivables (*)	165.958	25.478	191.436
Uninvoiced finance lease receivables	1.612.944	2.575.188	4.188.132
Less: Unearned interest income	(249.994)	(288.394)	(538.388)
Leasing contracts in progress (**)	-	96.439	96.439
Advances given for lease transactions	-	102.232	102.232
Specific provisions (*)	(96.820)	(14.864)	(111.684)
Net finance lease receivables	1.504.821	2.496.079	4.000.900

<u>31 December 2015</u>	<u>Short Term</u>	<u>Long Term</u>	<u>Total</u>
Invoiced finance lease receivables	36.195	-	36.195
Finance lease income accruals	13.921	-	13.921
Non-performing finance lease receivables (*)	144.565	1.917	146.482
Uninvoiced finance lease receivables	1.272.992	2.343.545	3.616.537
Less: Unearned interest income	(218.824)	(267.682)	(486.506)
Leasing contracts in progress (**)	-	37.518	37.518
Advances given for lease transactions	-	31.561	31.561
Specific provisions (*)	(107.186)	(1.421)	(108.607)
Net finance lease receivables	1.141.663	2.145.438	3.287.101

(*) Presented as non-performing receivables in the accompanying consolidated statement of financial position.

(**) The Group purchases machinery and equipment from domestic and foreign suppliers on behalf of the lessees on the basis of the leasing contract terms. As at 31 December 2016 and 31 December 2015, leasing contracts in progress balance includes the total amount paid for these machinery and equipment but not charged to the lessees yet.

As at 31 December 2016, analysis of finance lease receivables according to their maturities is as follows:

	<u>2017 (**)</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022 and after</u>	<u>Total</u>
Finance lease receivables (gross) (*)	1.765.429	1.168.087	743.990	351.657	168.953	142.501	4.340.617
Unearned interest	(249.994)	(152.819)	(76.360)	(32.807)	(14.247)	(12.161)	(538.388)
Finance lease receivables (net)	1.515.435	1.015.268	667.630	318.850	154.706	130.340	3.802.229

(*) Leasing contracts in progress and advances given balances are not included in the maturity analysis as they have not been scheduled to payment plans yet.

(**) Non-performing finance lease receivables amounting to TL 79.752 are presented in 2017 column since their collection dates are not certain.

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8. LEASE RECEIVABLES (Continued)

As at 31 December 2015, analysis of finance lease receivables according to their maturities is as follows:

	2015 (**)	2016	2017	2018	2019	2020 and after	Total
Finance lease receivables (gross)(*)	1.360.983	994.498	681.045	388.303	145.375	134.324	3.704.528
Unearned interest	(218.823)	(136.227)	(71.721)	(32.042)	(13.278)	(14.415)	(486.506)
Finance lease receivables (net)	1.142.160	858.271	609.324	356.261	132.097	119.909	3.218.022

(*) Leasing contracts in progress and advances given balances are not included in the maturity analysis as they have not been scheduled by the payment plans yet.

(**) Non-performing finance lease receivables amounting to TL 37.875 are presented in 2015 column since their collection dates are not certain.

As at 31 December 2016, the average compound interest rates applicable for the finance lease receivables are 14,42% for TL, 5,88% for USD, and 5,64% for EUR (31 December 2015: 14,06% for TL, 5,82% for USD, and 6,01% for EUR).

As at 31 December 2016, details of finance lease receivables in terms of currency types are as follows:

Currency	Principal in foreign currency	Principal (*) (Net)	Unearned interest in foreign currency	Unearned interest
USD	257.515.810	906.250	22.276.337	78.120
EUR	396.878.165	1.472.378	45.120.754	167.393
CHF	2.750.638	9.477	274.766	947
TL	-	1.414.124	-	291.928
Total		3.802.229		538.388

(*) Leasing contracts in progress and advances given balances are not included in details of finance lease receivables in terms of currency types.

As at 31 December 2015, details of finance lease receivables in terms of currency types are as follows:

Currency	Principal in foreign currency	Principal (*) (Net)	Unearned interest in foreign currency	Unearned interest
USD	345.328.000	1.004.076	38.746.347	112.332
EUR	329.780.890	1.047.911	42.943.620	136.458
TL		1.166.035		237.716
Total		3.218.022		486.506

(*) Leasing contracts in progress and advances given balances are not included in details of finance lease receivables in terms of currency types.

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8. LEASE RECEIVABLES (Continued)

The collaterals obtained by the Group, except for the leased assets, for its all finance lease receivables, except for non-performing finance lease receivables are as follows (if the amount of collaterals exceeds the amount of receivables during the calculation of collaterals, only the corresponding portion of the receivable is included in the below table):

<u>Collateral type:</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Mortgages	163.184	182.734
Pledged equity	44.680	44.646
Pledged commercial	37.803	21.326
Letters of guarantee	16.987	20.538
Cash blockages	3.331	8.833
Equity security	2.950	2.450
Pledged account	909	762
Guarantors	445	583
	<u>270.289</u>	<u>281.872</u>

In addition to collaterals above, the Group also has sureties amounting to TL 3.355.111, pledged vehicles amounting to TL 46.238, pledged machines amounting to TL 30.000. (31 December 2015: sureties amounting to TL 2.812.903, pledged vehicles amounting to TL 41.405, pledged machines amounting to TL 30.046).

As at the end of the reporting date, the Group did not recognize provision for invoiced finance lease receivables overdue less than 150 days classified under the finance lease receivables amounting to TL 51.894 (31 December 2015: TL 36.194) since the Group management assessed that there is no deterioration in the collection capacity and therefore these receivables are recoverable. The aging analysis of such receivables is as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Up to 30 days	40.003	12.994
Between 30 – 60 days	5.717	4.760
Between 60 – 90 days	3.115	17.342
Between 90 – 150 days	3.059	1.098
Total overdue	<u>51.894</u>	<u>36.194</u>
Not due amount	<u>286.823</u>	<u>210.022</u>
	<u>338.717</u>	<u>246.216</u>

Details of the collaterals obtained by Group for overdue lease receivables mentioned above are as follows:

<u>Collateral type</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Mortgages	58.969	25.214
Pledged shares	26.780	27.508
Letters of guarantee	1.690	1.787
Pledged account	909	762
Guarantor	101	-
Cash blockages	1	50
	<u>88.450</u>	<u>55.321</u>

In addition to above guarantees, the Group also has sureties amounting to TL 246.541, pledged vehicles amounting to TL 3.728. (31 December 2015: sureties amounting to TL 183.137, pledged vehicles amounting to TL 7.712 and pledged machines amounting to TL 46).

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8. LEASE RECEIVABLES (Continued)

In determining the recoverability of the finance lease receivables, the Group considers any change in the credit quality of receivables from the date that receivable was initially recognized to the reporting date. The Group does not have significant credit risk concentration. The sectoral distribution of the finance lease receivables are given in Note 40.

Starting from 24 December 2013, the Group measures and recognizes losses incurred or to be incurred from its receivables in accordance with the requirements of the “Communiqué on Procedures and Principles for the Provisions to be set aside by Financial Leasing, Factoring and Financing Companies for their Receivables” issued by BRSA.

As at 31 December 2016 and 31 December 2015, the aging of non-performing finance lease receivables is as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Between 150 – 240 days	5.091	3.831
Between 240 – 360 days	8.499	2.706
Over 360 days	48.090	48.696
Uninvoiced non-performing finance lease receivables	130.224	91.926
Unearned interest of non-performing finance lease receivables	(468)	(677)
	<u>191.436</u>	<u>146.482</u>

Collaterals obtained for non-performing finance lease receivables as at 31 December 2016 and 31 December 2015 are as follows:

<u>Guarantee type:</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Mortgages	9.687	4.557
	<u>9.687</u>	<u>4.557</u>

In addition to the above collaterals, the Group also has sureties amounting to TL 123.552, leased equipments amounting to TL 57.077 and pledged vehicles amounting to TL 1.120 (31 December 2015: sureties amounting to TL 114.569, pledged vehicles amounting to TL 783, pledged machines amounting to TL 5, leased equipments amounting to TL 26.568).

The movement of provision for non-performing finance lease receivables is as follows:

<u>Movement of specific provisions:</u>	<u>1 January- 31 December 2016</u>	<u>1 January- 31 December 2015</u>
Provision at the beginning of the period	(108.607)	(80.142)
Provision set during the period	(13.593)	(41.034)
Write off (*)	-	9.870
Collections	10.516	2.699
Provision at the end of the period	<u>(111.684)</u>	<u>(108.607)</u>

(*) Consists of the non-performing finance lease receivables written off through sales to Efes Varlık Yönetimi A.Ş. in 2015.

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8. LEASE RECEIVABLES (Continued)

B. Operating Lease Receivables

	<u>31 December 2016</u>	<u>31 December 2015</u>
Operating Lease Receivables (Note 8)	5	-
	<u>5</u>	<u>-</u>

As at 31 December 2016 and 31 December 2015 analysis of operating lease receivables according to their maturities is as follows :

	<u>31 December 2016</u>	<u>31 December 2015</u>
2017 Year	247	-
2018 Year	247	-
2019 Year	242	-
	<u>736</u>	<u>-</u>

9. RELATED PARTIES

As at 31 December 2016 and 31 December 2015, details of related party balances are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
<u>Finance lease receivables from related parties</u>		
Bayek Tedavi Sağlık Hizmetleri ve İşletmeciliği A.Ş.	25.328	26.819
KKB Kredi Kayıt Bürosu A.Ş.	21.971	6.834
İş Gayrimenkul Yatırım Ortaklığı A.Ş.	11.659	21.580
Tukaş Gıda San. ve Tic. A.Ş.	6.650	32.026
Bankalararası Kart Merkezi A.Ş.	899	457
Kanyon Yönetim İşletim ve Pazarlama A.Ş.	702	919
Numnum Yiyecek ve İçecek A.Ş.	699	923
Radore Veri Merkezleri Hizm. A.Ş.	201	723
Toksöz Spor Malzemeleri Ticaret A.Ş.	84	-
Ortopro Tıbbi Aletler San.ve Tic. A.Ş.	-	230
Total	<u>68.193</u>	<u>90.511</u>
<u>Operating Lease Receivables From Related Parties</u>		
Türkiye Sınai Kalkınma Bankası A.Ş.	5	-
TSKB Gayrimenkul Değerleme	-	-
	<u>5</u>	<u>-</u>
<u>Factoring receivables from related parties</u>		
Bayek Tedavi Sağlık Hizmetleri ve İşletmeciliği A.Ş.	19.900	29.600
Ortopro Tıbbi Aletler San ve Tic. A.Ş.	13.606	10.135
Nevotek Inc.	-	-
Nevotek Bilişim Ses Ve İletişim Sist. San. Ve Tic. A.Ş.	-	1.112
Total	<u>33.506</u>	<u>40.847</u>

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9. RELATED PARTIES (Continued)

	<u>31 December 2016</u>	<u>31 December 2015</u>
<u>Payables to related parties</u>		
Anadolu Anonim Türk Sigorta Şirketi (Insurance Premium)	16.263	14.204
İş Merkezleri Yönetim ve İşletim A.Ş.	98	82
KKB Kredi Kayıt Bürosu A.Ş.	4	3
İş Net Elekt. Bilgi Ür. Dağ.Tic.ve İlet. Hiz. A.Ş	3	3
Türkiye İş Bankası A.Ş.	-	184
Total	<u>16.368</u>	<u>14.476</u>
<u>Deposits placed to related parties</u>		
Türkiye İş Bankası A.Ş. (Time Deposits)	328.246	177.987
Türkiye İş Bankası A.Ş. (Demand Deposits)	22.540	14.658
Türkiye Sınai Kalkınma Bankası A.Ş. (Demand Deposits)	9	7
İş AG (Demand Deposits)	-	541
Total	<u>350.795</u>	<u>193.193</u>
<u>Derivative financial liabilities held for trading from related parties</u>		
Türkiye İş Bankası A.Ş.	13.336	5.213
Türkiye Sınai Kalkınma Bankası A.Ş.	5.294	188
Total	<u>18.630</u>	<u>5.401</u>
<u>Derivative financial assets held for trading from related parties</u>		
Türkiye İş Bankası A.Ş.	278	777
Total	<u>278</u>	<u>777</u>

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9. RELATED PARTIES (Continued)

As at 31 December 2016 and 31 December 2015, details of borrowings from related parties are as follows:

Borrowings from related parties

Türkiye İş Bankası A.Ş.

<u>Currency</u>	<u>Interest Rate %</u>	<u>Maturity</u>	<u>31 December 2016</u>
TL	12,68%	15.06.2018	4.500
USD			-
EUR			-
			4.500

<u>Currency</u>	<u>Interest Rate %</u>	<u>Maturity</u>	<u>31 December 2015</u>
TL	11,74%-15,04%	11.03.2016-15.06.2018	219.679
USD	3,02%-4,14%	22.07.2016-30.09.2016	100.141
EUR	4,01%	26.12.2016	31.786
			351.606

Türkiye Sınai Kalkınma Bankası A.Ş.

<u>Currency</u>	<u>Interest Rate %</u>	<u>Maturity</u>	<u>31 December 2016</u>
TL	11,07%	02.01.2017	100.028
USD	2,35%-3,88%	15.06.2017-15.09.2018	30.532
EUR	0,90%-2,50%	15.06.2017-30.06.2022	165.530
			296.090

<u>Currency</u>	<u>Interest Rate %</u>	<u>Maturity</u>	<u>31 December 2016</u>
TL	12,70%-13,15%	05.01.2016-14.01.2016	144.169
USD	1,79%-3,29%	01.08.2016-17.06.2017	115.154
EUR	1,29%-2,53%	15.03.2017-30.06.2022	81.979
			341.302

İş Bank AG

<u>Currency</u>	<u>Interest Rate %</u>	<u>Maturity</u>	<u>31 December 2016</u>
EUR	1,80%	Overdraft	6.337
			6.337

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9. RELATED PARTIES (Continued)

For the years ended 31 December 2016 and 30 December 2015, finance income and expenses from related parties are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
<u>Finance lease interest income from related parties</u>		
TuKaş Gıda San. ve Tic. A.Ş.	3.386	3.197
İş Gayrimenkul Yatırım Ortaklığı A.Ş.	2.140	2.043
Bayek Tedavi Sağlık Hizmetleri ve İşletmeciliği A.Ş.	1.598	1.651
KKB Kredi Kayıt Bürosu	405	-
Bankalararası Kart Merkezi A.Ş.	150	81
Numnum Yiyecek ve İçecek A.Ş.	121	148
Kanyon Yönetim İşletim ve Pazarlama Ltd. Şti.	45	58
Radore Veri Merkezleri Hizm. A.Ş.	28	61
Toksöz Spor Malzemeleri Tic. A.Ş.	11	-
Ortopro Tıbbi Aletler San. ve Tic. A.Ş.	10	71
Anadolu Cam Sanayii A.Ş.	-	3
Total	<u>7.894</u>	<u>7.313</u>
<u>Operating Lease Receivables from related parties</u>		
Türkiye Sınai Kalkınma Bankası A.Ş.	67	-
TSKB Gayrimenkul Değerleme	10	-
TSKB Sürdürülebilirlik Danışmanlık A.Ş.	1	-
Total	<u>78</u>	<u>-</u>
<u>Interest income from related parties</u>		
Türkiye İş Bankası A.Ş.	3.266	737
Total	<u>3.266</u>	<u>737</u>
<u>Dividend income from related parties</u>		
İş Yatırım Menkul Değerler A.Ş.	1.751	3.405
Efes Varlık Yönetim A.Ş.	760	200
İş Net Elektr. Bilgi Ür. Dağ. Tic.ve İlet. Hiz. A.Ş.	100	105
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	90
Total	<u>2.611</u>	<u>3.800</u>
<u>Finance expense</u>		
Türkiye İş Bankası A.Ş.	26.356	52.696
Türkiye Sınai Kalkınma Bankası A.Ş.	11.034	5.264
İş Yatırım Menkul Değerler A.Ş.	3.374	1.490
İşbank AG	47	236
İşbank GmbH Frankfurt	13	-
Total	<u>40.824</u>	<u>59.686</u>
<u>Rent expense</u>		
Türkiye İş Bankası A.Ş.	4.305	3.617
Total	<u>4.305</u>	<u>3.617</u>

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9. RELATED PARTIES (Continued)

	31 December 2016	31 December 2015
<u>Commission income</u>		
Anadolu Anonim Türk Sigorta Şirketi	4.157	3.899
Total	4.157	3.899
<u>Factoring commission income</u>		
Şişe Cam Dış Tic. A.Ş.	128	79
Ortopro Tıbbi Aletler San. ve Tic. A.Ş.	88	75
Total	216	154
<u>Factoring interest income from related parties</u>		
Bayek Tedavi Sağlık Hizmetleri ve İşletmeciliği A.Ş.	3.226	2.296
Ortopro Tıbbi Aletler San. ve Tic. A.Ş.	800	914
Nevotek Inc.	52	-
Nevotek Bil. Ses ve İlet. Sist. San.ve Tic. A.Ş.	35	10
Kültür Yayınları İş Türk A.Ş.	-	-
Total	4.113	3.220
<u>Mutual fund income</u>		
Türkiye İş Bankası A.Ş.	472	150
Total	472	150

As at 31 December 2016 and 31 December 2015, nominal values of derivative transactions with Türkiye İş Bankası A.Ş. are as follows:

	31 December 2016		31 December 2015	
	Purchase	Sale	Purchase	Sale
Forward Transactions	-	-	5.815	5.829
Swap Transactions	269.304	252.284	160.865	153.902
Total	269.304	252.284	166.680	159.731

As at 31 December 2016 and 31 December 2015, nominal values of derivative transactions with Türkiye Sınai Kalkınma Bankası A.Ş. are as follows:

	31 December 2016		31 December 2015	
	Purchase	Sale	Purchase	Sale
Swap Transactions	208.525	211.152	48.874	48.848
Total	208.525	211.152	48.874	48.848

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9. RELATED PARTIES (Continued)

As at 31 December 2016 and 31 December 2015, the amount of the Company's issued debt securities in related parties' securities portfolio are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
İş Yatırım Ortaklığı A.Ş.	8.928	11.618
Anadolu Anonim Türk Sigorta Şirketi	5.084	10.756
İş Yatırım Menkul Değerler A.Ş.	4.444	637
Türkiye İş Bankası A.Ş.	2.108	-
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	15.669
Millî Reasürans T.A.Ş.	-	3.135
İş Portföy Yönetimi A.Ş.	-	2.256
Türkiye Sınai Kalkınma Bankası A.Ş.	-	5.131
Total	<u>20.564</u>	<u>49.202</u>

Remuneration of key management (*)

For the period ended 31 December 2016 and 31 December 2015, the remuneration of the key management during year comprised the following:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Salaries and other short-term benefits (**)	6.392	5.360
	<u>6.392</u>	<u>5.360</u>

(*) Key management consists of members of the board of directors, general manager and assistant general managers.

(**) Consists of monetary benefits such as; salaries, bonuses and premiums along with vehicle rentals and other associated expenses.

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10. TANGIBLE ASSETS

For the years ended 31 December 2016 and 31 December 2015, movements in tangible assets are as follows:

	Furniture and Fixtures	Operating Lease Assets	Other Tangible Assets	Real Estate	Leasehold Improvements	Total
Cost						
Opening balance at 1 January 2016	4.333	-	1.867	15.130	3.604	24.934
Additions	665	627	-	4.500	21	5.813
Disposals	(262)	-	(388)	(4.500)	-	(5.150)
Closing balance at 31 December 2016	4.736	627	1.479	15.130	3.625	25.597
Accumulated depreciation						
Opening balance at 1 January 2016	(2.969)	-	(1.867)	(123)	(2.840)	(7.799)
Depreciation for the period	(439)	(62)	-	(41)	(308)	(850)
Disposals	93	-	388	-	-	481
Closing balance at 31 December 2016	(3.315)	(62)	(1.479)	(164)	(3.148)	(8.168)
Carrying amounts at 31 December 2016	1.421	565	-	14.966	477	17.429
Carrying amounts at 1 January 2016	1.364	-	-	15.007	764	17.135
Cost						
Opening balance at 1 January 2015	3.725	-	1.867	15.732	3.546	24.870
Additions	676	-	-	-	58	734
Disposals	(68)	-	-	-	-	(68)
Impairment provision on tangible assets	-	-	-	(602)	-	(602)
Closing balance at 31 December 2015	4.333	-	1.867	15.130	3.604	24.934
Accumulated depreciation						
Opening balance at 1 January 2015	(2.558)	-	(1.867)	(52)	(2.538)	(7.015)
Depreciation for the period	(474)	-	-	(71)	(302)	(847)
Disposals	63	-	-	-	-	63
Closing balance at 31 December 2015	(2.969)	-	(1.867)	(123)	(2.840)	(7.799)
Carrying amounts at 31 December 2015	1.364	-	-	15.007	764	17.135
Carrying amounts at 1 January 2015	1.167	-	-	15.680	1.008	17.855

As at 31 December 2016 and 31 December 2015, there is no restriction and mortgage on the tangible assets of the Group.

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11. INTANGIBLE ASSETS

For the years ended 31 December 2016 and 31 December 2015, movements in intangible assets are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
<u>Cost</u>		
Opening balance at 1 January	3.696	2.544
Additions	1.346	1.152
Disposals	-	-
Closing balance at the end of the period	<u>5.042</u>	<u>3.696</u>
<u>Amortization</u>		
Opening balance at 1 January	(2.110)	(1.687)
Amortization for the period	(508)	(423)
Disposals	-	-
Closing balance at the end of the period	<u>(2.618)</u>	<u>(2.110)</u>
Carrying amounts	<u>2.424</u>	<u>1.586</u>

(*) The Group's intangible assets consist of software.

12. GOODWILL

The Company has purchased nominal shares of İş Faktoring A.Ş. amounting to TL 12.517 in consideration of USD 10.952.375 on 11 August 2004. The ownership rate of the Company in this subsidiary is 78,23%. Goodwill has arisen amounting to TL 166 on purchased equity of TL 16.603. As at 31 December 2016, net amount of goodwill is TL 166 (31 December 2015: TL 166). Based on TFRS 3, for the annual periods beginning on or after 30 June 2004 the Group has ceased amortization of goodwill arising from the acquisitions before 31 December 2004.

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13. DEFERRED TAX ASSETS AND LIABILITIES

As at 31 December 2016 and 31 December 2015, details of deferred tax assets and deferred tax liabilities based on the temporary differences calculated by the prevailing tax rate are as follows:

<u>Temporary differences subject to deferred tax</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Allowance for doubtful finance lease receivables	102.022	102.200
Valuation differences on financial instruments	63.266	62.752
Investment incentive – with withholding tax	33.364	132.895
Unearned factoring income	11.228	10.876
Reserve for employee benefits	3.573	2.711
Provision for lawsuit	3.169	429
Employee bonus accrual	2.713	2.270
Prepaid expenses	1.535	1.123
Unused vacation	1.128	1.012
BRSA share	215	215
Expense accruals	-	-
Tax base differences in tangible and intangible assets	(1.855)	(978)
Finance lease adjustment	(5.441)	(3.018)
Finance lease income accruals	(21.036)	(13.946)
Other	114	115
	<u>193.995</u>	<u>298.656</u>
<u>Deferred tax assets/(liabilities)</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Allowance for doubtful finance lease receivables	20.404	20.440
Valuation differences on financial instruments	12.653	12.550
Investment incentive – with withholding tax	67	266
Unearned factoring income	2.246	2.175
Reserve for employee benefits	715	542
Provision for lawsuit	634	86
Employee bonus accrual	543	454
Prepaid expenses	307	225
Unused vacation	226	202
BRSA share	43	43
Tax base differences in tangible and intangible assets	(371)	(196)
Finance lease adjustment	(1.088)	(604)
Finance lease income accruals	(4.208)	(2.789)
Other	22	24
Deferred tax asset	<u>32.193</u>	<u>33.418</u>

Tax rate used in computation of deferred tax assets and liabilities is 0.2% for “Investment incentives with withholding tax” and 20% for the other items (31 December 2015: 0.2% and 20%).

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13. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Investment Incentive:

The statement "limited to 2006, 2007 and 2008 only" in the 69th Article of the Income Tax Law No. 193, which was cancelled by the Constitutional Court decision No. 2009/144 and published in the Official Gazette on 8 January 2010, was re-regulated by the Law No. 6009 Article 5, published in the Official Gazette No. 27659, dated 1 August 2010. This new legislation enabled without any year limitation the continued utilization of investment allowances, which are carried forward due to insufficient current year earnings. However, the amount of investment allowance to be utilised may not exceed 25% of earnings for the year. With this change, corporation tax rate adopted for corporations benefiting from investment allowance is determined at the current rate (20%) instead of the previous rate of 30%. The clause "The amount which to be deducted as investment incentive to estimate tax base cannot exceed 25% of related income" which has been added to first clause of the temporary 69th article of Law No:193 with the 5th article of Law No:6009 on Amendments to Income Tax Law and Some Other Laws and Decree Laws has been abrogated with the decision of the Constitutional Court dated 9 February 2012 no. 2012/9. Subsequent to the decision of the Court, necessary amendments has been made by Revenue Administration Department for the tax payers to utilize investment incentives in their 2011 tax declarations without taking 25% limit into account. The Group may utilise TL 33.364 (31 December 2015: TL 132.895) of its unused investment allowances as offset against its future profits. The Group has TL 67 (31 December 2015: TL 266) of deferred tax assets comprising of unused investment allowances, which may be offset against future profits. Partial or whole recoverable amounts of deferred tax assets are estimated based on the current conditions.

Movements in deferred tax assets are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Opening balance at 1 January	33.418	36.002
Deferred tax expense	(1.276)	(2.601)
Recognized in other comprehensive income	51	17
Closing balance	<u>32.193</u>	<u>33.418</u>

14. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

As at 31 December 2016 and 31 December 2015, details of assets held for sale and discontinued operations are as follows:

	<u>31 December 2016</u>		<u>31 December 2015</u>	
	TL	FC	TL	FC
Assets held for sale ^(*)	899	-	2.057	-
	<u>899</u>	<u>-</u>	<u>2.057</u>	<u>-</u>

(*) Consist of properties acquired as a result of the legal proceedings in relation to its non-performing receivables.

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15. OTHER RECEIVABLES, OTHER ASSETS AND PREPAID EXPENSES

As at 31 December 2016 and 31 December 2015, details of other receivables are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Insurance receivables	2.966	2.861	2.459	2.232
Others	1.682	23	844	65
	4.648	2.884	3.303	2.297

As at 31 December 2016 and 31 December 2015, prepaid expenses are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Commissions expense on debt securities issued and funds borrowed	19.030	-	20.322	-
Others	2.206	-	1.133	-
	21.236	-	21.455	-

As at 31 December 2016 and 31 December 2015, details of other assets are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Amounts to be invoiced	682	-	676	-
Advanced given	33	-	41	1
Deposits given	21	29	19	24
Others	1.331	145	1.167	68
	2.067	174	1.903	93

16. FUNDS BORROWED

As at 31 December 2016 and 31 December 2015, details of funds borrowed are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Short-term borrowings	2.629.149	887.135	1.660.153	1.038.835
Short-term portion of long-term borrowings	12.090	209.393	24.950	130.849
Total short-term borrowings	2.641.239	1.096.528	1.685.103	1.169.684
Long-term borrowings	134.442	1.289.477	66.951	797.720
Total long-term borrowings	134.442	1.289.477	66.951	797.720
Total borrowings	2.775.681	2.386.005	1.752.054	1.967.404

As at 31 December 2016 and 31 December 2015, borrowings has no collateral.

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16. FUNDS BORROWED (Continued)

As at 31 December 2016 and 31 December 2015, maturity analysis of borrowings is as follows:

<u>Maturity analysis of borrowings</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Within 1 year	3.737.767	2.854.787
Within 1-2 years	811.860	281.289
Within 2-3 years	351.257	274.498
Within 3-4 years	136.638	168.905
Within 4-5 years	59.287	51.857
5 years and over	64.877	88.122
TOTAL	5.161.686	3.719.458

As at 31 December 2016 and 31 December 2015, details of short term borrowings based on types of currency are as follows:

<u>Currency (*)</u>	<u>Interest rate %</u>	<u>Original Currency Amount</u>	<u>31 December 2016</u>
TL	9,50% - 17,5%	2.604.300.000	2.604.300
USD	1,90% - 3,88%	104.929.673	369.269
Euro	0,75 - 4,04%	135.054.056	501.037
GBP	4,50%	1.253.255	5.413
AUD	5,00%	371.688	943
Interest accruals			35.322
			3.516.284

<u>Currency (*)</u>	<u>Interest rate %</u>	<u>Original Currency Amount</u>	<u>31 December 2015</u>
TL	11,48% - 16,25%	-	1.605.077
USD	1,20% - 4,14%	243.460.232	707.885
Euro	1,45% - 4,01%	99.035.433	314.695
GBP	4,50%	189.548	815
Interest accruals			70.516
TOTAL			2.698.988

(*) Foreign currency indexed borrowings have been presented in TL column in the accompanying consolidated statement of financial position.

As at 31 December 2016 and 31 December 2015, details of long-term borrowings and short-term portion of long-term borrowings based on types of currency are as follows:

<u>Currency</u>	<u>Interest rate %</u>	<u>Original Currency Amount</u>	<u>31 December 2016</u>
TL	13,38%-13,69%	84.475.000	84.475
USD	1,51% - 4,28%	134.556.320	473.531
Euro	0,90% - 3,85%	293.106.574	1.087.396
TOTAL			1.645.402

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16. FUNDS BORROWED (Continued)

Currency	Interest rate %	Original Currency Amount	31 December 2015
TL	15,04%	-	7.459
USD	1,51% - 4,26%	63.323.808	184.120
Euro	0,90% - 4,08%	260.854.351	828.891
TOTAL			1.020.470

As at 31 December 2016 and 31 December 2015, compounded interest rates have been presented.

As 31 December 2016 and 31 December 2015, details of borrowings based on types of interest rate are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Fixed rate	2.697.920	1.164.337	1.660.042	948.509
Variable rate	77.761	1.221.668	92.012	1.018.895
	2.775.681	2.386.005	1.752.054	1.967.404

Fair values of the funds borrowed are presented in Note 40.

As at 31 December 2016, the Group has available TL 7.870.915 of unused credit lines (31 December 2015: TL 5.171.569).

17. MISCELLANEOUS PAYABLES AND OTHER LIABILITIES

As at 31 December 2016 and 31 December 2015, details of miscellaneous payables are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Payables to suppliers for lease transactions	20.077	41.074	1.935	32.117
Other payables (*)	8.383	11.191	7.601	8.129
	28.460	52.265	9.536	40.246

(*) The Group insures the equipments that are subject to the leasing transactions and pays for the relevant costs in instalments. Other payables consist of the Group's insurance premium payables and payables to suppliers resulting from intercorporate daily operations of the Group.

The Group purchases generally in cash from the suppliers. The Group has a financial risk management policy that enables the Group to pay all its payables at their maturities.

As at 31 December 2016 and 31 December 2015, details of other liabilities are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Advances received (*)	13.104	46.005	8.521	24.395
Others	5.516	661	2.637	1.201
	18.620	46.666	11.158	25.596

(*) Advances received consist of advances received from lessees in accordance with the leasing agreements for machinery and equipments that are not readily in use of the customers.

18. FINANCE LEASE OBLIGATIONS

None.

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19. DEBT SECURITIES ISSUED

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Bills bonds	1.075.685	-	668.192	-
Bonds issued	120.000	-	250.000	-
Interest accruals	36.851	-	23.009	-
	1.232.536	-	941.201	-

Bond issued by İş Finansal Kiralama A.Ş. having nominal value of TL 120.000 was registered in accordance with the decision of the Capital Markets Board of Turkey (numbered 12/391 dated 14 April 2016). Issuance of bond was held on 29 April 2016. The floating rate quarterly coupon bond have a maturity of 1 November 2017 and the third coupon annual compound interest rate of 2,77% (1st coupon interest rate is 2,77%, 2nd coupon interest rate is 2,77%).

Date of first coupon payment (*)	3 August 2016
Date of second coupon payment (*)	2 November 2016
Date of third coupon payment	1 February 2017
Date of fourth coupon payment	3 May 2017
Date of fifth coupon payment	2 August 2017
Date of sixth coupon payment	1 November 2017

(*) The first coupon payment of the bonds was held on 3 August 2016, second coupon payment of the bonds was held on 2 November 2016.

Bond issued by İş Finansal Kiralama A.Ş. having nominal value of TL 328.016 was registered in accordance with the decision of the Capital Markets Board of Turkey (numbered 12/391 dated 14 April 2016). Issuance of bond was held on 12 July 2016. Ordinary interest of bond was determined 10,85%.

Bond issued by İş Finansal Kiralama A.Ş. having nominal value of TL 150.000 was registered in accordance with the decision of the Capital Markets Board of Turkey (numbered 12/391 dated 14 April 2016). Issuance of bond was held on 22 August 2016. Ordinary interest of bond was determined 10,80%

Bond issued by İş Finansal Kiralama A.Ş. having nominal value of TL 250.000 was registered in accordance with the decision of the Capital Markets Board of Turkey (numbered 12/391 dated 14 April 2016). Issuance of bond was held on 30 September 2016. Ordinary interest of bond was determined 10,40%

Bond issued by İş Finansal Kiralama A.Ş. having nominal value of TL 120.391 was registered in accordance with the decision of the Capital Markets Board of Turkey (numbered 12/391 dated 14 April 2016). Issuance of bond was held on 1 November 2016. Ordinary interest of bond was determined 10,09%

Bond issued by İş Finansal Kiralama A.Ş. having nominal value of TL 96.574 was registered in accordance with the decision of the Capital Markets Board of Turkey (numbered 12/391 dated 14 April 2016). Issuance of bond was held on 13 December 2016. Ordinary interest of bond was determined 10,70%

Bond issued by İş Faktoring A.Ş. having nominal value of TL 186.204 was registered in accordance with the decision of the Capital Markets Board of Turkey (numbered 18/602 dated 01 June 2016). Issuance of bond was held on 27 September 2016. Ordinary interest of bond was determined 10,30%.

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20. TAXES AND DUTIES PAYABLE

As at 31 December 2016 and 31 December 2015, details of taxes and duties payable are as follows:

	31 December 2016		31 December 2015	
	TL	FC	TL	FC
Banking and Insurance Transaction Tax	2.377	-	1.096	-
Income Tax	516	-	441	-
Social Security Premium	640	-	409	-
Value Added Tax	2.915	-	892	-
Other Tax and Liabilities	98	-	23	-
	6.546	-	2.861	-

21. PROVISIONS

As at 31 December 2016 and 31 December 2015, other provisions are as follows:

	31 December 2016	31 December 2015
General provision for financial lease receivables	-	2.752
Provision for lawsuits	3.170	429
Provision for general administrative expenses	215	214
	3.385	3.395

Movements in provisions for the years ended 31 December 2016 and 31 December 2015 are as follows:

	General provision for financial lease receivables	Provision for lawsuits	Provision for administrative expenses
31 December 2016			
At the beginning of the year	2.752	429	214
Additions	-	2.741	215
Payments	-	-	(214)
Cancellations	(2.752)	-	-
At the end of the period	-	3.170	215
31 December 2015			
At the beginning of the year	(2.275)	(510)	(233)
Additions	(477)	(20)	(656)
Payments	-	-	675
Cancellations	-	101	-
At the end of the period	(2.752)	(429)	(214)

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22. EMPLOYEE BENEFITS

As at 31 December 2016 and 31 December 2015, reserve for employee benefits are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Reserve for employee severance indemnity	3.573	2.711
Provision for employee bonus	2.713	2.270
Vacation pay liability	1.129	1.012
	<u>7.415</u>	<u>5.993</u>

Under the Turkish Labor Law, the companies are required to pay termination benefits to each employee who has qualified for such amount at the end of its employment contract. Also, employees who are entitled to retirement are required to be paid retirement pay in accordance with the requirements of Act no. 2422 dated 6 March 1981, Act no. 4447 dated 25 August 1999 and the amended Article 60 of the existing Social Insurance Code no. 506. Some transitional provisions related to the pre-retirement service term were excluded from the scope of the Law since the related law was amended on 23 May 2002.

TAS 19 – “Employee Benefits” requires actuarial valuation methods to be developed to estimate the enterprise’s obligation under defined benefit plans. As at 31 December 2016 and 31 December 2015, the following actuarial assumptions are used in the calculation of the total liability:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Discount rate	3,43%	3,51%
Inflation	7,80%	7,00%
Probability of retirement	100%	100%

For the years ended 31 December 2016 and 31 December 2015, movements in reserve for employee severance indemnity are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Balance at the beginning of the year	2.711	2.191
Cost of interest	293	216
Cost of services	387	318
Amounts paid	(120)	(122)
Cancellations	49	26
Actuarial loss	253	82
Balance at the end of the year	<u>3.573</u>	<u>2.711</u>

The movement of the vacation pay liability for the years ended 31 December 2016 and 31 December 2015 are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Balance at the beginning of the year	1.012	843
Increase	117	169
Balance at the end of the year	<u>1.129</u>	<u>1.012</u>

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22. EMPLOYEE BENEFITS (Continued)

The movement of the provision for employee bonus for the years ended 31 December 2016 and 31 December 2015 are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Balance at the beginning of the year	2.270	2.407
Increase	2.713	2.270
Reversals	-	(171)
Payment made during the year	(2.270)	(2.236)
Balance at the end of the year	<u>2.713</u>	<u>2.270</u>

23. CURRENT PERIOD TAX ASSET AND PAYABLE

As at 31 December 2016 and 31 December 2015, details of corporate tax provision and prepaid taxes are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Current period corporate tax provision (Note: 37)	12.611	6.364
Current period investment incentive provision	21.243	13.549
Corporation taxes paid in advance during the year	(5.483)	(5.407)
Corporate tax payable	<u>28.371</u>	<u>14.506</u>

For the years ended 31 December 2016 and 31 December 2015, movements of corporate tax payable are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Corporate tax payable at the beginning of the year	14.506	1.686
Total income tax expense (Note: 37)	33.854	19.913
Prior period correction of withholding tax on investment incentives	(634)	-
Corporate taxes paid during the year	(19.355)	(7.093)
Corporate tax payable	<u>28.371</u>	<u>14.506</u>

The current years tax asset as at 31 December 2016 and 31 December 2015 are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Income taxes withheld	567	18
Total	<u>567</u>	<u>18</u>

24. NON-CONTROLLING INTERESTS

The Company owns 78,23% of İş Faktoring A.Ş. As at 31 December 2016, the non-controlling interests amounting to TL 28.037 (31 December 2015: TL 21.717) have been calculated on the total equity of the subsidiary and the non-controlling interests amounting to TL 7.170 (31 December 2015: TL 5.261) have been calculated on the net profit of the subsidiary.

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24. NON-CONTROLLING INTERESTS (Continued)

The movements of non-controlling interests for the year ended 31 December 2016 and 31 December 2015 are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Balance at the beginning of the year	21.717	16.568
Fair value changes of marketable securities	239	(112)
Cash Dividend to non-controlling interests	(1.089)	-
Profit for the year	7.170	5.261
Balance at the end of the year	<u>28.037</u>	<u>21.717</u>

25. PAID-IN CAPITAL AND CAPITAL RESERVES

As at 31 December 2016 nominal capital of the Company is TL 600.303, the share capital of the Company consists of 60.030.264.500 shares Kurus 1 price.

As at 31 December 2016 and 31 December 2015, shareholders and their ownership percentages are as follows:

<u>Shareholders</u>	<u>(%)</u>	<u>31 December 2016</u>	<u>(%)</u>	<u>31 December 2015</u>
Türkiye Sınai Kalkınma Bankası A.Ş.	28,56	171.446	28,56	151.454
Türkiye İş Bankası A.Ş.	27,79	166.849	27,79	147.393
Camiş Yatırım Holding A.Ş.	0,83	5.004	0,83	4.421
Türkiye Şişe ve Cam Fab. A.Ş.	0,08	458	0,08	405
Nemtaş Nemrut Liman İşletmeleri A.Ş.	0,07	398	0,07	352
Publicly traded	42,67	256.148	42,67	226.278
TOTAL	<u>100,00</u>	<u>600.303</u>	<u>100,00</u>	<u>530.303</u>

Pursuant to General Assembly held on 25 March 2016, the Company increased its share capital, from its distributed bonus shares from 2015 year profit, amounting to TL 70.000 to TL 600.303. Capital increase has been registered on 20 June 2016. Cash dividends have been distributed, comprising of TL 2.000 from the profit of the year, and TL 18.000 from the extraordinary reserves of the Company.

Group A shareholders have the privilege of nominating board of directors members and audit committee members. As a result of this privilege, board of directors members and audit committee members are selected among the candidates nominated by Group A shareholders. Allocation of Group A shares among shareholders is as follows;

<u>Shareholders</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Türkiye İş Bankası A.Ş.	300.000.000	300.000.000
Türkiye Sınai Kalkınma Bankası A.Ş.	255.000.000	255.000.000
Türkiye Şişe ve Cam Fab. A.Ş.	22.500.000	22.500.000
Nemtaş Nemrut Liman İşletmeleri A.Ş.	22.500.000	22.500.000
Total	<u>600.000.000</u>	<u>600.000.000</u>

Any change in the articles of association of the Company is subject to the consent of Group A shareholders.

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25. PAID-IN CAPITAL AND CAPITAL RESERVES (Continued)

Capital Reserves

	<u>31 December 2016</u>	<u>31 December 2015</u>
Other Capital Reserves (*)	1.938	1.938
Accumulated Other Comprehensive Income/Expenditure Not Reclassified in Profit/Loss		
<i>Employee benefits re-measuring income/loss,</i>	15	217
Accumulated Other Comprehensive Income/Expenditure Reclassified in Profit/Loss		
<i>Net change in fair value of available-for-sale financial assets (**)</i>	3.766	1.746
Total	<u>3.781</u>	<u>1.963</u>

(*) Comprised of bonus shares obtained from associates, subsidiaries and jointly controlled entities

(**) Marketable securities revaluation reserve arises as a result of valuation of available for sale financial assets at their fair values. In case of disposing a financial asset valued at fair value, a portion of the revaluation reserve in connection with the disposed asset is immediately recognized in profit or loss. If the revalued financial asset is permanently impaired, a portion of the revaluation fund in connection with the impaired financial asset is also recognized in profit or loss.

26. PROFIT RESERVES

As at 31 December 2016 and 31 December 2015, details of profit reserves are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Legal reserves	33.296	28.133
Extraordinary reserves	59.191	72.351
Total	<u>92.487</u>	<u>100.484</u>

(*) As per the BRSA, income associated with deferred tax assets shall not be considered as cash or internally generated source and accordingly such amounts taking part of net period profit shall not be included in profit distribution and capital increase. The Group has deferred tax amounting to TL 33.575 classified in extraordinary tax income reserves which will not be distributed as at 31 December 2016 (31 December 2015: TL 36.152).

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions. Legal reserves, if less than 50% of the paid-in capital, can only be used to net-off the losses. TL 5.163 calculated on legal profit has been transferred to legal reserves by a decision of the Company's Board of Directors.

27. PRIOR YEARS' PROFIT/LOSS

The Group has no retained earnings as at 31 December 2016 (31 December 2015: None).

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28. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

As at 31 December 2016, TL 525.878 of letters of guarantee are given to customs, authorities and banks (31 December 2015: TL 12.076).

As at 31 December 2016, the total risk of litigations filed and currently pending against the Group amounting to approximately TL 6.294 (31 December 2015: TL 1.813). The Group has provided a provision amounting to TL 3.170 for litigations (31 December 2015: TL 429) in the accompanying consolidated financial statements (Note 21). The Group management does not anticipate any further provision for the remaining litigations.

As at 31 December 2016, the Group has letter of credit commitments of USD 907.314, EUR 18.356.134 and CHF 317.490 (TL 72.386) (31 December 2015: USD 1.840.000 and EUR 10.578.265 (TL 38.963)).

As at 31 December 2016, the Group has factoring commitments of TL 28.735 (31 December 2015: TL 14.131).

As at 31 December 2016, the Group has lease commitments of USD 9.444.623, EUR 52.022.205 TL 91.519.721 (TL 317.755) (31 December 2015 USD 3.178.803, EUR 21.134.882, TL 37.062.039 (TL 113.463)).

As at the reporting date, the Group does not have any guarantees, pledges or mortgages given for the purpose of guaranteeing any third party payables.

As at 31 December 2016 details of derivatives are as follows:

	31 December 2016	
	Amount as Original Currency	TL
Currency Swap Purchases:		
EUR	12.051.213	44.709
TL	1.067.139.465	1.067.139
		1.111.848
Currency Swap Sales:		
USD	214.180.000	753.742
EUR	100.680.217	373.514
GBP	2.727.450	9.397
		1.136.653

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28. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

As at 31 December 2015 details of derivatives are as follows:

	31 December 2015	
	Amount as Original Currency	TL
Currency Swap Purchases:		
USD	11.500.000	33.437
EUR	319.728	1.016
TL	640.080.129	640.080
		674.533
Currency Swap Sales:		
USD	166.609.524	484.434
EUR	64.170.795	203.909
GBP	235.256	1.012
TL	33.535.150	33.535
		722.890
	31 December 2015	
	Amount as Original Currency	TL
Forward Purchase Transactions:		
USD	2.000.000	5.815
		5.815
Forward Sales Transactions:		
TL	5.829.000	5.829
		5.829

Group’s derivative transactions performed with related parties are presented in Note 9.

The Group has TL 63.777 of unrealized loss and TL 511 of unrealized profit in relation to the fair value changes of swap transactions designated at through profit or loss at 31 December 2016 (Note 4) (31 December 2015: TL 68.471 loss and TL 5.719 income).

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28. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

As at 31 December 2016, analysis of derivatives according to their maturities is as follows:

	<u>Short Term</u>	<u>Long Term</u>	<u>Total</u>
Currency Swap Purchases	998.535	113.313	1.111.848
Currency Swap Sales	1.038.027	98.626	1.136.653
Forward Purchase Transactions	-	-	-
Forward Sales Transactions	-	-	-

As at 31 December 2015, analysis of derivatives according to their maturities is as follows:

	<u>Short Term</u>	<u>Long Term</u>	<u>Total</u>
Currency Swap Purchases	667.075	7.458	674.533
Currency Swap Sales	710.775	12.115	722.890
Forward Purchase Transactions	5.815	-	5.815
Forward Sales Transactions	5.829	-	5.829

29. SEGMENT REPORTING

Information regarding the Group's operating business segments is based on the Group's management and internal reporting structure.

Segment capital expenditure is the total cost incurred during the period to acquire tangible assets and intangible assets.

Business segments

The Group comprises the following main business segments:

- Leasing Includes the Group's finance lease activities
- Factoring operations Includes the Group's factoring activities

<u>31 December 2016</u>	<u>Leasing</u>	<u>Factoring</u>	<u>Consolidation Adjustments</u>	<u>Consolidated</u>
Total assets	4.508.327	3.025.425	(53.766)	7.479.986
Total liabilities	3.753.180	2.896.603	-	6.649.783
Net profit for the year	81.800	32.939	(11.082)	103.657
<u>31 December 2015</u>	<u>Leasing</u>	<u>Factoring</u>	<u>Consolidation Adjustments</u>	<u>Consolidated</u>
Total assets	3.655.849	1.978.755	(53.766)	5.580.838
Total liabilities	2.963.506	1.878.924	-	4.842.430
Net profit for the year	81.481	24.167	(23.645)	82.003

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29. SEGMENT REPORTING (Continued)

	<u>Leasing</u>	<u>Factoring</u>	<u>Consolidation Adjustments</u>	<u>Total</u>
31 December 2016				
Operating Income	285.766	173.420	-	459.186
Financial Expenses (-)	(184.405)	(136.184)	-	(320.589)
Gross Profit/Loss	101.361	37.236	-	138.597
Operating Expense (-)	(36.822)	(18.478)	-	(55.300)
Gross Operating Profit/Loss	64.539	18.758	-	83.297
Other Operating Income	187.068	226.069	(3.912)	409.225
Provision for Losses on Non-Performing Receivables (-)	(13.593)	(9.058)	-	(22.651)
Other operating Expenses (-)	(128.858)	(195.056)	-	(323.914)
Net Operating Profit/Loss	109.156	40.713	(3.912)	145.957
Profit or Loss from Continuing Operations	109.156	40.713	(3.912)	145.957
Provision for Taxes from Continuing Operations (±)	(27.356)	(7.774)	-	(35.130)
Net Profit or Loss from Continuing Operations	81.800	32.939	(3.912)	110.827
Non-controlling Interests	-	-	(7.170)	(7.170)
Net Profit or Loss for the Period	81.800	32.939	(11.082)	103.657
Fixed Asset Additions	6.364	795	-	7.159
Depreciation and Amortisation	(1.001)	(357)	-	(1.358)
31 December 2015				
Operating Income	264.839	134.492	-	399.331
Financial Expenses (-)	(186.615)	(98.185)	-	(284.800)
Gross Profit/Loss	78.224	36.307	-	114.531
Operating Expense (-)	(30.877)	(16.039)	-	(46.916)
Gross Operating Profit/Loss	47.347	20.268	-	67.615
Other Operating Income	232.805	100.944	(18.384)	315.365
Provision for Losses on Non-Performing Receivables (-)	(41.511)	(6.971)	-	(48.482)
Other operating Expenses (-)	(141.123)	(83.597)	-	(224.720)
Net Operating Profit/Loss	97.518	30.644	(18.384)	109.778
Profit or Loss from Continuing Operations	97.518	30.644	(18.384)	109.778
Provision for Taxes from Continuing Operations (±)	(16.037)	(6.477)	-	(22.514)
Net Profit or Loss from Continuing Operations	81.481	24.167	(18.384)	87.264
Non-controlling Interests	-	-	(5.261)	(5.261)
Net Profit or Loss for the Period	81.481	24.167	(23.645)	82.003
Fixed Asset Additions	1.395	491	-	1.886
Depreciation and Amortisation	(910)	(360)	-	(1.270)

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30. EVENTS AFTER THE REPORTING PERIOD

The Company's bonds, which are sold to qualified investors outside the stock exchange on 6 January 2017, with a nominal value of TL 330.000, 178 days maturity and 3 July 2017 redemption dated, started to be traded in the Debt Securities Market Outright Purchases and Sales Market, in accordance with Borsa İstanbul Board of Directors decision dated 15 April 2016.

31. OPERATING INCOME

For the years ended 31 December 2016 and 31 December 2015, details of operating income are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Finance lease interest income	285.688	264.839
Operating Lease income	78	-
Factoring income	173.420	134.492
	<u>459.186</u>	<u>399.331</u>

32. OPERATING EXPENSES

For the years ended 31 December 2016 and 31 December 2015, operating expenses are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Personnel expenses	(32.945)	(28.110)
Office rent expenses	(5.567)	(5.239)
Board of Directors attendance fee	(2.077)	(1.889)
Information technology expenses	(2.081)	(1.745)
Write-off expense	(1.859)	(122)
Travel and car expenses	(1.763)	(1.330)
Tax and duties	(1.588)	(1.373)
Depreciation and amortisation expense	(1.358)	(1.270)
BRSA fee	(767)	(620)
Provision for employee severance indemnity	(729)	(558)
Consultancy expenses	(669)	(1.500)
Advertising expense	(491)	(506)
Communication expense	(421)	(288)
Capital increase expense	(346)	(385)
Representation expense	(243)	(464)
Insurance expense	(132)	(72)
Other general administrative expenses	(2.264)	(1.445)
	<u>(55.300)</u>	<u>(46.916)</u>

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33. OTHER OPERATING INCOME

For the years ended 31 December 2016 and 31 December 2015, details of other operating income are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Income from derivative financial transactions	228.197	138.069
Foreign exchange gains	152.799	151.062
Collections from non-performing receivables	12.170	2.875
Interest income	7.266	6.618
Commission income	4.157	3.899
Dividend income	2.611	3.800
Others	2.025	9.042
	<u>409.225</u>	<u>315.365</u>

34. FINANCE EXPENSES

For the years ended 31 December 2016 and 31 December 2015, details of finance expenses are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Interest expense on funds borrowed	(190.966)	(204.585)
Interest expense on debt securities issued	(116.417)	(71.895)
Fees and commissions expense	(13.206)	(8.320)
	<u>(320.589)</u>	<u>(284.800)</u>

35. PROVISION FOR NON-PERFORMING RECEIVABLES

For the years ended 31 December 2016 and 31 December 2015, details of provision for non-performing receivables are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Specific provision expenses	(22.651)	(48.005)
General provision expenses (*)	-	(477)
	<u>(22.651)</u>	<u>(48.482)</u>

(*) The Group recognized general provision in addition to allowance for doubtful receivables for its some doubtful lease receivables that overdue under legal time limits.

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36. OTHER OPERATING EXPENSES

For the years ended 31 December 2016 and 31 December 2015, details of other operating expenses are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Losses from derivative financial transactions	(318.029)	(220.598)
Impairment and sales losses on securities portfolio	(400)	-
Impairment losses on tangible assets (Note 10)	-	(602)
Other	(5.485)	(3.520)
	<u>(323.914)</u>	<u>(224.720)</u>

Derivative financial instruments with a view to direct the Group's financial risks (forward and currency swap contracts) consist of combination of more than one sub-transaction as time or spot. Entire such transactions are not trading and are preferred due to economic worth occurred at the maturity. Although, entire such transactions do not cover all conditions for hedge accounting, buy-sell spot transactions at the transaction date are recorded at initial amounts, buy-sell transactions that held to maturity date are recorded in fair values.

Measurement differences of such sub-transactions which are integrated and fixed by the initial date economic worth at the maturity date on initial measurement of buy-sell transactions and measurement at the maturity date of buy-sell transactions cause the differences on income/expense components in the inperiods.

The difference as foreign currency gain difference between income/loss is at amounting TL 1.244 from measurement difference of such transactions in the Group's financial statements as at 31 December 2016 (31 December 2015: TL 6.199 foreign exchange losses). The difference is expected to be substantially expired at the maturity of transactions.

37. TAXATION

For the years ended 31 December 2016 and 31 December 2015, details of income tax expense are as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
Current tax charge	(33.854)	(19.913)
Deferred tax benefit	(1.276)	(2.601)
	<u>(35.130)</u>	<u>(22.514)</u>

The reported income tax expenses for the period is different than the amounts computed by applying the statutory tax rate of the Company to profit before income tax of the Group, as shown in the following reconciliation:

	%	<u>1 January- 31 December 2016</u>	%	<u>1 January- 31 December 2015</u>
Net profit for the period		110.827		87.264
Total tax income		35.130		22.514
Profit before tax		145.957		109.778
Income tax using the Company's tax rate	19,85	28.973	19,82	21.761
Non-deductible expenses	4,37	6.384	3,88	4.256
Tax exempt income	(0,35)	(512)	(0,73)	(798)
Investment incentives	0,14	199	(1,53)	(1.678)
Other	0,06	86	(0,94)	(1.027)
Total income tax expense	24,07	<u>35.130</u>	20,50	<u>22.514</u>

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37. TAXATION (Continued)

Corporate Tax

The Group is subject to the Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the period. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

As at 31 December 2016, corporate income tax rate is 20% (31 December 2015: 20%).

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate is 20% (31 December 2015: 20%). Under the Turkish taxation system, tax losses can be carried forward up to five years. Tax losses cannot be carried back to offset profit from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1 April and 25 April of the following year (between 1st and 25th of the following fourth month of the tax year for the tax responsible who have special tax years). Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax

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. The rate of income withholding tax is 10% period between 24 April 2003 and 22 July 2006. This rate was changed to 15% with the cabinet decision numbered 2006/10731 commencing from 22 June 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

Withholding tax at the rate of 19,8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. After this date, companies can deduct 40% of the investments within the scope of the investment incentive certificate and that are directly related to production facilities of the companies. There is no withholding tax on the investments incentives utilized without investment incentive certificates.

Investment Incentives

Temporary Article 69 added to the Income Tax Law numbered 193 with Law no 5479, which became effective starting from 1 January 2006, upon being promulgated in Official Gazette no 26133 dated 8 April 2006, stating that taxpayers can deduct the investment allowance exemption amounts which were present according to legislative provisions effective on 31 December 2005 (and by taking into account the corporate tax legislation in that date) only from the corporate profits of 2006, 2007 and 2008. Accordingly, the investment incentive allowance practice was ended as of 1 January 2006.

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37. TAXATION (Continued)

At this perspective, an investment allowance which cannot be deducted partially or totally in three years was not allowed to be transferred to following years and became unavailable as of 31 December 2008. On the other side, Article 19 of the Income Tax Law was annulled and the investment allowance practice was ended as of 1 January 2006 with effectiveness of Article 2 and Article 15 of the Law no 5479 and the right of investment allowance became unavailable during the period of 1 January 2006 and 8 April 2006.

However, on 15 October 2009, Turkish Constitutional Court decided to cancel the clause numbered (2) of the Article 15 of the Law 5479 and expressions of “2006, 2007, 2008” in the Temporary Article 69 related to investment allowance mentioned above that enables effectiveness of the Law as at 1 January 2006 rather than 8 April 2006, since it is against the Constitution. Accordingly, time limitations for carried forward investment allowance gained in the previous period of mentioned date and limitations related to investments commenced between the dates of the Law promulgated and 1 January 2006 were eliminated. According to the decision of Turkish Constitutional Court, cancellation of investment allowance become effective with promulgation of decision on the official gazette and the decision of Turkish Constitutional Court was promulgated in Official Gazette no 27456 dated 8 January 2010.

According to the decision mentioned above, investment allowances transferred to 2006 due to lack of profit and investment allowances gained by the investments that are commenced before 1 January 2006 and continued after that date constituting economic and technical integrity will not be only used in 2006, 2007 and 2008, but also in the following years. However, the amount of investment allowance to be utilised may not exceed 25% of earnings for the year according to amendments to the Income Tax Law promulgated in Official Gazette no 27659 dated 1 August 2010. With this amendment, corporation tax rate adopted for corporations benefiting from investment allowance is determined at the current rate (20%) instead of the previous rate of 30%.

The statement “the amount of investment allowance to be utilized may not exceed 25% of earnings for the year” was cancelled by the Constitutional Court decision No.2012/9 dated 9 February 2012. Subsequent to the decision of the Court, necessary amendments has been made by Revenue Administration Department for the tax payers to utilize investment incentives in their 2011 tax declarations without taking 25% limit into account.

Transfer Pricing

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

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

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38. EARNINGS PER SHARE

Earnings per share are calculated by dividing profit or loss by the weighted average number of ordinary shares outstanding during the period. In Turkey, companies can raise their share capital by distributing "bonus shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares. Accordingly, the retrospective effect for those share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this computation.

The weighted average number of shares of the Group and earnings per share for the years ended 31 December 2016 and 31 December 2015 are as follows:

	<u>1 January- 31 December 2016</u>	<u>1 January- 31 December 2015</u>
Weighted average number of outstanding shares (*)	60.030.264.500	53.030.264.500
Net profit for the year (TL)	103.657	82.003
Basic earnings per share (full Kurus) (**)	0,17	0,14

(*) As at 31 December 2016, the share capital of the Company consists of 60.030.264.500 shares having Kurus 1 nominal price.

(**) Capital increase has been made through internal resources and has been used in the calculation of the prior period's earnings per share figure.

	<u>31 December 2016</u>	<u>31 December 2015</u>
Number of shares at beginning of the year	53.030.264.500	46.150.300.000
Capital increase (**)	7.000.000.000	6.879.964.500
Number of shares at end of the year	<u>60.030.264.500</u>	<u>53.030.264.500</u>

39. Other Issues that Significantly Affect the Financial Statements or Other Issues Required for Understanding of the Financial Statements

None.

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS

(a) Capital risk management

The Group manages its capital by sustaining its status as a going concern while maximizing the return to stakeholders through the optimization of the debt and the equity balance.

Although there is no change in the capital risk management strategy in 2016, the debt/equity ratio is 13% (31 December 2015: 16%). As at 31 December 2016 and 31 December 2015, the leverage ratios are as follows:

	31 December 2016	31 December 2015
Funds borrowed	5.161.686	3.719.458
Debt securities issued	1.232.536	941.201
Miscellaneous payables	80.725	49.782
Other liabilities	65.286	36.754
Total liabilities	6.540.233	4.747.195
Banks (-)	(376.487)	(225.724)
Net liabilities	6.163.746	4.521.471
Total shareholders' equity	830.203	738.408
Shareholders' equity/liabilities	13%	%16

According to the credit rating reports of Fitch issued at 17 January 2017, credit ratings of the Company are as follows:

Foreign Currency

Long term	BBB-
Short term	F3
Outlook	Negative

TL

Long term	BBB-
Short term	F3
Outlook	Negative

National

Long term	AA+ (tur)
Outlook	Negative
Support	2

(b) Significant accounting policies

The Group's accounting policies on financial instruments are disclosed in Note 3 "Significant accounting policies".

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

(c) Categories of financial instruments

	<u>31 December 2016</u>	<u>31 December 2015</u>
Financial Assets:		
Banks	376.487	225.724
Financial assets at fair value through profit or loss:		
- Financial assets held for trading	6.664	4.670
- Derivative financial assets held for trading	511	5.719
Finance lease receivables and non-performing receivables, net	4.000.905	3.287.101
Factoring receivables and non-performing factoring receivables, net	2.985.556	1.951.274
Insurance receivables (*)	5.827	4.691
Other receivables (*)	1.705	909
Financial assets available for sale	25.176	22.919
Financial Liabilities:		
Derivative financial liabilities held for trading	(63.777)	(68.471)
Miscellaneous payables and other liabilities	(146.011)	(86.536)
Funds borrowed	(5.161.686)	(3.719.458)
Debt securities issued	(1.232.536)	(941.201)

(*) Included in other receivables.

(d) Financial risk management objectives

The Group’s corporate treasury function provides services to the business, coordinates access to domestic and international markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risk. Such risks include market risk (including currency risk, interest rate risk and price risk), liquidity risk and credit risk.

The Group uses derivative instruments to minimize the effects of such risks and it also uses such instruments for hedging. The Group does not enter into or trade any financial instruments (including derivative financial instruments) for speculative purposes.

In order to minimize potential risks, the Group reports monthly to the risk management committee which is in charge of monitoring risks and the policies applied.

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates (refer to section f), interest rates (refer to section g) and equity prices will affect the Group’s income or the value of its holdings of financial instruments. To manage risks relating to exchange rates and interest rates, the Group uses various derivative financial instruments including the following:

- “Forward foreign exchange contracts” to hedge the exchange rate risk arising from operations.
- “Currency swaps” to control the exchange rate risk of foreign currency denominated liabilities.

At the Group level, market risk exposures are measured by sensitivity analysis.

There has been no change in the Group’s exposure to market risks or the method it uses to manage and measure such risks.

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

(f) Currency risk management

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group has exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its consolidated financial position and cash flows. The Group manages this currency risk by using the foreign exchange derivative contracts.

As at 31 December 2016 and 31 December 2015, details of foreign currency denominated assets and liabilities are as follows:

	USD 000	EUR 000	CHF 000	GBP 000	JPY 000	AUD 000	TL Equivalent
31 December 2016 (*)							
Banks	33.561	45.267	-	422	26	-	287.867
Finance lease receivables	257.517	396.878	2.751	-	-	-	2.388.110
Factoring receivables	163.853	71.476	-	1.257	-	384	848.203
Advances given for lease transactions	9.990	15.843	88	-	-	-	94.234
Leasing contracts in progress	5.079	6.296	-	-	-	-	41.231
Other receivables	236	553	-	-	-	-	2.883
Other assets	42	7	-	-	-	-	174
Total assets (**)	470.278	536.320	2.839	1.679	26	384	3.662.702
Funds borrowed	(241.942)	(431.674)	-	(1.253)	-	(372)	(2.459.266)
Miscellaneous payables and other liabilities	(9.539)	(17.600)	(1)	(16)	-	(1)	(98.939)
Other provisions	-	(697)	-	-	-	-	(2.586)
Total liabilities (**)	(251.481)	(449.971)	(1)	(1.269)	-	(373)	(2.560.791)
Balance sheet position	218.797	86.349	2.838	410	26	11	1.101.911
Off balance sheet position	(214.180)	(88.629)	(2.727)	-	-	-	(1.091.943)
Net foreign currency position	4.617	(2.280)	111	410	26	11	9.968

(*) As at 31 December 2016, foreign currency indexed borrowings amounting to USD 2.254 and EUR 17.610 (Total: TL 73.261), foreign currency indexed factoring receivables amounting to USD 96.492 and EUR 17.727 (Total: TL 405.619) are presented in TL column in the accompanying consolidated statement of financial position.

(**) As at 31 December 2016, accruals of derivative assets amounting to TL 511 and derivative liabilities amounting to TL 63.777 are not included.

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

(f) Currency risk management (Continued)

	USD 000	EUR 000	GBP 000	JPY 000	AUD 000	TL Equivalent
31 December 2015 ^(*)						
Banks	35.830	37.698	41	26	-	224.146
Finance lease receivables	345.328	329.781	-	-	-	2.051.987
Factoring receivables	82.999	57.801	3.649	-	2	440.693
Advances given for lease transactions	4.929	4.122	-	-	-	27.429
Leasing contracts in progress	2.424	3.966	-	-	-	19.649
Other receivables	221	521	-	-	-	2.297
Other assets	6	24	-	-	-	93
Total assets ^(**)	471.737	433.913	3.690	26	2	2.766.294
Funds borrowed	(308.720)	(362.997)	(190)	-	-	(2.051.909)
Miscellaneous payables and other liabilities	(7.565)	(13.732)	(29)	(3.464)	(1)	(65.842)
Other provisions	(937)	-	-	-	-	(2.723)
Total liabilities ^(**)	(317.222)	(376.729)	(219)	(3.464)	(1)	(2.120.474)
Balance sheet position	154.515	57.184	3.471	(3.438)	1	645.821
Off balance sheet position	(153.110)	(63.851)	(235)	-	-	(649.086)
Net foreign currency position	1.405	(6.667)	3.236	(3.438)	1	(3.265)

(*) As at 31 December 2015, foreign currency indexed borrowings amounting to USD 6.760 and EUR 20.409 (Total: TL 84.507), foreign currency indexed factoring receivables amounting to USD 21.140 and EUR 14.397 (Total: TL 107.213) are presented in TL column in the accompanying consolidated statement of financial position.

(**) As at 31 December 2015, accruals of derivative assets amounting to TL 4.536 and derivative liabilities amounting to TL 68.471 are not included.

Foreign currency sensitivity

The Group is mainly exposed to USD and EUR exchange rate risks.

The table below indicates the sensitivity of the Group to USD and Euro when there is a 15% of change in such exchange rates. The Group uses 15% of rate change when it reports its foreign currency risk to the top management and this rate represents the top management's expectation on the exchange rate fluctuations. Sensitivity analysis made in relation to the Group's exposure to foreign currency at the reporting period is determined based on the fluctuations at the beginning of the fiscal year and the analysis are fixed during the reporting period. Positive amount refers to an increase in the net profit.

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

(f) Currency risk management (Continued)

Foreign currency sensitivity (Continued)

	Profit/(Loss)		Equity (*)	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
31 December 2016				
15% change of the USD against TL				
1- Net USD asset/liability	115.498	(115.498)	115.498	(115.498)
2- Hedged portion of TL against USD risk (-)	(113.061)	113.061	(113.061)	113.061
3- Net effect of USD (1+ 2)	2.437	(2.437)	2.437	(2.437)
15% change of the Euro against TL				
4- Net Euro asset/liability	48.052	(48.052)	48.052	(48.052)
5- Hedged portion of TL against Euro risk (-)	(49.321)	49.321	(49.321)	49.321
6- Net effect of Euro (4+5)	(1.269)	1.269	(1.269)	1.269
15% change of other foreign currencies against TL				
7- Net other foreign currencies asset/liability	284	(284)	284	(284)
8- Hedged portion of TL against other currencies risk (-)	-	-	-	-
9- Net effect of other foreign currencies (7+8)	284	(284)	284	(284)
TOTAL (3+6+9)	1.452	(1.452)	1.452	(1.452)

(*) Includes profit/loss effect.

	Profit/(Loss)		Equity (*)	
	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency
31 December 2015				
15% change of the USD against TL				
1- Net USD asset/liability	67.390	(67.390)	67.390	(67.390)
2- Hedged portion of TL against USD risk (-)	(66.777)	66.777	(66.777)	66.777
3- Net effect of USD (1+ 2)	613	(613)	613	(613)
15% change of the Euro against TL				
4- Net Euro asset/liability	27.256	(27.256)	27.256	(27.256)
5- Hedged portion of TL against Euro risk (-)	(30.434)	30.434	(30.434)	30.434
6- Net effect of Euro (4+5)	(3.178)	3.178	(3.178)	3.178
15% change of other foreign currencies against TL				
7- Net other foreign currencies asset/liability	1.409	(1.409)	1.409	(1.409)
8- Hedged portion of TL against other currencies risk (-)	-	-	-	-
9- Net effect of other foreign currencies (7+8)	1.409	(1.409)	1.409	(1.409)
TOTAL (3+6+9)	(1.156)	1.156	(1.156)	1.156

(*) Includes profit/loss effect.

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

(f) Currency risk management (Continued)

Forward foreign exchange contracts and currency swaps

The Group uses forward foreign exchange contracts and currency swaps to cover the risks of receipts and payments, expected sales and purchases in a certain foreign currency.

(g) Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds at both fixed and variable rates. Such risk is managed by making a proper classification between fixed and variable rate liabilities.

Interest rate sensitivity

The interest rate sensitivity analysis below is based on the Group's exposure to interest rate risk at the reporting date and estimated interest rate fluctuations at the beginning of the fiscal year, and is fixed during the reporting period. The Group management makes its sensitivity analysis based on a 100 base point interest rate fluctuation scenario. This rate is also used in reporting to the top management.

As at 31 December 2016 and 31 December 2015, the interest rate profile of the Group's interest-bearing financial instruments is as follows:

	<u>31 December 2016</u>	<u>31 December 2015</u>
<u>Fixed rate instruments</u>		
Financial assets:		
Banks	353.665	209.536
Finance lease receivables (*)	3.656.123	3.031.848
Factoring receivables	2.277.149	1.579.110
Financial liabilities:		
Funds borrowed	3.862.257	2.608.551
Debt securities issued	1.232.536	686.567
<u>Variable rate instruments</u>		
Financial assets:		
Finance lease receivables (*)	146.106	186.174
Factoring receivables	708.407	372.164
Financial liabilities:		
Borrowings	1.299.430	1.110.907
Debt securities issued	-	254.634

(*) Leasing contracts in progress and advances given are not included in the balances above.

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

(g) Interest rate risk management (Continued)

Interest rate sensitivity (Continued)

If interest rates were 100 base points higher at the reporting date and all other variables were fixed:

- Interest income from finance leases with variable interest rates would be higher at an amount of TL 1.537 (31 December 2015: TL 1.836).
- Interest income from factoring transactions with variable interest rates would be higher at an amount of TL 6.987 (31 December 2015: TL 3.671).
- Interest expense on funds borrowed with variable interest rates would be higher at an amount of TL 12.005 (31 December 2015: TL 12.868).

(h) Other price risks

The Group is exposed to equity securities price risks because of equity investments. Equity securities are held especially for strategic purposes rather than trading purposes. These investments are not traded by the Group.

Equity price sensitivity

Sensitivity analysis below is determined based on the equity share price risks exposed as at the reporting date.

Equity price risk is the risk that the fair values of equities decrease as a result of the changes in the levels of equity indices and the value of individual stocks.

If data used in the valuation method were 15% higher/lower and all other variables were fixed:

The effect on equity (without tax effects) as a result of change in the fair value of equity instruments quoted to Borsa İstanbul (Istanbul Stock Exchange) held as financial assets available for sale in the accompanying consolidated financial statements, due to a reasonably possible change in equity indices, with all other variables held constant, would be TL 660 (31 December 2015: TL 896).

(i) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure to credit risks and credit ratings of its counterparties are monitored periodically. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee.

Finance lease receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

Sectoral allocation of finance lease receivables is as follows:

	<u>31 December 2016 (%)</u>	<u>31 December 2015 (%)</u>
Construction	24,32	21,90
Metal industry	14,52	16,16
Transportation	7,76	9,13
Textile	7,00	6,92
Chemical and plastic	4,86	4,42
Retail and wholesale	4,50	3,45
Finance	4,46	4,09
Food and beverage	3,40	5,51
Mining	3,40	3,44
Tourism	2,92	3,82
Forestry products and paper	2,91	3,23
Machinery and equipment	2,68	1,68
Healthcare	2,37	2,75
Agriculture and forestry	2,35	3,11
Other	12,55	10,39
	<u>100,00</u>	<u>100,00</u>

Leased asset allocation of finance lease receivables is as follows:

	<u>31 December 2016 (%)</u>	<u>31 December 2015 (%)</u>
Real estate	35,76	36,03
Machinery and equipment	23,52	26,23
Building and construction machinery	19,06	14,75
Textile machinery	4,59	4,43
Electronic and optical equipment	3,60	3,77
Tourism equipment	2,16	2,41
Sea transport vessels	1,95	2,41
Air transportation equipments	1,82	2,84
Medical equipment	1,55	1,82
Office equipments	1,39	1,20
Road transportation equipments	1,03	0,85
Printing machinery	0,95	1,17
Other	2,62	2,09
	<u>100,00</u>	<u>100,00</u>

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

(i) Credit risk management (Continued)

As at 31 December 2016, exposure to credit risk based on categories of financial instruments is as follows:

	Receivables				Deposits	Fair value through profit/loss financial assets	Financial Assets Available For Sale (***)	Insurance receivables	Other Receivables
	Finance Lease Receivables		Factoring Receivables						
31 December 2016	Related party	Third party	Related party	Third party					
Exposure to maximum credit risk as at reporting date (*)	68.193	3.932.707	33.506	2.952.050	376.487	7.175	-	5.827	1.705
- The portion of maximum risk covered by guarantee	-	279.976	-	547.098	-	-	-	-	-
A. Net carrying value of financial assets which are neither impaired nor overdue	68.193	3.514.237	33.506	2.937.252	376.487	7.175	-	5.827	1.705
- The portion covered by guarantee	-	181.839	-	537.418	-	-	-	-	-
B. Net carrying value of financial assets that are restricted, otherwise which will be regarded as overdue or impaired	-	-	-	205	-	-	-	-	-
C. Net carrying value of financial assets which are overdue but not impaired	-	338.718	-	13.752	-	-	-	-	-
- The portion covered by guarantee	-	88.450	-	9.680	-	-	-	-	-
D. Net carrying value of impaired assets	-	79.752	-	841	-	-	-	-	-
- Overdue (gross book value)	-	188.579	-	39.388	-	-	-	-	-
- Impairment (-)	-	(107.287)	-	(38.547)	-	-	-	-	-
- Covered portion of net book value (with letter of guarantee etc) (**)	-	9.687	-	-	-	-	-	-	-
- Not past due (gross book value)	-	2.857	-	-	-	-	-	-	-
- Impairment (-)	-	(4.397)	-	-	-	-	-	-	-
- Covered portion of net book value (with letter of guarantee etc) (**)	-	-	-	-	-	-	-	-	-
E. Off balance sheet items with credit risks	-	-	-	-	-	-	-	-	-

(*) Guarantees received are not taken into account in the calculation

(**) Includes collaterals for the assets impaired but not overdue.

(***) Equity securities are not included in the table as they have not been market risk.

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

(i) Credit risk management (Continued)

As at 31 December 2015, exposure to credit risk based on categories of financial instruments is as follows:

	Receivables				Deposits	Fair value through profit/loss financial assets	Financial Assets Available For Sale (***)	Insurance receivables	Other Receivables
	Finance Lease Receivables		Factoring Receivables						
31 December 2015	Related party	Third party	Related party	Third party					
Exposure to maximum credit risk as at reporting date (*)	91.678	3.195.423	40.847	1.910.427	225.724	10.389	-	4.691	909
- The portion of maximum risk covered by guarantee	-	286.429	-	511.415	-	-	-	-	-
A. Net carrying value of financial assets which are neither impaired nor overdue	91.678	2.911.332	40.847	1.903.631	225.724	10.389	-	4.691	909
- The portion covered by guarantee	-	226.551	-	511.415	-	-	-	-	-
B. Net carrying value of financial assets that are restricted, otherwise which will be regarded as overdue or impaired	-	-	-	1.299	-	-	-	-	-
C. Net carrying value of financial assets which are overdue but not impaired	-	246.216	-	-	-	-	-	-	-
- The portion covered by guarantee	-	55.321	-	-	-	-	-	-	-
D. Net carrying value of impaired assets	-	37.875	-	5.497	-	-	-	-	-
- Overdue (gross book value)	-	142.353	-	36.640	-	-	-	-	-
- Impairment (-)	-	(107.910)	-	(31.143)	-	-	-	-	-
- Covered portion of net book value (with letter of guarantee etc.) (**)	-	4.557	-	-	-	-	-	-	-
- Not past due (gross book value)	-	4.129	-	-	-	-	-	-	-
- Impairment (-)	-	(697)	-	-	-	-	-	-	-
- Covered portion of net book value (with letter of guarantee etc.) (**)	-	-	-	-	-	-	-	-	-
E. Off balance sheet items with credit risks									

(*) Guarantees received are not taken into account in the calculation.

(**) Includes collaterals for the assets impaired but not overdue.

(***) Equity securities are not included in the table as they have not been market risk.

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

(i) Credit risk management (Continued)

As at 31 December 2016 and 31 December 2015, details of finance lease receivables rating in terms of internal rating information:

	<u>31 December 2016 (%)</u>	<u>31 December 2015 (%)</u>
Internal rating results:		
A+ (Perfect)	0,38	0,84
A (Very good)	0,06	0,11
A- (Good)	5,34	6,26
B+ (Satisfactory)	24,63	27,16
B (Close Monitoring)	23,49	22,48
B- (Insufficient)	24,42	24,45
C+ (Doubtful)	17,44	15,92
C (Loss)	4,22	2,78
Total	<u>100,00</u>	<u>100,00</u>

The Company has started SME-Micro scoring system. Accordingly, clients with revenue amounts under USD 1 million and credit limits below USD 60.000 will be subject to scoring under Micro title and the clients with revenue amounts between USD 1 million and USD 8 million and credit limits between USD 60.000 and USD 1 million are to be categorized as SME. The ratio of companies which are subjected to SME and Micro Scoring to total portfolio is 11,69% as at 31 December 2016 (31 December 2015: 15,05%).

As at 31 December 2016, details of finance lease receivables ratings in terms of SME-Micro scoring information:

	<u>31 December 2016 (%)</u>
High	31,02
Medium	55,35
Low	13,63
Total	<u>100,00</u>

As at 31 December 2015, details of finance lease receivables ratings in terms of SME-Micro scoring information:

	<u>31 December 2015 (%)</u>
High	33,83
Medium	56,25
Low	9,92
Total	<u>100,00</u>

The aging analysis of overdue finance lease receivables is disclosed in Note 8. The Group does not have overdue financial assets other than finance lease receivables.

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

Collaterals obtained for finance lease receivables and factoring receivables including past dues and non-performing receivables are as follows:

	31 December 2016		31 December 2015	
	Nominal Value	Fair Value (*)	Nominal Value	Fair Value (*)
Sureties	45.698.632	5.917.121	35.244.533	4.367.332
Collaterals of factoring transaction	3.982.480	533.007	3.043.421	505.195
Other mortgages	798.181	181.680	637.027	190.210
Pledged commercial	204.164	-	-	-
Guaranties of factoring transaction	115.000	37.803	15.000	21.326
Pledged shares	82.347	44.680	74.111	44.646
Letters of guarantee	41.827	22.269	37.504	23.839
Ship mortgage	8.798	-	7.269	-
Cash blockages	6.611	3.331	11.109	8.833
Collaterals of vendors	3.187	-	3.405	-
Equity securities	2.950	2.950	2.450	2.450
Guarantors	2.117	445	1.797	583
Collaterals of financial lease transaction	1.086	-	25	-
Pledged account	909	909	762	762
	50.948.289	6.744.195	39.078.413	5.165.176

(*) In determination of the fair value, lower of collateral amount or fair value up to the credit exposure amount has been taken into account.

(j) Liquidity risk management

Liquidity risk management responsibility mainly belongs to the board of directors. The board of directors has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages its liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by constantly monitoring forecasts and actual cash flows and matching the maturity profile of financial assets and liabilities.

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

Liquidity risk table

The following table details the maturities of non-derivative financial assets and liabilities. The tables below have been drawn up based on the undiscounted contractual amounts of the financial assets and liabilities based on their maturities. Interest amounts to be collected and to be disbursed regarding the Group's assets and liabilities have also been included in the table below.

31 December 2016

<u>Contractual Maturities</u>	<u>Carrying Amount</u>	<u>Contractual Cash Flows (I+II+III+IV)</u>	<u>Less than 3 Months (I)</u>	<u>3-12 Months (II)</u>	<u>1-5 Years (III)</u>	<u>More than 5 Years (IV)</u>
Non-derivative Financial Assets:						
Banks	376.487	376.539	376.539	-	-	-
Financial Assets Held For Trading	6.664	6.664	6.664	-	-	-
Lease Receivables (*)	3.802.234	4.319.586	523.128	1.195.793	2.458.164	142.501
Factoring Receivables	2.985.556	3.059.865	2.032.237	975.336	52.291	-
Insurance Receivables	5.828	5.828	5.828	-	-	-
Other Receivables	1.705	1.705	1.705	-	-	-
Total Assets	7.178.474	7.770.186	2.946.101	1.651.959	2.179.998	142.501
Non-derivative Financial Liabilities:						
Funds Borrowed	5.161.686	5.305.545	2.835.332	1.077.795	1.326.231	66.187
Debt Securities Issued	1.232.536	1.264.481	917.544	346.937	-	-
Miscellaneous Payables and Other Liabilities	146.011	146.011	138.043	1.614	5.454	-
Total Liabilities	6.540.233	6.716.038	3.891.819	1.426.346	1.331.685	66.187

(*) Advances given for lease receivables and leasing contracts in progress are not included in finance lease receivables, because payment plan for these transactions have not been scheduled yet.

31 December 2015

<u>Contractual Maturities</u>	<u>Carrying Amount</u>	<u>Contractual Cash Flows (I+II+III+IV)</u>	<u>Less than 3 Months (I)</u>	<u>3-12 Months (II)</u>	<u>1-5 Years (III)</u>	<u>More than 5 Years (IV)</u>
Non-derivative Financial Assets:						
Banks	225.724	225.749	225.749	-	-	-
Financial Assets Held For Trading	4.670	4.668	4.268	400	-	-
Lease Receivables (*)	3.218.022	3.690.581	411.994	933.126	2.211.138	134.323
Factoring Receivables	1.951.274	1.986.623	1.402.148	560.255	24.220	-
Insurance Receivables	4.691	4.691	4.691	-	-	-
Other Receivables	909	909	909	-	-	-
Total Assets	5.405.290	5.913.221	2.049.759	1.493.781	2.235.358	134.323
Non-derivative Financial Liabilities:						
Funds Borrowed	3.719.458	3.829.173	1.701.094	1.194.146	877.230	56.703
Debt Securities Issued	941.201	969.498	382.672	586.826	-	-
Miscellaneous Payables and Other Liabilities	86.537	86.537	79.984	2.071	4.482	-
Total Liabilities	4.747.196	4.885.208	2.163.750	1.783.043	881.712	56.703

(*) Advances given for lease receivables and leasing contracts in progress are not included in finance lease receivables, because payment plan for these transactions have not been scheduled yet.

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

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

40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

The following table details the maturities of derivative financial assets and liabilities as at 31 December 2016 and 31 December 2015.

31 December 2016	Carrying	Contractual Cash	Less than	3-12	1-5	More than
Contractual Maturities	Amount	Flows (I+II+III+IV)	3 Months (I)	Months (II)	Years (III)	5 Years (IV)
Cash inflows from derivatives	-	1.111.847	801.047	197.487	113.313	-
Cash outflows from derivatives	(24.805)	1.136.654	839.782	198.246	98.626	-
31 December 2015	Carrying	Contractual Cash	Less than	3-12	1-5	More than
Contractual Maturities	Amount	Flows (I+II+III+IV)	3 Months (I)	Months (II)	Years (III)	5 Years (IV)
Cash inflows from derivatives	-	680.348	458.463	214.426	7.458	-
Cash outflows from derivatives	(48.371)	(728.719)	(509.396)	(207.208)	(12.115)	-

(k) Fair value of financial instruments

Except for the items below, the Group management estimates that the carrying amount of the financial assets and liabilities approximate to their fair value.

Fair value of the financial instruments is determined based on the reliable data provided from financial markets in Turkey. Fair value of other financial assets is determined by the benchmarking market value of a similar financial asset or by assumption methods which includes discounting future cash flows with current interest rates.

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

The table below refers to the comparison of carrying amounts and fair values of financial instruments:

31 December 2016	Financial assets Held for trading	Financial assets at amortized cost	Loans and receivables	Available for sale financial assets	Financial liabilities at amortized cost	Carrying amount	Fair value	Notes
<u>Financial Assets</u>								
Banks	-	376.487	-	-	-	376.487	376.487	5
Financial assets at fair value through profit or loss								
- Financial assets held for trading	6.664	-	-	-	-	6.664	6.664	4
- Derivative financial assets held for trading	511	-	-	-	-	511	511	4
Finance lease receivables and non-performing lease receivables	-	-	4.000.900	-	-	4.000.900	4.007.738	8
Factoring receivables and non-performing factoring receivables	-	-	2.985.556	-	-	2.985.556	2.985.556	7
Insurance receivables	-	-	5.827	-	-	5.827	5.827	15
Other Receivables	-	-	1.705	-	-	1.705	1.705	15
Available for sale financial assets	-	-	-	25.176	-	25.176	25.176	6
<u>Financial liabilities</u>								
Derivative financial assets held for trading	63.777	-	-	-	-	63.777	63.777	4
Miscellaneous payables and other liabilities	-	-	-	-	146.011	146.011	146.011	17
Funds borrowed	-	-	-	-	5.161.686	5.161.686	5.162.515	16
Debt securities issued	-	-	-	-	1.232.536	1.232.536	1.232.536	19

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

(k) Fair value of financial instruments (Continued)

31 December 2015	Financial assets Held for trading	Financial assets at amortized cost	Loans and receivables	Available for sale financial assets	Financial liabilities at amortized cost	Carrying amount	Fair value	Notes
<u>Financial Assets</u>								
Banks	-	225.724	-	-	-	225.724	225.724	5
Financial assets at fair value through profit or loss								
- Financial assets held for trading	4.670	-	-	-	-	4.670	4.670	4
- Derivative financial assets held for trading	5.719	-	-	-	-	5.719	5.719	4
Finance lease receivables and non- performing lease receivables	-	-	3.287.101	-	-	3.287.101	3.286.934	8
Factoring receivables and non- performing factoring receivables	-	-	1.951.274	-	-	1.951.274	1.951.274	7
Insurance receivables	-	-	4.691	-	-	4.691	4.691	15
Other Receivables	-	-	909	-	-	909	909	15
Available for sale financial assets	-	-	-	22.919	-	22.919	22.919	6
<u>Financial liabilities</u>								
Derivative financial assets held for trading	68.471	-	-	-	-	68.471	68.471	4
Miscellaneous payables and other liabilities	-	-	-	-	86.536	86.536	86.536	17
Funds borrowed	-	-	-	-	3.719.458	3.719.458	3.430.272	16
Debt securities issued	-	-	-	-	941.201	941.201	941.201	19

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40. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS (Continued)

(I) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss	-	6.664	-	6.664
Derivative financial assets held for trading	-	511	-	511
Available-for-sale financial assets (*)	22.790	-	-	22.790
Total financial assets carried at fair value	22.790	7.175	-	29.965
Derivative financial liabilities held for trading	-	63.777	-	63.777
Total financial liabilities carried at fair value	-	63.777	-	63.777

(*) As at 31 December 2016, securities that are not publicly traded amounting to TL 2.386 have been measured at cost.

31 December 2015	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss	402	4.268	-	4.670
Derivative financial assets held for trading	-	5.719	-	5.719
Available-for-sale financial assets (*)	20.533	-	-	20.533
Total financial assets carried at fair value	20.935	9.987	-	30.922
Derivative financial liabilities held for trading	-	68.471	-	68.471
Total financial liabilities carried at fair value	-	68.471	-	68.471

(*) As at 31 December 2015, securities that are not publicly traded amounting to TL 2.386 have been measured at cost.

İŞ FİNANSAL KİRALAMA ANONİM ŞİRKETİ VE BAĞLI ORTAKLIĞI DIRECTORY

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Çukurova Branch:

Çınarlı Mahallesi, Turhan Cemal Beriker Bulvarı, No: 31, Seyhan/Adana

Diyarbakır Branch:

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