AKBANK T.A.Ş.

**CONSOLIDATED FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018
TOGETHER WITH THE INDEPENDENT
AUDITOR'S REPORT**

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Akbank T.A.Ş.

Qualified opinion

In our opinion, except for the effect of the matter on the consolidated financial statements described in the basis for qualified opinion paragraph below, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Akbank T.A.Ş. (the "Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2018, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholder's equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for qualified opinion

As explained in Note 19, the accompanying consolidated financial statements include a free provision provided by the Bank Management considering the possible effect of the circumstances that may arise from changes in the economy and market conditions, contrary to the recognition criteria of IAS 37 "Provisions, contingent liabilities and contingent assets". A portion of free provision amounting to TL 150.000 thousand on net basis has been reversed in the current year, out of total free provision of TL 700.000 thousand provided in the prior years. Accordingly deferred tax asset of TL 33.000 thousand has been reversed out of TL 154.000 thousand provided in prior years. The remaining amount of free provision in the accompanying consolidated financial statements is TL 550.000 thousand and the related deferred tax amounts to TL 121.000 thousand as at 31 December 2018.

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

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Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and "Independence Audit by-Law" published by the Public Oversight Accounting and Auditing Standards Authority ("POA"), independent auditing requirements referred to in Article 400 of the Turkish Commercial Code ("TCC"), "Regulation on Independent Audit of Banks" published by the Turkish Banking Regulation and Supervision Agency on the Official Gazette No.29314 dated 2 April 2015 and Communiqué Series: X No: 22 on "Principles Regarding Independent Auditing Standards in the Capital Markets" (collectively referred to as "Turkish Local Independence Rules"). We have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the financial services industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for qualified opinion section we have determined the matters described below to be key audit matters to be communicated in our report.

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Key Audit Matters	How Our Audit Addressed the Key Audit Matter
Impairment of loans and advances in accordance with IFRS 9 The Group has total provision for impairment of TL 8,482,446 thousands in respect to loans and advances of TL 222,419,190 thousands which represent a significant portion of the Group's total assets in its consolidated financial statements as at 31 December 2018. Explanations and notes related to provision for impairment of loans and receivables are presented in notes 3 and 9 in the accompanying consolidated financial statements as at 31 December 2018. As of 1 January 2018 the Group started to recognize provisions for impairment in accordance with "IFRS 9 Financial Instruments" expected credit loss model rather than incurred loss model. The Group has developped new IFRS 9 impairment models for determining the 12-month expected loss (Stage 1), the lifetime expected credit loss (Stage 2) and the lifetime expected loss for defaults. IFRS 9 is a new and complex accounting standard which requires considerable judgement and interpretation. These judgements are key in the development of the financial models built to measure the expected credit losses on loans recorded at amortized cost. In addition, the operation of the models require large data inputs that are generated through more than one system and the accuracy and completeness of the data are key in the determination of expected credit losses on loans. Impairment allowances are calculated on a collective basis for portfolios of loans of a similar nature and on individual basis for significant loans taking into account Management's best estimate at the balance sheet date and historical loss experience. Our audit was focused on this area due to existence of complex estimates and information used in the impairment assessment such as macro-economic expectations, current conditions, historical loss experiences; the significance of the loan balances; the classification of loans as per their credit risk (staging) and the importance of determination of the associated impairment allowances. Timely and correctly identification of loss event and level of judgements and estimations made by the management have significant impacts on the amount of impairment provisions for loans. Therefore, this area is considered as key audit matter.	Within our audit procedures, we assessed policies and procedures together with the overall governance established by the Group with respect to classification of loans and receivables and estimation of impairment in-line with the IFRS 9 framework. We have tested the design and operating effectiveness of controls implemented by the Group in line with its governance, policies and procedures. Together with our modelling specialists, we have evaluated and tested the methodologies used in building impairment models in line with the requirement of IFRS 9 and the Group's policies for the significant portfolio of loans. We have tested model calculations through re-performance together with our modelling specialists. We have independently assessed together with our related specialists methodologies used in the models in respect to segmentation, use of macro-economic expectations, life time expected credit losses and losses given default. We have carried credit review on a selected sample of loans and receivables with the objective to identify whether the classification of loans is performed appropriately in line with IFRS 9 staging rules, whether the loss event had occurred and whether the provision for impairment has been recognized in a timely manner within the IFRS 9 framework. In addition, we have evaluated the appropriateness of specific impairment provision with supportable input on non-performing loans and on other significant individual loans. Based on our discussions with the Group management, we evaluated and challenged whether the key assumptions and other judgements underlying the estimation of impairment were reasonable. We have reviewed disclosures made within the IFRS 9 framework in the financial statements of the Group with respect to loan and receivables and related impairment provision.

Key Audit Matters	How Our Audit Addressed the Key Audit Matter
First time adaptation of TFRS 9 Financial Instruments Standard IFRS 9 "Financial Instruments", which is effective as at 1 January 2018 and adapted by the Group in the same period is published by the IASB in July 2014, replaced IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. IFRS 9 has three phases as follow: Phase 1 - classification and measurement of financial assets and financial liabilities; Phase 2 - Impairment methodology; Phase 3 - Hedge accounting. Disclosures with respect to first time adaptation of IFRS 9 and the differences between previously reported carrying amounts and new carrying amounts of financial instruments are made in note 4 in the accompanying consolidated financial statements. The application of expected credit loss model with respect to changes arising as part of IFRS 9 adaptation is explained in the above paragraph on impairment of loans and receivables in accordance with IFRS 9. The Group continued to apply IAS 39 with respect to hedge accounting requirements. The application of IFRS 9 resulted into changes in previously reported carrying amounts and the related accounting policies. Therefore, this area is considered as key audit matter.	With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following: We have read the Group's IFRS 9 based classification and measurement policies for financial assets and financial liabilities and compared it with the requirements of IFRS 9; We obtained an understanding and checked the Group's business model assessment and tested the contractual cash flows, which give rise to cash flows that are "solely payments of principal and interest" (SPPI test). We checked the appropriateness of the opening balance adjustments and the related disclosures. With respect to impairment, using expected credit loss model, our work plan is described in the above paragraph with respect to How Our Audit Addressed the Key Audit Matter for impairment of loans and receivables in accordance with IFRS 9.

Key Audit Matters	How Our Audit Addressed the Key Audit Matter
Valuation of Pension Fund Obligations Explanations on Valuation of Pension Obligations are presented in note 20 in the accompanying consolidated financial statements as at 31 December 2018. The Bank's Personnel Pension Fund Foundation (Pension Fund) is established in accordance with the Social Security Law numbered 506 article No 20 and is within the scope of Funds to be transferred to the Social Security Institution (SSI). Council of Ministers are authorized to determine the transfer date. The total obligation of the fund is estimated using separate methods and assumption for benefits to be transferred and for non-transferrable benefits. The valuations of the pension obligations require significant judgement and technical expertise in choosing appropriate assumptions. The Bank's management uses external actuaries for the purpose of valuations of pension obligations. The reason we focused on this area during our audit is; the importance of the actuarial and economic assumptions such as discount rates, salary increases, demographic assumptions used in the valuation of pension obligations with respect to social benefits and the significant impact that may arise from the possible change in the assumptions used in the evaluation of pension fund liabilities.	Within our audit we tested on a sample basis the accuracy of the employee data supplied by the Bank management to the external actuary firm for the purpose of evaluation pension obligation. In addition, we verified the existence and values of the Pension Fund assets. Through use of our actuarial specialist, we assessed the reasonableness of assumptions and evaluation made by the external actuaries in the calculation of the liability. In addition to the above procedures we have reviewed disclosures made with respect to pension fund.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Talar Gül, SMMM
Partner

Istanbul, 29 March 2019

AKBANK T.A.Ş.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

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

	Notes	31 December 2018	31 December 2017
ASSETS			
Cash and due from banks and balances with the Central Bank of Turkey	7	49,617,879	46,945,251
Derivative financial instruments	8	22,605,903	9,452,333
Loans and advances to customers	9	213,936,744	212,706,936
-Measured at amortised cost		207,246,536	212,706,936
-Fair value through profit or loss		6,690,208	-
Investment Securities		56,787,860	-
Financial assets at fair value through profit or loss ("FVPL")	10	178,816	-
Financial assets at fair value through OCI ("FVOCI")	10	44,345,563	-
Financial assets at amortised cost ("AC")	10	12,263,481	-
Investment securities:		-	61,756,633
- Trading Securities	10	-	39,890
- Available-for-sale	10	-	42,833,711
- Held-to-maturity	10	-	18,883,032
Current tax asset	17	306,034	-
Deferred tax assets	17	264,808	704,899
Property, plant and equipment	11	3,959,052	3,425,916
Intangible assets	12	646,193	478,542
Other assets and pre-payments	13	6,678,137	4,169,950
Total assets		**354,802,610**	**339,640,460**
LIABILITIES			
Deposits and obligations under repurchase agreements	14	222,839,126	230,305,804
Interbank money market deposits	15	65,789	507,522
Derivative financial instruments	8	12,825,003	5,498,739
Funds borrowed	15	26,094,979	22,251,065
Debt Securities Issued	16	35,410,828	29,132,358
Income taxes payable	17	8,037	751,696
Provisions	19	1,017,135	873,122
Other liabilities and accrued expenses	18	11,895,758	8,205,419
Employment benefit obligations	20	325,249	300,953
Deferred tax liabilities	17	412,665	482,836
Total liabilities		**310,894,569**	**298,309,514**
EQUITY			
Capital and reserves attributable to the equity holders of the parent:			
- Share capital	21	4,000,000	4,000,000
- Adjustment to share capital		1,529,151	1,529,151
Total paid-in share capital		5,529,151	5,529,151
Share premium		1,709,098	1,709,098
Translation reserve		2,321,479	1,279,940
Other reserves		(1,536,009)	942,873
Retained earnings		35,884,196	31,869,745
Total shareholders' equity		**43,907,915**	**41,330,807**
Non-controlling interest		126	139
Total equity		**43,908,041**	**41,330,946**
Total liabilities and equity		**354,802,610**	**339,640,460**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transtion rules.

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

AKBANK T.A.Ş.

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	1 January 2018- 31 December 2018	1 January 2017- 31 December 2017
Interest income		35,519,540	24,389,468
Interest expense		(19,923,670)	(13,096,669)
Net interest income	23	**15,595,870**	**11,292,799**
Fee and commission income		4,779,961	3,696,295
Fee and commission expense		(1,049,117)	(722,383)
Net fee and commission income	24	**3,730,844**	**2,973,912**
Impairment losses on loans and credit related commitments		(6,014,923)	(843,377)
Foreign exchange gains and losses, net		1,495,710	203,674
Trading gains and losses, net	25	(2,133,199)	(733,619)
Dividend income		6,567	2,658
Other operating income		358,294	174,553
Operating income		**13,039,163**	**13,070,600**
Operating expenses	26	(5,902,729)	(5,416,365)
Profit before income taxes		**7,136,434**	**7,654,235**
Income taxes			
Income tax expense	17	(1,123,468)	(1,654,953)
Deferred tax (expense) / income	17	(336,813)	72,825
Profit for the period		**5,676,153**	**6,072,107**
Attributable to:			
Equity holders of the Group		5,676,166	6,072,098
Non-controlling interest		(13)	9
		5,676,153	**6,072,107**
Basic and diluted earnings per share (expressed in TL, full amount, per share)	5	0.0142	0.0152

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transtion rules.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

	1 January 2018- 31 December 2018	**1 January 2017- 31 December 2017**
Net profit for the period	**5,676,153**	**6,072,107**
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Changes in the fair value of debt instruments at fair value through OCI	(2,974,522)	-
Gain/(Loss) on available-for-sale financial assets	-	488,853
Foreign exchange differences on translation of foreign operations	1,041,539	505,242
Gain/(Loss) from cash flow hedges (effective part of fair value changes)	315,750	59,390
Gain/(Loss) from net foreign investment hedges (effective part of exchange difference on borrowings)	(493,088)	(252,032)
Tax related to gain and loss recognized directly in equity	693,409	(59,242)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(1,416,912)**	**742,211**
Other comprehensive income not being reclassified to profit or loss in subsequent periods		
Remeasurement gain/(loss) on defined benefit plans, net of taxes	6,951	(43,043)
Property and Plant Revaluation Differences	-	2,465,549
Tax related to gain and loss recognized directly in equity	(1,529)	(163,690)
Net other comprehensive income net of tax not reclassified to profit or loss in subsequent periods	**5,422**	**2,258,810**
Other comprehensive income net of tax	**(1,411,490)**	**3,001,021**
Total comprehensive income, net of tax	**4,264,663**	**9,073,128**
Attributable to:		
Equity holders of the Group	4,264,676	9,073,117
Non-controlling interest	(13)	9

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transtion rules.

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

AKBANK T.A.Ş.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Attributable to equity holders of the Group											
	Share capital											
	Share Capital	**Adjustment to share capital**	**Total paid-in share capital**	**Share premium**	**Translation reserve**	**Property and Plant Revaluation Differences**	**AFS reserves**	**Hedge reserves**	**Actuarial reserves**	**Retained Earnings**	**Non-controlling interest**	**Total**
Balance at 1 January 2017	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**774,698**	**-**	**(1,157,307)**	**(322,490)**	**(73,111)**	**26,697,647**	**130**	**33,157,816**
Transfer to share capital	-	-	-	-	-	-	-	-	-	-	-	-
Actuarial Gains and Losses	-	-	-	-	-	-	-	-	(43,043)	-	-	(43,043)
Net unrealized market value gains (losses) from available-for-sale portfolio	-	-	-	-	-	-	412,076	-	-	-	-	412,076
Net gains on available-for-sale portfolio transferred to the income statement	-	-	-	-	-	-	(134,158)	-	-	-	-	(134,158)
Net gains and losses recycled to the income statement due to transfer of available-for-sale into held-to-maturity portfolio	-	-	-	-	-	-	113,164	-	-	-	-	113,164
Cash flow hedges, net of tax	-	-	-	-	-	-	-	47,512	-	-	-	47,512
Translation reserve	-	-	-	-	505,242	-	-	-	-	-	-	505,242
Gains on hedges of a net investment in a foreign operation, net of tax	-	-	-	-	-	-	-	(201,626)	-	-	-	(201,626)
Property and Plant Revaluation Differences, net of tax	-	-	-	-	-	2,301,856	-	-	-	-	-	2,301,856
Other comprehensive income (expense)	-	-	-	-	505,242	2,301,856	391,082	(154,114)	(43,043)	-	-	3,001,023
Profit for the period	-	-	-	-	-	-	-	-	-	6,072,098	9	6,072,107
Total comprehensive income for the period	-	-	-	-	505,242	2,301,856	391,082	(154,114)	(43,043)	6,072,098	9	9,073,130
Dividends paid	-	-	-	-	-	-	-	-	-	(900,000)	-	(900,000)
Effect of capital increase												
Balance at 31 December 2017	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**1,279,940**	**2,301,856**	**(766,225)**	**(476,604)**	**(116,154)**	**31,869,745**	**139**	**41,330,946**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transtion rules.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts expressed in thousands of Turkish lira ("TL") unless otherwise stated.)

	Attributable to equity holders of the Group								
	Share capital								
	Share Capital	**Adjustment to share capital**	**Total paid-in share capital**	**Share premium**	**Translation reserve**	**Other Reserve**	**Retained Earnings**	**Non-controlling interest**	**Total**
Balance at 31 December 2017	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**1,279,940**	**942,873**	**31,869,745**	**139**	**41,330,946**
First time adoption impact of IFRS 9, net (Note 4)	-	-	-	-	-	110,969	(75,715)	-	35,254
Restated total equity at 1 January 2018	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**1,279,940**	**1,053,842**	**31,794,030**	**139**	**41,366,200**
Transfer to retained earnings	-	-	-	-	-	-	14,000	-	14,000
Property and Plant Revaluation Differences, net of tax	-	-	-	-	-	(136,822)	-	-	(136,822)
Actuarial Gains and Losses	-	-	-	-	-	5,422	-	-	5,422
Net unrealized market value gains (losses) from FVOCI portfolio	-	-	-	-	-	(2,320,127)	-	-	(2,320,127)
Cash flow hedges, net of tax	-	-	-	-	-	(138,324)	-	-	(138,324)
Translation reserve	-	-	-	-	1,041,539	-	-	-	1,041,539
Other comprehensive income (expense)	**-**	**-**	**-**	**-**	**1,041,539**	**(2,453,029)**	**-**	**-**	**(1,411,490)**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**5,676,166**	**(13)**	**5,676,153**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1,041,539**	**(2,453,029)**	**5,676,166**	**(13)**	**4,264,663**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**(1,600,000)**	**-**	**(1,600,000)**
Balance at 31 December 2018	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**2,321,479**	**(1,536,009)**	**35,884,196**	**126**	**43,908,041**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transtion rules.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Notes	1 January 2018- 31 December 2018	1 January 2017- 31 December 2017
Cash flows from operating activities:			
Profit before income tax		7,136,434	7,654,235
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment	11	184,147	153,953
Amortization of intangible assets	12	173,867	121,826
Provision for loan losses, write off and net of recoveries	19	6,759,592	2,441,912
Employment termination benefits and other short-term employee benefits		24,296	72,871
(Gain)/loss on foreign exchange and derivative financial instruments		(474,716)	(733,619)
Interest accrual		(6,726,366)	(2,076,260)
Other non-cash items		(111,386)	2,064,681
Taxes paid		1,063,500	(1,610,854)
Operating profit before changes in operating assets and liabilities		**8,029,029**	**8,088,745**
Net (increase) in reserve requirements with the Central Bank of Turkey and restricted cash		3,062,360	(1,546,751)
Net (increase) in loans and advances to customers		(1,229,808)	(31,682,848)
Net (increase)/decrease in trading securities		(138,926)	24,031
Net decrease/(increase) in other assets and prepayments		(6,145,360)	(4,327,958)
Net increase in other liabilities and accrued expenses		3,090,693	1,453,756
Net increase in customer deposits and interbank money market deposits		(7,908,411)	29,525,480
Net cash from operating activities		**(1,240,084)**	**1,534,455**
Cash flows from/(used in) investing activities:			
Purchase of property, plant and equipment	11	(733,715)	(244,781)
Proceeds from property, plant and equipment	11	54,448	10,349
Purchase of other intangible assets	12	(340,863)	(238,841)
Proceeds from other intangible assets	12	-	-
Proceeds from investment securities		15,395,214	11,738,756
Purchase of investment securities		(10,956,891)	(17,616,641)
Dividends Received		3,754	2,658
Net cash used in investing activities		**3,421,947**	**(6,348,500)**
Cash flows from financing activities:			
Proceeds from borrowed funds and debt securities in issue		22,330,884	11,444,452
Payments of borrowed funds and debt securities in issue		(22,214,304)	(6,545,834)
Dividends paid to equity holders		(1,600,000)	(900,000)
Net cash (used in)/from financing activities		**(1,483,420)**	**3,998,618**
Effect of exchange rates on cash and cash equivalents		**5,036,545**	**685,442**
Net increase/(decrease) in cash and cash equivalents		**5,734,988**	**(129,985)**
Cash and cash equivalents at the beginning of the period		**12,697,466**	**12,827,451**
Cash and cash equivalents at the end of the period	9	**18,432,454**	**12,697,466**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transtion rules.

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

NOTE 1 – CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

Akbank T.A.Ş. ("the Parent Bank" or "Akbank" or together with its subsidiaries referred to as "the Group" in these consolidated financial statements) was formed in 1948 and is a member of the Sabancı Group of companies which is incorporated and domiciled in Turkey. The Parent Bank's head offices are located at Sabancı Center 4. Levent Istanbul/Turkey. As at 31 December 2018, the Bank has 780 branches dispersed throughout the country and 1 branch operating outside the country (31 December 2017: 800 branches and 1 branch operating outside the country). As at 31 December 2018, the Group employed 13,757 people (31 December 2017: 14,253 people). In addition to regular banking operations, the Group also provides insurance intermediary services as an agency of Aksigorta A.Ş. and AvivaSA Emeklilik ve Hayat A.Ş.. The Group's operations are carried out substantially in one geographical segment (Turkey) and in business activities including retail banking, commercial banking, corporate and investment banking, private and wealth management, direct banking and treasury and other activities through its subsidiaries (i.e, leasing, brokerage and portfolio management).

The Parent Bank's shares have been quoted on the Istanbul Stock Exchange since 1990. In April 1998, 4.03% of the outstanding share capital of the Parent Bank, was offered and sold in an international offering outside of Turkey in the form of Ordinary Shares and American Depository Receipt ("ADR"). As at 31 December 2018, approximately 51% of the shares are publicly traded, including the ADRs (31 December 2017: 51%).

The major shareholder of the Parent Bank, directly or indirectly, is Sabancı Group.

The consolidated financial statements as at and for the period ended 31 December 2018 have been approved for issue on 29 March 2019 by S. Hakan Binbaşgil, the Chief Executive Officer and by Türker Tunalı, the Chief Financial Officer of Akbank T.A.Ş.. General Assembly of the Parent Bank and other regulatory bodies have the power to amend the statutory financial statements after issue.

NOTE 2 – BASIS OF PREPARATION

These consolidated financial statements for the year ended 31 December 2018 are prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements have been derived from statutory financials prepared according Accounting Practice Regulations as promulgated by the BRSA; Turkish Financial Reporting Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority; the Turkish Commercial Code; and the Turkish Tax Legislation ("Turkish GAAP") with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared in "Turkish Lira" ("TL"), under the historical cost convention, except for those assets and liabilities measured at fair value. The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The Bank maintains its books in Turkish Lira in accordance with the Banking Law, Turkish Commercial Code and Turkish Tax Legislation. The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdictions.

The consolidated financial statements are presented in the national currency of the Republic of Turkey, the Turkish lira ("TL").

NOTE 2 – BASIS OF PREPARATION (Continued)

The new standards, amendments and interpretations adopted by the Group

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2018 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2018. The effects of these standards and interpretations on the Group’s financial position and performance have been disclosed in the related paragraphs.

IFRS 9, ‘Financial instruments’; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model (As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening “retained earnings” and “other reserves” of the current period. The Group has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9). (Note 4)

IFRS 15, ‘Revenue from contracts with customers’; effective from annual periods beginning on or after 1 January 2018. IFRS 15, ‘Revenue from contracts with customers’ is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. IFRS 15 has no significant impact on the Bank’s accounting policies, financial position and performance.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

(3.1) Accounting Policies

(3.1.1) Consolidation

Consolidation principles for subsidiaries:

Subsidiaries are the entities controlled directly or indirectly by the Parent Bank. Control is defined as the power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Parent Bank’s returns.

Financial statements of related subsidiaries are consolidated from the date when the control is transferred to the Parent Bank.

In the full consolidation method, 100% of subsidiaries’ assets, liabilities, income, expense and off-balance sheet items are combined with the Parent Bank’s assets, liabilities, income, expense and off-balance sheet items. The carrying amount of the Group’s investment in each subsidiary and the Group’s portion of the cost value of the capital of each subsidiary are eliminated. Intragroup balances and intragroup transactions and resulting unrealized profits and losses are eliminated. Non-controlling interests in the net income of consolidated subsidiaries are identified and adjusted against the income of the Group in order to arrive at the net income attributable to the shareholders of the parent of the Group and presented separately in the Group’s income statement. Non-controlling interests are presented separately under equity in the consolidated balance sheet.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

The Parent Bank and its subsidiaries, Ak Yatırım Menkul Değerler A.Ş., Ak Portföy Yönetimi A.Ş., Akbank AG, Ak Finansal Kiralama A.Ş., AkÖde Elektronik Para ve Ödeme Hizmetleri A.Ş. and together with A.R.T.S. Ltd., which is not subsidiary of the Bank, but the Bank has 100% control power due to the reason that this company is "Structured Entity", has been included in the scope of consolidation. The Parent Bank together with its consolidated subsidiaries are referred to as the "Group" in these consolidated financial statements.

Ak Yatırım Menkul Değerler A.Ş. was established on 11 December 1996 to trade in capital markets in accordance with Capital Market Law. This company is providing intermediary services in capital markets, discretionary portfolio management, derivative transactions, repurchase and reverse repurchase agreements with authorizations given by the Capital Markets Board for each transaction.

Ak Finansal Kiralama A.Ş. was established in 1988 for leasing operations and all kinds of agreements and transactions related to these operations.

Ak Portföy Yönetimi A.Ş was established at 28 June 2000 in order to manage A and B type mutual funds of Akbank T.A.Ş., B Type variable fund of Ak Yatırım Menkul Değerler A.Ş., pension funds of AvivaSa Emeklilik ve Hayat A.Ş. and Groupama. Portfolios of retail customers are also managed.

Akbank AG operates in Germany, providing corporate, consumer and private banking services.

Aköde Elektronik Para ve Ödeme Hizmetleri A.Ş., 100% owned by the Bank, has been established on 19 February 2018 to provide payment services and electronic money issuance under the Law No. 6493 on Payment and Securities Settlement Systems, Payment Services and Electronic Money Institutions registered in the trade registry.

A.R.T.S. Ltd. is a "Structured Entity" which was established in November 1999 for the purpose of supplying long term financing.

The list of consolidated subsidiary undertakings is set out below:

		Shareholding %	
Name of subsidiary	**Country of incorporation**	**2018**	**2017**
Ak Finansal Kiralama A.Ş.	Turkey	99.99	99.99
Ak Yatırım Menkul Değerler A.Ş.	Turkey	100.00	100.00
Ak Portföy Yönetimi A.Ş.	Turkey	100.00	100.00
Akbank AG	Germany	100.00	100.00
AkÖde Elektronik Para ve Ödeme Hizmetleri A.Ş.	Turkey	100.00	100.00

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(3.1.2) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Turkish lira, which is the Parent Bank’s functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(iii) Group companies

The results and financial position of all the group entities (none of which have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each financial position presented are translated at the closing rate at the balance sheet date;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity under translation reserve.

(3.1.3) Derivative financial instruments and hedge accounting

The Bank classifies its derivative instruments as “Held-for-hedging” or “Held-for-trading” in accordance with “International Accounting Standard for Financial Instruments: Recognition and Measurement” (“IAS 39”). Although certain derivative transactions provide effective economic hedges under the Bank’s risk management position, in accordance with IAS 39 they are treated as derivatives “Held-for-trading”.

Although IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and hedge accounting, the Group continue to apply IAS 39 for hedge accounting in according to permission set out in IFRS 9 standard.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative financial instruments are classified as held for trading, unless they are designated as hedging instruments.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(i) Cash flow and Fair value hedges

The Group hedges its TL and foreign currency denominated fixed rate financial assets with cross currency swaps and interest rate swaps. Within the scope of fair value hedge, fair value changes of hedging instrument and hedged item are accounted in the income statement. As long as the hedge relationship is effective, fair value change of the hedged item is disclosed together with its related asset or liability in the balance sheet for TL denominated fixed rate financial assets. Fair value changes which have already been booked in equity, have been reclassified from equity to income statement for TL and FC denominated fixed rate financial assets.

The Group hedges against its cash flow risk stemming from foreign currency denominated floating rate financial assets and liabilities with interest rate and cross currency swaps. Within the scope of cash flow hedge accounting, effective part of the fair value changes of the hedging instrument are accounted in equity under "Hedging reserves" whereas ineffective part is accounted in the income statement. At instances when cash flows relating to hedged item (interest income/expense) affect the income statement, profit/loss of the related hedging item is taken out of the equity and reflected on the income statement.

Prospective tests are performed at the inception of the hedge relationships and both prospective and retrospective tests are performed at each reporting period-end regularly by using "Dollar off-set method". In this method, changes in the fair value of the hedged item and changes in the fair value of the hedging instruments between the designation date and each reporting period-end are compared and effectiveness ratio is calculated. Hedge accounting principles are applied by assessing the calculated effectiveness ratio within the scope of IAS 39.

When the hedging instrument expires, is executed, sold or the hedge relationship has become ineffective as a result of the effectiveness test or is discontinued as a result of the hedge relationship being revoked;

- The hedging gains and losses that were previously recognized under equity are transferred to profit or loss when the cash flows of the hedged item are realized for cash flow hedges,
- Adjustments made to the carrying amount of the hedged item are transferred to profit and loss over the life of the hedged item with straight line method for portfolio hedges or with effective interest rate method for fair value hedges.

In case the hedged item is derecognized, hedge accounting is discontinued and within context of fair value hedge accounting, adjustments made to the value of the hedged item are accounted in income statement.

In accordance with IAS 39, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy.

(ii) Net Investment Hedge

The Group hedges the net investment risk on Akbank AG with the foreign currency denominated financial liabilities. The effective part of the foreign exchange differences on the foreign currency denominated financial liabilities is accounted in the "Hedge reserves" account under shareholders' equity. As at 31 December 2018, the amount of net investment hedge applied to hedge the foreign currency risk arising from share premium and paid-in capital of Akbank AG is EUR 320 million. As at 31 December 2018, the net-off tax amount of TL (944,399) (31 December 2017: TL (559,791)) is accounted under hedge reserves as an investment hedge reserve.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(iii) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for as a derivative in accordance with IFRS 9, if and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid contract is measured at fair value with changes in fair value recognised in profit or loss (ie a derivative that is embedded in a financial liability at fair value through profit or loss is not separated.

If an embedded derivative is separated, the host contract shall be accounted for in accordance with the appropriate IFRSs. This IFRS does not address whether an embedded derivative shall be presented separately in the statement of financial position. If an entity is required by this IFRS to separate an embedded derivative from its host, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid contract as at fair value through profit or loss.

(3.1.4) Classification and measurement of financial assets

According to IFRS 9 requirements, classification and measurement of financial assets will depend on the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent "solely payments of principal and interest (SPPI).

Upon initial recognition each financial asset will be classified as either fair value through profit or loss ("FVPL"), amortized cost or fair value through other comprehensive income ("FVOCI").

The Group recognize a financial asset into financial statements when it becomes a party to the contractual terms of a financial instrument. During the first recognition of a financial asset into the financial statements, business model determined by Bank management and the nature of contractual cash flows of the financial asset are taken into consideration. When the business model determined by the Bank's management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments is made to earnings, losses or interest that were previously recorded in the financial statements.

(i) Financial assets at the fair value through profit or loss

"Financial assets at fair value through profit/loss" are financial assets that are managed by business model and do not lead to cash flows representing solely payments of principal and interest at certain date; Financial assets at the fair value though profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. Financial assets measured at fair value though profit or loss are acquired for the purpose of generating profit from short-term fluctuations in price, or regardless of this purpose, the financial assets that are part of a portfolio with evidence of short-term profit making. All gains and losses arising from these valuations are reflected in the income statement.

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens the Group assess whether or not the new terms are substantially different to the original terms. If the terms are substantially different the Group derecognizes the original financial asset and recognizes a new asset. If the cash flows generated by the new asset do not constitute solely payment of principal and interest than the new financial asset is measured at fair value through profit or loss (Note 30).

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(ii) Financial assets measured at amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost.

Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is accounted in income statement.

“Fair value through other comprehensive income” and “measured at amortized cost” securities portfolio of the Group include Consumer Price Indexed (CPI) Bonds. These securities are valued and accounted using the effective interest rate method based on the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate. The reference indices used in calculating the actual coupon payment amounts of these assets are based on the Consumer Price Index (CPI) of prior two months. The Bank also sets the estimated inflation rate accordingly. The estimated inflation rate used is updated as needed within the year. At the end of the year, the real inflation rate is used.

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method"

(iii) Financial assets at fair value through other comprehensive income

In addition to financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. “Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the “Accumulated other comprehensive income or expense to be reclassified through profit or loss” under shareholders’ equity.

Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

During initial recognition the Bank can choose in an irrevocable was to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

(3.1.5) Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are retained in the consolidated accompanying financial statements as investment securities and the counterparty liability is included in customer deposits. Securities purchased under agreements to resell ("reverse repos") are recorded as due from banks. The difference between sale and repurchase price is treated as interest and accrued evenly over the life of repo agreements using the effective interest rate method.

(3.1.6) Impairment of financial assets

The Group allocates impairment for expected loss on financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income, all financial assets with are not measured at fair value through profit or loss, loan commitments and financial guarantee contracts in accordance with IFRS 9 principals.

These financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses.

Stage 2:

In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument's lifetime expected credit losses.

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized.

Definition of Default:

The Bank considers that there is a default on the relevant debt in the following two cases:

1. Objective Default Definition: It means that the debt is overdue by more than 90 days. The definition of default, which is applicable to the Bank and its consolidated financial institutions, is based on the criteria that the debt is overdue by more than 90 days. If the debt is delayed by 90 days, it is not considered as a default. The situation of default is valid after 91th days.

2. Subjective Default Definition: It means that it is determined the debt will not be paid off. If the borrower deemed to be unable to fulfill the debt obligations, borrower should be considered as defaulted whether there is an overdue payment or number of days.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

Write-off Policy:

The Bank writes off financial assets when the asset is determined to be insolvent and there are no collection expectations based on the evidence that the insolvency has been issued by the court.

In circumstances where there is a mutual agreement with the borrower that will enable the Bank to recover a certain amount of a financial asset, the Bank writes off the remaining amount of a financial asset once the partial recovery has been completed.

Significant increase in credit risk

If the credit risk of financial assets determined to be significantly increasing, afore-mentioned assets are transferred to the stage II. For stage I loans expected loss (provision) amounts are calculated for 1-year and for stage II loans expected loss (provision) is calculated for the remaining life of the loan.
In addition, the key considerations in determining whether a significant increase in the credit risk of financial asset and transferring it to stage 2, but are not limited with these, the following;

- Number of over due date is 30 or more
- Restructuring of loans
- If the loan classified as under follow-up

Assessment of significant increase in the probability of impairment based on rating notes.
Definition of increase in the probability of default is the comparison between the probability of default on loan's opening date, benefitted by bank's internal rating-based credit rating models and probability of default on reporting date. If the loan's estimated probability of default on reporting date exceeds the threshold values determined, it is considered to be worsening of the probability of default.

Expected Credit Loss (ECL):

The Group allocates impairment for expected loss on financial assets measured at amortised cost and measured at fair value through other comprehensive income.

As of 1 January 2018, the Group recognize provisions for impairment in accordance with IFRS 9 "Financial Instruments", issued by the IASB in July 2014, replaced IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

Expected Credit Loss (ECL) Calculation – Input and Forecasting Methodologies:

Expected Credit Loss (ECL) is calculated as 12 months or lifetime, depending on whether there is a significant increase in credit risk after initial recognition or whether an asset is considered as a credit loss. Expected Credit Loss is calculated by using the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) components.

- Probability of Default (PD): PD indicates the probability of default due to inability of the borrower to meet its debt obligations. It has been calculated for 12 months or lifetime depends on increase on borrower's credit risk.

- Loss Given Default (LGD): In case of default of the borrower, Loss Given Default has been calculated as dividing historical realized credit loss to Exposure at Default (EAD). LGD models includes data such as product type, customer segment, collateral structure, customer repayment performance This value remains constant in all remaining maturities of the customer.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

- Exposure at Default: Specifies the amount of risk that the borrower should pay in case of default. It is kept in the system by constantly calculated until the maturity of the borrower. The amount of extra risk that can be incurred in the event of default is included in the calculations by using the credit conversion rate (CCR) calculated for the irrevocable commitment products.

Expected Credit Loss is calculated over the remaining maturity using the PD, LGD and EAD components. Calculated values are discounted on a monthly basis using the original effective interest rate or an approximate value of the discount rate. The expected credit loss value is calculated for all customers over the maturity period. However, for those who do not have a significant increase in credit risk, the 12-month ECL is taken into account, and for those with a significant increase in credit risk, the ECL value calculated over the remaining period is taken into account.

Within the scope of IFRS 9, models of Probability of default (PD), Loss given default and Exposure at default have been developed. The model used for the IRB "(Internal Rating Based Approach)" are taken into account when developing these models. The models for IFRS 9 have a detailed segment structure. Loans that have similar characteristics are segmented in order to reflect the expected credit losses collectively in financial reports. When creating the segmentation structure, the following information of the loans is taken into consideration.

1. Customer type (retail or corporate / commercial)
2. Product type
3. IRB ratings/scores
4. Customer credit performance
5. Collateral type
6. Collection Period
7. Exposure at default

Macro-economic indicators are taken into account in determining the PD component in the expected credit loss calculation. Macro-economic indicators vary on a product-by-product basis for individual products and on a segment basis for commercial products. Future macroeconomic forecasts are reflected in the ECLs using more than one scenario.

The risk parameters used in the IFRS 9 calculations include prospective macroeconomic information. While macroeconomic information is included, models and estimates reflecting the relationships between model risk parameters and macroeconomic variables are taken into consideration. The main macroeconomic indicators of these estimation models are the Gross Domestic Product (GDP) and the policy interest rate. Macroeconomic estimation models include more than one scenario and the related scenarios are taken into account in the expected credit loss calculations.

The ECL calculations are reviewed once a year. After the last review during the reporting period;

- There is no update in the assumptions in the estimation techniques.

- Model risk parameters and macroeconomic estimation models have been updated with recent data.

- Expected Credit Loss calculation has been using multi-scenario structure with updated macroeconomic model scenarios

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

Within the scope IFRS 9, macroeconomic expectations directly affect provisions (Expected Credit Loss-ECL). Related impact is realized when the default ratio of the Bank moves the default rate calculated for each maturity up or down. The main parameters of default ratio model are "Growth Rate" and "Policy Interest". Therefore, the calculated provisions can change when the macroeconomic expectations are taken into consideration.

The PD values subject to the ECL calculation have been obtained for the following portfolios.

Consumer/Commercial	**Portfolio**
Consumer	Consumer
Consumer	Automotive
Consumer	Mortgage
Consumer	Credit Card
Consumer	Overdraft Account
Commercial	Micro
Commercial	Company
Commercial	Commercial
Commercial	Corporate

The prospective expectations have been determined based on 2 scenarios, base scenario and stress scenario. Each scenario has predetermined weights. Final ECL numbers are calculated by weighting the probability given to the scenarios.

(3.1.7) Derecognition of financial instruments:

The Group recognizes a financial asset or financial liability in the balance sheet only when it becomes a party to the contractual provisions of instrument.

The Group recognizes all regular way purchases and sales of financial assets on the settlement date for example when the asset is delivered. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in the fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets ie. for assets carried at cost or amortised cost; change in value is not recognized.

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

The Group sometimes renogitiates or otherwise modifies the contractual cash flows or loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. If the terms are substantially different, the Group derecognizes the original financial assets and recognizes a new asset. In accordance with IFRS 9, if the the terms are not substantially different, the renegotiation or modification does not result in derecognition.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expired.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

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

(3.1.8) Fee and commission income and expenses

Fees and commission income/expenses are primarily recognized on an accrual basis or "Effective interest rate method" and IFRS 15 "Revenue from Contracts with Customers" according to the nature of the fee and commission, except for certain commission income and fees for various banking services which are recorded as income at the time of collection. Contract based fees or fees received for services such as the purchase and sale of assets on behalf of a third party or legal person are recognized as income at the time of collection.

(3.1.9) Interest income and expense

Interest income and expense are recognized in the income statement for all interest earning and bearing instruments on an accrual basis using the effective interest rate method based.

(3.1.10) Related parties

Parties are considered related to the Group if below conditions are met;

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

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

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

For the purpose of these consolidated financial statements, shareholders, key management personnel and board members, in each case together with their families and companies controlled by/affiliated with them, associated companies and other companies within the Sabancı Holding Group and Akbank T.A.Ş. Personnel Pension Fund Foundation are considered and referred to as related parties. A number of banking transactions were entered into with related parties in the normal course of business. These include loans, deposits, trade finance and foreign currency transactions (Note 29).

(3.1.11) Financial liabilities

Financial liabilities including customer deposits, debt securities in issue and funds borrowed are recognized initially at cost net of transaction costs. Subsequently, financial liabilities are stated at amortized cost including transaction costs and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the financial liability using the effective interest rate method.

(3.1.12) Property and equipment

Tangible assets other than properties are measured at its cost when initially recognized and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. Subsequently, these assets are carried at cost less accumulated depreciation and provision for value decrease.

The Bank has started to account properties under the tangible assets with their revalued amount instead of cost values in accordance with "IAS 16 Plant and Equipment" on 31 January 2017. Accordingly revaluation studies are performed by independent expertise firms. The revaluation difference arising from the valuations made by the appraisal firms authorized, and accounted in "Investment Properties Revaluation Differences" line under the Shareholders' Equity.

Where the carrying amount of an asset is greater than its estimated "Net realizable value amount", it is written down to its "Net realizable value amount" and the impairment loss is charged to the income statement.

Depreciation is calculated over the cost of property and equipment using the straight-line method over estimated useful lives. The estimated useful lives are stated below:

Buildings	50 years
Vault	5 years
Transportation Vehicles	5 years
Other Property and equipments	3-7 years

Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its sales revenue.

Expenditures for the repair and renewal of property and equipment are recognized as expense. The capital expenditures incurred in order to increase the capacity of the tangible asset or to increase the future benefit of the asset are capitalized on the cost of the tangible asset. Capital expenditures include the cost components that increase the useful life, or the capacity of the asset, increase the quality of the product or decrease its costs.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(3.1.13) Intangible assets

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 on the basis of the expected useful lives (not exceeding a period of five years).

(3.1.14) Fund management

The Group manages and administers open-ended mutual funds. Determining whether the Group controls such a fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove the fund manager. As a result, after evaluating the aggregate economic interests in funds and the rights to remove the fund manager, the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

(3.1.15) Accounting for leases

(i) A group company is the lessee

Assets acquired under finance lease agreements are capitalized at the inception of the lease at the fair value of the leased asset. Lease payments are treated as comprising capital and interest elements; the capital element is treated as reducing the capitalized obligation under the lease and the interest element is charged to income. Depreciation on the leased asset is also charged to income on a straight-line basis over the useful life of the asset.

The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(ii) A group company is the lessor

When assets are sold under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(3.1.16) Taxation on income

(i) Income taxes currently payable

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognized as an expense in the period in which profits arise.

Taxes other than on income are recorded within operating expenses (Note 26).

(ii) Deferred income taxes

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

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

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

The principal temporary differences arise from the difference between the carrying value and tax base of property, plant and equipment, valuation difference on trading and investment securities, remeasurement of financial assets and liabilities at fair value, provision for loan losses and provision for employment termination benefits. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized (Note 17).

Current tax and deferred tax related to items recognized directly in equity are also credited or charged directly to equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes related to the same taxable entity and the same taxation authority.

(3.1.17) Retirement benefit obligations

(i) Pension and other post-employment obligations

Akbank T.A.Ş. Tekaüt Sandığı Vakfı ("the Fund") is a separate legal entity and a foundation recognized by an official decree, providing all qualified Bank employees with pension and post-retirement medical benefits. This scheme is funded through payments of both the employees and the employer as required by Social Security Law Numbered 506 and are as follows:

	31 December 2018 (%)	31 December 2017 (%)
Pension benefit contributions-employer	13	13
Pension benefit contributions-employee	9	9
Medical benefit contributions-employer	8.5	8.5
Medical benefit contributions-employee	5	5

Pension benefit contributions-employer includes 2% additional contribution provided by the Bank above the requirement of the related law.

The Group's obligation in respect of the Fund has been determined as the total of the following:

Obligation for post-employment benefits transferrable to Social Security Institution ("SSI")

The Group's obligation regarding post-employment benefits transferrable to SSI has been determined as the value of the payment that would need to be made to SSI to settle the obligation at the balance sheet date in accordance with the related article of the "Law regarding the changes in Social Insurance and General Health Insurance Law ("New Law") and other related laws and regulations" (Note 20). The disclosures set out in Note 20 for post-employment benefits transferrable to SSI therefore reflect the actuarial parameters and results in accordance with the New Law provisions.

Obligation for other benefits

The present value of the Group's obligation regarding pension benefits which are not transferrable to SSI in accordance with the New Law is calculated in accordance with IAS 19 employee benefits using the projected unit credit method.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

The obligation for pension benefits transferrable to SSI and other benefits are calculated annually by an independent actuary who is registered with the Turkish Undersecretariat of the Treasury.

The liability to be recognized in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The Group does not have a legal right to access to the present value of any economic benefits available in the form of refunds from the Fund or reductions in future contributions to the plan, and therefore no assets are recognized in the balance sheet.

(ii) Employment termination benefits – defined benefit plan

Employment termination benefits represent the present value of the estimated total reserve for the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law (Note 20) and is calculated using the projected unit credit method. In accordance with IAS 19, actuarial gain and loss are recognized in equity.

(iii) Short-term employee benefits

The Bank provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19, "Employee benefits".

(iv) Defined contribution plans

The Group has to pay contributions to the Social Security Institution on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. These contributions are recognized as an employee benefit expense when they are accrued.

(3.1.18) Provisions, contingent assets and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are treated as contingent assets or liabilities.

(3.1.19) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, therefore the related assets and liabilities are presented gross in the statements of financial position.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(3.1.20) Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Share premium

When shares are issued, the excess of contributions received over the nominal value of the shares issued is recorded as share premium in equity.

(iii) Dividends on ordinary shares

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

(3.1.21) Acceptances

Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as commitments and contingent liabilities (Note 28).

(3.1.22) Other credit-related commitments

In the normal course of business, the Group enters into other credit-related commitments including loan commitments, letters of credit and guarantees. These are reported as off-balance sheet items at their notional amounts and are assessed using the same criteria as loans and receivables (Note 28).

(3.1.23) Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents include cash, cash due from banks and balances with central bank excluding reserve requirements and restricted balances, trading securities and investment securities with original maturity periods of less than three months (Note 7).

(3.1.24) Earnings per share

Earnings per share disclosed in the consolidated income statement are determined by dividing net income by the weighted average number of shares outstanding during the year concerned in Note 5.

(3.1.25) Segment reporting

An operating segment is a component of an entity:
(i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
(ii) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and,
(iii) for which discrete financial information is available.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues. (Note 6)

(3.1.26) Comparatives

In order to be consistent with the presentation of financial statements dated 31 December 2018, there are certain reclassifications made on income statement of 31 December 2017.

For IFRS 9 first time application the prior period financial statements and related disclosures are not restated as permitted by transtion rules.

(3.2) Judgements and estimates

The preparation of consolidated financial statements in conformity with IFRS and in line with International Accounting Standards ("IAS") requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. These critical estimations and judgements are applied in areas such as; expected credit loss model of IFRS 9 and measurement of fair values. The judgements and estimates that may have significant effect on amounts recognized in the consolidated financial satements are discussed in relevant sections.

(3.3) Explanations on prior period accounting policies not valid for the current period

IFRS 9, 'Financial instruments' standard came into effect instead of "IAS 39 Financial Instruments: Recognition and Measurement" as of 1 January 2018. Accounting policies lost their validity with the transition of IFRS 9 are given below:

The Group categorizes its financial assets as "Fair value through profit/loss", "Available-for-sale", "Loans and receivables" or "Held-to-maturity". Sale and purchase transactions of the financial assets mentioned above are recognized and derecognized at the "Settlement dates". The appropriate classification of financial assets of the Bank is determined at the time of purchase by the Bank management, taking into consideration the purpose of the investment.

(i) Investment securities

Investment securities are classified into the following two categories: held-to-maturity and available-for-sale assets. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

In the case of debt instruments classified as available-for-sale, the Parent Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income". If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement is removed from equity and recognized in the income statement.

Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized directly in other comprehensive income.

Held-to-maturity investments are carried at amortized cost using the effective yield method, less any provision for impairment.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognised in other comprehensive income and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss.

Equity securities classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be determined reliably measured are carried at cost less impairment, if any. Interest earned whilst holding investment securities is reported as interest income using the effective interest rate method. Dividends received are included in dividend income.

Available for sale and held to maturity securities portfolio of the Group include Consumer Price Indexed (CPI) Bonds. These securities are valued and accounted according to the effective interest rate method based on the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate at the interim reporting periods. The reference indices used in calculating the actual coupon payment amounts of these assets are based on the Consumer Price Index (CPI) of two months ago. The estimated inflation rate used is updated as the actual inflation rate at year ends.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(ii) Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Trading assets are initially recognized and subsequently re-measured at fair value. All related realized and unrealized fair value gains and losses are included in net trading gains and losses. Interest earned whilst holding trading assets is reported as interest income.

All purchases and sales of trading assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognized at trade date, which is the date that the asset is delivered to/by the Group.

(iii) Loans and advances to customers and provisions for loan impairment

Loans and advances granted by the Group are carried initially at fair value including the transaction costs and subsequently recognized at the amortized cost value, less any provision for loan losses.

A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including the amount recoverable from guarantees and collateral, discounted based on the interest rate at inception. An additional provision for loan impairment is established to cover losses that are judged to be present in the lending portfolio at the balance sheet date, but which have not been specifically identified as such.

Loans that cannot be recovered are written-off and charged against the allowance for loan losses. Such loans are written-off after all the necessary legal proceedings have been completed and the amount of the loan loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction from provision for loan losses for the year.

(3.4) The new standards, amendments and interpretations

(3.4.1) Standards, amendments and interpretations applicable as at 31 December 2018:

IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

IFRS 15, 'Revenue from contracts with customers'; effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

Amendment to IFRS 15, 'Revenue from contracts with customers'; effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

Amendments to IFRS 4, 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial Instruments'; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

- give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39.

Amendment to IAS 40, 'Investment property' relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

Amendments to IFRS 2, 'Share based payments' on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

Annual improvements 2014-2016; effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

- IFRS 1, 'First time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,
- IAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

IFRIC 22, 'Foreign currency transactions and advance consideration'; effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

(3.4.2) Standards, amendments and interpretations that are issued but not effective as at 31 December 2018:

A number of standards, interpretations and amendments to existing standards that are effective for annual periods beginning and after January 1, 2019 up to the date of issuance of the consolidated financial statements are as follows. The Group has not applied new or amended standards in preparing these consolidated financial statements.

Amendment to IFRS 9, 'Financial instruments'; effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

Amendment to IAS 28, 'Investments in associates and joint venture'; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.

IFRS 16, 'Leases'; effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15 'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in IAS 17 and is a farreaching change in accounting by lessees in particular.Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has started to work on compliance with the IFRS 16 Leases Standard effective from 1 January 2019. The Bank does not expect a significant impact in its financials with the adaptation of IFRS 16 at 1 January 2019.

The Group will apply this standard on 1 January 2019, which is the mandatory date of implementation. The bank plans to use modified retrospective approach and not to change comparable figures for the year before the first application. The Group does not expect a significant impact in its financials with the adoption of IFRS 16 at 1 January 2019.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

IFRIC 23, 'Uncertainty over income tax treatments'; effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

IFRS 17, 'Insurance contracts'; effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

Annual improvements 2015-2017; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

- IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement'; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

- use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
- recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling

Amendments to IAS 1 and IAS 8 on the definition of material; effective from annual periods beginning on or after 1 January 2020. These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs:

- use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES (Continued)

Amendments to IFRS 3 - definition of a business; effective from annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

The new standards, amendments and interpretations which will be effective after 1 January 2019 are not expected to have a material impact on the Group's consolidated financial statements.

NOTE 4 – IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9

IFRS 9 "Financial Instruments", issued by the IASB in July 2014, replaced IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. It sets out the new principles for the classification and measurement of financial instruments, for impairment for credit risk on financial assets. The new requirements became effective as of 1 January 2018.

The Group has applied the classification, measurement and impairment requirements by adjusting the opening balance sheet and opening equity at 1 January 2018, without restatement of comperative financial statements and related disclosures. IFRS 9 permits not to apply the standard's principals on hedge accounting and to continue to apply hedge accounting principles of IAS 39. The Group continue to comply with all principles of IAS 39 for hedge accounting.

(4.1) Classification and measurement of financial assets

According to IFRS 9 requirements, classification and measurement of financial assets will depend on the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent "solely payments of principal and interest (SPPI).

The business model reflects how the Group manages the assets in order to generate cash flows. That is whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sales of assets. If neither of these applicable (e.g financial assets are held for trading purposes), then the financial assets are classified as part of other business model and measured at FVPL.

For the purposes of SPPI assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the following are considered:

- Contingent events that would change the amount and timing of cash flows,
- Leverage features,
- Prepayment and extension terms,
- Terms that limit the Group's claim to cash flows from specified assets – e.g. non-recourse asset arrangements, and
- Features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

Group fulfills the on-balance sheet classification and measurement criteria by applying the procedures described above for all financial assets.

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

NOTE 4 – IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 (Continued)

Upon initial recognition each financial asset will be classified as either fair value through profit or loss ("FVPL"), amortized cost or fair value through other comprehensive income ("FVOCI"). In accordance with the business model. The business model is determined by the Bank in terms of the manner in which assets are managed and their performance is reported.

(4.2) Transition Impact

Explanations of the effect from Bank's application of IFRS 9 can be found below:

	Before IFRS 9		In scope of IFRS 9	
	Measurement Bases	**Book value**	**Measurement Bases**	**Book value**
Financial assets		**31 December 2017**		**1 January 2018**
Cash and Due from Banks and Balances with the Central Bank of Turkey	Measured at amortized cost	46,945,251	Measured at amortized cost	46,945,251
Marketable Securities	Fair value through profit and loss	39,890	Fair value through profit and loss	124,755
	Fair value through other comprehensive income	42,833,711	Fair value through other comprehensive income	47,818,300
	Measured at amortized cost	18,883,032	Measured at amortized cost	13,956,847
Derivative Financial Assets	Fair value through profit and loss	9,320,885	Fair value through profit and loss	9,320,885
	Fair value through other comprehensive income	131,448	Fair value through other comprehensive income	131,448
Loans (Net)	Measured at amortized cost	212,706,936	Measured at amortized cost	212,569,424

The reasons for the classification of certain financial assets held by the Group as above in accordance with the IFRS 9 classification and measurement provisions are explained below:

(i) Financial assets classified as fair value through other comprehensive income according to IFRS 9:

The Group has reassessed its business model at the initial application of IFRS 9 and has reclassified the securities portfolio amounting 4,926,185 TL, which were previously classified as held to maturity, as fair value through other comprehensive income due to the reason that appropriate management model of those marketable securities have the purpose of collecting cash flows or selling financial assets.

(ii) Equity securities designated at fair value through profit or loss in accordance with IFRS 9 standard:

The Group has classified equity securities amounting to TL 84,865, which were classified as available-for-sale financial assets to designated at fair value through profit or loss as of the first application date of IFRS 9.

(4.3) Reclassification of categorised items without a change in measurement :

The Group has decided to allocate some equity intruments which not traded in the organized markets, that were previously classified as available-for-sale, as Fair Value Through Other Comprehensive Income irrevocably. The fair value changes of those marketable securities is not reclassified to profit and loss when they are sold.

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

NOTE 4 – IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 (Continued)

The following borrowing instruments are reclassified in new categories under IFRS 9 without changing any measurement principles.

- Previously classified as "available-for-sale" and as of 1 January 2018 classified as "Fair Value Through Other Comprehensive Income".

- Previously classified as held-to-maturity and as of 1 January 2018 classified as "measured at amortized cost".

(4.4) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9:

Financial Instruments	Book Value before IFRS 9 31 December 2017	Reclassifications	Remeasurements	Book value after IFRS 9 1 January 2018
Measured at amortized cost				
Balance before classification (held-to-maturity)	18,883,032	-	-	-
Classified to Fair Value Through Other Comprehensive Income	-	(4,926,185)	-	-
Book value after classification	-	-	-	13,956,847
Fair value through P/L				
Balance before classification (for trading purpose)	39,890	-	-	-
Classıfied from available sale	-	84,865	-	-
Book value after classification	-	-	-	124,755
Fair Value Through Other Comprehensive Income				
Book value before classification(available-for-sale)	42,833,711	-	-	-
Classified from held-to-maturity	-	4,926,185	-	-
Available-for-sale financial assets valuation difference	-	-	142,269	-
Financial Assets At Fair Value Through Profit Or Loss	-	(84,865)	-	-
Book value after classification	-	-	-	47,818,300

(4.5) Reconciliation of the opening balances of the provision for expected credit losses

The table below shows the reconciliation of the provision for impairment of the Group as of 31 December 2017 and the provision for the expected loss model as measured in accordance with IFRS 9 as of 1 January 2018.

	Book value before IFRS 9 31 December 2017	Remeasurements	Book value after IFRS 9 1 January 2018
Loans	**7,173,417**	**(24,535)**	**7,148,882**
Stage 1	1,366,224	(673,196)	693,028
Stage 2	1,658,325	852,103	2,510,428
Stage 3	4,148,868	(203,442)	3,945,426
Financial Assets	**-**	**86,740**	**86,740**
Non-Cash Loans	**67,754**	**75,307**	**143,061**
Stage 1 and 2	-	82,531	82,531
Stage 3	67,754	(7,224)	60,530
Total	**7,241,171**	**137,512**	**7,378,683**

(4.6) Effects on equity with IFRS 9 transition:

The amounting to TL 137,512 difference which is an expense between the provision for impairment of the previous period of the Bank and the provision for loss that is measured in accordance with IFRS 9 impairment model as of 1 January 2018 is classified as "Retained Earnings" in shareholders' equity.

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

NOTE 4 – IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 (Continued)

For collective and specific provisions tax effect amounting to TL 61,797 have been reflected to the opening financials of 1 January 2018 and the related amount has been classified under "Retained Earnings" in shareholders' equity.

Remeasurement difference regarding the after tax effect, amounting TL 110,969, has been recorded in "Other Reseves" in shareholders equity, for the securities amounting TL 4,926,185 classified as held to maturity and measured at amortized cost before 1 January 2018 and with the IFRS 9 transition classified as designated fair value through other comprehensive income.

NOTE 5 - EARNINGS PER SHARE

Earnings per share disclosed in the consolidated statements of income is determined by dividing the net income attributable to the equity holders of the Group by the weighted average number of ordinary shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the year in which they were issued and for each earlier period.

There is no bonus share issuance as at 31 December 2018 (31 December 2017: None).

The earnings attributable to basic shares for each period are as follows:

	31 December 2018	**31 December 2017**
Profit attributable to equity holders of the Group	5,676,166	6,072,098
Weighted average number of ordinary shares in issue (1 Kr each)	400,000,000,000	400,000,000,000
Basic and diluted earnings per share (expressed in TL, full amount, per share)	**0.0142**	**0.0152**

Basic earnings per share are calculated by dividing the net income attributable to shareholders by the weighted average number of shares in issue.

There are no diluted shares and accordingly there are no diluted earnings per share for any class of shares.

NOTE 6 - SEGMENT REPORTING

The Group operates in business segments including retail banking, commercial banking, corporate and investment banking, private banking and wealth management and treasury. These segments have been determined considering customer segments and branch network providing services to customers in accordance with the Bank's organizational structure.

NOTE 6 - SEGMENT REPORTING (Continued)

Retail banking offers a variety of retail services such as deposit accounts, consumer loans, commercial installment loans, credit cards, insurance products and asset management services. The retail banking products and services also include bank cards, investment funds trading, automatic payment services, foreign currency trading, safe deposit box rentals, cheques, money transfers, investment banking, telephone and internet banking. In addition, retail banking provide financial solutions and banking services to SME customers.

Corporate Banking and Commercial Banking provide financial solutions and banking services to large and medium size corporate and commercial customers. The products and services offered to corporate and commercial customers include TL and foreign currency denominated working capital loans financing for investments, foreign trade financing, derivative instruments for hedging purposes of foreign currency and interest risk, letters of credit, foreign currency trading, corporate finance services and deposit and cash management services. In addition, the Bank provides timely and permanent solutions for corporate customers' working capital management, delivers cash management services tailored based on customers' requests that include collection and payment services and liquidity and information management. Project finance loans are provided within the context of investment banking activities. In the scope of private banking, The Bank serves the members of the high-income customers who have expectations for upper-class service quality both in banking and investment transactions. Within the scope of international banking activities, activities are also being carried out in order to provide long-term funding, to provide funding under a price reflecting the country's risk, to diversify funding resources and to form an international investor base on this area.

The Treasury Unit conducts TL and FC spot and forward transactions, treasury bonds, government bonds, Eurobond and private sector bond transactions and also derivative trading activities within determined limits. Furthermore, Treasury Unit also carries out marketing and pricing activities of treasury products for customers and branch network.

Other Business segments consist of the operations of Ak Finansal Kiralama A.Ş., Ak Yatırım Menkul Değerler A.Ş., Ak Portföy Yönetim A.Ş. and AkÖde Elektronik Para ve Ödeme Hizmetleri A.Ş. which are consolidated as subsidiary of Bank.

Information on business segments as of 31 December 2018 and 31 December 2017 presented in the following tables. Explanations on business segments are prepared on the basis of data obtained from Bank Management Reporting System:

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

NOTE 6 - SEGMENT REPORTING (Continued)

Segment information at 31 December 2018 and 2017 is as follows:

31 December 2018					
Banking	**Retail Banking**	**Commercial Banking, Corporate and Investment Banking, Private Banking and Wealth Management**	**Treasury**	**Other and Unallocated**	**Bank's Total Activities**
Segment information regarding the balance sheet:					
Segment assets	71,535,564	155,414,381	106,291,403	7,093,603	340,334,951
Equity securities				-	19,141
Unallocated assets				-	14,448,518
Total assets				**-**	**354,802,610**
Segment liabilities	131,439,325	70,722,739	89,927,997	6,902,026	298,992,087
Unallocated liabilities				-	11,902,482
Equity				-	43,908,041
Total liabilities and equity				**-**	**354,802,610**
Segment information regarding the income statement:					
Operating Income	6,895,074	2,101,320	614,184	3,422,018	13,032,596
Segment result	5,581,820	(430,905)	705,642	1,273,310	7,129,867
Dividend income				6,567	6,567
Income taxes				(1,460,281)	(1,460,281)
Profit for the year	**5,581,820**	**(430,905)**	**705,642**	**(180,404)**	**5,676,153**
Other segment items					
Capital expenditure	-	-	-	1,074,283	1,074,283
Depreciation and amortization	(64,752)	6,021	3,697	(302,980)	(358,014)
Other non-cash expenses	(1,944,623)	(5,549,604)	(72,515)	(803,020)	(8,369,762)

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

NOTE 6 - SEGMENT REPORTING (Continued)

31 December 2017					
Banking	**Consumer Banking**	**Commercial Banking, SME Banking, Corporate-Investment and Private Banking**	**Treasury**	**Other and Unallocated**	**Bank's Total Activities**
Segment information regarding the balance sheet:					
Segment assets	53,398,842	174,399,522	91,152,722	7,207,062	326,158,148
Equity securities					101,963
Unallocated assets					13,380,349
Total assets					**339,640,460**
Segment liabilities	97,595,727	95,608,073	88,879,678	6,330,535	288,414,013
Unallocated liabilities					9,895,501
Equity					41,330,946
Total liabilities and equity					**339,640,460**
Segment information regarding the income statement:					
Operating Income	4,347,271	6,796,179	1,032,415	892,077	13,067,942
Segment result	2,083,222	4,861,910	838,666	(132,221)	7,651,577
Dividend income				2,658	2,658
Income taxes				(1,582,128)	(1,582,128)
Profit for the year	**2,083,222**	**4,861,910**	**838,666**	**(1,711,691)**	**6,072,107**
Other segment items					
Capital expenditure	-	-	-	483,622	483,622
Depreciation and amortization	(21,292)	(17,510)	(123)	(236,854)	(275,779)
Other non-cash expenses	(284,492)	(113,897)	(54,123)	(1,500,356)	(1,952,868)

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

NOTE 7 - CASH AND DUE FROM BANKS AND BALANCES WITH THE CENTRAL BANK OF TURKEY

Cash and due from banks comprises as follows:

	31 December 2018	31 December 2017
Cash funds:		
Cash on hand (*)	3,680,074	2,266,149
Cash in transit	-	41,536
Purchased cheques	5	12
	3,680,079	**2,307,697**
Current accounts and demand deposits:		
Central Bank of Turkey	15,062,195	9,284,197
Foreign banks	12,588,078	7,586,728
Domestic banks	10,266	1,512
	27,660,539	**16,872,437**
Time deposits:		
Central Bank of Turkey	11,371,550	23,771,282
Foreign banks	5,697,402	604,275
Domestic banks	663,652	1,837,214
	17,732,604	**26,212,771**
Interbank money market placements	**544,657**	**1,552,346**
Total cash and due from banks and the balances with the Central Bank of Turkey	**49,617,879**	**46,945,251**

(*) Includes precious metal accounts amounting to TL 57,522 (31 December 2017:102,465).

At 31 December 2018, assets pledged as off-shore reserve requirements, payment accounts in connection with the issue of floating-rate notes and restricted demand and time deposits in foreign banks amount to TL 5,002,895 (31 December 2017: TL 4,541,840) (Note 27).

Cash and cash equivalents included in the statements of cash flows for the year ended 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Cash and due from banks excluding accrued interest and blocked accounts (*)	18,424,592	12,690,965
Trading and investment securities with original maturities of less than three months excluding accrued interest	7,862	6,501
Total	**18,432,454**	**12,697,466**

(*) Mainly include collateral amounts kept at banks for borrowings.

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

NOTE 7 - CASH AND DUE FROM BANKS AND BALANCES WITH THE CENTRAL BANK OF TURKEY (Continued)

The balances with the Central Bank of Turkey ("the Central Bank"):

	31 December 2018	31 December 2017
The balances with the Central Bank of Turkey:		
- TL	2,928,915	7,033,859
- Foreign currency	23,504,830	26,021,620
Total	**26,433,745**	**33,055,479**

The reserve requirements are promulgated by communiqués issued by the Central Bank and TL 2,928,791 in Turkish Lira and TL 23,504,830 in foreign currency promulgated as of 31 December 2018 (31 December 2017: TL 7,033,859 Turkish Lira and TL 26,021,620 in foreign currency).

The amounts of the reserve requirements are computed on the basis of the liabilities identified and at the rates prescribed in the related regulations.

In accordance with the "Communiqué Regarding the Reserve Requirements no. 2013/15, the Bank is required to maintain reserves in CBRT for TL and foreign currency liabilities. The reserve requirements can be maintained as TL, USD, EUR and standard gold. CBRT pays interest on reserve balances held in TL and USD.

The required reserve rates for TL liabilities vary between 1.5% and 8% for TL deposits and other liabilities according to their maturities as of 31 December 2018 (31 December 2017: 4% and 10,5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 4% and 20% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2018 (31 December 2017: 4% and 24% for all foreign currency liabilities).

NOTE 8- DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters mainly into the following derivative financial instruments:

"Currency forwards" represent commitments to purchase or to sell foreign or domestic currency, including spot transactions. "Foreign currency futures" are contractual obligations to receive or pay a net amount based on changes in currency rates or to buy or sell foreign currency at a future date at a specified price established in an organized financial market. Since future contracts are collateralized by cash or marketable securities and changes in the future contract value are settled daily with the exchange rate, the credit risk is negligible.

"Currency and interest rate options" are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer ("OTC").

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

NOTE 8- DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

"Currency and interest rate swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. The Group's "credit risks" represent the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the consolidated statements of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held at 31 December 2018 and 31 December 2017 are set out in the following table.

	31 December 2018		**31 December 2017**	
	Fair values		**Fair values**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivatives held for trading:				
Currency and interest rate swap purchases and sales	16,021,424	(11,182,656)	7,700,398	(4,727,205)
Options purchases and sales	521,910	(609,422)	202,524	(242,213)
Currency and interest rate futures purchases and sales	-	-	-	-
Forward currency purchases and sales	1,004,135	(344,315)	413,127	(454,410)
Other purchases and sales	-	-	-	-
Derivatives held for hedging:				
Currency and interest rate swap purchases and sales	5,058,434	(688,610)	1,136,284	(74,911)
Total derivative assets/(liabilities)	**22,605,903**	**(12,825,003)**	**9,452,333**	**(5,498,739)**

The notional amounts of derivative transactions are explained in detail in Note 28.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading.

As at 31 December 2018, contractual amounts of derivative financial instruments designated as hedging instruments and the net fair values carried in the balance sheet are summarized in the following table:

	Current Period 31 December 2018			**Prior Period 31 December 2017**		
	Notional Amount	**Assets**	**Liabilities**	**Notional Amount**	**Assets**	**Liabilities**
Interest Rate and Cross Currency Swaps						
-TL	16,237,237	4,693,776	647,569	2,497,225	973,630	-
-FC	45,937,007	364,658	41,041	27,012,330	162,654	74,911
Total	**62,174,244**	**5,058,434**	**688,610**	**29,509,555**	**1,136,284**	**74,911**

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

NOTE 8- DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

1. Explanations on Net Investment Hedge:

The Group has been using net investment hedging strategy to hedge foreign currency risk of EURO 320 million which represents share premiums and paid-in-capital of Akbank AG, one of its subsidiaries, with EURO 320 million of syndication loans used by the Group have been classified as "hedge instruments".

2. Explanations on Fair Value Hedges:

Current Period - 31 December 2018

Hedging Instrument	Hedged Item	Risk Exposure	Fair Value Difference of Hedging Instrument	Fair Value Difference of Hedged Items (*)	Ineffective Portion (**)
Interest Rate Swap	Fixed interest rate FC financial assets at fair value through OCI	Interest rate risk	(43,581)	33,893	(9,688)
Cross-currency swap	Fixed interest rate TL Mortgage Loans, FC borrowings	Interest rate and currency risk	2,632,655	(2,658,615)	(25,960)
Cross-currency swap	Fixed interest rate TL Commercial Loans. FC borrowings	Interest rate and currency risk	9,438	(9,438)	-
Interest Rate Swap	Fixed interest rate Lease Receivables	Interest rate risk	93	(95)	(2)
Cross-currency swap	Fixed interest rate FC Issued Eurobond, FC Lease Receivables	Interest rate and currency risk	22,074	(22,686)	(612)

(*) Includes fair value differences arising from changes in foreign exchange rates for hedges against interest rate and foreign currency from the interest rate and foreign exchange risks.
(**) Represents the cumulative amounts booked under "Gain / (Loss) on Derivative Financial Transactions" and "Gain/ (Loss) on Foreign Exchange Transactions" since the beginning of hedge accounting

Prior Period - 31 December 2017

Hedging Instrument	Hedged Item	Risk Exposure	Fair Value Difference of Hedging Instrument	Fair Value Difference of Hedged Items (*)	Ineffective Portion (**)
Interest Rate Swap	Fixed interest rate FC available-for-sale financial assets	Interest rate risk	(70,981)	63,778	(7,203)
Interest Rate Swap	Fixed interest rate Lease Receivables	Interest rate risk	273	(281)	(8)
Cross-currency swap	Fixed interest rate TL Mortgage Loans Portfolio, FC borrowings	Interest rate and currency risk	1,115,949	(1,104,587)	11,362
Cross-currency swap	Fixed interest rate FC Issued Eurobond, FC Lease Receivables	Interest rate and currency risk	661	(663)	(2)

(*) Includes fair value differences arising from changes in foreign exchange rates for hedges against interest rate and foreign currency from the interest rate and foreign exchange risks.
(**) Represents the cumulative amounts booked under "Gain / (Loss) on Derivative Financial Transactions" and "Gain/ (Loss) on Foreign Exchange Transactions" since the beginning of hedge accounting.

As at 31 December 2018 fair value hedge transactions have been proven to be effective.

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

NOTE 8- DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

In addition, when the hedging instrument expires, is executed or sold and when the hedge relationship becomes ineffective or is discontinued as a result of the hedge relationship being revoked are given below:

- As at 31 December 2018, related to fair value hedge transactions, the remaining net amount after amortization of the fair value change of the hedged items since the beginning of hedge accounting is TL 7,263 (31 December 2017: TL 15,256).

3. Explanations on Cash Flow Hedge

Current Period - 31 December 2018

Hedging instrument	Hedged item	Nature of risk hedged	Hedging instrument FV		Net gain/(loss) recognized in OCI during the period	Net gain/(loss) reclassified to income statement during the year	Ineffective portion recognized in income statement (Net)
			Assets	Liabilities			
Interest Rate Swap	Floating-rate long Term FC funds borrowed	Cash Flow risk due to changes in interest rate of funds	253,669	-	191,663	46,141	499
Cross Currency Swap	Short term FC commercial deposits	Cash Flow risk due to changes in interest rate of funds	1,735,670	48,976	129,198	(368,522)	84,273
Cross Currency Swap	Floating-rate FC given loans	Cash Flow risk due to changes in interest rate of funds	-	344,201	198,896	312,291	18,934
Interest Rate Swap	Short term TL deposits	Cash Flow risk due to changes in interest rate of funds	270	251,782	(216,086)	12,411	(1,567)

As of 31 December 2018 cash flow hedge transactions have been determined as effective

Prior Period - 31 December 2017

Hedging instrument	Hedged item	Nature of risk hedged	Hedging instrument FV		Net gain/(loss) recognized in OCI during the period	Net gain(loss) reclassified to income statement during the year	Ineffective portion recognized in income statement (Net)
			Assets	Liabilities			
Interest Rate Swap	Floating-rate long term FC funds borrowed	Cash Flow risk due to changes in interest rate of funds	131,448	-	12,793	(22,824)	215

As of 31 December 2018 cash flow hedge transactions have been determined as effective.

In addition, when the hedging instrument expires, is executed or sold and when the hedge relationship becomes ineffective or is discontinued as a result of the hedge relationship being revoked with the information related discontinuous transactions are given below:

- As of 31 December 2018, related to cash flow hedge transactions, the remaining before tax amount in equity after amortization of the fair value change of the hedging instruments, since the beginning of hedge accounting is TL (6,113) (31 December 2017: TL (19,006)).

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

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

Distribution of the loan portfolio of the Group by nature is as the following:

	31 December 2018	31 December 2017
Consumer loans	**29,142,092**	**32,125,184**
- Mortgage	10,805,847	13,232,484
- General purpose	18,198,263	18,638,022
- Automobile	137,982	254,678
- Other	-	-
Credit cards	**14,756,618**	**14,048,926**
- Retail	12,060,180	11,455,619
- Corporate	2,696,438	2,593,307
Corporate, commercial and small business loans	**170,081,452**	**168,886,462**
- Export financing loans	13,874,390	10,052,790
- Loans to financial institutions	10,256,161	11,269,060
- Leasing receivables	5,815,129	5,734,802
- Project finance loans	48,446,550	35,328,282
- Commercial installment loans	15,156,894	19,293,052
- Other	76,532,328	87,208,476
Performing loans	**213,980,162**	**215,060,572**
Impaired loans	8,439,028	4,819,781
Total loans and advances to customers	**222,419,190**	**219,880,353**
Provision for impairment	(8,482,446)	(7,173,417)
Net loans and advances to customers	**213,936,744**	**212,706,936**

Loans and advances to customers include finance lease receivables, as shown below:

	31 December 2018	31 December 2017
Gross investment in finance leases	7,238,273	6,898,217
Less: Unearned finance income	(796,955)	(876,345)
Total investment in finance leases	6,441,318	6,021,872
Provision for impairment	(501,182)	(209,879)
Net investment in finance leases	**5,940,136**	**5,811,993**

Gross lease rentals receivable and the net investment in direct financing leases have the following collection schedules:

	31 December 2018		31 December 2017	
	Gross investment in finance leases	Total investment in finance leases	Gross investment in finance leases	Total investment in finance leases
Period ending				
2018	-	-	-	-
2019	3,106,279	2,804,983	2,619,756	2,316,629
2020	1,568,621	1,341,508	1,477,983	1,237,783
2021(*)	2,563,373	2,294,827	2,800,478	2,467,460
Total	**7,238,273**	**6,441,318**	**6,898,217**	**6,021,872**

(*) Balances include the year 2021 and thereafter.

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

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

As of 31 December 2018 and 31 December 2017, the Group's collateral types are mainly composed of mortgages, cash blockages, vehicle and machine pledges.

The Group has provided an individual impairment for impaired loans amounting to TL 4,880,901. (31 December 2017: TL 4,148,868). As of 31 December 2018 total amount of provision for impairment provided by the Group, which amounts to TL 8,482,446 (31 December 2017: 7,173,417) represents the total amount of individual and collective provision on loans and advances.

Movements in the provision for loan losses are as follows:

	31 December 2018			
	Commercial loans	**Consumer loans and credit cards**	**Leasing receivables**	**Total**
31 December 2017	**4,052,518**	**2,911,020**	**209,879**	**7,173,417**
Impact of adopting IFRS 9	845,575	(919,590)	49,480	(24,535)
1 January 2018	**4,898,093**	**1,991,430**	**259,359**	**7,148,882**
Additions	4,986,257	1,753,633	366,341	7,106,231
Collections	(709,473)	(440,373)	(5,794)	(1,155,640)
Write-offs (*)(**)	(3,598,127)	(900,176)	(118,724)	(4,617,027)
31 December 2018	**5,576,750**	**2,404,514**	**501,182**	**8,482,446**

(*) TL 774 million (in full TL principal amount) portion of the Bank's non-performing loan portfolio has been sold at a price of TL 36 million (in full TL amount) to 3 companies Efes Varlık Yönetim A.Ş., Hayat Varlık Yönetimi A.Ş. and Final Varlık Yönetimi A.Ş. TL 446 million (in full TL principal amount) portion of the Bank's non-performing loan portfolio has been sold at a price of TL 19.4 million (in full TL amount) to 3 companies Arsan Varlık Yönetim A.Ş., İstanbul Varlık Yönetimi A.Ş. and Sümer Varlık Yönetimi A.Ş.
(**) Within the scope of acquisition finance of Türk Telekomunikasyon A.Ş. (Türk Telekom) within a syndicate formed by various domestic and foreign banks, where the financing structure includes acquired company's shares pledged as collateral, the Bank has been transferred cash loan risk amounted TL 3.269 million from "Loans and receivables under follow up" to "Non-performing Loans" and subsequently write off TL 3.269 million. The related transferred and write-off amounts are included in "Additions" and "Write-off" lines.

	31 December 2017			
	Commercial loans	**Consumer loans and credit cards**	**Leasing receivables**	**Total**
1 January 2017	**3,662,281**	**3,302,324**	**113,614**	**7,078,219**
Additions	914,072	733,951	128,260	1,776,283
Collections	(337,650)	(584,286)	(10,970)	(932,906)
Write-offs (*)	(186,185)	(540,969)	(21,025)	(748,179)
31 December 2017	**4,052,518**	**2,911,020**	**209,879**	**7,173,417**

(*) 709 million (in full TL amount) of the Bank's non-performing loan portfolio has been sold to 4 companies İstanbul Varlık Yönetim A.Ş., Efes Varlık Yönetim A.Ş., Hayat Varlık Yönetimi A.Ş. ve Final Varlık Yönetimi A.Ş. at a price of TL 39 million (in full TL amount).

Loans and advances to related parties are as follows:

	31 December 2018	**31 December 2017**
Loans and advances measured at amortized cost(Net)	5,617,685	5,605,978
Loans and advances measured at FVPL	6,690,208	-
Less: Cash collateral obtained	-	-
Net loans and advances to related parties	**12,307,893**	**5,605,978**

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

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Loans and advances to the public sector and private sector are as follows:

	31 December 2018	31 December 2017
Private sector	220,910,558	218,272,385
Public sector	1,508,632	1,607,968
Total loans and advances to customers	**222,419,190**	**219,880,353**

Further disclosures with respect to loans and advances to customers and expected credit loss are made in Note 30.

NOTE 10 – INVESTMENT SECURITIES

(a) Measured At Fair Value Through Profit Or Loss:

	31 December 2018
Government bonds	10,113
Eurobonds	-
Government bonds denominated in foreign currency	-
Treasury bills	-
Share certificates	150,684
Other	18,019
Total	**178,816**

(b) Trading Securities:

	31 December 2017
Government bonds	9,525
Eurobonds	-
Government bonds denominated in foreign currency	-
Treasury bills	-
Share certificates	23,431
Other	6,934
Total	**39,890**

As of 31 December 2018, the group has no financial assets pledged under repurchase agreements with financial institutions (31 December 2017: TL 200).

Financial assets at fair value through profit or loss amounting to TL 10,599 (31 December 2017: TL 9,731) have been pledged as collateral to financial institutions.

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

NOTE 10 – INVESTMENT SECURITIES (Continued)

(c) Measured Fair Value Through Other Comprehensive Income

	31 December 2018
Debt securities	
- Government bonds	23,928,005
- Eurobonds	12,574,559
- Treasury bills	-
- Government bonds denominated in foreign currency	-
- Other bonds	7,586,273
Equity securities	
- Listed	-
- Unlisted	19,141
- Mutual Funds	237,585
Total	**44,345,563**

(d) Securities available-for-sale:

	31 December 2017
Debt securities	
- Government bonds	23,158,099
- Eurobonds	13,657,443
- Treasury bills	1,077
- Government bonds denominated in foreign currency	-
- Other bonds	5,637,142
Equity securities	
- Listed	-
- Unlisted	101,963
- Mutual Funds	277,987
Total	**42,833,711**

Unrealized gain and losses arising from changes in the fair value of securities classified as "financial assets measured at fair value OCI" in current period and "available-for-sale" in prior periods are recognized as "other reserves" in other comprehensive income unless there is an objective evidence that the asset is impaired in which case the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss.

Government bonds, Eurobonds and treasury bills under trading and investment securities are issued by the Government of the Republic of Turkey. Other bonds mainly represent bonds issued by corporate and other financial institutions.

(e) Financial assets measured at amortised cost

	31 December 2018
Debt securities	
- Government bonds	9,062,489
- Other government debt securities	691,694
- Other Marketable Securities	2,509,298
Total	**12,263,481**

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

NOTE 10 – INVESTMENT SECURITIES (Continued)

As at 31 December 2018, investment securities subject to repurchase agreements amount to TL 14,749,052 (31 December 2017: TL 30,143,917); and those given as collateral/blocked amount to TL 9,514,020 (31 December 2016: TL 5,009,380).

Government bonds, Eurobonds and treasury bills under trading and investment securities are issued by the Government of the Republic of Turkey. Other bonds mainly represent bonds issued by corporate and other financial institutions.

The movement of financial assets measured at amortised costs is as follows:

	31 December 2018
Balance at 1 January	**18,883,032**
Additions	1,654,189
Redemptions (*)	(10,713,907)
Exchange differences	1,683,147
Impairment Provision (-)	184,506
Change in Amortized Cost	572,514
Balance at 31 December 2018	**12,263,481**

(*) The Bank has reviewed its management model for securities in accordance with TFRS 9 standard. Securities amounting to TL 4,926,185 previously classified as held to maturity and measured at amortised cost are classified to fair value through other comprehensive income because of the appropriate management model is intended to be used for selling or financing cash flows.

(f) Held-to-maturity investments:

	31 December 2017
Debt securities	
- Government bonds	13,596,948
- Other government debt securities	2,546,431
- Other Marketable Securities	2,739,653
Total	**18,883,032**

The movement of held-to-maturity securities is as follows:

	31 December 2017
Balance at 1 January	**17,976,870**
Additions	226
Redemptions	(766,185)
Exchange differences	1,223,819
Impairment Provision (-)	(75,298)
Change in Amortized Cost	523,600
Balance at 31 December	**18,883,032**

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

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT

The Bank has started to account properties under the tangible assets with their revalued amount instead of cost values in accordance with "IAS 16 Plant and Equipment" on 31 January 2017. The revaluation difference amounting to TL 2,465,549 is shown under "Investment Properties Revaluation" in the below table as of 31 December 2017. The revaluation difference arising from the valuations made by the appraisal firms authorized by Capital Markets Board ("CMB") and BRSA. Revaluations are performed, in line with IFRS 13 "Fair Value Measurement Financial Reporting Standard". While revaluating the property, the expert firm considers the following matters:

1. Condition and location of the asset.
2. Whether there are any restrictions in using and selling the asset.

Three commonly used valuation methods used by expert firms are; market approach, cost approach and revenue approach. If more than one valuation method is used to measure fair value, the results (indicators related to the fair value) are evaluated by taking into account the acceptability of the range of values they provide. The fair value measurement is the point that best reflects the fair value in the current circumstances.

	Land and Buildings	**Equipment and vehicles**	**Constructions in progress**	**Leasehold improvements**	**Total**
At 31 December 2017					
Cost	2,954,805	1,301,915	46,101	111,606	4,414,427
Accumulated depreciation	(24,217)	(871,020)	-	(93,274)	(988,511)
Net book amount	**2,930,588**	**430,895**	**46,101**	**18,332**	**3,425,916**
Opening net book amount	2,930,588	427,265	49,731	18,332	3,425,916
Additions	2,678	386,666	321,617	22,754	733,715
Investment Properties Revaluation differences	-	-	-	-	-
Disposals	(4,144)	(824)	-	(259)	(5,228)
Depreciation charge (Note 26)	(19,069)	(156,757)	-	(8,389)	(184,215)
Impairment	429	-	-	-	429
Transferred	11,986	2	(23,553)	-	(11,565)
Closing net book amount	**2,922,468**	**656,352**	**347,795**	**32,438**	**3,959,052**
At 31 December 2018					
Cost	2,965,882	1,623,832	347,795	129,851	5,067,361
Accumulated depreciation	(43,414)	(967,480)	-	(97,414)	(1,108,309)
Net book amount	**2,922,468**	**656,352**	**347,795**	**32,437**	**3,959,052**

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

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land and Buildings	Equipment and vehicles	Constructions in progress	Leasehold improvements	Total
At 31 December 2016					
Cost	725,252	1,152,108	2,383	122,117	2,001,860
Accumulated depreciation	(242,750)	(782,893)	-	(94,856)	(1,120,499)
Net book amount	**482,502**	**369,215**	**2,383**	**27,261**	**881,361**
Opening net book amount	482,502	369,215	2,383	27,261	881,361
Additions	1,296	186,295	52,980	4,210	244,781
Investment Properties					
Revaluation differences	2,465,549	-	-	-	2,465,549
Disposals	(7,637)	(493)	-	(2,219)	(10,349)
Depreciation charge (Note 26)	(18,911)	(124,122)	-	(10,920)	(153,953)
Impairment	(1,473)	-	-	-	(1,473)
Transferred	9,262	-	(9,262)	-	-
Closing net book amount	**2,930,588**	**430,895**	**46,101**	**18,332**	**3,425,916**
At 31 December 2017					
Cost	2,954,805	1,301,915	46,101	111,606	4,414,427
Accumulated depreciation	(24,217)	(871,020)	-	(93,274)	(988,511)
Net book amount	**2,930,588**	**430,895**	**46,101**	**18,332**	**3,425,916**

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

NOTE 12 - INTANGIBLE ASSETS

	31 December 2018	31 December 2017
Cost	1,379,705	1,040,085
Accumulated depreciation	733,512	(561,543)
Net book amount	**646,193**	**478,542**
Opening balance at 1 January	478,542	361,527
Disposals (-)	-	-
Additions	340,863	238,841
Charge for the year (net)	(173,212)	(121,826)
Net book amount	**646,193**	**478,542**

NOTE 13 - OTHER ASSETS AND PRE-PAYMENTS

The principal components of other assets and pre-payments are as follows:

	31 December 2018	31 December 2017
Derivative collaterals	3,804,234	2,104,468
Receivables from cheques in clearance	1,212,261	149,830
Pre-payments	788,669	668,161
Other	448,122	416,327
Miscellaneous receivables	385,196	734,489
Receivables from credit card payments	35,689	60,189
Fund management fee accruals	3,966	36,486
Total	**6,678,137**	**4,169,950**

NOTE 14 - DEPOSITS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The breakdown of deposits according to type and maturity is as follows:

	31 December 2018			31 December 2017		
	Demand	Time	Total	Demand	Time	Total
Saving deposits	20,345,719	105,662,511	126,008,230	17,851,983	89,346,331	107,198,314
Commercial deposits	18,979,659	51,597,718	70,577,377	17,324,591	59,449,771	76,774,362
Funds deposited under repurchase agreements	-	14,209,227	14,209,227	-	28,850,276	28,850,276
Bank deposits	1,487,220	6,564,165	8,051,385	1,187,569	12,741,468	13,929,037
Other	1,321,784	2,671,123	3,992,907	546,072	3,007,743	3,553,815
Total	**42,134,382**	**180,704,744**	**222,839,126**	**36,910,215**	**193,395,589**	**230,305,804**

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

NOTE 14 - DEPOSITS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS (Continued)

At 31 December 2018, deposits of TL 16,919,455 (31 December 2017: TL 11,148,292) were from related parties. The total interest expense paid to related party deposits is TL 1,690,743 (31 December 2017: TL 897,719) for the year ended 31 December 2018.

NOTE 15 - INTERBANK MONEY MARKET DEPOSITS, FUNDS BORROWED

	31 December 2018	31 December 2017
Interbank money market deposits	**65,789**	**507,522**
Domestic banks		
- TL	279,606	325,546
- Foreign currency	1,268,471	688,817
Foreign institutions	24,546,902	21,236,702
Funds borrowed	**26,094,979**	**22,251,065**

Interbank money market deposits represent borrowings from Istanbul Settlement and Custody Bank and the interbank money market which is regulated by the Central Bank of Turkey.

Funds borrowed from domestic banks mainly represent funds obtained from Turkish Eximbank to finance certain export loans given to customers, under prevailing regulations.

As of 31 December 2018, Akbank has three outstanding syndicated loan facilities.

First outstanding facility with 1 and 2 years tenor tranches was signed on 15 August 2017 and raised a total of EUR 515,1 million and USD 542,6 million and outstanding balance is USD 205 million with Libor + 220 bps for 2 years tenor.

Second outstanding facility with 1 and 2 years tenor tranches was signed on 26th March 2018 and raised a total of EUR 483 million and USD 604,5 million with Euribor+120 bps and Libor+130 bps for 1 year, and Libor + 210 bps for 2 years tenor.

Third outstanding facility with 1 year tenor was signed on 27th September 2018 and raised a total of EUR 591 million and USD 285 million with Euribor+265 bps and Libor+275 bps.

NOTE 16 – DEBT SECURITIES ISSUED

Equity securities consist of USD, EUR, RON, JPY, HUF and TL denominated securities.

The balances amounting to USD 5,641,962 thousands and EUR 123,809 thousands consist of securitization deals and other currencies TL 134,293 thousands consist of RON, JPY and HUF denominated securities issued by the Group. The repayment schedule of the total USD, EUR, RON, JPY and HUF denominated notes in issue is as follows:

NOTE 16 – DEBT SECURITIES ISSUED (Continued)

	31 December 2018				
	USD (000)	**TL**	**EUR (000)**	**TL**	**Other TL**
2018 (*)	-	-	-	-	-
2019	979,670	5,153,064	91,366	549,857	134,293
2020	1,071,920	5,638,299	23,104	139,044	-
2021	574,885	3,023,895	362	2,179	-
2022	946,571	4,978,963	348	2,094	-
2023	538,218	2,831,027	335	2,016	-
2024	493,616	2,596,420	321	1,932	-
2025	448,497	2,359,094	309	1,860	-
2026	57,488	302,387	297	1,787	-
2027	309,511	1,628,028	285	1,715	-
2028	221,586	1,165,542	274	1,649	-
2029	-	-	6,808	40,955	-
2030	-	-	-	-	-
2031	-	-	-	-	-
Total	**5,641,962**	**29,676,719**	**123,809**	**745,088**	**134,293**

	31 December 2017				
	USD (000)	**TL**	**EUR (000)**	**TL**	**Other TL**
2017 (*)	-	-	-	-	-
2018	1,208,548	4,519,968	75,260	336,963	77,726
2019	452,230	1,691,340	93,331	417,871	95,974
2020	848,888	3,174,841	45,817	205,136	-
2021	516,436	1,931,471	23,075	103,314	-
2022	773,845	2,894,180	334	1,495	-
2023	464,207	1,736,134	321	1,437	-
2024	482,772	1,805,567	309	1,383	-
2025	426,707	1,595,884	297	1,330	-
2026	63,293	236,716	285	1,276	-
2027	293,150	1,096,381	274	1,227	-
2028	9,893	37,000	263	1,178	-
2029	-	-	6,543	29,295	-
Total	**5,539,969**	**20,719,482**	**246,109**	**1,101,905**	**173,700**

(*) Repayments include accrued interest payables in the amount.

As of 31 December 2018 the outstanding TL denominated bonds with the maturity of 1-3 months are TL 2,669,292 with the maturity of 3-6 months are TL 278,354, with the maturity of 1-5 years are TL 257,048 and with the maturity of over 5 years are TL 1,650,034.

As of 31 December 2017, the outstanding TL denominated bonds with the maturity of 1-3 months are TL 3,533,530 with the maturity of 3-6 months are TL 1,122,952 and with the maturity of over 5 years are TL 2,480,799.

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

NOTE 16 – DEBT SECURITIES ISSUED (Continued)

Net Debt Reconciliation

	Funds Borrowed	Debt Securities in Issue	Interbank Money Market Deposits	Total
Opening Balance (As of 31 December 2017)	**22,251,065**	**29,132,358**	**507,522**	**51,890,945**
Additional Liabilities	3,780,178	8,558,636	-	12,338,814
Principal Payments	-	(2,279,301)	(439,000)	(2,718,301)
Interest Accrual Changes	63,736	(865)	(2,733)	60,138
Closing Balance (As of 31 December 2018)	**26,094,979**	**35,410,828**	**65,789**	**61,571,596**

NOTE 17 - TAXATION

	31 December 2018	31 December 2017
Current income tax expense	1,123,468	(1,654,953)
Deferred tax expense/(income)	336,813	72,825
Income tax expense	**1,460,281**	**(1,582,128)**
Income taxes currently payable	398,481	1,604,765
Prepaid taxes	(390,444)	(853,069)
Income taxes payable	**8,037**	**751,696**

(a) Income taxes currently payable

In Turkey, corporate tax rate is 20%. Corporate tax rate will be applied as 22% for a period of three years in between 2018-2020, according to Law No: 7061 "The Law regarding amendments on Certain Tax Laws and their implications on Deferred Tax Calculations" published in the Official Gazette dated 5 December 2017. The corporate tax rate is applied to tax base which is calculated by adding certain non-deductible expenses for tax purposes and deducting certain exemptions (like dividend income) and exclusion of deductions on accounting income. If there is no dividend distribution, no further tax charges are made.

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

Corporations are required to pay advance corporate tax quarterly on their corporate income with current rate. Advance tax is declared by the 14th day and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations which is for the current period is credited against the annual corporation tax calculated on their annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

A 75% portion of the capital gains derived from the sale of equity investments and a 50% portion of the capital gains derived from the sale of immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or held in a special fund account under liability for five years.

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

NOTE 17 – TAXATION (Continued)

Under the Turkish Corporate Tax Law, losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns until the 25th day of the following fourth month after the closing of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year following the date of filing during this time period the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Current tax, related to items recognized directly in equity is also credited or charged directly to equity:

Akbank AG (Germany)

German-resident corporations (i.e. corporations with legal or business centers located in Germany) are subject to corporate taxation in Germany over their total income. Regardless of any profit distribution corporate tax is levied at 15% over total income. Effective corporate tax rate is 15.825% since an additional solidarity tax of 5.5% is applied over the calculated corporate tax. In addition to that, trade income tax at an approximate rate of 16% is levied by the local city governance. Accordingly, the total tax burden including all types of tax (corporate tax, solidarity tax and trade income tax) is approximately 32%.

The movement of current income taxes at 31 December 2018 and 2017 is as follows;

	31 December 2018	**31 December 2017**
Balance at 1 January	**751,696**	**289,159**
Current taxes charged to income statement	1,123,468	1,654,953
Current taxes charged to equity	(724,987)	(50,188)
Less: Taxes paid	(1,142,140)	(1,142,228)
Total	**8,037**	**751,696**

The reconciliation between the expected and the actual taxation charge is stated below:

	31 December 2018	**31 December 2017**
Profit before income taxes and minority interest	7,136,434	7,654,235
Theoretical tax charge at the applicable tax rate 22% (2017: 20%)	1,570,015	1,530,847
Tax effect of items which are not deductible or assessable for taxation purposes:		
Income exempt from taxation	(291,052)	(129,603)
Non-deductible expenses	181,318	180,884
	1,460,281	**1,582,128**

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

NOTE 17 – TAXATION (Continued)

(b) Deferred income taxes

The Group calculates and accounts for deferred income taxes for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with "Turkish Accounting Standard for Income Taxes" ("TAS 12") and the related decrees of the BRSA concerning income taxes. In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date. The Law regarding amendments on Certain Tax Laws was approved in The Grand National Assembly of Turkey on 28 November 2017 and the Law was published in the Official Gazette on 5 December 2017. Accordingly, the corporate income tax rate will be increased from 20% to 22% for the years 2018, 2019 and 2020. According to the Law that have been enacted, deferred tax asset and liabilities shall be measured at the tax rate 22% that are expected to apply to these periods when the assets is realised or the liability is settled. For the periods 2021 and after deferred tax assets and liabilities will be measured by 20% tax rate.

Deferred tax assets and liabilities are presented on a net basis by considering the domestic and foreign branches' financial statements separately.

Deferred tax, related to items recognized directly in equity is also credited or charged directly to equity and calculated on temporary differences that are expected to be realized or settled based on the taxable income under the liability method using enacted tax rates in related jurisdictions.

The movement of deferred income taxes at 31 December 2018 and 2017 as follows;

	31 December 2018	31 December 2017
Deferred tax asset, net at 1 January	**222,063**	**411,603**
Deferred income tax recognized in income statement	(336,813)	72,825
Deferred income tax recognized in equity	(33,107)	(262,365)
Deferred tax asset/(liability), net at 31 December	**(147,857)**	**222,063**

The deferred tax asset and liability represents the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return, in accordance with the applicable tax law. The temporary differences giving rise to deferred income tax assets and deferred tax liabilities are as follows:

	Accumulated temporary differences	Deferred tax assets/liabilities
Current Period - 31 December 2018		
Employment benefit obligations	325,249	71,324
Expected Credit Losses (Stage 1 and Stage 2)	4,040,886	871,454
Other temporary differences	1,139,796	247,938
Differences between book value and tax base of property, plant and equipment	(743,336)	(163,498)
Temporary differences on financial instruments	(3,509,346)	(765,250)
Property Revaluation Differences	(2,461,256)	(300,829)
Reversal of country risk provision	(340,612)	(108,996)
Deferred Tax Asset/(Liabilities) Net		**(147,857)**

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

NOTE 17 – TAXATION (Continued)

	Accumulated temporary differences	Deferred tax assets/liabilities
Prior Period - 31 December 2017		
Employment benefit obligations	300,953	68,041
Other temporary differences	435,844	87,943
Free Provision for general possible risk	700,000	140,000
Temporary differences on financial instruments	1,407,595	285,788
Property Revaluation Differences	(2,465,549)	(162,883)
Differences between book value and tax base of property, plant and equipment	(584,033)	(122,011)
Reversal of country risk provision	(233,796)	(74,815)
Deferred Tax Asset/(Liabilities) Net		**222,063**

NOTE 18 - OTHER LIABILITIES AND ACCRUED EXPENSES

As at 31 December 2018, principal components of the other liabilities, are payables to point of sale acquiring merchants, payables on derivative instruments and other transitory accounts.

Payables to point of sale acquiring merchants include amounts owed to merchants related with credit card transactions in which the transacted amount will be paid to the merchants on a term basis.

At 31 December 2018, payables to point of sale acquiring merchants of TL 471,746 (31 December 2017: TL 464,790) were from related parties.

NOTE 19 - PROVISIONS

As of 31 December 2018, the Group has allocated reserve for employment termination benefit and vacation liability amounting to TL 215,202 and TL 110,046, respectively (31 December 2017: 209,829 and 91,124).

Provision for non-cash loans that are non-funded and non-transformed into cash as of 31 December 2018 is amounting to TL 50,740 (31 December 2017: TL 67,754).

In addition to above the accompanying consolidated financial statement include a free provision for general possible risk of TL 550,000. A portion of free provision amounting to TL 150,000 thousands on net basis has been reversed in the current year, out of total free provision of TL 700,000 thousands provided in the prior years by the Bank Management considering the possible effect of the circumstances that may arise from the changes in the economy and market conditions. Accordingly deferred tax asset of TL 33,000 thousands has been reversed out of TL 154,000 thousands provided in prior years. As stated the amount of free provision in the accompanying consolidated financial statements is TL 550,000 thousands and the related deferred tax amounting to TL 121,000 thousands as at 31 December 2018.

The Group has provision for credit cards and banking services promotion activities amounting to TL 50,044 (31 December 2017: TL 69,284).

As of 31 December 2018, the corporate tax liability after the deduction of temporary taxes paid is TL 8,037 (31 December 2017: TL 751,698).

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

NOTE 20 - EMPLOYMENT BENEFIT OBLIGATIONS

	31 December 2018	31 December 2017
Balance sheet obligations for:		
- Reserve for employment termination benefits	215,203	209,829
- Accrual for unused vacation	110,046	91,124
- Post-employment benefits (pension and medical)	-	-
Total	**325,249**	**300,953**

There is no amount recognized in the balance sheet for post-employment benefits since fair value of the Fund's plan assets compensate defined benefit obligations for the years ended 2018 and 2017.

	31 December 2018	31 December 2017
Income statement charge for:		
- Post-employment benefits (pension and medical)	(232,880)	(204,575)
- Reserve for employment termination benefits	(68,105)	(47,367)
- Accrual for unused vacation	(17,026)	(9,147)
Total	**(318,011)**	**(261,089)**

The charge for the post-employment benefits representing the cash contributions to the Fund by the Group. Reserve for employment termination benefits and unused vacation have been included in employee costs under operating expenses (Note 26).

(a) Post-employment benefits (pension and medical)

The surplus unrecognized in the balance sheet is determined as follows:

	31 December 2018	31 December 2017
Total Obligations	(5,784,979)	(4,979,328)
Cash Value of Future Contributions	4,163,438	3,817,272
Total Transfer Obligations to SSI (*)	**(1,621,541)**	**(1,162,056)**
Past Service Obligation	(167,755)	(182,305)
Total Transfer to SSI and Other Obligations	**(1,789,296)**	**(1,344,361)**
Fair Value of Assets	1,795,490	1,551,402
Surplus	**6,194**	**207,041**

(*) The amount of the post-employment medical benefits transferrable to SSI is calculated over the net present value of medical liabilities and health premiums.

The Bank's personnel are members of the "Akbank T.A.Ş. Personnel Pension Fund Foundation" ("Pension Fund") established in accordance with the Social Security Law numbered 506, article No.20. The financial statements of the Pension Fund have been audited as of year ends by an independent actuary in accordance with the 38th article of the Insurance Supervisory Law and the "Actuarial Regulation" based on the same article.

Temporary 23rd article paragraph ("the paragraph") 1 of the Banking Law No 5411 published in the Official Gazette no 25983 dated 1 November 2005 envisaged that Banks would transfer their pension funds to the Social Security Institution ("SSI") within three years following the publication date of the Banking Law, and regulated the principles of this transfer. The first paragraph of the related article was rescinded as from the 31 March 2007, the publication date of the decision of the Constitutional Court dated 22 March 2007. The reasoned decree regarding the rescission of the mentioned paragraph was published in the Official Gazette numbered 26731, dated 15 December 2007.

NOTE 20 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

Following the publication of the reasoned decree of the Constitutional Court, Turkish Grand National Assembly commenced to work on a new law regarding the transfer of the members of funds to the Social Security Institution; the related articles of the Social Security Law ("New Law") numbered 5754 regarding the transfer of the funds, were ratified by the TGNA General Meeting on 17 April 2008 and came into effect following the publication in the Official Gazette numbered 26870, dated 8 May 2008.

The main opposition party had appealed to the Constitutional Court for the cancellation of some of the articles of the New Law including transfer of the Funds to the SSI on 19 June 2008. The Constitution Court has dismissed the appeal with the decision taken in the meeting dated 30 March 2011. The reasoned decision has been published in the Official Gazette numbered 28156 dated 28 December 2011.

The New Law was requiring that present value of post-employment benefits at the transfer date shall be calculated by a commission consisting of the representatives of SSI, Ministry of Finance, Undersecretariat of Treasury, Undersecretariat of State Planning Organization, BRSA, SDIF and banks and funds, by using a technical discount rate of 9.8 percent taking into consideration the transferrable contributions and payments of the funds including any monthly payment differences paid by the funds above the limits within the framework of SSI regulations. Accordingly the transfer required by the New Law was to be completed until 8 May 2011. According to the decision of the Council of Ministers published on the Official Gazette dated 9 April 2011 no. 27900, the time frame for related transfer has been extended for two years.

Within the postponement right granted to the Council of Ministers through the change in the first clause of the 20th provisional article of the "Social Insurance and General Health Insurance Law no. 5510" published on the Official Gazette no. 28227 dated 8 March 2012, the transfer process has been postponed for one more year with the decision of the Council of Ministers published on the Official Gazette no. 28987 dated 30 April 2014. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 and numbered 29335.

According to the New Law, following the transfer of the members of the fund to the SSI, the funds and institutions will continue to provide the non-transferrable social benefits and payments which are included in the articles of association of the fund.

With respect to that, according to the technical balance sheet report as at 31 December 2018 prepared considering the related articles of the New Law regarding the transferrable benefit obligations and the non-transferrable social benefits and payments which are included in the articles of association, the Fund has no technical or actual deficit which requires a provision. Since the Bank has no legal right to hold the present value of any economic benefits available in the form of refunds from Pension Fund or reductions in future contributions to Pension Fund, no asset is recognized in the Bank's financial statements.

Additionally, the Bank management is of the opinion that the possible obligation amount to arise during and after the transfer to be made within the framework described above will be at a reasonable level that can be met by the Fund's assets and will not bring any additional burden for the Bank.

The consolidated affiliates do not have the above mentioned retirement benefit plans for their employees. The retirement related benefits of the employees of the consolidated affiliates are subject to the Social Security Institution and other defined contribution plans.

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

NOTE 20 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

The Group's obligation in respect of the post-employment benefits transferrable to SSI, has been calculated by a registered actuary. In this context, the value of the obligation regarding these benefits to be transferred to SSI as of the balance sheet date would equal the approximate payment amount that would need to be made to SSI as part of the transfer. The actuarial parameters and results used for the calculation of this amount reflect the provisions of the New Law for the post-employment pension and medical benefits transferrable to SSI (e.g. a technical interest rate of 9.80%). Accordingly, as of 31 December 2018, the surplus of the Fund amounts to TL 6,194 (31 December 2017: TL 207,041).

The principal actuarial assumptions used were as follows:

	31 December 2018	31 December 2017
Discount rate	(%)	(%)
- Pension benefits transferrable to SSI	9.80	9.80
- Post-employment medical benefits transferrable to SSI	9.80	9.80
- Other non-transferrable benefits	5.73	4.21

Mortality rate:

The average life expectancy in years of a pensioner retiring at age 60 for men, 58 for women determined using mortality table depending on statistical data is 17 years for men and 23 years for women.

The movement in the fair value of plan assets of the year is as follows:

	31 December 2018	31 December 2017
Beginning of year	**1,551,402**	**1,394,112**
Actual return on plan assets	338,869	238,028
Employer contributions	232,880	204,575
Employee contributions	199,473	174,371
Benefits paid	(527,133)	(459,684)
End of year	**1,795,491**	**1,551,402**

Plan assets are comprised as follows:

	31 December 2018		31 December 2017	
Bank placements	1,160,797	65%	977,331	63%
Property and equipment	17,975	1%	18,242	1%
Marketable securities and share certificates	358,510	20%	397,520	26%
Other	258,209	14%	158,309	10%
Period end	**1,795,491**	**100%**	**1,551,402**	**100%**

(b) Employment termination benefits

Under the Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires.

The compensation amount equals to one month's salary of an employee for each year of service, but this amount is limited up to severance limit decided by law. This liability is not subject to any funding legally and there is no funding requirement.

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

NOTE 20 - EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

The amount payable consists of one month's salary limited to a maximum of TL 6,017.60 (in full TL amount) (1 January 2018: TL 5,001.76 (in full TL amount)) for each year of service.

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

IAS 19 "Employment Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	31 December 2018	**31 December 2017**
Discount rate (%)	5.73	4.00
Turnover rate to estimate the probability of retirement (%)	94.65	94.45

The principal actuarial assumption is that the current maximum liability will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. The amount of TL 6,017.60 (1 July 2018: TL 5,001.76) effective from 1 July 2018 has been taken into consideration in calculating the reserve for employee termination benefits.

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

	31 December 2018	**31 December 2017**
1 January	**209,829**	**146,105**
Increase during the year	69,921	46,243
Actuarial loss/(gain)	(6,951)	53,510
Paid during the year	(57,597)	(36,029)
End of year	**215,202**	**209,829**

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

NOTE 21 - SHARE CAPITAL

The historic amount of share capital of the Group is TL 4,000,000 (31 December 2017: TL 4,000,000) and consists of TL 4,000,000 (31 December 2017: TL 4,000,000) authorized shares with a nominal value of Kr 1 each.

At 31 December 2018 and 2017, the issued and fully paid-in share capital held is as follows:

	Audited 31 December 2018		Audited 31 December 2017	
	Share (%)	**TL**	**Share (%)**	**TL**
Total Sabancı Group, affiliated companies and family	48.86	1,954,225	48.86	1,954,225
Other	51.14	2,045,775	51.14	2,045,775
Historical share capital	100.00	4,000,000	100.00	4,000,000
Adjustment to share capital		1,529,151		1,529,151
Total paid-in share capital		**5,529,151**		**5,529,151**

NOTE 22 - RETAINED EARNINGS AND LEGAL RESERVES

For the year ending 31 December 2018, the Bank has paid dividend payment in cash with respect to 31 December 2017 net distributable profit after the transfer of first and legal reserves amounting to TL 1,600,000 (TL 0.0015 per share).

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code, the Group is required to create the following legal reserves from appropriations of earnings, which are available for distribution only in the event of liquidation or losses:

a) First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid-in share capital.

b) Second legal reserve, appropriated at the rate of at least 10% of distributions in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

After deducting taxes and setting aside the legal reserves as discussed above, the remaining balance of net profit is available for distribution to shareholders.

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

NOTE 23 - NET INTEREST INCOME

	31 December 2018	31 December 2017
Interest income on:		
Loans and advances to customers	26,966,200	19,593,737
Investment and trading securities	6,974,975	4,220,083
Deposits with banks	1,492,978	541,795
Other interest income	85,387	33,853
Total interest income	**35,519,540**	**24,389,468**

	31 December 2018	31 December 2017
Interest expense on:		
Deposits	14,864,744	10,337,683
Funds borrowed	1,667,243	856,081
Interbank money market deposits	1,692,320	786,677
Interest on debt securities in issue	1,623,025	1,071,253
Other interest expenses	76,338	44,975
Total interest expense	**19,923,670**	**13,096,669**

NOTE 24 - NET FEE AND COMMISSION INCOME

	31 December 2018	31 December 2017
Fee and commission income on:		
Credit Cards	2,570,389	1,807,547
Retail and commercial banking operations	537,069	586,524
Mutual fund management fee	111,005	96,196
Insurance intermediary	279,009	272,570
Non-cash loans	407,903	262,864
Money transfers	363,112	311,024
Brokerage commission	156,430	104,827
Other	355,044	254,743
Total income	**4,779,961**	**3,696,295**
Fee and commission expense on:		
Credit cards	(867,479)	(576,683)
Other	(181,638)	(145,700)
Total expense	**(1,049,117)**	**(722,383)**
Net fee and commission income	**3,730,844**	**2,973,912**

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

NOTE 25 - NET TRADING INCOME/(LOSS)

	31 December 2018	31 December 2017
Derivative financial instruments	(1,020,994)	(961,718)
Trading and available-for-sale securities	(1,112,205)	228,099
	(2,133,199)	**(733,619)**

NOTE 26 - OPERATING EXPENSES

	31 December 2018	31 December 2017
Employee costs	2,273,545	1,979,489
Credit card and banking services	726,023	549,689
Legal expenses	146,293	122,842
Depreciation charges of property, plant and equipment (Note 11)	184,147	153,953
Marketing and advertisement expenses	125,642	139,861
Computer maintenance and support expenses	464,567	313,595
Communication expenses	178,083	144,890
Saving deposits insurance fund	227,513	202,869
Sundry taxes and duties	206,973	179,267
Heating, lighting and water expenses	57,968	50,317
Amortization of other intangible assets (Note 12)	173,867	121,826
Repair and maintenance expenses	59,881	31,173
Stationery expenses	51,755	37,337
Operating lease expenses	240,461	205,539
Other	686,011	683,718
Free provision for general possible risks (Note 19)	100,000	500,000
	5,902,729	**5,416,365**

Post-employment benefits (pension and medical) paid, reserve for employment termination benefit and accrual for unused vacation rights for the year ended 31 December 2018 which amount to TL 232,880 (31 December 2017: TL 204,575), TL 68,105 (31 December 2017: TL 47,367) and TL 17,026 (31 December 2017: TL 9,147), respectively are included in the employee costs.

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

NOTE 27 - TRANSFERRED FINANCIAL ASSETS HELD OR PLEDGED AS COLLATERAL

(a) Assets Pledged:

	31 December 2018	
	Assets	**Related liability**
Balances with other banks (Note 7)	5,002,895	50,315,083
Financial assets at fair value through profit or loss (Note 10) (*)	10,599	-
Financial assets at fair value through OCI (Note 10) (*)	8,854,043	-
Financial assets at amortised cost (Note 10) (*)	659,977	-
Total	**14,527,514**	**50,315,083**

(*) Related with legal requirements

	31 December 2017	
	Assets	**Related liability**
Balances with other banks (Note 7)	4,541,840	34,317,864
Trading securities (Note 10) (*)	9,731	
Investment securities (*)		
- available-for-sale (*)	3,470,880	
- held-to-maturity (*)	1,538,500	
Total	**9,560,951**	**34,317,864**

(*) Related with legal requirements

(b) Transferred Assets that are not Derecognized:

	31 December 2018	
	Assets	**Related liability**
Financial assets at fair value through profit or loss (Note 10) (*)	-	-
Financial assets at fair value through OCI (Note 10) (*)	12,114,655	12,240,208
Financial assets at amortised cost (Note 10) (*)	2,634,397	1,969,019
Total	**14,749,052**	**14,209,227**

(*) Includes repurchase agreement balances.

	31 December 2017	
	Assets	**Related liability**
Trading securities (Note 7) (*)	200	-
Investment securities		
- available-for-sale (Note 10) (*)	20,055,533	18,643,248
- held-to-maturity (Note 10) (*)	10,088,384	10,207,028
Total	**30,144,117**	**28,850,276**

(*) Includes repurchase agreement balances.

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

NOTE 28 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the normal course of banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these consolidated balance sheets, including letters of guarantee, acceptance credits, letters of credit and off-balance sheet derivative instruments. The management does not expect any material losses as a result of these transactions, The following is a summary of significant commitments and contingent liabilities:

(a) Legal proceedings

The bank has accounted a provision amounting to TL 54,154 (31 December 2017: TL 61,982) for the contingent liabilities with a high probability of realization regarding continuing opposing trials. There are also some other opposing trials. In Addition the probability of realization of these trials is low so no cash outflow expected regarding these trials.

(b) Commitments under derivative instruments:

The breakdown of notional amounts of derivative transactions at 31 December 2018 and 2017 is as follows:

	31 December 2018					
	USD	**EUR**	**GBP**	**Other**	**TL**	**Total**
Derivatives held for trading:						
Currency forward transactions	3,830,168	3,655,033	147,612	-	6,988,529	14,621,342
Swap transactions	129,542,330	40,106,823	1,952,102	1,191,950	39,050,373	211,843,578
- Currency rate swaps	75,642,032	26,497,899	1,952,102	1,191,950	37,673,713	142,957,696
- Interest rate swaps	53,900,298	13,608,924	-	-	1,376,660	68,885,882
Spot transactions	2,119,636	571,248	-	20,559	4,918,483	7,629,926
Option transactions	19,391,439	5,650,204	41,530	-	12,676,191	37,759,364
Future transactions	-	-	-	-	-	-
Other Derivative Instruments	15,603,080	683,886	-	-	-	16,286,966
Derivatives held for hedging:	-	-	-	-	-	-
Swap transactions	27,169,909	-	-	13,139	5,746,500	32,929,548
- Interest rate swaps	13,514,078	-	-	13,139	3,601,500	17,128,717
- Currency rate swaps	13,655,831	-	-	-	2,145,000	15,800,831
Total purchases	**197,656,562**	**50,667,194**	**2,141,244**	**1,225,648**	**69,380,076**	**321,070,724**
Derivatives held for trading:						
Currency forward transactions	5,017,662	4,913,647	65,887	177,621	3,455,315	13,630,132
Swap transactions	98,195,982	53,170,831	147,613	118,648	59,295,509	210,928,583
- Currency rate swaps	44,295,684	39,561,907	147,613	118,648	57,918,849	142,042,701
- Interest rate swaps	53,900,298	13,608,924	-	-	1,376,660	68,885,882
Spot transactions	5,196,263	585,030	25,534	34,422	1,506,682	7,347,931
Option transactions	17,790,407	5,030,728	35,257	-	14,883,770	37,740,162
Future transactions	-	-	-	-	-	-
Other Derivative Instruments	7,082,948	547,110	-	1,053,361	66,193	8,749,612
Derivatives held for hedging:	-	-	-	-	-	-
Swap transactions	17,863,831	13,551	-	876,576	10,490,738	29,244,696
- Interest rate swaps	4,208,000	13,551	-	876,576	8,345,738	13,443,865
- Currency rate swaps	13,655,831	-	-	-	2,145,000	15,800,831
Total sales	**151,147,093**	**64,260,897**	**274,291**	**2,260,628**	**89,698,207**	**307,641,116**
Off-balance sheet net notional position	**46,509,469**	**(13,593,703)**	**1,866,953**	**(1,034,980)**	**(20,318,131)**	**13,429,608**

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

NOTE 28 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

	31 December 2017					
	USD	**EUR**	**GBP**	**Other**	**TL**	**Total**
Derivatives held for trading:						
Currency forward transactions	5,914,527	2,861,372	182,505	11,589	5,985,151	14,955,144
Swap transactions	87,509,724	35,988,796	1,996,637	859,436	33,906,795	160,261,388
- Currency rate swaps	52,306,994	25,766,342	1,996,637	859,436	32,237,645	113,167,054
- Interest rate swaps	35,202,730	10,222,454	-	-	1,669,150	47,094,334
Spot transactions	2,226,166	1,674,432	47,735	24,155	1,062,139	5,034,627
Option transactions	36,244,399	6,140,588	13,619	784	7,744,738	50,144,128
Future transactions	-	-	-	-	-	-
Other Derivative Instruments	5,659,570	559,663	-	6,691	-	6,225,924
Derivatives held for hedging:						
Swap transactions	15,232,123	-	-	10,220	-	15,242,343
- Interest rate swaps	11,759,837	-	-	-	-	11,759,837
- Currency rate swaps	3,472,286	-	-	10,220	-	3,482,506
Total purchases	**152,786,509**	**47,224,851**	**2,240,496**	**912,875**	**48,698,823**	**251,863,554**
Derivatives held for trading:						
Currency forward transactions	5,997,016	2,635,670	15,112	17,738	6,297,263	14,962,799
Swap transactions	65,742,916	36,464,186	238,701	660,859	52,685,277	155,791,939
- Currency rate swaps	30,540,186	26,241,732	238,701	660,859	51,016,127	108,697,605
- Interest rate swaps	35,202,730	10,222,454	-	-	1,669,150	47,094,334
Spot transactions	2,528,618	1,309,235	8,127	5,766	1,198,891	5,050,637
Option transactions	35,034,983	6,180,269	14,629	784	9,230,098	50,460,763
Future transactions	-	-	-	-	-	-
Other Derivative Instruments	4,204,710	447,730	-	3,883,316	87,376	8,623,132
Derivatives held for hedging:						
Swap transactions	11,759,836	10,151	-	-	2,497,225	14,267,212
- Interest rate swaps	11,759,836	-	-	-	-	11,759,836
- Currency rate swaps	-	10,151	-	-	2,497,225	2,507,376
Total sales	**125,268,079**	**47,047,241**	**276,569**	**4,568,463**	**71,996,130**	**249,156,482**
Off-balance sheet net notional position	**27,518,430**	**177,610**	**1,963,927**	**(3,655,588)**	**(23,297,307)**	**2,707,072**

The above table summarizes the Group's derivative transactions. Each derivative transaction represents a simultaneous receivable and payable to be received and paid, on a future date, in respective currencies. Accordingly, the difference between the "sale" and "purchase" transactions represents the net exposure of the Group with respect to commitments arising from these transactions.

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

NOTE 28 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

The related party balances in forward currency purchase/sale and swap transactions are as follows:

	31 December 2018			31 December 2017		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Currency forward purchases	983,019	2,240,659	3,223,678	1,550,271	2,803,325	4,353,596
Currency forward sales	(17,185)	(2,867,164)	(2,884,349)	(1,503,758)	(2,894,328)	(4,398,086)
Currency swap purchases	1,183,213	52,804	1,236,017	1,574,615	89,546	1,664,161
Currency swap sales	(56,401)	(1,822,434)	(1,878,835)	(97,208)	(1,675,717)	(1,772,925)
Interest rate swap purchases	-	612,335	612,335	-	724,970	724,970
Interest rate swap sales	-	(612,335)	(612,335)	-	(724,970)	(724,970)
Option purchases	-	1,679	1,679	-	-	-
Option sales	(1,771)	-	(1,771)	-	-	-
Spot purchases	-	-	-	-	-	-
Spot sales	-	-	-	-	-	-
Other purchases	-	-	-	-	-	-
Other sales	-	-	-	-	-	-
Net position	**2,090,875**	**(2,394,456)**	**(303,581)**	**1,523,920**	**(1,677,174)**	**(153,254)**

The following table shows the outstanding credit related commitments of the Group at 31 December 2018 and 2017:

	31 December 2018			31 December 2017		
	Up to 1 year	**Over 1 year**	**Total**	**Up to 1 year**	**Over 1 year**	**Total**
Letters of guarantee issued by the Group						
- Turkish lira	3,487,474	15,774,596	19,262,070	4,336,696	14,454,473	18,791,169
- Foreign currency	2,090,893	13,589,680	15,680,573	1,476,482	14,665,557	16,142,039
Acceptance credits						
- Turkish lira	-	-	-	198	-	198
- Foreign currency	2,458,027	282,314	2,740,341	2,900,904	857,000	3,757,904
Letter of credit						
- Turkish lira	41,222	5,813	47,035	7,257	-	7,257
- Foreign currency	2,623,540	3,862,187	6,485,727	5,284,401	1,642,667	6,927,068
Other guarantees						
- Turkish lira	-	2,812,915	2,812,915	23,759	2,825,471	2,849,230
- Foreign currency	4,388,703	1,378,007	5,766,710	3,399,734	89,196	3,488,930
Total	**15,089,859**	**37,705,512**	**52,795,371**	**17,429,431**	**34,534,364**	**51,963,795**

Letters of guarantee and acceptance credits for related parties amount to TL 1,082,245 at 31 December 2018 (31 December 2017: TL 923,699).

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

NOTE 28 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

The economic sector risk concentrations for outstanding credit related commitments of the Group are as follows:

	31 December 2018	31 December 2017
Financial institutions	7,199,316	7,014,506
Electricity, gas, water	2,622,587	2,004,757
Chemicals	1,558,845	2,791,301
Small-scale retailers	5,314,248	4,862,996
Construction	8,116,256	6,505,761
Steel and mining	3,218,621	3,152,082
Wholesaling	9,438,099	10,267,543
Automotive	1,225,766	887,705
Other manufacturing	5,584,220	3,280,903
Food and beverage	1,398,630	798,144
Electronics	298,176	676,712
Textile	1,466,544	1,512,598
Transportation	700,841	621,471
Agriculture and forestry	180,924	165,071
Tourism	339,588	279,186
Telecommunications	207,104	224,582
Other	3,925,606	6,918,475
Total	**52,795,371**	**51,963,795**

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

NOTE 29 - RELATED PARTY TRANSACTIONS

A number of transactions were entered into with related parties in the normal course of business.

(a) Balances with related parties:

	31 December 2018	31 December 2017
Loans and advances measured at amortized cost (Net) (**)	5,573,161	5,605,978
Loans and advances measured at FVPL (*)	6,690,208	-
Finance lease receivables	44,524	64,362
Total Assets	**12,307,893**	**5,670,340**
Deposits and obligations under repurchase agreements (Note 14)	16,919,455	11,148,292
Total Liabilities	**16,919,455**	**11,148,292**
Credit related commitments	1,082,638	923,699
Commitment under derivative instruments (***)	10,451,000	13,638,708
Total Commitments and contingent liabilities	**11,533,638**	**14,562,407**

(*) Includes loans measured at FVPL amounting to TL 6,690,208 thousands and arising from Levent Yeniden Yapılandırma A.Ş. owned by the Group considered as related party. (Note 30)

(**) Loans measured at amortised cost amounting to TL 85,751 thousands arising from its invesments in Türk Telekomünikasyon A.Ş. considered as associate are disclosed as a related party balances. Amounting to 5,487,410 thousands arising from the Group's other related parties.

(***) Figures presented in the table above show the total of "sale" and "purchase" amounts of the related transactions.

As at 31 December 2018, the Group has repurchase commitments amounting to TL 23,021 (31 December 2017: TL 37,919).

(b) Transactions with related parties:

	31 December 2018	31 December 2017
Interest income on loans	539,521	493,633
Interest income	**539,521**	**493,633**
Interest expense on deposits (Note 14)	1,690,743	897,719
Interest expense	**1,690,743**	**897,719**

(c) Balances with senior management and Board of Directors and their related parties:

	31 December 2018	31 December 2017
Deposits	1,208,455	926,384
Total due to customers	**1,208,455**	**926,384**

For the period ended 31 December 2018, benefits provided to the senior management and Board of Directors of the Group amounted to TL 60,407 (31 December 2017: TL 46,907).

NOTE 30 - FINANCIAL RISK MANAGEMENT

(30.1) Strategy in using financial instruments

The Group's core business activities include retail banking, commercial banking, corporate and investment banking, private banking and wealth management, treasury transactions and international banking services. The Group performs financial leasing transactions through Ak Finansal Kiralama A.Ş. By nature the Group's activities are principally related to the use of financial instruments. As the main funding source, the Group accepts deposits from customers for various periods and invests these funds in high quality assets with high interest margins. Other than deposits, the Group's most important funding sources are equity, marketable securities issued, money market borrowings and mostly borrowings from foreign financial institutions. The Group follows an asset-liability management strategy that mitigates risk and increases earnings by balancing the funds borrowed and the investments in various financial assets. The main objective of asset-liability management is to limit the Group's exposure to liquidity risk, interest rate risk, currency risk and credit risk while increasing profitability and strengthening the Group's equity. The Asset-Liability Committee ("ALCO") manages the assets and liabilities within the trading limits on the level of exposure placed by the Executive Risk Committee ("ERC").

The Group's risk management is under the responsibility of the "Executive Risk Committee ("the ERC")" which reports to the Board of Directors. The ERC is comprised of the Vice Chairman, 1 Executive Board Member and the Chief Executive Officer. The ERC establishes principles, policies, procedures with regards to risk management of the Group and develops risk management strategies. The ERC also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are updated as necessary. These limits and implementation of policies are broken down to various levels of authorities in order to enhance control effectiveness. The Group's risk positions are reported to the ERC members on a regular basis. Additionally, the ERC reviews the latest figures and projections for the Group's profit and loss accounts and consolidated statement of financial position, liquidity position, interest and foreign exchange exposures, as well as yield analysis and the macroeconomic environment.

The Asset-Liability Committee ("ALCO") manages the assets and liabilities within the risk limits placed by the ERC. ALCO consists of the Chief Executive Officer, each of the Executive Vice Presidents in charge of the Parent Bank's marketing, lending, treasury and financial coordination business units and Chief Risk Officer of the Parent Bank's risk management unit. ALCO meets twice a week to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy, risk limits and the macroeconomic environment in order to develop investment, pricing and funding strategies.

(30.2) Credit risk

Risk limits are defined by Board of Directors in a such manner that covers all possible important risk components, in accordance with the Bank's operations and the size and complexity of products and services. Care is taken to ensure that the risk limits are in line with market expectations and reflect the Bank's risk appetite and Bank's strategies. The credit policies are established in consistence with risk limits.

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Credit rating models are used in loan allocation processes in accordance with the risk appetite, credit policies and targets of the Bank. Rating all credit customers is essential for the Bank. Credit ratings are used as the main factor in determining target segments, authority levels, prices, limits and collateralization levels in loan portfolios. Application models are used during initial loan underwriting and behavioral models are used for customers whose previous credit performance could be monitored.

Behavioral models are mainly used in the credit monitoring process and in the evaluation process of portfolio risk.

In order to ensure timely and complete fulfillment of all obligations arising from the loan, it is essential to obtain adequate collateral from the customers. The main purpose of collateralization of any loan is to minimize the credit, foreign exchange and maturity risk. In this context, the minimum margin is determined by considering the quality of the collateral and collection expectancy in case of default and it is ensured that appropriate collateral is obtained for the loan type.

Credit risk is encountered when the counterparty is unable to fulfill its obligations defined with the agreement. All credit risk bearing banking products are managed with prudent credit policies and procedures in the Bank. The credit quality of the counterparty is evaluated with an internal rating score in all credit transactions. In order to monitor the credit risk, internal limits are determined on the basis of sector, customer, credit type and customer segment.

Credit risk management is a process in which credit risks are assessed and monitored in a consistent manner, besides all credit portfolios are included on a consolidated basis. During the process of credit risk management, the Risk Management Department conducts measurement, monitoring and reporting activities of the credit risk using statistical models. In addition to the credit risk related risk limits, various concentrations in the loan portfolio are also analyzed. It is assured to act within the policy of allocation, monitoring, Limit Follow-up and management, by establishing policy regarding to Country risk and concentration risk management. Cost of loan and collections of non-performing loans are monitored periodically. In addition, stress testing and scenario analysis studies are carried out on the loan portfolio.

The Parent Bank's credit risk measurement techniques and information on the rating of securities and loan portfolio are as follows:

Bank's rating system:

The Parent Bank has internal debt rating model for each segment in order to assess the credit quality of all borrowers.

The default probabilities of each obligor is calculated by using scorecards tailored to various categories of counterparty and derived from the credit rating system of corporate and commercial, SME, consumer and credit card loan portfolios. Both behavioral and application scorecards are taken into consideration in default probability estimations.

Collateral structure of each portfolio is considered in order to determine the realized loss in case default occurs. Default probabilities and realized loss values are combined in order to account for expected loss and unexpected loss values over time and to encourage risk adjusted pricing.

Risk limits are set both at customer and group level and monitored by the ERC in terms of sectors, tenor and concentration. The ERC regularly follows up risk limits and make limit updates when required.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

The Bank's rating tool concentration by risk classes as of 31 December 2018 and 2017 is as follows:

	31 December 2018	**31 December 2017**
Above average	37.55%	40.68%
Average	43.68%	44.23%
Below average	16.25%	12.31%
Unrated	2.52%	2.78%

- Loans which demonstrate a strong capacity to meet financial commitments, with low probability of default are defined "Above average".

- Loans that require close monitoring and demonstrate average to adequate capacity to meet financial commitments with moderate default risk are defined "Average".

- Loans which require varying degrees of specific consideration and have diverse default risks are defined "Below average".

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 and credit ratings of its counterparties are continuously monitored. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Exposure to credit risk:

	31 December 2018	31 December 2017
Credit risk exposures relating to on-balance sheet assets:	**343,984,878**	**330,617,755**
Due from banks and balances with the CBT	45,937,800	44,637,554
Loans and advances to customers	213,936,744	212,706,936
-Commercial loans	164,547,195	161,290,702
-Consumer loans and credit cards	43,449,413	45,604,241
-Financial lease receivables	5,940,136	5,811,993
Investment securities measured at Fair Value Through Profit or Loss (*)	22,006	16,459
-Government debt securities	10,113	9,525
-Other marketable securities	11,893	6,934
Trading Derivative Financial Instruments	17,547,469	8,316,049
Hedging Derivative Instruments	5,058,434	1,136,284
Investment securities measured at Fair Value Through Other Comprehensive Income (*)	44,088,837	42,453,761
-Government debt securities	36,502,564	36,816,619
-Other marketable securities	7,586,273	5,637,142
Investment securities measured at Amortised Cost	12,263,481	18,883,032
-Government debt securities	9,754,183	16,143,379
-Other marketable securities	2,509,298	2,739,653
Other assets	5,130,107	2,467,680
Credit risk exposures relating to off-balance sheet items:	**86,436,876**	**87,877,837**
Letter of guarantees	34,942,643	34,933,208
Other guarantees and warranties	17,852,728	17,030,587
Credit granting commitments	11,337,889	10,802,977
Check payment commitments	2,514,769	6,679,928
Credit card limit commitments	19,788,847	18,431,137
	430,421,754	**418,495,592**

(*) Excluding equity securities and mutual funds.

The above table represents the credit risk exposure of the Group as at 31 December 2018 and 2017, without taking into account any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Industry analysis:

	Financial Institutions	Public sector	Wholesale and retail trade	Manufacturing	Other industries	Individuals	Total
Due from banks and balances with the CBT	**45,937,800**	**-**	**-**	**-**	**-**	**-**	**45,937,800**
Loans and advances to customers	**24,833,186**	**1,508,632**	**26,081,774**	**73,308,017**	**44,755,722**	**43,449,413**	**213,936,744**
- Commercial loans	24,666,717	1,508,632	25,544,835	71,380,359	41,446,652	-	164,547,195
- Consumer loans and credit cards	-	-	-	-	-	43,449,413	43,449,413
- Financial lease receivables	166,469	-	536,939	1,927,658	3,309,070	-	5,940,136
Investment securities measured at Fair Value Through Profit or Loss (*)	**-**	**10,113**	**-**	**-**	**11,893**	**-**	**22,006**
- Government debt securities	-	10,113	-	-	-	-	10,113
- Other financial assets	-	-	-	-	11,893	-	11,893
Trading Derivative Financial Instruments	**8,480,570**	**-**	**-**	**-**	**9,049,850**	**17,049**	**17,547,469**
Hedging Derivative Instruments	**4,928,798**	**-**	**-**	**-**	**129,636**	**-**	**5,058,434**
Investment securities (*)	**9,663,343**	**46,507,797**	**-**	**86,249**	**94,929**	**-**	**56,352,318**
Measured at Fair Value Through Other Comprehensive Income (*)	**7,154,045**	**36,753,614**	**-**	**86,249**	**94,929**	**-**	**44,088,837**
-Government debt securities	-	36,502,564	-	-	-	-	36,502,564
- Other financial assets	7,154,045	251,050	-	86,249	94,929	-	7,586,273
Measured at Amortised Cost	**2,509,298**	**9,754,183**	**-**	**-**	**-**	**-**	**12,263,481**
-Government debt securities	-	9,754,183	-	-	-	-	9,754,183
-Other financial assets	2,509,298	-	-	-	-	-	2,509,298
Other assets	**5,130,107**	**-**	**-**	**-**	**-**	**-**	**5,130,107**
As at 31 December 2018	**98,973,804**	**48,026,542**	**26,081,774**	**73,394,266**	**54,042,030**	**43,466,462**	**343,984,878**

(*) Excluding equity securities and mutual funds.

	Financial Institutions	Public sector	Wholesale and retail trade	Manufacturing	Other industries	Individuals	Total
Due from banks and balances with the CBT	**44,637,554**	**-**	**-**	**-**	**-**	**-**	**44,637,554**
Loans and advances to customers	**28,001,334**	**1,589,627**	**30,118,588**	**61,869,633**	**45,523,513**	**45,604,241**	**212,706,936**
-Commercial loans	27,954,054	1,589,627	30,015,316	61,442,572	40,289,133	-	161,290,702
-Consumer loans and credit cards	-	-	-	-	-	45,604,241	45,604,241
-Financial lease receivables	47,280	-	103,272	427,061	5,234,380	-	5,811,993
Trading assets (*)	**4,904**	**9,525**	**-**	**-**	**2,030**	**-**	**16,459**
-Government debt securities	-	9,525	-	-	-	-	9,525
-Other marketable securities	4,904	-	-	-	2,030	-	6,934
Trading derivative financial instruments	**4,482,862**	**-**	**-**	**-**	**3,777,547**	**55,640**	**8,316,049**
Hedging derivative instruments	**1,136,284**	**-**	**-**	**-**	**-**	**-**	**1,136,284**
Investment securities (*)	**7,688,188**	**53,227,539**	**-**	**140,628**	**280,438**	**-**	**61,336,793**
- Available-for-sale securities	4,948,535	37,084,160	-	140,628	280,438	-	42,453,761
-Government debt securities	-	36,816,619	-	-	-	-	36,816,619
-Other marketable securities	4,948,535	267,541	-	140,628	280,438	-	5,637,142
- Held-to-maturity	2,739,653	16,143,379	-	-	-	-	18,883,032
-Government debt securities	-	16,143,379	-	-	-	-	16,143,379
-Other marketable securities	2,739,653	-	-	-	-	-	2,739,653
Other assets	**2,467,680**	**-**	**-**	**-**	**-**	**-**	**2,467,680**
As at 31 December 2017	**88,418,806**	**54,826,691**	**30,118,588**	**62,010,261**	**49,583,528**	**45,659,881**	**330,617,755**

(*) Excluding equity securities and mutual funds.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Geographical Distribution:

	Turkey	USA	EU Countries	Non- EU Countries	Total
Due from banks and balances with the CBT	**27,652,320**	**5,988,306**	**12,268,242**	**28,932**	**45,937,800**
Loans and advances to customer	**204,868,003**	**39,047**	**8,368,831**	**660,863**	**213,936,744**
-Commercial loans	155,478,454	39,047	8,368,831	660,863	164,547,195
-Consumer loans and credit cards	43,449,413	-	-	-	43,449,413
-Financial lease receivables	5,940,136	-	-	-	5,940,136
Investment securities measured at Fair Value Through Profit or Loss (*)	**22,006**	**-**	**-**	**-**	**22,006**
-Government debt securities	10,113	-	-	-	10,113
-Other financial assets	11,893	-	-	-	11,893
Trading derivative financial instruments	**8,549,006**	**2,964**	**8,972,489**	**23,010**	**17,547,469**
Hedging derivative instruments	**-**	**-**	**5,058,434**	**-**	**5,058,434**
Investment securities (*)	**55,548,949**	**-**	**803,369**	**-**	**56,352,318**
-Measured at Fair Value Through Other Comprehensive Income (*)	**43,285,468**	**-**	**803,369**	**-**	**44,088,837**
-Government debt securities	36,502,564	-	-	-	36,502,564
-Other financial assets	6,782,904	-	803,369	-	7,586,273
-Measured at Amortised Cost	**12,263,481**	**-**	**-**	**-**	**12,263,481**
-Government debt securities	9,754,183	-	-	-	9,754,183
-Other financial assets	2,509,298	-	-	-	2,509,298
Other assets	**5,130,107**	**-**	**-**	**-**	**5,130,107**
As at 31 December 2018	**301,770,391**	**6,030,317**	**35,471,365**	**712,805**	**343,984,878**

(*) Excluding equity securities and mutual funds.

	Turkey	USA	EU Countries	Non-EU Countries	Total
Due from banks and balances with the CBT	**36,446,551**	**1,033,775**	**7,129,962**	**27,266**	**44,637,554**
Loans and advances to customers	**205,708,489**	**34,280**	**6,119,658**	**844,509**	**212,706,936**
-Commercial loans	154,292,255	34,280	6,119,658	844,509	161,290,702
-Consumer loans and credit cards	45,604,241	-	-	-	45,604,241
-Financial lease receivables	5,811,993	-	-	-	5,811,993
Trading assets (*)	**16,459**	-	-	-	**16,459**
-Government debt securities	9,525	-	-	-	9,525
-Other marketable securities	6,934	-	-	-	6,934
Trading derivative financial instruments	**3,822,067**	**77**	**4,475,740**	**18,165**	**8,316,049**
Hedging derivative Instruments	**-**	**-**	**1,136,284**	**-**	**1,136,284**
Investment securities (*)	**60,428,260**	**-**	**908,533**	**-**	**61,336,793**
-Available-for-sale securities	**41,545,228**	-	908,533	-	42,453,761
-Government debt securities	36,816,619	-	-	-	36,816,619
-Other marketable securities	4,728,609	-	908,533	-	5,637,142
-Held-to-maturity securities	**18,883,032**	**-**	**-**	**-**	**18,883,032**
-Government debt securities	16,143,379	-	-	-	16,143,379
-Other marketable securities	2,739,653	-	-	-	2,739,653
Other assets	**2,467,680**	**-**	**-**	**-**	**2,467,680**
As at 31 December 2017	**308,889,506**	**1,068,132**	**19,770,177**	**889,940**	**330,617,755**

(*) Excluding equity securities and mutual funds.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Risk management related to class of loans and advances:

The internal rating systems of the Bank focus more on credit-quality mapping from the inception of the lending and investment activities. The credit risk classification of the Group with the outstanding balances of each asset class is as the following:

	31 December 2018			
	Commercial Loans	**Consumer loans and credit cards**	**Lease Receivables**	**Total**
Loans measured at amortised cost				
Stage 1	134,222,324	38,666,693	5,048,008	177,937,025
Stage 2	23,328,009	5,232,017	792,903	29,352,929
Stage 3	5,883,404	1,955,217	600,407	8,439,028
Gross	**163,433,737**	**45,853,927**	**6,441,318**	**215,728,982**
Provisions	**5,576,750**	**2,404,514**	**501,182**	**8,482,446**
Loans measured at FVPL	**6,690,208**	**-**	**-**	**6,690,208**
Net	**164,547,195**	**43,449,413**	**5,940,136**	**213,936,744**

	31 December 2017			
	Commercial Loans	**Consumer loans and credit cards**	**Lease receivables**	**Total**
Standard loans	153,613,754	44,441,358	5,645,009	203,700,121
Close monitoring loans	9,537,906	1,732,752	89,793	11,360,451
Impaired loans	2,191,560	2,341,151	287,070	4,819,781
Gross	**165,343,220**	**48,515,261**	**6,021,872**	**219,880,353**
Provisions	**(4,052,518)**	**(2,911,020)**	**(209,879)**	**(7,173,417)**
Net	**161,290,702**	**45,604,241**	**5,811,993**	**212,706,936**

Information on the expected credit loss provision is as the following:

	Commercial Loans		**Consumer Loans**		**Credit Cards**		**Financial Lease**		**Total**	
Current Period- 31.12.2018	**Balance**	**Expected Credit Loss**	**Balance**	**Expected Credit Loss**	**Balance**	**Expected Credit Loss**	**Balance**	**Expected Credit Loss**	**Balance**	**Expected Credit Loss**
Loans measured at amortised cost	**170,123,945**	**5,576,750**	**30,310,657**	**1,476,364**	**15,543,270**	**928,150**	**6,441,318**	**501,182**	**222,419,190**	**8,482,446**
Stage 1	134,222,324	391,823	25,569,867	179,790	13,096,826	105,190	5,048,008	61,129	177,937,025	737,932
Stage 2	23,328,009	2,257,273	3,572,225	336,290	1,659,792	148,050	792,903	122,000	29,352,929	2,863,613
Stage 3	5,883,404	2,927,654	1,168,565	960,284	786,652	674,910	600,407	318,053	8,439,028	4,880,901
Loans measured at FVPL	**6,690,208**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,690,208**	**-**
Financial Assets	**76,107,578**	**48,418**	**-**	**-**	**-**	**-**	**-**	**-**	**76,107,578**	**48,418**
Other	**14,475,064**	**59,733**	**-**	**-**	**-**	**-**	**-**	**-**	**14,475,064**	**59,733**
Non-Cash Loans	**52,795,371**	**381,930**	**-**	**-**	**-**	**-**	**-**	**-**	**52,795,371**	**381,930**
Stage 1 and 2	52,614,940	331,189	-	-	-	-	-	-	52,614,940	331,189
Stage 3	180,431	50,741	-	-	-	-	-	-	180,431	50,741
Total	**313,501,958**	**6,066,831**	**30,310,657**	**1,476,364**	**15,543,270**	**928,150**	**6,441,318**	**501,182**	**365,797,203**	**8,972,528**

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Information on the expected credit loss of loans is as the following:

	Stage 1	Stage 2	Stage 3
Opening (1 January 2018)	**693,028**	**2,510,428**	**3,945,426**
Additions (*)	355,165	1,259,527	2,734,051
Disposal (**)	(183,745)	(209,184)	(187,955)
Effect of change in foreign exchange	34,160	18,947	-
Stage 1 and 2 movement			
Loans classified under Stage 1 in two periods (Parameter effect)	49,765	-	-
Loans classified under Stage 1 in two periods (Change in balance effect)	(106,785)	-	-
Transfers from Stage 1 to Stage 2 (Stating and balance change effect)	(106,912)	580,466	-
Loans classified under Stage 2 in two periods (Parameter effect)	-	495,724	-
Loans classified under Stage 2 in two periods (Change in balance effect)	-	(69,261)	-
Transfers from Stage 2 to Stage 1 (Stating and balance change effect)	14,942	(118,020)	-
Stage 3 movement			
Transfers from Stage 1 to Stage 3	(11,685)	-	203,418
Transfers from Stage 2 to Stage 3	-	(32,764)	246,217
Loans classified under Stage 2 in two periods (Change in balance effect)	-	-	(868,526)
Write-offs (****)	-	(1,572,250)	-
Sold Portfolio effect	-	-	(1,191,731)
Closing (31 December 2018)	**737,932**	**2,863,613**	**4,880,901**

(*) Loans which are not included in the loan portfolio as of 1 January 2018 and included in the credit portfolio and calculated provisions as of 31 December 2018
(**) Loans which are included in the credit portfolio and calculated provisions as of 1 January 2018 but which are not included in the loan portfolio as of 31 December 2018.
(***) In the calculations the transitions between the records in both periods have been considered by making additions and disposals
(****) Within the acquisition finance of Türk Telekomunikasyon A.Ş. (Türk Telekom) within a syndicate formed by various domestic and foreign banks, where the financing structure includes acquired company's shares pledged as collateral, the Bank has been write-off the provisions related to cash loan exposure amounted TL 1,598 million allocated in previous years and TL 1,671 million allocated in current year from Stage 2 provisions. At the same time, the Bank has been transferred TL 3,269 million of related cash loan from stage 2 to stage 3 and subsequently write off TL 3,269 million.

Information on the loans and advances is as the following:

	Stage 1	Stage 2	Stage 3	Total
Opening (1 January 2018)	**199,217,168**	**15,849,303**	**4,532,711**	**219,599,182**
Additions	32,371,973	4,468,949	1,610,394	38,451,316
Disposals	(50,395,715)	(7,595,620)	(761,449)	(58,752,784)
Sold portfolio	-	-	(1,218,371)	(1,218,371)
Write-offs	-	-	(3,364,826)	(3,364,826)
Transfers to Stage 1	1,869,627	(1,869,192)	(434)	-
Transfers to Stage 2	(18,499,754)	18,503,712	(3,958)	-
Transfers to Stage 3	(2,449,258)	(4,767,791)	7,217,050	-
Foreign exchange effect	15,963,825	4,769,467	-	20,733,293
Closing	**177,937,025**	**29,352,929**	**8,439,028**	**215,728,982**

(*) Within the scope of acquisition finance of Türk Telekomunikasyon A.Ş. (Türk Telekom) within a syndicate formed by various domestic and foreign banks, where the financing structure includes acquired company's shares pledged as collateral, the Bank has transferred cash loan risk amounted TL 3,269 million from "Loans and receivables under follow up" to "Non-performing Loans" and subsequently write off TL 3,269 million.
(**) Loans classified at Fair Value through Profit or Loss are not included

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

The details of the past due not impaired loans are as follows:

The details of the loans and advances past due but not impaired (the Group defines this group as loans with a past due over 30 days) which are classified under performing loans (including past due close monitoring loans) are as follows;

	31 December 2018			
	Commercial Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
Past Due 30-60 days	3,170,828	768,174	329,498	4,268,500
Past Due 60-90 days	1,102,285	420,257	153,598	1,676,140
Past Due over 90 days	-	-	-	-
Total	**4,273,113**	**1,188,431**	**483,096**	**5,944,640**

	31 December 2017			
	Commercial Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
Past Due 30-60 days	418,903	460,870	2,861	882,634
Past Due 60-90 days	344,577	227,827	5,384	577,788
Past Due over 90 days	6,302,016	-	57,354	6,359,370
Total	**7,065,496**	**688,697**	**65,599**	**7,819,792**

The details of the loans are as follows:

(i). Loans at amortised cost:

	31 December 2018			
	Commercial Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
Neither past due nor impaired	153,277,220	42,710,279	5,357,815	201,345,314
Past due and not individually impaired	4,273,113	1,188,431	483,096	5,944,640
Individually impaired	5,883,404	1,955,217	600,407	8,439,028
Total gross	**163,433,737**	**45,853,927**	**6,441,318**	**215,728,982**
Less: allowance for individually impaired loans	(2,927,654)	(1,635,194)	(318,053)	(4,880,901)
Less: allowance for collectively impaired loans	(2,649,096)	(769,320)	(183,129)	(3,601,545)
Total Allowance for impairment	**(5,576,750)**	**(2,404,514)**	**(501,182)**	**(8,482,446)**
Total net	**157,856,987**	**43,449,413**	**5,940,136**	**207,246,536**

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2017			
	Commercial Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
Neither past due nor impaired	156,086,164	45,485,413	5,669,203	207,240,780
Past due and not individually impaired(*)	7,065,496	688,697	65,599	7,819,792
Individually impaired	2,191,560	2,341,151	287,070	4,819,781
Total gross	**165,343,220**	**48,515,261**	**6,021,872**	**219,880,353**
Less: allowance for individually impaired loans	(1,651,263)	(2,341,151)	(156,454)	(4,148,868)
Less: allowance for collectively impaired loans	(2,401,255)	(569,869)	(53,425)	(3,024,549)
Total Allowance for impairment	**(4,052,518)**	**(2,911,020)**	**(209,879)**	**(7,173,417)**
Total net	**161,290,702**	**45,604,241**	**5,811,993**	**212,706,936**

(*) Includes cash loan exposure of USD 1,685 million included accrued interest as at 31 December 2017 (31 December 2016: USD 1,576 million) related with the acquisition finance of a telecommunication company within a syndicate formed by various domestic and foreign banks, where the financing structure includes acquired company’s shares pledged as collateral. Negotiations on different restructuring alternatives are being evaluated among the creditor banks and related public authorities, which may also include a change in the shareholder structure of the telecommunication company. It is expected that these negotiations will produce a positive outcome. The related loan is classified “loans and other receivables” under close monitoring as of 31 December 2017.

As of 31 December 2018 and 2017, the Group’s collateral types are mainly composed of mortgages, cash blockages, share, vehicle and machine pledges.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

(ii). Loans at fair value through profit or loss:

For the restructuring of the syndication loan extended to Ojer Telekominasyon A.Ş (OTAŞ), which is the main shareholder of Türk Telekom, an agreement has been made between all creditors including the Bank. As per the agreed structure, 1,925,000,000 Class A Shares in Türk Telekom, representing 55% of Türk Telekom's issued share capital, which have been pledged as security for the existing facilities are taken over on 21 December 2018 by a special purpose vehicle Levent Yapılandırma Yönetimi A.Ş. ("LYY") owned directly or indirectly by the creditors. The Bank participated in LYY with a share of 35.56% for its share in receivables from OTAŞ. Within the scope of the acquisition of Türk Telekom shares by LYY and related agreements, the amount of credit extended to LYY by the Bank for the acquisition of shares, which are the guarantee of OTAŞ loans, is 1,272 million USD (6,990 million TL) as of 31 December 2018. Since the terms are substantially different, this loan has been derecognized and been recognized as new loan. The new loan is reclassified as "Loans" under "Fair Value through Profit or Loss". The maturity of related loan is 1 year and it can be extended. As stated in agreements for mentioned loan, it is foreseen that a part of the loan given to LYY shall be transferred from loans to capital and added to LYY capital in the following period. The shares of Türk Telekom, are pledged for this loan and constitute the guarantee of the loan granted to LYY. The main purpose of LYY is transferring the shares of Türk Telekom to an expert investor by providing to the necessary conditions as soon as possible.

Debt securities, treasury bills and other securities:

For debt securities and other bills, external ratings such as Moody's rating or their equivalents are used by the Treasury Unit for management of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

Current Period - 31 December 2018	Financial Assets at Fair Value Through P&L (Net)(**)	Financial Assets at Fair Value Through Other Comprehensive Income (Net)(*)	Financial Assets Measured at Amortised Cost (Net)	Total
Moody's Rating				
Aaa	-	-	-	-
Aa1, Aa2, Aa3	-	253,903	-	253,903
A1, A2, A3	-	239,278	-	239,278
Baa1, Baa2, Baa3	-	266,730	-	266,730
Ba1	-	840	-	840
Ba2	-	62,051	-	62,051
Ba3	22,006	37,193,092	9,754,326	46,969,424
B1, B2, B3	-	6,072,943	2,509,155	8,582,098
Total	**22,006**	**44,088,837**	**12,263,481**	**56,374,324**

(*) Excluding equity securities and mutual funds.
(**) Excluding share certificates and mutual funds.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Prior Period – 31 December 2017 Moody's Rating	Trading Financial Assets (**)	Available-for-Sale Financial Assets (*)	Held-to-Maturity Securities	Total
Aaa	-	-	-	-
Aa1, Aa2, Aa3	-	192,304	-	**192,304**
A1, A2, A3	-	114,203	-	**114,203**
Baa1, Baa2, Baa3	-	671,056	-	**671,056**
Ba1	16,459	41,279,319	18,406,623	**59,702,401**
Ba2	-	196,879	476,409	**673,288**
Total	**16,459**	**42,453,761**	**18,883,032**	**61,353,252**

(*) Excluding equity securities and mutual funds.
(**) Excluding share certificates and mutual funds.

(30.3) Market risk

The risk principles, policies and risk limits related to the management of market risk are approved by the Board of Directors and reviewed on a regular basis. The Bank's Senior Management performs day to day management of the market risk in accordance with the limits assigned by the Board of Directors. The Bank is exposed to market risk as a result of fluctuations in foreign exchange rates, interest rates, and market prices of stocks. Exchange rate risk and interest rate risk are evaluated as the two most important components of market risk. The Bank engages in derivative transactions for hedge purposes when found necessary.

Market risk is calculated by two different methods, namely the "inherent model" and the "standard method". According to inherent model market risk is measured by Value at Risk ("VaR") approach which takes into account different risk factors. VaR calculations use variance-covariance, historical simulation and Monte Carlo simulation methods. The software used can perform calculations with an advanced yield curve and volatility models. The VaR model is based on the assumptions of 99% confidence interval and a 10-day holding period. VaR analyses are performed on a daily basis and reported to the Senior Management. VaR analyses are also used as risk and limit management instrument for trading transactions. The limits are reviewed periodically according to market conditions and the application of specified limits is subject to authority restrictions and therefore the control effectiveness is increased. VaR analyses are supported with scenario analyses and stress tests, and take into consideration the effects of low probability events which have significant impact and the effects of market fluctuations. Retrospective tests of the model outputs are performed regularly. The standard method is used for the legal reporting.

The following table indicates the details of the market risk calculation as of 31 December 2018, in accordance with the Market Risk Calculation principles pursuant to the Third Section of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" published in the Official Gazette no. 29511 on 23 October 2015.

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Standardised approach:

		RWA(Risk Weighted Amount)
	Outright products	
1	Interest rate risk (general and specific)	2,644,038
2	Equity risk (general and specific)	29,800
3	Foreign exchange risk	2,381,081
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	32,825
7	Scenario approach	-
8	Securitisation	-
9	**Total**	**5,087,744**

Outright products refer to positions in products that are not optional.

(30.4) Currency risk

The difference between the Group's foreign currency denominated and foreign currency indexed assets and liabilities is defined as the "Net Foreign Currency Position" and is the basis of currency risk. Foreign currency denominated assets and liabilities, together with purchase and sale commitments, give rise to foreign exchange exposure. The Bank keeps the foreign exchange exposure amount within the limits set by the ERC. The Board, taking into account the recommendations by the ERC, sets a limit for the size of a foreign exchange exposure, which is closely monitored by ALCO. Those limits are individually determined and followed for both the net overall foreign currency position and for the foreign exchange exposure. Derivative financial instruments like forward foreign exchange contracts and currency swaps are used as tools for foreign exchange exposure management.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

The table below summarizes the Group's net foreign currency position, categorized by currency.

	31 December 2018					
	EUR	**USD**	**GBP**	**Other**	**TL**	**Total**
Cash and due from banks and balances with the Central Bank of Turkey	13,433,482	26,269,089	1,401,548	3,770,937	4,742,823	49,617,879
Investment securities	6,342,975	19,210,249	-	623,000	30,611,636	56,787,860
Derivative financial instruments	1,038,225	4,516,363	2,858	71,827	16,976,630	22,605,903
Loans and advances to customers	50,586,727	44,389,536	2,279	38,939	118,919,263	213,936,744
Property, plant and equipment	724	7,039	-	-	3,951,289	3,959,052
Intangible assets	5,570	24	-	-	640,599	646,193
Current tax	31,948	-	-	-	274,086	306,034
Deferred tax assets	18,134	23,410	-	-	223,264	264,808
Other assets and pre-payments	1,368,019	2,180,979	143	624	3,128,372	6,678,137
Total assets	**72,825,804**	**96,596,689**	**1,406,828**	**4,505,327**	**179,467,962**	**354,802,610**
Deposits and obligations under repurchase agreements	43,193,581	87,646,861	3,267,100	3,494,448	85,237,136	222,839,126
Interbank money market deposits, funds borrowed and debt securities in issue	10,511,923	45,246,570	-	135,873	5,677,230	61,571,596
Derivative financial instruments	481,393	983,503	291	36,192	11,323,624	12,825,003
Income taxes payable	-	-	-	-	8,037	8,037
Other liabilities and accrued expenses	2,842,553	1,033,618	2,345	37,048	8,997,329	12,912,893
Employment benefit obligations	745	-	-	-	324,504	325,249
Deferred tax liability	128,970	-	-	-	283,695	412,665
Equity and non-controlling interest	-	-	-	-	43,908,041	43,908,041
Total liabilities and equity	**57,159,165**	**134,910,552**	**3,269,736**	**3,703,561**	**155,759,596**	**354,802,610**
Net balance sheet position	**15,666,639**	**(38,313,863)**	**(1,862,908)**	**801,766**	**23,708,366**	**-**
Off-balance sheet derivative instruments net notional position	**(13,231,096)**	**38,120,115**	**1,866,954**	**(1,034,979)**	**-**	**25,720,994**

At 31 December 2018, assets and liabilities denominated in foreign currency were translated into Turkish lira using a foreign exchange rate of TL 5.2600 =USD 1 and TL 6.0182 =EUR 1.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2017					
	EUR	**USD**	**GBP**	**Other**	**TL**	**Total**
Cash and due from banks and balances with the Central Bank of Turkey	8,525,767	22,726,746	52,340	5,336,769	10,303,629	46,945,251
Trading and investment securities	6,392,477	25,270,362	-	602,237	29,491,557	61,756,633
Derivative financial instruments	558,497	2,439,814	908	85,431	6,367,683	9,452,333
Loans and advances to customers	42,758,379	41,048,634	11,770	67,937	128,820,216	212,706,936
Property, plant and equipment	856	7,039	-	-	3,418,021	3,425,916
Intangible assets	2,059	13	-	-	476,470	478,542
Deferred tax assets	302	9,075	-	-	695,522	704,899
Current tax	-	-	-	-	-	-
Other assets and pre-payments	815,983	1,397,969	66	281	1,955,651	4,169,950
Total assets	**59,054,320**	**92,899,652**	**65,084**	**6,092,655**	**181,528,749**	**339,640,460**
Deposits and obligations under repurchase agreements	44,909,486	84,394,537	2,020,256	2,179,799	96,801,726	230,305,804
Interbank money market deposits, funds borrowed and debt securities in issue	11,539,867	32,153,330	4,043	173,839	8,019,866	51,890,945
Derivative financial instruments	794,855	441,893	1,817	89,595	4,170,579	5,498,739
Income taxes payable	55,093	-	-	-	696,603	751,696
Other liabilities and accrued expenses	1,166,030	843,128	6,181	8,021	7,055,181	9,078,541
Employment benefit obligations	161	-	-	-	300,792	300,953
Deferred tax liability	90,672	-	-	-	392,164	482,836
Equity and non-controlling interest	-	-	-	-	41,330,946	41,330,946
Total liabilities and equity	**58,556,164**	**117,832,888**	**2,032,297**	**2,451,254**	**158,767,857**	**339,640,460**
Net balance sheet position	**498,156**	**(24,933,236)**	**(1,967,213)**	**3,641,401**	**22,760,892**	**-**
Off-balance sheet derivative instruments net notional position	**124,378**	**25,986,201**	**1,963,928**	**(3,655,622)**	**(23,297,308)**	**1,121,577**

At 31 December 2017, assets and liabilities denominated in foreign currency were translated into Turkish lira using a foreign exchange rate of TL 3.7400 =USD 1 and TL 4.4773 =EUR 1.

Currency Risk Sensitivity Analysis:

	Current Period - 31 December 2018		Prior Period - 31 December 2017	
Change in exchange rate	**Effect on Profit/Loss**	**Effect on Equity**	**Effect on Profit/Loss**	**Effect on Equity**
(+) 10%	11,818	(155,088)	91,810	(21,186)
(-) 10%	(11,818)	155,088	(91,810)	21,186

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

(30.5) Interest rate risk

"Interest Rate Risk" can be defined as the impact of interest rate changes on interest-sensitive asset and liability items of both on and off-balance sheets of the Group. The ERC sets limits for the interest rate sensitivity of on and off-balance sheet items and the sensitivity is closely monitored and reported weekly. In the case of high market fluctuations, daily transaction based reporting and analyses are made.

The Group manages the interest rate risk on a portfolio basis and tries to minimize the risk effect on the profitability, financial exposure and cash flows by applying different strategies. Basic methods such as using fixed or floating interest rates for different portfolios and maturities, setting the fixed margin in floating rates, or varying the rates for the short or long-term positions are applied actively.

The tables below summarize the Group's exposure to interest rate risks at 31 December 2018 and 31 December 2017. Included in the tables are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

	31 December 2018					
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Cash and due from banks and balances with the Central Bank of Turkey	21,357,033	-	-	-	28,260,846	49,617,879
Investment securities	12,541,538	17,879,645	18,231,394	7,721,747	413,536	56,787,860
Derivative financial instruments	13,694,227	4,621,177	2,213,756	2,076,743	-	22,605,903
Loans and advances to customers	83,845,210	58,416,662	63,467,197	7,843,859	363,816	213,936,744
Property, plant and equipment	-	-	-	-	3,959,052	3,959,052
Intangible assets	-	-	-	-	646,193	646,193
Deferred income tax assets	-	-	-	-	264,808	264,808
Current tax	-	-	-	-	306,034	306,034
Other assets and pre-payments	2,684,662	786,054	379,315	316,249	2,511,857	6,678,137
Total assets	**134,122,670**	**81,703,538**	**84,291,662**	**17,958,598**	**36,726,142**	**354,802,610**
Deposits and obligations under repurchase agreements	156,250,936	20,966,282	5,955,533	535,332	39,131,043	222,839,126
Interbank money market deposits, funds borrowed and debt securities in issue	37,381,060	8,658,538	8,022,126	7,509,872	-	61,571,596
Derivative financial instruments	8,757,092	3,189,342	859,957	18,612	-	12,825,003
Income taxes payable	-	-	-	-	8,037	8,037
Other liabilities and accrued expenses	2,479,564	905,139	318,611	76,111	9,133,468	12,912,893
Employment benefit obligations	-	-	-	-	325,249	325,249
Deferred tax liability	-	-	-	-	412,665	412,665
Total liabilities	**204,868,652**	**33,719,301**	**15,156,227**	**8,139,927**	**49,010,462**	**310,894,569**
Net repricing period gap	**(70,745,982)**	**47,984,237**	**69,135,435**	**9,818,671**	**(12,284,320)**	**43,908,041**
Off-balance sheet derivative instruments net notional position	**21,753,369**	**(11,734,925)**	**1,712,968**	**1,699,121**	**-**	**13,430,533**

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2017					
	Up to 3 months	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Cash and due from banks and balances with the Central Bank of Turkey	26,731,759	8,190	-	-	20,205,302	46,945,251
Trading and investment securities	13,341,922	14,387,245	25,179,869	8,444,216	403,381	61,756,633
Derivative financial instruments	3,288,123	994,029	3,631,436	1,324,932	213,813	9,452,333
Loans and advances to customers	77,251,780	53,859,953	70,980,593	9,881,247	733,363	212,706,936
Property, plant and equipment	-	-	-	-	3,425,916	3,425,916
Intangible assets	-	-	-	-	478,542	478,542
Deferred income tax assets	-	-	-	-	704,899	704,899
Current tax	-	-	-	-	-	-
Other assets and pre-payments	594,365	222,495	1,023,931	643,005	1,686,154	4,169,950
Total assets	**121,207,949**	**69,471,912**	**100,815,829**	**20,293,400**	**27,851,370**	**339,640,460**
Deposits and obligations under repurchase agreements	168,415,917	19,360,469	6,693,448	596,050	35,239,920	230,305,804
Interbank money market deposits, funds borrowed and debt securities in issue	32,075,729	8,490,169	6,189,433	5,135,614	-	51,890,945
Derivative financial instruments	1,534,945	1,017,667	2,071,000	875,127	-	5,498,739
Income taxes payable	-	-	-	-	751,696	751,696
Other liabilities and accrued expenses	1,373,620	537,813	255,217	728	6,911,163	9,078,541
Employment benefit obligations	-	-	-	-	300,953	300,953
Deferred tax liability	-	-	-	-	482,836	482,836
Total liabilities	**203,400,211**	**29,406,118**	**15,209,098**	**6,607,519**	**43,686,568**	**298,309,514**
Net repricing period gap	**(82,192,262)**	**40,065,794**	**85,606,731**	**13,685,881**	**(15,835,198)**	**41,330,946**
Off-balance sheet derivative instruments net notional position	**28,019,442**	**193,808**	**(19,495,499)**	**(5,994,678)**	**-**	**2,723,073**

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

The tables below summarize effective average interest rates by major currencies for monetary financial instruments at 31 December 2018 and 2017:

	31 December 2018		
Assets	**USD (%)**	**EUR (%)**	**TL (%)**
Cash and due from banks			
Time deposits in foreign banks	2.34	0.77	24.00
Time deposits in domestic banks	2.28	0.20	23.12
Interbank money market placements	2.27	-	23.64
Reserve requirements with the Central Bank of Turkey	2.00	-	13.00
Financial assets at fair value through profit or loss	-	-	13.22
Loans and advances to customers	7.26	4.28	18.41
Financial asset at fair value through OCI	4.55	2.38	20.97
Financial asset at amortised cost	4.89	3.58	26.70
Liabilities			
Deposits and obligations under repurchase agreements	3.40	0.85	17.59
Interbank and money market deposits	-	-	24.02
Funds borrowed	4.67	2.26	14.04
Debt securities in issue	5.19	1.51	19.42

	31 December 2017		
Assets	**USD (%)**	**EUR (%)**	**TL (%)**
Cash and due from banks:			
- Time deposits in foreign banks	1.40	-	-
- Time deposits in domestic banks	1.92	0.85	15.49
- Interbank money market placements	-	-	14.21
- Reserve requirements with the Central Bank of Turkey	1.50	-	7.83
Trading securities	-	-	16.16
Loans and advances to customers	5.93	3.73	14.55
Investment securities:			
- Available-for-sale	4.20	2.47	12.48
- Held-to-maturity	4.11	3.62	13.22
Liabilities			
Deposits and obligations under repurchase agreements	2.59	0.97	10.61
Interbank and money market deposits	-	1.92	14.06
Funds borrowed	3.00	1.20	8.54
Debt securities in issue	4.52	1.63	12.79

Interest rate risk for all banking transactions outside the trading portfolio are followed under interest rate risk related to the banking book. Interest rate risk related to the trading portfolio is followed under market risk.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

ALCO performs daily management of interest rate risk in accordance with the risk limits set by the ERC in relation to interest rate sensitivities of the banking book. ALCO meetings are held on a weekly basis. In addition to interest rate sensitivities measured and reported weekly, daily and transaction-based analyses are also performed when significant fluctuations occur in markets.

Repricing term mismatch and duration mismatch analyses, net economic value change analyses under different interest rate stress scenarios and income simulations are used for interest rate risk management. Repricing risk, yield curve risk, basis risk and optionality are considered under interest rate risk scope.

The interest rate risk arising from banking book is calculated and reported on a monthly basis according to "Regulation on Measurement and Evaluation of Interest Rate Risk in Banking Accounts with Standard Shock Method" published in the Official Gazette no 28034 on 23 August 2011 through applying interest rate shock method to on and off balance sheet positions.

As of 31 December 2018 and 31 December 2017, 500 bp shock, 400 bp shock and 200 bp shock are applied for Turkish Lira and foreign currency for the assessment of the changes in the fair value of balance sheet items which are subject to calculation.

		31.12.2018		31.12.2017	
Currency	**Applied Shock (+/- x basis points)**	**Gains/Losses**	**Gains/Shareholder's Equity - Losses/Shareholder's Equity**	**Gains/Losses**	**Gains/Shareholder's Equity - Losses/Shareholder's Equity**
TL	(400)	2,653,182	5.28%	4,767,280	10.68%
TL	500	(2,982,938)	(5.94)%	(4,987,185)	(11.19)%
USD	(200)	(199,575)	(0.40)%	(193,390)	(0.43)%
USD	200	200,621	0.40%	203,408	0.46%
EUR	(200)	107,373	0.21%	(272,548)	(0.61)%
EUR	200	(790,100)	(1.57)%	(157,953)	(0.35)%
Total (for negative shocks)		**2,560,980**	**5.10%**	**4,301,342**	**9.64%**
Total (for positive shocks)		**(3,572,417)**	**(7.11)%**	**(4,941,730)**	**(11.08)%**

(30.6) Liquidity risk

The liquidity risk of the Bank is the risk of being unable to fulfill its payment obligations on time due to not having enough cash sources or cash inflows to finance its cash outflows fully and on time due to cash flow instabilities. Liquidity risk arises from situations in which the Bank is unable to meet the cash outflows with its cash sources and borrowing opportunities over collateralizing marketable securities, in case of sudden fund withdrawals by the individual/institutional funders of the Bank.

The Bank's liquidity and funding policy is to own sufficient liquidity reserve and funding opportunities to meet Bank's liabilities even in cases of stress, resulting from the market conditions or other conditions specific to the Bank.

The Bank has capacity to meet a high risk with broad and stable deposit, strong base capital structure and diversified foreign borrowing sources and is capable of providing additional liquidity with high quality liquid securities in its portfolio and available limits at both the Central Bank of Republic of Turkey and other money markets.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Management of liquidity risk is shared by the ERC, ALCO, Treasury Department and Risk Management Department. The ERC determines the liquidity management policies and the appropriate liquidity risk level in line with the Bank's risk appetite and monitors whether the liquidity risk is managed under the framework of determined policies and within the defined limits.

The different categories of defined limits are;

- Limits related to wholesale funding sources,
- Limits related to liquid asset buffer,
- Limits related to loan/deposit ratio,
- Limits related to the cash inflows coverage capacity to cash outflows,
- Limits related to cash outflow coverage capacity in the stress environment

ALCO takes decision to use alternative funding sources, pricing of obtained funds and granted loans, and other decisions of Daily liquidity management. Treasury Department ensures that the Bank meets its short, middle and long term liabilities, with the transactions made in accordance with ALCO decisions order to utilize excess funding or close the funding gap, occurring on foreign currencies or maturity terms. Risk Management Department measures and monitors the liquidity risk, with the reports prepared and analyses made, and informs the top management. Liquidity risk reporting consists of periodic and special purpose reports prepared to be discussed in the ERC and ALCO meetings, stress tests, scenario analyses, risk limit compliance reports and legal liquidity reports.

	Current Period – 31 December 2018		**Prior Period – 31 December 2017**	
	TL+FC	**FC**	**TL+FC**	**FC**
October	205.37	246.10	135.57	249.01
November	245.86	274.78	127.11	233.99
December	197.45	224.87	142.25	263.84

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

The table below analyses carrying amount of assets and liabilities of the Group into relevant maturity groupings based on the remaining period to contractual maturity at the balance sheet date.

	31 December 2018						
	Demand	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**No maturity**	**Total**
Cash and due from banks and balances with the Central Bank of Turkey	31,340,573	18,277,306	-	-	-	-	49,617,879
Investment securities	408,015	1,894,035	6,847,227	37,026,331	10,606,731	5,521	56,787,860
Derivative financial instruments	-	2,097,401	2,964,119	10,710,969	6,833,414	-	22,605,903
Loans and advances to customers(*)	407,234	61,646,202	50,028,752	78,223,864	23,674,110	(43,418)	213,936,744
Property, plant and equipment	-	-	-	-	-	3,959,052	3,959,052
Intangible assets	-	-	-	-	-	646,193	646,193
Deferred income tax assets	-	-	-	264,808	-	-	264,808
Current Tax	-	-	-	-	-	306,034	306,034
Other assets and pre-payments	358,452	1,923,059	507,123	1,997,125	1,146,636	745,742	6,678,137
Total assets	**32,514,274**	**85,838,003**	**60,347,221**	**128,223,097**	**42,260,891**	**5,619,124**	**354,802,610**
Deposits and obligations under repurchase agreements	42,133,836	146,605,776	20,280,609	11,421,482	2,397,423	-	222,839,126
Interbank money market deposits, funds borrowed and debt securities in issue	-	7,223,708	20,263,247	20,771,882	13,312,759	-	61,571,596
Derivative financial instruments	-	3,042,866	2,082,518	5,131,773	2,567,846	-	12,825,003
Income taxes payable	-	-	8,037	-	-	-	8,037
Other liabilities and accrued expenses	193,970	9,463,902	953,408	1,717,428	584,185	-	12,912,893
Employment benefit obligations	-	-	-	325,249	-	-	325,249
Deferred tax liability	-	-	-	412,665	-	-	412,665
Total liabilities	**42,327,806**	**166,336,252**	**43,587,819**	**39,780,479**	**18,862,213**	**-**	**310,894,569**
Net gap as at 31 December 2018	**(9,813,532)**	**(80,498,249)**	**16,759,402**	**88,442,618**	**23,398,678**	**5,619,124**	**43,908,041**

(*) The non-performing loans and netted amounts of the third stage expected loss provisions for these loans are stated in the "No maturity" column with the first and second stage expected loss provisions for performing loans.

	31 December 2017						
	Demand	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**No maturity**	**Total**
Cash and due from banks and balances with the Central Bank of Turkey	19,180,134	27,756,927	8,190	-	-	-	46,945,251
Investment securities	399,458	4,036,255	4,486,350	38,441,073	14,389,574	3,923	61,756,633
Derivative financial instruments	213,813	829,393	822,538	4,950,206	2,636,383	-	9,452,333
Loans and advances to customers	582,626	52,169,105	45,436,588	90,105,137	24,262,743	150,737	212,706,936
Property, plant and equipment	-	-	-	-	-	3,425,916	3,425,916
Intangible assets	-	-	-	-	-	478,542	478,542
Deferred income tax assets	-	-	-	704,899	-	-	704,899
Current Tax	-	-	-	-	-	-	-
Other assets and pre-payments	707,825	746,917	222,495	995,481	643,005	854,227	4,169,950
Total assets	**21,083,856**	**85,538,597**	**50,976,161**	**135,196,796**	**41,931,705**	**4,913,345**	**339,640,460**
Deposits and obligations under repurchase agreements	36,910,215	151,820,858	17,909,821	21,553,802	2,111,108	-	230,305,804
Interbank money market deposits, funds borrowed and debt securities in issue	-	13,809,364	13,715,856	15,224,317	9,141,408	-	51,890,945
Derivative financial instruments	-	1,290,974	852,774	2,066,666	1,288,325	-	5,498,739
Income taxes payable	-	-	751,696	-	-	-	751,696
Other liabilities and accrued	610,069	6,358,782	698,565	1,093,329	317,796	-	9,078,541
expenses	-	-	-	300,953	-	-	300,953
Employment benefit obligations	-	-	-	482,836	-	-	482,836
Deferred tax liability							
Total liabilities	**37,520,284**	**173,279,978**	**33,928,712**	**40,721,903**	**12,858,637**	**-**	**298,309,514**
Net gap as at 31 December 2017	**(16,436,428)**	**(87,741,381)**	**17,047,449**	**94,474,893**	**29,073,068**	**4,913,345**	**41,330,946**

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

The most important funding resources of the Parent Bank are the shareholders' equity, the diversified and steady deposit base and the long-term funds borrowed from international institutions which are mainly placed in interest earning assets. In spite of a substantial portion of deposits from individuals being short-term, deposits are diversified by number and type, and maturities of a large portion of deposits are renewed, which indicates that these deposits will provide a long-term and stable source of funding for the Parent Bank.

Undiscounted cash flows of the financial liabilities of the Group are as follows:

	31 December 2018					
Liabilities	**Up to 1 month and demand**	**1-3 months**	**3-12 months**	**1-5 years**	**5 years and over**	**Total**
Deposits and obligations under repurchase agreements	164,373,540	25,266,132	21,293,569	12,072,952	2,650,192	225,656,385
Funds borrowed and debt securities in issue	1,597,187	5,832,101	20,954,385	32,060,105	9,226,188	69,669,966
Interbank money market deposits	50,730	15,317	-	-	-	66,047
Total	**166,021,457**	**31,113,550**	**42,247,954**	**44,133,057**	**11,876,380**	**295,392,398**
Letter of guarantees (*)	**4,239,932**	**5,288,100**	**16,267,385**	**4,944,533**	**22,055,421**	**52,795,371**

(*) Undiscounted maturities of letter of guarantees represent the contractual maturities whereas such balances have demand nature due to their callable status until maturity.

	31 December 2017					
Liabilities	**Up to 1 month and demand**	**1-3 months**	**3-12 months**	**1-5 years**	**5 years and over**	**Total**
Deposits and obligations under repurchase agreements	162,168,054	27,359,136	18,683,908	22,468,014	2,328,876	233,007,988
Funds borrowed and debt securities in issue	1,851,982	11,685,351	14,307,046	18,181,632	7,946,753	53,972,764
Interbank money market deposits	470,052	38,571	-	-	-	508,623
Total	**164,490,088**	**39,083,058**	**32,990,954**	**40,649,646**	**10,275,629**	**287,489,375**
Letter of guarantees (*)	**3,439,487**	**5,149,695**	**17,863,873**	**5,714,862**	**19,795,878**	**51,963,795**

(*) Undiscounted maturities of letter of guarantees represent the contractual maturities whereas such balances have demand nature due to their callable status until maturity.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

Undiscounted cash flows of derivative financial instruments of the Group are as follows:

Current Period – 31 December 2018	Up to 1 month	1-3 months	3-12 months	1-5 years	5 Years and Over
Derivatives held for trading					
Foreign exchange derivatives:					
– Inflow	65,615,460	52,642,738	27,597,013	15,300,944	1,305,199
– Outflow	(58,693,959)	(47,571,041)	(38,288,605)	(14,507,048)	(1,258,004)
Interest rate derivatives:					
– Inflow	61,522	183,587	902,044	2,343,890	1,115,964
– Outflow	(75,794)	(184,474)	(867,948)	(2,201,300)	(1,028,432)
Derivatives held for hedging					
Foreign exchange derivatives:					
– Inflow	25,513	126,593	5,367,326	8,792,627	5,741,823
– Outflow	(50,097)	(558,905)	(4,720,895)	(7,728,482)	(6,325,470)
Interest rate derivatives:					
– Inflow	34,098	194,215	597,285	1,649,181	443,294
– Outflow	(9,363)	(116,505)	(551,869)	(1,805,732)	(680,984)
Total Inflow	**65,736,593**	**53,147,133**	**34,463,668**	**28,086,642**	**8,606,280**
Total Outflow	**(58,829,213)**	**(48,430,925)**	**(44,429,317)**	**(26,242,562)**	**(9,292,890)**

Prior Period – 31 December 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	5 Years and Over
Derivatives held for trading					
Foreign exchange derivatives:					
– Inflow	39,564,334	21,206,694	38,321,347	40,064,677	6,347,523
– Outflow	(36,054,089)	(21,349,542)	(37,954,967)	(39,064,474)	(5,927,175)
Interest rate derivatives:					
– Inflow	20,561	128,574	516,796	1,842,438	874,125
– Outflow	(22,211)	(130,568)	-531,780	(1,774,849)	-812,490
Derivatives held for hedging					
Foreign exchange derivatives:					
– Inflow	4,611	11,232	52,952	3,623,928	-
– Outflow	(20,321)	(42,645)	(184,078)	(2,970,146)	-
Interest rate derivatives:					
– Inflow	11,138	43,687	155,674	745,960	165,899
– Outflow	(12,703)	-55,760	(151,659)	(656,335)	(167,641)
Total Inflow	**39,600,644**	**21,390,187**	**39,046,769**	**46,277,003**	**7,387,547**
Total Outflow	**(36,109,324)**	**(21,578,515)**	**(38,822,484)**	**(44,465,804)**	**(6,907,306)**

(30.7) Operational risk

The "Basic Indicator Method" that is mentioned in "Regulation on Measurement and Assessment of Capital Adequacy of Banks" Communiqué published in the Official Gazette No. 29511 on November 23, 2015 is used in the annual operational risk calculation of the Parent Bank. The amount subject to the operational risk is calculated by using the statutory gross income of the Parent Bank in 2015, 2016, and 2017.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

In accordance with above Communiqué, deduction of profit/loss derived from the sale of financial assets at fair value through other comprehensive income and financial assets measured at amortised cost, extraordinary income and indemnity insurance gains from the total of net interest income and non-interest income.

	31.12.2015	31.12.2016	31.12.2017	Total/Positive GI year number	Ratio (%)	Total
Gross income	10,209,262	11,948,171	14,107,718	3	15	1,813,258
Amount subject to Operational Risk (Amount*12,5)						22,665,719

(30.8) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

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

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair values at 31 December 2018 and 2017:

	31 December 2018		31 December 2017	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets				
Loans and advances to customers	213,936,744	204,225,068	212,706,936	209,807,463
Financial assets at amortised cost (Net)	12,263,481	11,858,083	18,883,032	19,082,300
Financial liabilities				
Customer deposits	222,839,126	221,922,158	230,305,804	229,539,315
Interbank money market deposits, funds borrowed and debt securities in issue	61,571,596	60,380,409	51,890,945	51,846,282

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments that are carried at amortized cost:

(i) Financial assets

The fair values of certain financial assets carried at cost, including cash and balances with the Central Bank of Turkey, due from other banks and other financial assets are considered to approximate their respective carrying values due to their short-term nature.

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine the fair value. The credit risk is not considered when calculating the fair value of loans and advances to customers as in line with the pricing of such loans except loans and advances to customers with short maturity.

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

The fair value of listed held-to-maturity investments has been estimated based on quoted market prices at balance sheet dates.

(ii) Financial liabilities

The estimated fair value of deposits with no maturity is the repayable amount at demand.

The estimated fair value of interest-bearing deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

A discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads to calculate the estimated fair value of funds borrowed and debt securities in issue.

(i) Fair value hierarchy:

IFRS 7 sets a hierarchy of valuation techniques according to the observability of data used in valuation techniques which establish basis for fair value calculations.

Aforesaid fair value hierarchy is determined as follows.

a) Quoted market prices (non-adjusted) (1st level).
b) Directly (by way of prices) or indirectly (derived from prices) data for the assets or liabilities, other than quoted prices in the 1st level (2nd level).
c) Data not based on observable data regarding assets or liabilities (3rd level).

Fair value hierarchy of the financial assets and liabilities of the Group carried at fair value and assets and liabilities carried at amortized cost for which fair value is disclosed in Note 30 (h), according to the foregoing principles is given in the table below:

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2018			
Assets carried at fair value:	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	**178,816**	**-**	**-**	**178,816**
- Government debt securities	10,113	-	-	10,113
- Eurobonds	-	-	-	-
- Government debt securities denominated in foreign currency	-	-	-	-
- Treasury bills	-	-	-	-
- Share certificates	150,684	-	-	150,684
- Other financial assets	18,019	-	-	18,019
- Loans and advances to customers(**)	-	-	6,690,208	6,690,208
Derivative Financial Assets at Fair Value Through Profit or Loss	**1,371**	**20,614,924**	**-**	**20,616,295**
Derivative Financial Assets at Fair Value Through Other Comprehensive Income	**-**	**1,989,608**	**-**	**1,989,608**
Financial Assets at Fair Value Through Other Comprehensive Income	**43,140,044**	**1,186,378**	**-**	**44,326,422**
- Government debt securities	23,928,005	-	-	23,928,005
- Eurobonds	12,574,559	-	-	12,574,559
- Treasury bills	-	-	-	-
- Government debt securities denominated	-	-	-	-
in foreign currency	-	-	-	-
- Mutual funds	237,585	-	-	237,585
- Equity Securities	-	-	-	-
- Other financial assets	6,399,895	1,186,378	-	7,586,273
Assets for which fair values are disclosed (*)	**11,858,083**	**197,534,860**	**-**	**209,392,943**
- Loans and advances to customers	-	197,534,860	-	197,534,860
- Financial assets measured at amortised cost	11,858,083	-	-	11,858,083
- Government debt securities	9,411,205	-	-	9,411,205
-Other financial assets	2,446,878	-	-	2,446,878
Total assets	**55,178,314**	**221,325,770**	**6,690,208**	**283,194,292**
Liabilities carried at fair value:				
Trading derivative financial instruments	**248**	**12,179,797**	**-**	**12,180,045**
Hedging derivative financial instruments	**-**	**644,958**	**-**	**644,958**
Liabilities for which fair values are disclosed (*)	**-**	**282,302,567**	**-**	**282,302,567**
- Customer Deposits	-	221,922,158	-	221,922,158
- Interbank money market deposits, funds borrowed and debt securities in issue	-	60,380,409	-	60,380,409
Total liabilities	**248**	**295,127,322**	**-**	**295,127,570**

(*) Assets and liabilities carried at amortized cost for which fair value is disclosed in Note 30 (h).

(**) Loans and advances measured at fair value present the loan granted to LYY as explained in Note 30. Fair value of this loan classified under level 3, has been determined based on the weighted average of the results of valuation work that include various valuation technics such as yearly average of market price, comparable trading multiples, comparable transactions and discounted cash flows ("DCF"). The potential changes in the fundamental estimations and assumptions included in the valuation work can affect the carrying fair value of the loan.

Share certificates classified as financial assets measured at fair value through OCI are carried at cost less impairment since they are not traded in active markets and their fair values cannot be measured reliably.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

	31 December 2017			
Assets carried at fair value:	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading securities	**32,956**	**6,934**	**-**	**39,890**
- Government bonds	9,525	-	-	9,525
- Eurobonds	-	-	-	-
- Government bonds denominated in foreign currency	-	-	-	-
- Treasury bills	-	-	-	-
- Share certificates	23,431	-	-	23,431
- Other bonds	-	6,934	-	6,934
Trading Derivative Financial Instrument	**2,328**	**8,313,721**	**-**	**8,316,049**
Hedging Derivative Financial Instrument	**-**	**1,136,284**	**-**	**1,136,284**
Securities Available-for-sale	**42,593,721**	**222,892**	**-**	**42,816,613**
- Government bonds	23,158,099	-	-	23,158,099
- Eurobonds	13,657,443	-	-	13,657,443
- Treasury bills	1,077	-	-	1,077
- Government bonds denominated in foreign currency	-	-	-	-
Mutual funds	277,987	-	-	277,987
Equity securities	-	84,865	-	84,865
- Other Bonds	5,499,115	138,027	-	5,637,142
Assets for which fair values are disclosed (*)	**19,082,300**	**209,807,463**	**-**	**228,889,763**
- Loans and advances to customers	-	209,807,463	-	209,807,463
- Held-to-Maturity Investments	19,082,300	-	-	19,082,300
Government debt securities	15,592,016	-	-	15,592,016
Other marketable securities	3,490,284	-	-	3,490,284
Total assets	**61,711,305**	**219,487,294**	**-**	**281,198,599**
Liabilities carried at fair value:				
Trading derivative financial instruments	**186**	**5,423,642**	**-**	**5,423,828**
Hedging derivative financial instruments	**-**	**74,911**	**-**	**74,911**
Liabilities for which fair values are disclosed (*)	**-**	**281,385,597**	**-**	**281,385,597**
- Customer Deposits	-	229,539,315	-	229,539,315
- Interbank money market deposits, funds borrowed and debt securities in issue	-	51,846,282	-	51,846,282
Total liabilities	**186**	**286,884,150**	**-**	**286,884,336**

(*) Assets and liabilities carried at amortized cost for which fair value is disclosed in Note 30 (h).

As explained in the Note 3.1.4, share certificates, that are classified as fair value through other comprehensive income (as available-for-sale in Note 3.3 for prior period) and are carried at cost less impairment since they are not traded in active markets and their fair values cannot be measured reliably, are not shown in the table above.

There are no transfers between the 1st and the 2nd levels in the current year.

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

NOTE 30 - FINANCIAL RISK MANAGEMENT (Continued)

As of 31 December 2018, the movement of Level 3 financial instruments is as follows:

	2018		2017	
	Asset	**Liability**	**Asset**	**Liability**
Balance at the beginning of period	-	-	-	-
Additions	6,690,208	-	-	-
Disposals	-	-	-	-
Transfers, net	-	-	-	-
Effects of valuation differences	-	-	-	-
Balance at the end of the period	**6,690,208**	**-**	**-**	**-**

(30.9) Capital management

Total capital amount and Capital adequacy ratio have been calculated in accordance with the "Regulation on Equity of Banks" and "Regulation on Measurement and Assessment of Capital Adequacy of Banks".

As of 31 December 2018, Group's total capital has been calculated as TL 50,233,673 (31 December 2017: 44,617,132), the capital adequacy ratio is 16.77% (31 December 2017: 15.79%). This ratio is well above the minimum ratio required by the legislation.

	31 December 2018	**31 December 2017**
Tier I capital	42,852,533	40,066,782
Tier II capital	7,384,648	4,556,871
Deductions	(3,508)	(6,521)
Total regulatory capital	50,233,673	44,617,132
Risk-weighted assets (including market and operational risk)	299,614,763	282,611,034
Capital adequacy ratio	**16.77%**	**15.79%**

(30.10) Fiduciary activities

The Group provides custody services to third parties which involve the Group in the making of allocation, purchase and sale decisions. Assets held in a fiduciary capacity are not included in these financial statements. At 31 December 2018, the Group has custody accounts amounting to TL 75,285,862 in nominal value (31 December 2017: TL 59,926,436).

NOTE 31 - SUBSEQUENT EVENTS

CMB approval and other procedures regarding our Bank's 30% paid-in-capital increase from TL 4,000,000,000 to TL 5,200,000,000 -paid in cash have been completed and the new version of our Articles of Association Article 9 titled "Capital and Mode and Terms of Payment of Capital" has been registered by Istanbul Trade Registry Office on 22.02.2019.

Within the framework of our bank's capital increase via rights issue of TL 2.5 for each share with nominal value of TL 1 between 03 January 2019 – 17 January 2019; a total fund inflow amounting to TL 3,005,741,611.22 (full TL amount) has been received, consisting of TL 2,996,306,795.62 (full TL amount) received during the period of exercising the pre-emptive rights to purchase new shares and TL 9,434,815.60 (full TL amount) received during the sale of remaining shares at the Primary Market of Borsa Istanbul on 22 January 2019.

The Board of Directors has decided to propose to the General Assembly not to distribute the net profit of TL 5,689,643,567.48 resulting from operations conducted in 2018 and to allocate all of the net profit to "Extraordinary Reserves" taking into consideration long-term interests of our shareholders, our bank and our employees and the guidance of the Banking Regulatory and Supervisory Agency related to strengthening the capital base of our sector.