AKBANK T.A.Ş.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

To the Board of Directors of Akbank T.A.Ş.

Introduction

1. We have reviewed the accompanying interim condensed consolidated statement of financial position of Akbank T.A.Ş., and its subsidiaries (collectively referred to as the "Group") as of 30 June 2018 and the related condensed consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

2. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

3. As explained in the note 15 of the accompanying interim condensed consolidated financial information; a portion of free provision amounting to TL 250,000 thousand (gross of deferred taxes of TL 55,000 thousand) has been reversed and recorded as other operating income, during the period ended 30 June 2018, out of total free provision of TL 700,000 thousand which had been recognized by the Bank Management in the prior years considering the possible effect of the circumstances that may arise from the changes in the economy and market conditions. Therefore, the amount of free provision and the related deferred tax in the accompanying consolidated financial statements are TL 450,000 thousand and TL 99,000 thousand respectively as at 30 June 2018.

Qualified Conclusion

4. Based on our review, except for the effects of the matter on the interim condensed consolidated financial information described in the basis for qualified conclusion paragraph above, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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

Talar Gül, SMMM
Partner

Istanbul, 26 October 2018

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Notes	Unaudited 30 June 2018	Audited 31 December 2017
ASSETS			
Cash and due from banks and balances with the Central Bank of Turkey		58,233,077	46,945,251
Derivative financial instruments		19,109,790	9,452,333
Loans and advances to customers	9	224,122,030	212,706,936
Financial assets at fair value through profit or loss ("FVPL")		153,910	-
Financial assets at fair value through OCI ("FVOCI")		45,834,096	-
Financial assets at amortised cost ("AC")		11,250,467	-
Investment securities:		-	61,756,633
- Trading Securities		-	39,890
- Available-for-sale		-	42,833,711
- Held-to-maturity		-	18,883,032
Property, plant and equipment	10	3,533,195	3,425,916
Intangible assets	11	516,759	478,542
Deferred tax assets		534,114	704,899
Current tax asset		-	-
Other assets and pre-payments		5,027,230	4,169,950
Total assets		**368,314,668**	**339,640,460**
LIABILITIES			
Deposits and obligations under repurchase agreements	12	240,215,487	230,305,804
Interbank money market deposits	13	436,992	507,522
Derivative financial instruments		11,300,861	5,498,739
Funds borrowed	13	28,697,774	22,251,065
Equity Securities	14	34,731,206	29,132,358
Income taxes payable	15	423,108	751,696
Provisions	15	723,472	873,122
Other liabilities and accrued expenses		9,366,347	8,205,419
Employment benefit obligations		319,464	300,953
Deferred tax liabilities		116,671	482,836
Total liabilities		**326,331,382**	**298,309,514**
EQUITY			
Capital and reserves attributable to the equity holders of the parent:			
- Share capital		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		1,817,717	1,279,940
Other reserves		(505,431)	942,873
Retained earnings		33,432,606	31,869,745
Total shareholders' equity		**41,983,141**	**41,330,807**
Non-controlling interest		145	139
Total equity		**41,983,286**	**41,330,946**
Total liabilities and equity		**368,314,668**	**339,640,460**

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

AKBANK T.A.Ş.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE PERIOD ENDED 30 JUNE 2018

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousand

	Notes	Unaudited 1 January 2018- 30 June 2018	Unaudited 1 January 2017- 30 June 2017
Interest income		15,203,471	11,244,284
Interest expense		(7,991,560)	(5,943,418)
Net interest income		**7,211,911**	**5,300,866**
Fee and commission income		2,174,380	1,754,398
Fee and commission expense		(431,433)	(323,372)
Net fee and commission income		**1,742,947**	**1,431,026**
Impairment losses on loans and credit related commitments, net		(2,099,014)	(526,395)
Foreign exchange gains and losses, net		(66,815)	(3,134)
Trading gains and losses, net		(205,622)	(165,170)
Dividend income		4,829	2,557
Other operating income		316,685	117,768
Operating income		**6,904,921**	**6,157,518**
Operating expenses		(2,743,109)	(2,330,058)
Profit before income taxes		**4,161,812**	**3,827,460**
Income taxes			
Income tax expense		(666,802)	(745,136)
Deferred tax income		(270,428)	(42,646)
Profit for the period		**3,224,582**	**3,039,678**
Attributable to:			
Equity holders of the Group		3,224,576	3,039,674
Non-controlling interest		6	4
		3,224,582	**3,039,678**
Basic and diluted earnings per share (expressed in TL, full amount, per share)	6	0.0081	0.0076

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Currency - in Thousands of Turkish Lira (“TL”) unless otherwise indicated. All other currencies are also expressed in thousands)

	Unaudited 1 January 2018- 30 June 2018	**Unaudited 1 January 2017- 31 June 2017**
Net profit for the period	**3,224,582**	**3,039,678**
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	(2,386,526)	-
Gain/(Loss) on available-for-sale financial assets	-	938,059
Foreign exchange differences on translation of foreign operations	537,777	187,561
Gain/(Loss) from cash flow hedges (effective part of fair value changes)	818,200	(23,067)
Gain/(Loss) from net foreign investment hedges (effective part of exchange difference on borrowings)	(254,784)	(97,184)
Tax related to gain and loss recognized directly in equity	401,084	(163,562)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(884,249)**	**841,807**
Other comprehensive income not being reclassified to profit or loss in subsequent periods		
Remeasurement gain/(loss) on defined benefit plans, net of taxes	(545)	15
Property and Plant Revaluation Differences	-	2,465,551
Tax related to gain and loss recognized directly in equity	(136,702)	(163,604)
Net Other comprehensive income net of tax not reclassied to profit or loss in subsequent periods	**(137,247)**	**2,301,962**
Other comprehensive income net of tax	**(1,021,496)**	**3,143,769**
Total comprehensive income, net of tax	**2,203,086**	**6,183,447**
Attributable to:		
Equity holders of the Group	2,203,080	6,183,443
Non-controlling interest	6	4

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

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	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	-	-	-	-	-	-	-	-	15	-	-	15
Net unrealized market value gains (losses) from available-for-sale portfolio	-	-	-	-	-	-	807,014	-	-	-	-	807,014
Net gains on available-for-sale portfolio transferred to the income statement	-	-	-	-	-	-	(118,998)	-	-	-	-	(118,998)
Net gains and losses recycled to the income statement due to transfer of available-for-sale into held-to-maturity portfolio	-	-	-	-	-	-	62,431	-	-	-	-	62,431
Cash flow hedges, net of tax	-	-	-	-	-	-	-	(18,454)	-	-	-	(18,454)
Translation reserve	-	-	-	-	187,561	-	-	-	-	-	-	187,561
Gains on hedges of a net investment in a foreign operation, net of tax	-	-	-	-	-	-	-	(77,747)	-	-	-	(77,747)
Property and Plant Revaluation Differences, net of tax	-	-	-	-	-	2,301,948	-	-	-	-	-	2,301,948
Other comprehensive income (expense)	-	-	-	-	187,561	2,301,948	750,447	(96,201)	15	-	-	3,143,770
Profit for the period	-	-	-	-	-	-	-	-	-	3,039,674	4	3,039,678
Total comprehensive income for the period	-	-	-	-	187,561	2,301,948	750,447	(96,201)	15	3,039,674	4	6,183,448
Dividends paid	-	-	-	-	-	-	-	-	-	(900,000)	-	(900,000)
Effect of capital increase	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 30 June 2017	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**962,259**	**2,301,948**	**(406,860)**	**(418,691)**	**(73,096)**	**28,837,321**	**134**	**38,441,264**

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	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**
Change in accounting policy	-	-	-	-	-	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
Actuarial Gains and Losses	-	-	-	-	-	(425)	-	-	(425)
Net unrealized market value gains (losses) from FVOCI portfolio	-	-	-	-	-	(1,861,490)	-	-	(1,861,490)
Cash flow hedges, net of tax	-	-	-	-	-	439,464	-	-	439,464
Translation reserve	-	-	-	-	537,777	-	-	-	537,777
Property and Plant Revaluation Differences, net of tax	-	-	-	-	-	(136,822)	-	-	(136,822)
Other comprehensive income (expense)	-	-	-	-	537,777	(1,559,273)	-	-	(1,021,496)
Profit for the period	-	-	-	-	-	-	3,224,576	6	3,224,582
Total comprehensive income for the period	-	-	-	-	537,777	(1,559,273)	3,224,576	6	2,203,086
Dividends paid	-	-	-	-	-	-	(1,600,000)	-	(1,600,000)
Balance at 30 June 2018	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**1,817,717**	**(505,431)**	**33,432,606**	**145**	**41,983,286**

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

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CASH FLOW FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Notes	Unaudited 1 January 2018- 30 June 2018	Unaudited 1 January 2017- 30 June 2017
Cash flows from operating activities:			
Profit before income tax		4,161,812	3,827,460
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment	10	87,664	75,680
Amortization of intangible assets	11	81,635	58,093
Provision for loan losses, write off and net of recoveries	9	2,099,014	(217,743)
Employment termination benefits and other short-term employee benefits		18,511	5,655
(Gain)/loss on foreign exchange and derivative financial instruments		(205,622)	(165,170)
Interest accrual(*)		(2,919,274)	(869,406)
Other non-cash items		104,487	(226,373)
Taxes paid		(878,412)	(1,054,235)
Operating profit before changes in operating assets and liabilities		**2,549,815**	**1,433,961**
Net (increase) in reserve requirements with the Central Bank of Turkey and restricted cash		(5,715,360)	(6,827,254)
Net (increase) in loans and advances to customers		(11,415,094)	(11,459,541)
Net (increase)/decrease in trading securities		(114,020)	(24,357)
Net decrease/(increase) in other assets and prepayments		(1,173,561)	(1,146,203)
Net increase in other liabilities and accrued expenses		11,294,657	1,454,182
Net increase in customer deposits and interbank money market deposits		9,839,153	11,568,443
Net cash from operating activities		**5,265,590**	**(5,000,769)**
Cash flows from/(used in) investing activities:			
Purchase of property, plant and equipment	10	(199,025)	(52,743)
Proceeds from property, plant and equipment	10	4,591	1,845
Purchase of other intangible assets	11	(119,515)	(44,681)
Proceeds from other intangible assets		-	15,578
Proceeds from investment securities		5,931,556	6,394,730
Purchase of investment securities		(5,861,868)	(8,456,440)
Net cash used in investing activities		**(244,261)**	**(2,141,711)**
Cash flows from financing activities:			
Proceeds from borrowed funds and debt securities in issue		12,888,236	4,383,449
Payments of borrowed funds and debt securities in issue		(11,820,811)	(1,395,013)
Dividends paid to equity holders		(1,600,000)	(900,000)
Net cash (used in)/from financing activities		**(532,575)**	**2,088,436**
Effect of exchange rates on cash and cash equivalents		**1,083,712**	**457,741**
Net increase/(decrease) in cash and cash equivalents		**5,572,466**	**(4,596,303)**
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		**18,269,932**	**8,231,148**

(*) Interest paid is amounting to TL 7,757,755 (30 June 2017: TL 5,859,038), interest received is amounting to TL 14,118,511 (30 June 2017: TL 11,710,672).

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

NOTE 1 - 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 30 June 2018, the Bank has 799 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 30 June 2018, the Group employed 14,057 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 segments including consumer banking, commercial banking, SME banking, corporate-investment and private banking, treasury and international banking 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 of 30 June 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 30 June 2018 have been approved on 26 October 2018 by S. Hakan Binbaşgil, the Chief Executive Officer and by Türker Tunalı, the Chief Financial Officer of Akbank T.A.Ş.. Authorized boards of the Parent Bank and other regulatory bodies have the power to amend the statutory financial statements.

NOTE 2 – BASIS OF PREPARATION

These consolidated financial statements for the period ended 30 June 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").

The consolidated financial statements have been prepared in "Turkish Lira" ("TL"), under the historical cost convention, except for financial assets fair value through profit or loss, financial assets fair value through other comprehensive income, property plant and equipment and derivative financial instruments which have all been 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.

NOTE 2 – BASIS OF PREPARATION (Continued)

The statutory consolidated financial statements are prepared within the scope of the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" related with Banking Law numbered 5411 published in the Official Gazette no.26333 dated 1 November 2006 and in accordance with the regulations, communiqués, interpretations and legislations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA"), and in case where a specific regulation is not made by BRSA, "Turkish Accounting Standards" ("TAS") and "Turkish Financial Reporting Standards" ("TFRS") and related appendices and interpretations put into effect by Public Oversight Accounting and Auditing Standards Authority ("POA"). The format and content of the publicly announced consolidated financial statements and notes to these statements have been prepared in accordance with the "Communiqué on Publicly Announced Financial Statements, Explanations and Notes to These Financial Statements", "Communiqué on Disclosures About Risk Management to be Announced to Public by Banks" and amendments to these Communiqués.

The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

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

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 30 June 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.

i) Standards, amendments and interpretations applicable as at 30 June 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.

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.

NOTE 2 – BASIS OF PREPARATION (Continued)

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 2 – BASIS OF PREPARATION (Continued)

ii) Standards, amendments and interpretations that are issued but not effective as at 30 June 2018:

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

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. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. 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.

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.

NOTE 2 – BASIS OF PREPARATION (Continued)

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.

The new standards, amendments and interpretations which will be effective after 1 January 2018 are not expected to have a material impact on the Group's consolidated financial statements, except IFRS 16. The Group is still assessing the impact of IFRS 16 Leases Standard, which will be effective from 1 January 2019.

NOTE 3 – SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

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NOTE 4 - ACCOUNTING POLICIES

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

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"

Group's loans are recorded under the "Measured at Amortized Cost" account.

The Group allocates impairment for expected loss on financial assets measured at amortized cost.

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.

Within the scope of IFRS 9, models of Probability of default (PD), Lost given default (LGD) and Exposure at default (EAD) have been developed. The models used by the IRB ("Internal Rating Based Approach") are taken into account when creating these models. The models developed under IFRS 9 have a detailed segment structure. Segmentation is performed by taking into consideration the following factors.

- Customer type (retail or corporate / commercial)
- Product type
- IRB rating notes /scores
- Customer credit performance
- Collateral type
- Collection Period
- Exposure at default

Forward-looking macroeconomic information is incorporated into risk parameters used in the IFRS 9 calculations. Macroeconomic information used under Internal Capital Adequacy Assessment Process (ICAAP) is taken into consideration while macroeconomic forecasting models are included.

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.

NOTE 4 - ACCOUNTING POLICIES (Continued)

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.

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.

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

"Financial assets at fair value through profit/loss" are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short-term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

(c) 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.

NOTE 4 - ACCOUNTING POLICIES (Continued)

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.

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.

(d) 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.

(e) 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.

NOTE 4 - ACCOUNTING POLICIES (Continued)

(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

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.

(f) 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.

(g) 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 arising from the valuations made by the appraisal firms authorized by CMB and BRSA, is accounted in Property and Plant Revaluation Differences line under the Shareholders' Equity.

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	2-7 years

The depreciation charge for items remaining in the property and equipment for less than an accounting period at the balance sheet date is calculated in proportion to the period the item will remain in property and equipment.

NOTE 4 - ACCOUNTING POLICIES (Continued)

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.

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.

(h) 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).

(i) Provisions

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.

(j) 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. Specific provisions are therefore established when losses are considered probable and recorded as other liabilities (Note 16).

(k) 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.

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 8)

(l) Comparatives

In order to be consistent with the presentation of financial statements dated 30 June 2018, there are certain reclassifications made on income statement of 31 December 2017.

NOTE 5 – CHANGES IN THE ACCOUNTING POLICIES

(a) 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.

The accounting policies applied in the current period for financial assets "Fair value through profit/loss", "Available-for-sale", "Loans and receivables" or "Held-to-maturity" are explained int the Note 4 (a), (b), (c) and (d)

(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.

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.

NOTE 5 – CHANGES IN THE ACCOUNTING POLICIES (Continued)

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.

(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.

NOTE 5 – CHANGES IN THE ACCOUNTING POLICIES (Continued)

(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.

(b) IFRS 9 financial instruments – Impact of adoption

(i) Disclosures of IFRS 9 financial instrument standard

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.

Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments.

IFRS 9 sets out the principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and hedge accounting.

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).

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this 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.

NOTE 5 – CHANGES IN THE ACCOUNTING POLICIES (Continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include 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 Group consider:

- 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.

Upon initial recognition each financial asset will be classified as either fair value through profit or loss ("FVTPL"), amortized cost or fair value through other comprehensive income ("FVOCI"). As the requirements under IFRS 9 are different than the assessments under the existing IAS 39 rules, the classification and measurement of financial liabilities remain largely unchanged under IAS 39.

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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 5 – CHANGES IN THE ACCOUNTING POLICIES (Continued)

(ii) Transition Notes

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

a. Classification and measurement of financial assets:

	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

b. 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		(4,927,185)		
Book value after classification	-		-	13,956,847
Fair value through P/L				
Balance before classification (for trading purpose)	39,890	-	-	-
Classıfied from 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	-	4,927,185	-	-
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

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:

1. Financial assets classified as fair value through other comprehensive income according to IFRS 9:

The Group has reassessed the management model for the collection of contractual cash flows in the security portfolio or for the sale of the financial assets and cash flows depending on the contract. The Bank has classified the securities portfolio amounting 4,927,185 TL, which were classified as measured at amortized cost, 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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 5 – CHANGES IN THE ACCOUNTING POLICIES (Continued)

2. 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.

3. Classification of financial instruments based on equity in accordance with IFRS 9 standard:

The Group has decided to allocate the strategic investments to financial instruments based on equity which are not traded in the organized markets, that were previously classified as available-for-sale, as Designated at 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.

4. Reclassification of categorised items without a change in measurement:

In addition to the statements above, since the previous categories under IAS 39 of the debt instruments below were "out of action" under IAS 39 , the following borrowing instruments are reclassified in new categories under IFRS 9 without changing any measurement principles.

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

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

c. Reconciliation of the opening balances of the provision for expected credit losses to IFRS 9:

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**

NOTE 5 – CHANGES IN THE ACCOUNTING POLICIES (Continued)

d. 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.

For collective and specific provisions tax effect amounting to TL 61,797 have been reflected to the opening financials of January 1, 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, for the securities amounting TL 4,927,185 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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 6 - 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 30 June 2018 (31 December 2017: None).

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

	30 June 2018	30 June 2017
Profit attributable to equity holders of the Group	3,224,576	3,039,674
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)	**0.0081**	**0.0076**

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

NOTE 7 - FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

The Group's core business activities include consumer banking, commercial banking, SME banking, and corporate-investment banking and private banking, 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").

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 7 - FINANCIAL RISK MANAGEMENT (Continued)

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.

(b) 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 30 June 2018 and 31 December 2017:

	30 June 2018		31 December 2017	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets				
Loans and advances to customers	224,122,030	217,037,835	212,706,936	209,807,463
Financial assets at amortised cost (Net)	11,250,467	11,025,903	18,883,032	19,082,300
Financial liabilities				
Customer deposits	240,215,487	239,385,266	230,305,804	229,539,315
Interbank money market deposits, funds borrowed and debt securities in issue	63,865,972	62,975,290	51,890,945	51,846,282

NOTE 7 - FINANCIAL RISK MANAGEMENT (Continued)

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 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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 7 - FINANCIAL RISK MANAGEMENT (Continued)

(c) 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 7 (b), according to the foregoing principles is given in the table below:

	30 June 2018			
Assets carried at fair value:	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	**149,999**	**3,911**	**-**	**153,910**
- Government bonds	10,573	-	-	10,573
- Eurobonds	-	-	-	-
- Government bonds denominated	-	-	-	-
in foreign currency	-	-	-	-
- Treasury bills	-	-	-	-
- Share certificates	137,115	-	-	137,115
- Other bonds	2,311	3,911	-	6,222
Trading Derivative Financial Instrument	**4,683**	**15,447,578**	**-**	**15,452,261**
Hedging Derivative Financial Instrument	**-**	**3,657,529**	**-**	**3,657,529**
Securities Available-for-sale	**45,741,234**	**73,721**	**-**	**45,814,955**
- Government bonds	22,649,864	-	-	22,649,864
- Eurobonds	15,961,939	-	-	15,961,939
- Treasury bills	53,215	-	-	53,215
- Government bonds denominated	-	-	-	-
in foreign currency	-	-	-	-
- Mutual funds	235,897	-	-	235,897
- Other Bonds	6,840,319	73,721	-	6,914,040
Assets for which fair values are disclosed (*)	**11,025,903**	**217,037,835**	**-**	**228,063,738**
- Loans and advances to customers	-	217,037,835	-	217,037,835
- Financial assets at amortised cost	11,025,903	-	-	11,025,903
Government debt securities	8,793,618	-	-	8,793,618
Other marketable securities	2,232,285	-	-	2,232,285
Total assets	**56,921,819**	**236,220,574**	**-**	**293,142,393**
Liabilities carried at fair value:				
Trading derivative financial instruments	**7,062**	**11,248,183**	**-**	**11,255,245**
Hedging derivative financial instruments	**-**	**45,616**	**-**	**45,616**
Liabilities for which fair values are disclosed (*)	**-**	**302,360,556**	**-**	**302,360,556**
- Customer Deposits	-	239,385,266	-	239,385,266
- Interbank money market deposits, funds borrowed and debt securities in issue	-	62,975,290	-	62,975,290
Total liabilities	**7,062**	**313,654,355**	**-**	**313,661,417**

(*) Assets and liabilities carried at amortized cost for which fair value is disclosed in Note 7 (b).

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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 7 - 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
- 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 7 (b).

As explained in the Note 2-c, share certificates, that are classified as financial assets at fair value through profit or loss 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.

NOTE 7 - FINANCIAL RISK MANAGEMENT (Continued)

(d) 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 30 June 2018, the Group has custody accounts amounting to TL 73,364,480 in nominal value (31 December 2017: TL 59,926,436).

NOTE 8 - SEGMENT REPORTING

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

The profitability system generating segment information provides profitability information on the basis of account customer, customer relationship manager, branch segment and product. This information is made available to the branch and Head Office personnel through a web-based management reporting system.

Consumer 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 consumer 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.

Corporate Banking and Commercial Banking and SME Banking provide financial solutions and banking services to large, medium and small 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.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 8 - SEGMENT REPORTING (Continued)

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. These transactions are performed according to the Bank's requirements. Furthermore, Treasury Unit also carries out marketing and pricing activities of treasury products for customers and branch network. The Treasury Unit also serves in fundamental areas such as providing long-term funding opportunities, creating funding facility at lower prices that fully reflect country risk, diversifying funding resources and creating a base of international investors for that purpose.

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 30 June 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:

Segment information at 30 June 2018 and 31 December 2017 is as follows:

30 June 2018

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	55,454,058	187,203,948	100,553,156	7,639,983	350,851,145
Equity securities					19,141
Unallocated assets					17,444,382
Total assets					**368,314,668**
Segment liabilities	105,098,672	99,358,793	105,867,316	5,963,553	316,288,334
Unallocated liabilities					10,043,048
Equity					41,983,286
Total liabilities and equity					**368,314,668**
Segment information regarding the income statement:					
Operating income	2,522,258	2,245,880	373,442	1,758,512	6,900,092
Segment result	1,096,936	2,431,084	242,100	386,863	4,156,983
Dividend income				4,829	4,829
Income taxes				(937,230)	(937,230)
Profit for the year	**1,096,936**	**2,431,084**	**242,100**	**(545,538)**	**3,224,582**
Other segment items					
Capital expenditure	-	-	-	318,540	318,540
Depreciation and amortization	(13,678)	(11,221)	(65)	(144,335)	(169,299)
Other non-cash expenses	(160,688)	(1,950,539)	(23,373)	(370,389)	(2,504,989)

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 8 - 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	2,172,691	3,311,060	450,928	235,562	6,170,241
Segment result	1,002,003	2,464,785	327,690	30,425	3,824,903
Dividend income				2,557	2,557
Income taxes				(787,782)	(787,782)
Profit for the year	**1,002,003**	**2,464,785**	**327,690**	**(754,800)**	**3,039,678**
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)

(*) 30 June 2017 amounts are used for income statement accounts.

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

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

	30 June 2018	**31 December 2017**
Consumer loans	**32,545,118**	**32,125,184**
- Mortgage	12,150,169	13,232,484
- General purpose	20,195,472	18,638,022
- Automobile	199,477	254,678
- Other	-	-
Credit cards	**14,489,796**	**14,048,926**
- Retail	11,644,135	11,455,619
- Corporate	2,845,661	2,593,307
Corporate, commercial and small business loans	**179,570,004**	**168,886,462**
- Export financing loans	11,482,415	10,052,790
- Loans to financial institutions	12,237,106	11,269,060
- Leasing receivables	5,960,196	5,734,802
- Project finance loans	41,134,119	35,328,282
- Commercial installment loans	18,580,303	19,293,052
- Other	90,175,865	87,208,476
Performing loans	**226,604,918**	**215,060,572**
Impaired loans	5,962,169	4,819,781
Total loans and advances to customers	**232,567,087**	**219,880,353**
Provision for impairment	(8,445,057)	(7,173,417)
Net loans and advances to customers	**224,122,030**	**212,706,936**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

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

	30 June 2018	**31 December 2017**
Gross investment in finance leases	7,204,353	6,898,217
Less: Unearned finance income	(856,431)	(876,345)
Total investment in finance leases	6,347,922	6,021,872
Provision for impairment	(314,518)	(209,879)
Net investment in finance leases	**6,033,404**	**5,811,993**

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

	30 June 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	1,882,949	1,740,649	2,619,756	2,316,629
2019	1,845,723	1,551,655	1,477,983	1,237,783
2020(*)	3,475,681	3,055,618	2,800,478	2,467,460
Total	**7,204,353**	**6,347,922**	**6,898,217**	**6,021,872**

(*) Balances include the year 2020 and thereafter.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

The details of the loans are as follows:

	30 June 2018			
	Commercial Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
Neither past due nor impaired	152,973,888	43,229,064	5,517,551	201,720,503
Past due and not individually impaired (*)	20,635,977	3,805,850	442,588	24,884,415
Individually impaired	3,639,179	1,935,264	387,726	5,962,169
Total gross	**177,249,044**	**48,970,178**	**6,347,865**	**232,567,087**
Less: allowance for individually impaired loans	(2,170,456)	(1,636,122)	(228,658)	(4,035,236)
Less: allowance for collectively impaired loans	(3,769,151)	(554,810)	(85,860)	(4,409,821)
Total Allowance for impairment	**(5,939,607)**	**(2,190,932)**	**(314,518)**	**(8,445,057)**
Total net	**171,309,437**	**46,779,246**	**6,033,347**	**224,122,030**

(*) Includes a cash loan exposure to Ojer Telekominikasyon A.Ş. (OTAŞ) with a principal balance of USD 1.748 million included accrued interest related with 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 respective loan is classified as loans under follow up as of 30 June 2018. All creditors including our Bank have reached an agreement on restructuring the related loan. As per the agreed structure, it is contemplated that OTAŞ's 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 would be taken over by a special purpose vehicle incorporated or to be incorporated directly or indirectly by the creditors in the Republic of Turkey. The transaction expected to be completed following agreements with respect to the facilities to be restructured at the new company level being agreed, all requisite corporate, governmental and any other approvals and consents being obtained and all requisite conditions under the agreements being met.

	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**

Provisions for all loan exposures shown in the table above for the past due but not individually impaired are included in allowance for collectively impaired loans as of 30 June 2018 and 31 December 2017.

As of 30 June 2018 and 31 December 2017, the Group's collateral types are mainly composed of mortgages, cash blockages, vehicle and machine pledges.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

The Group has provided an individual impairment for impaired loans amounting to TL 4,035,236 (31 December 2017: TL 4,148,868). As of 30 June 2018 total amount of provision for impairment provided by the Group, which amounts to TL 8,445,057 (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:

	30 June 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	1,596,637	952,515	75,897	2,625,049
Collections	(320,506)	(214,962)	(20,738)	(556,206)
Write-offs(*)	(234,617)	(538,051)	-	(772,668)
30 June 2018	**5,939,607**	**2,190,932**	**314,518**	**8,445,057**

(*) 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.

	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).

Loan portfolio summary and related provisions according to staging creteria:

30 June 2018	Gross exposure	Loss Provision	Net exposure
Stage 1			
Commercial	152,973,888	396,964	152,576,924
Retail	43,229,064	334,040	42,895,024
Lease	5,517,551	31,317	5,486,234
Stage 2			
Commercial	20,635,977	3,372,187	17,263,790
Retail	3,805,850	220,770	3,585,080
Lease	442,588	54,543	388,045
Stage 3			
Commercial	3,639,179	2,170,456	1,468,723
Retail	1,935,264	1,636,122	299,142
Lease	387,726	228,658	159,068
Total	**232,567,087**	**8,445,057**	**224,122,030**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

The amount of tangible assets purchased during the six months period ended 30 June 2018 amounts to TL 199,025 (30 June 2017: TL 52,743).

The net amount of tangible assets sold during the six months period ended 30 June 2018 amounts to TL 4,591 (30 June 2017: TL 1,845).

NOTE 11 – INTANGIBLE ASSETS

The amount of intangible assets purchased during the six months period ended 30 June 2018 amounts to TL 119,515 (30 June 2017: TL 44,681).

The Group have not sold any intangible assets during the six months period ended 30 June 2018 (30 June 2017: none).

NOTE 12 - DEPOSITS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

	30 June 2018			31 December 2017		
	Demand	**Time**	**Total**	**Demand**	**Time**	**Total**
Saving deposits	21,355,654	92,358,751	113,714,405	17,851,983	89,346,331	107,198,314
Commercial deposits	17,670,104	66,454,095	84,124,199	17,324,591	59,449,771	76,774,362
Funds deposited under repurchase agreements	-	22,287,588	22,287,588	-	28,850,276	28,850,276
Bank deposits	1,636,799	15,387,670	17,024,469	1,187,569	12,741,468	13,929,037
Other	732,686	2,332,140	3,064,826	546,072	3,007,743	3,553,815
Total	**41,395,243**	**198,820,244**	**240,215,487**	**36,910,215**	**193,395,589**	**230,305,804**

At 30 June 2018, deposits of TL 12,170,788 (31 December 2017: TL 11,148,292) were from Sabancı Holding Group companies and other related parties. The total interest expense paid to related party deposits is TL 564,658 (30 June 2017: TL 424,659) for the year ended 30 June 2018.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 13 - INTERBANK MONEY MARKET DEPOSITS, FUNDS BORROWED

	30 June 2018	31 December 2017
Interbank money market deposits	**436,992**	**507,522**
Domestic banks		
- TL	276,938	325,546
- Foreign currency	935,254	688,817
Foreign institutions	27,485,582	21,236,702
Funds borrowed	**28,697,774**	**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 30 June 2018, Akbank has five outstanding syndicated loan facilities.

First outstanding facility with 1 and 3 year tenor tranches signed on 18 August 2016 raised EUR 787.8 million and USD 327 million. Outstanding balance is EUR 90 million with Euribor + 215 bps for 3 years tenor.

Second outstanding facility with 1 and 2 year tenor tranches was signed on 22 March 2017 and raised a total of EUR 738.3 million and USD 404.5 million . Outstanding balance is USD 185 million with Libor + 220 bps for 2 years tenor.

Third outstanding facility with a 3-years tenor signed on 9 July 2015 raised USD 335 million with Libor+185 bps.

Fourth outstanding facility with 1 and 2 year tenor tranches was signed on 15 August 2017 and raised a total of EUR 515.1 million and USD 542.6 million with Euribor+125 bps and Libor+135 bps for 1 year, and Libor + 220 bps for 2 years tenor.

Fifth outstanding facility with 1 and 2 years tenor tranches was signed on 26 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.

NOTE 14 - EQUITY SECURITIES

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

The balances amounting to USD (000) 5,815,828 and EUR (000) 135,177 consist of securitization deals and other currencies TL (000) 172,548 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:

	30 June 2018				
	USD (000)	TL	EUR (000)	TL	Other TL
2018(*)	240,708	1,090,407	11,631	61,339	58,191
2019	482,638	2,186,350	45,839	241,732	114,804
2020	1,064,605	4,822,661	45,824	241,653	-
2021	577,096	2,614,245	23,082	121,723	-
2022	966,858	4,379,867	341	1,798	-
2023	509,172	2,306,549	328	1,730	-
2024	533,022	2,414,590	315	1,661	-
2025	832,427	3,770,894	303	1,598	-
2026	75,385	341,494	291	1,535	-
2027	314,858	1,426,307	280	1,477	-
2028	219,123	992,627	269	1,419	-
2029	-	-	6,674	35,195	-
Total	**5,815,892**	**26,345,991**	**135,177**	**712,860**	**172,995**

	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 30 June 2018 the outstanding TL denominated bonds with the maturity of 1-3 months are TL 3,854,581 with the maturity of 3-6 months are TL 1,917,314 and with the maturity of over 5 years are TL 1,727,465.

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.

NOTE 15 - PROVISIONS

As of 30 June 2018, the Group has allocated reserve for employment termination benefit and vacation liability amounting to TL 217,231, TL 102,233, 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 30 June 2018 is amounting to TL 60,425 (31 December 2017: 67,754).

As at 31 December 2017, provisions included a free provision of TL 700,000 thousand which consisted of TL 500,000 thousand recognized in 2017 and TL 200,000 thousand recognized in periods prior to 2017 by the Bank management considering the possible effects of the circumstances that may arise from the changes in the economy and market conditions. A portion of free provision amounting to TL 250,000 thousand has been reversed, during the period ended 30 June 2018. The amount of free provision in the accompanying consolidated financial statements is TL 450,000 thousand as at 30 June 2018.

The Group has provision for credit cards and banking services promotion activities amounting to TL 46,726 (31 December 2017: TL 69,284).

As of 30 June 2018, the corporate tax liability after the deduction of temporary taxes paid is TL 422,521 (31 December 2017: TL 751,698).

NOTE 16 - 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) Credit related commitments:

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk, Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 16 - COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Continued)

The following table shows the outstanding credit related commitments of the Group at 30 June 2018 and 31 December 2017:

	30 June 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	8,312,041	11,428,668	19,740,709	4,336,696	14,454,473	18,791,169
- Foreign currency	5,210,954	11,460,407	16,671,361	1,476,482	14,665,557	16,142,039
Acceptance credits						
- Turkish lira	-	-	-	198	-	198
- Foreign currency	5,377,231	4,287	5,381,518	2,900,904	857,000	3,757,904
Letter of credit						
- Turkish lira	-	2,188	2,188	7,257	-	7,257
- Foreign currency	7,765,823	2,335,246	10,101,069	5,284,401	1,642,667	6,927,068
Other guarantees						
- Turkish lira	17,776	3,013,769	3,031,545	23,759	2,825,471	2,849,230
- Foreign currency	2,184,321	1,160,145	3,344,466	3,399,734	89,196	3,488,930
Total	**28,868,146**	**29,404,710**	**58,272,856**	**17,429,431**	**34,534,364**	**51,963,795**

Letters of guarantee and acceptance credits for related parties amount to TL 961,557 (31 December 2017: TL 923,699) at 30 June 2018.

NOTE 17 - RELATED PARTY TRANSACTIONS

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

(a) Balances with related parties:

	30 June 2018	**31 December 2017**
Loans and receivables, net	5,210,206	5,605,978
Finance lease receivables	55,517	64,362
Total Assets	**5,265,723**	**5,670,340**
Deposits and obligations under repurchase agreements (Note 12)	12,170,788	11,148,292
Total Liabilities	**12,170,788**	**11,148,292**
Credit related commitments	961,557	923,699
Commitment under derivative instruments (*)	15,752,789	13,638,708
Total Commitments and contingent liabilities	**16,714,346**	**14,562,407**

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

(Currency - in Thousands of Turkish Lira (“TL”) unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 17 - RELATED PARTY TRANSACTIONS (Continued)

As at 30 June 2018, the Group has repurchase commitments amounting to TL 33,304 (31 December 2017: TL 37,919) with Sabancı Holding Group companies and other related parties.

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

	30 June 2018	31 December 2017
Deposits	1,084,241	926,384
Total due to customers	**1,084,241**	**926,384**

For the period ended 30 June 2018, benefits provided to the senior management and Board of Directors of the Group amounted to TL 36,071 (30 June 2017: TL 28,487).

(Currency - in Thousands of Turkish Lira (“TL”) unless otherwise indicated. All other currencies are also expressed in thousands)

NOTE 18 - SUBSEQUENT EVENTS

All creditors including our Bank have reached an agreement on restructuring the related loan. As per the agreed structure, it is contemplated that OTAŞ's 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 would be taken over by a special purpose vehicle incorporated or to be incorporated directly or indirectly by the creditors in the Republic of Turkey. The transaction expected to be completed following agreements with respect to the facilities to be restructured at the new company level being agreed, all requisite corporate, governmental and any other approvals and consents being obtained and all requisite conditions under the agreements being met.

Fitch Ratings -International Rating Agency- has downgraded miscellaneous credit ratings of 24 Turkish banks, including the Bank, the rating actions follow the downgrade of Turkey’s Sovereign Credit Rating. In line with this matter, the Bank’s new credit ratings are as follows, Long Term IDR, to “BB-“ from “BB+”, Long Term Local Currency IDR, to “BB” from “BB+”, National Long Term Rating, to “AA” from “AA+”, Viability Rating, to “BB-“ from “BB+”, Long Term Senior Unsecured Notes, to “BB-“ from “BB+”, Subordinated Notes, to “B+” from “BB”, Short Term IDR and Short Term Local Currency Ratings are affirmed as “B”.

The following table details the Parent Bank’s sensitivity to a 20% change in exchange rates:

	Current Period - 30 June 2018	
Change in exchange rate	**Effect on Profit/Loss**	**Effect on Equity**
(+) 20%	253,758	(304,766)
(-) 20%	(253,758)	304,766

The consolidated financial statements as at 30 June 2018, assets and liabilities denominated in foreign currency were translated into Turkish lira using a foreign exchange rate of TL 4,5300 =USD 1 and TL 5,2735 =EUR 1 in cons

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