AKBANK T.A.Ş.

INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019

pwc

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 2019 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 14 of the accompanying interim condensed consolidated financial statements includes a free provision provided by the Bank Management, contrary to the recognition criteria of IAS 37 "Provisions, contingent liabilities and contingent assets", amounting to TL 650,000 thousand which consists of TL 550,000 thousand provided in the prior years and TL 100,000 thousand recognized in the current period with its related deferred tax amounting to TL 121,000 thousand and TL 22,000 thousand respectively.

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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, 17 September 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

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

	Notes	Reviewed 30 June 2019	Audited 31 December 2018
ASSETS			
Cash and due from banks and balances with the Central Bank of Turkey		52,890,073	49,617,879
Derivative financial instruments		22,231,507	22,605,903
Loans and advances to customers	7	223,702,961	213,936,744
-Measured at amortised cost		216,775,358	207,246,536
-Fair value through profit or loss		6,927,603	6,690,208
Investment Securities		64,928,022	56,787,860
-Financial assets at fair value through profit or loss ("FVPL")	8	276,398	178,816
-Financial assets at fair value through OCI ("FVOCI")	8	53,529,746	44,345,563
-Financial assets at amortised cost ("AC")	8	11,121,878	12,263,481
Current tax asset		15,017	306,034
Deferred tax assets		262,163	264,808
Property, plant and equipment	9	4,442,179	3,959,052
Intangible assets	10	635,792	646,193
Other assets and pre-payments		6,861,837	6,678,137
Total assets		**375,969,551**	**354,802,610**
LIABILITIES			
Deposits and obligations under repurchase agreements	11	240,295,507	222,839,126
Interbank money market deposits	12	582,442	65,789
Derivative financial instruments		11,410,940	12,825,003
Funds borrowed	12	18,137,378	26,094,979
Debt Securities Issued	13	41,043,227	35,410,828
Income taxes payable		215,711	8,037
Provisions	14	1,114,817	1,017,135
Other liabilities and accrued expenses		12,497,462	11,895,758
Employment benefit obligations		378,254	325,249
Deferred tax liabilities		809,629	412,665
Total liabilities		**326,485,367**	**310,894,569**
EQUITY			
Capital and reserves attributable to the equity holders of the parent:			
- Share capital		5,200,000	4,000,000
- Adjustment to share capital		1,529,151	1,529,151
Total paid-in share capital		6,729,151	5,529,151
Share premium		3,514,840	1,709,098
Translation reserve		2,683,962	2,321,479
Other reserves		(1,924,441)	(1,536,009)
Retained earnings		38,480,519	35,884,196
Total shareholders' equity		**49,484,031**	**43,907,915**
Non-controlling interest		153	126
Total equity		**49,484,184**	**43,908,041**
Total liabilities and equity		**375,969,551**	**354,802,610**

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE PERIOD ENDED 30 JUNE 2019

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

	Notes	Reviewed 1 January 2019- 30 June 2019	Reviewed 1 January 2018- 30 June 2018
Interest income		18,724,075	15,203,471
Interest expense		(11,014,035)	(7,991,560)
Net interest income		**7,710,040**	**7,211,911**
Fee and commission income		3,050,365	2,174,380
Fee and commission expense		(641,646)	(431,433)
Net fee and commission income		**2,408,719**	**1,742,947**
Impairment losses on loans and credit related commitments		(3,054,907)	(2,099,014)
Foreign exchange gains and losses, net		213,811	(66,815)
Trading gains and losses, net		(411,782)	(205,622)
Dividend income		5,526	4,829
Other operating income		75,266	316,685
Operating income		**6,946,673**	**6,904,921**
Operating expenses		**(3,491,152)**	**(2,743,109)**
Profit before income taxes		**3,455,521**	**4,161,812**
Income taxes			
Income tax expense		(470,329)	(666,802)
Deferred tax (expense) / income		(296,180)	(270,428)
Profit for the period		**2,689,012**	**3,224,582**
Attributable to:			
Equity holders of the Group		2,689,003	3,224,576
Non-controlling interest		9	6
		2,689,012	**3,224,582**
Basic and diluted earnings per share (expressed in TL, full amount, per share)	5	0.00559	0.00806

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

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

	Reviewed 1 January 2019- 30 June 2019	Reviewed 1 January 2018- 30 June 2018
Net profit for the period	**2,689,012**	**3,224,582**
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	(92,752)	(2,386,526)
Foreign exchange differences on translation of foreign operations	362,483	537,777
Gain/(Loss) from cash flow hedges (effective part of fair value changes)	(224,927)	818,200
Gain/(Loss) from net foreign investment hedges (effective part of exchange difference on borrowings)	(161,248)	(254,784)
Tax related to gain and loss recognized directly in equity	105,364	401,084
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**(11,080)**	**(884,249)**
Other comprehensive income not being reclassified to profit or loss in subsequent periods		
Remeasurement gain/(loss) on defined benefit plans, net of taxes	(20,338)	(545)
Property and Plant Revaluation Differences	1,276	-
Tax related to gain and loss recognized directly in equity	4,194	120
Net other comprehensive income net of tax not reclassified to profit or loss in subsequent periods	**(14,868)**	**(425)**
Other comprehensive income net of tax	**(25,948)**	**(884,674)**
Total comprehensive income, net of tax	**2,663,064**	**2,339,908**
Attributable to:		
Equity holders of the Group	2,663,055	2,339,902
Non-controlling interest	9	6

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

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

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

	Attributable to equity holders of the Group									
	Share capital									
	Share Capital	Adjustment to share capital	Total paid-in share capital	Share premium	Translation reserve	Other Reserve	Retained Earnings	Non-controlling interest	Total
Balance at 31 December 2017	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**1,279,940**	**942,873**	**31,869,745**	**139**	**41,330,946**
First time adoption impact of IFRS 9, net	-	-	-	-	-	110,969	(75,715)	-	35,254
Restated total equity at 1 January 2018	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**1,279,940**	**1,053,842**	**31,794,030**	**139**	**41,366,200**
Transfer to retained earnings	-	-	-	-	-	-	14,000	-	14,000
Property and Plant Revaluation Differences, net of tax	-	-	-	-	-	(136,822)	-	-	(136,822)
Actuarial Gains and Losses	-	-	-	-	-	(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
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.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

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

	Attributable to equity holders of the Group								
	Share capital								
	Share Capital	Adjustment to share capital	Total paid-in share capital	Share premium	Translation reserve	Other Reserve	Retained Earnings	Non-controlling interest	Total
Balance at 31 December 2018	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**2,321,479**	**(1,536,009)**	**35,884,196**	**126**	**43,908,041**
First time adoption impact of IFRS 16, net (Note 4)	-	-	-	-	-	-	(92,680)	-	(92,680)
Restated total equity at 1 January 2019	**4,000,000**	**1,529,151**	**5,529,151**	**1,709,098**	**2,321,479**	**(1,536,009)**	**35,791,516**	**126**	**43,815,361**
Transfer to retained earnings	-	-	-	-	-	-	-	-	-
Property and Plant Revaluation Differences, net of tax	-	-	-	-	-	995	-	-	995
Paid-in Capital	1,200,000	-	1,200,000	1,805,742	-	-	-	18	3,005,760
Actuarial Gains and Losses	-	-	-	-	-	(15,864)	-	-	(15,864)
Net unrealized market value gains (losses) from FVOCI portfolio	-	-	-	-	-	(72,346)	-	-	(72,346)
Cash flow hedges, net of tax	-	-	-	-	-	(301,216)	-	-	(301,216)
Translation reserve	-	-	-	-	362,483	-	-	-	362,483
Other comprehensive income (expense)	**1,200,000**	**-**	**1,200,000**	**1,805,742**	**362,483**	**(388,432)**	**-**	**18**	**2,979,811**
Profit for the period						**2,689,003**	**-**	**9**	**2,689,012**
Total comprehensive income for the period	**1,200,000**	**-**	**1,200,000**	**1,805,742**	**362,483**	**2,300,571**	**-**	**27**	**5,668,823**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at 30 June 2019	**5,200,000**	**1,529,151**	**6,729,151**	**3,514,840**	**2,683,962**	**764,562**	**35,791,516**	**153**	**49,484,184**

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

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

	Notes	Reviewed 1 January 2019- 30 June 2019	Reviewed 1 January 2018- 30 June 2018
Cash flows from operating activities:			
Profit before income tax		3,455,521	4,161,812
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment		148,979	87,664
Amortization of intangible assets		105,277	81,635
Provision for loan losses, write off and net of recoveries	7	3,054,907	2,099,014
Employment termination benefits and other short-term employee benefits		53,005	18,511
(Gain)/loss on foreign exchange and derivative financial instruments		1,597,085	(205,622)
Interest accrual		(1,642,522)	(250,084)
Other non-cash items		241,700	228,600
Taxes paid		656,642	749,909
Operating profit before changes in operating assets and liabilities		**7,670,594**	**7,016,439**
Net (increase) in reserve requirements with the Central Bank of Turkey and restricted cash		(3,350,289)	(5,715,360)
Net (increase) in loans and advances to customers		(9,766,217)	(11,415,094)
Net (increase)/decrease in trading securities		(97,582)	(114,020)
Net decrease/(increase) in other assets and prepayments		(2,154,382)	(1,173,561)
Net increase in other liabilities and accrued expenses		(13,574,036)	6,824,279
Net increase in customer deposits and interbank money market deposits		17,973,034	9,839,153
Net cash from operating activities		**(3,298,878)**	**5,261,836**
Cash flows from/(used in) investing activities:			
Purchase of property, plant and equipment	9	(163,761)	(199,025)
Proceeds from property, plant and equipment	9	49,828	4,591
Purchase of other intangible assets	10	(94,329)	(119,515)
Proceeds from other intangible assets	10	-	-
Proceeds from investment securities		4,759,460	5,931,556
Purchase of investment securities		(11,559,234)	(5,861,868)
Dividends received		2,764	3,754
Net cash used in investing activities		**(7,005,272)**	**(240,507)**
Cash flows from financing activities:			
Proceeds from borrowed funds and debt securities in issue	12	20,383,620	12,888,236
Payments of borrowed funds and debt securities in issue	12	(15,294,286)	(11,820,811)
Dividends paid to equity holders		-	(1,600,000)
Issued equity instruments		3,005,742	-
Payments of financial leases		(134,750)	-
Net cash (used in)/from financing activities		**7,960,326**	**(532,575)**
Effect of exchange rates on cash and cash equivalents		**2,265,729**	**1,083,712**
Net increase/(decrease) in cash and cash equivalents		**(78,095)**	**5,572,466**
Cash and cash equivalents at the beginning of the period		**18,432,454**	**12,697,466**
Cash and cash equivalents at the end of the period		**18,354,359**	**18,269,932**

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

NOTE 1 – CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

Akbank T.A.Ş. ("the Parent Bank" or "Akbank" or together with its subsidiaries referred to as "the Group" in these consolidated financial statements) was formed in 1948 and is a member of the Sabancı Group of companies which is incorporated and domiciled in Turkey. The Parent Bank's head offices are located at Sabancı Center 4. Levent Istanbul/Turkey. As at 30 June 2019, the Bank has 776 branches dispersed throughout the country and 1 branch operating outside the country (31 December 2018: 780 branches and 1 branch operating outside the country). As at 30 June 2019, the Group employed 13,406 people (31 December 2018: 13,757 people). In addition to regular banking operations, the Group also provides insurance intermediary services as an agency of Aksigorta A.Ş. and AvivaSA Emeklilik ve Hayat A.Ş.. The Group's operations are carried out substantially in one geographical segment (Turkey) and in business activities including retail banking, commercial banking, corporate and investment banking, private banking and wealth management, and treasury and other activities through its subsidiaries (i.e, leasing, brokerage, portfolio management, payment service and electronic money issuance).

The Parent Bank's shares have been quoted on the Istanbul Stock Exchange since 1990. In April 1998, 4.03% of the outstanding share capital of the Parent Bank, was offered and sold in an international offering outside of Turkey in the form of Ordinary Shares and American Depository Receipt ("ADR"). As at 30 June 2019, approximately 51% of the shares are publicly traded, including the ADRs (31 December 2018: 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 2019 have been approved for issue on 17 September 2019 by S. Hakan Binbaşgil, the Chief Executive Officer and by Türker Tunalı, the Chief Financial Officer of Akbank T.A.Ş.. General Assembly of the Parent Bank and other regulatory bodies have the power to amend the statutory financial statements after issue.

NOTE 2 – BASIS OF PREPARATION

These consolidated financial statements for the period ended 30 June 2019 are prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements have been derived from statutory financials prepared according Accounting Practice Regulations as promulgated by the BRSA; Turkish Financial Reporting Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority; the Turkish Commercial Code; and the Turkish Tax Legislation ("Turkish GAAP") with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

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

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

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

NOTE 3 – ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

(3.1) Accounting Policies

(3.1.1) Consolidation

Consolidation principles for subsidiaries:

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

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

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

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

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

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

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

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

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

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

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

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

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

The list of consolidated subsidiary undertakings is set out below:

		Shareholding %	
Name of subsidiary	**Country of incorporation**	**30 June 2019**	**31 December 2018**
Ak Finansal Kiralama A.Ş.	Turkey	99.99	99.99
Ak Yatırım Menkul Değerler A.Ş.	Turkey	100.00	100.00
Ak Portföy Yönetimi A.Ş.	Turkey	100.00	100.00
Akbank AG	Germany	100.00	100.00
AkÖde Elektronik Para ve Ödeme Hizmetleri A.Ş.	Turkey	100.00	100.00

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

(3.1.2) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

(3.1.3) Derivative financial instruments and hedge accounting

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

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

Embedded derivatives have not been separated from its host contract and accounted under host contracts' accounting standards. As of 30 June 2019, the Group has no embedded derivative instruments.

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

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

(i) Cash flow and Fair value hedges

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

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

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

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

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

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

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

(ii) Net Investment Hedge

The Group hedges the net investment risk on Akbank AG with the foreign currency denominated financial liabilities. The effective part of the foreign exchange differences on the foreign currency denominated financial liabilities is accounted in the "Hedge reserves" account under shareholders' equity. As at 30 June 2019, the amount of net investment hedge applied to hedge the foreign currency risk arising from share premium and paid-in capital of Akbank AG is EUR 320 million. As at 30 June 2019, the net-off tax amount of TL (1,070,172) (31 December 2018: TL (944,399)) is accounted under hedge reserves as an investment hedge reserve.

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

(iii) Embedded derivatives

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

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

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

Embedded derivatives have not been separated from its host contract and accounted under host contracts' accounting standards. As of 30 June 2019, the Group has no embedded derivative instruments.

(3.1.4) Classification and measurement of financial assets

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

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

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

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

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

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens the Group assess whether or not the new terms are substantially different to the original terms. If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a new asset. If the cash flows generated by the new asset do not constitute solely payment of principal and interest than the new financial asset is measured at fair value through profit or loss (Note 17).

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

(ii) Financial assets measured at amortized cost

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

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

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

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

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

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

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

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

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

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

(3.1.5) Sale and repurchase agreements

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

(3.1.6) Impairment of financial assets

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

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

Stage 1:

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

Stage 2:

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

Stage 3:

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

Definition of Default:

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

1. Objective Default Definition: It means that the debt is overdue by more than 90 days. The definition of default, which is applicable to the Bank and its consolidated financial institutions, is based on the criteria that the debt is overdue by more than 90 days.

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

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

Write-off Policy:

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

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

Significant increase in credit risk

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

- Number of over due date is 30 or more
- Restructuring of loans
- If the loan classified as under follow-up
- Assessment of significant increase in the probability of impairment based on rating notes.

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

Expected Credit Loss (ECL):

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

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

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

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

- Probability of Default (PD): PD indicates the probability of default due to inability of the borrower to meet its debt obligations. It has been calculated for 12 months or lifetime depends on increase on borrower's credit risk. In case of default of the borrower, Loss Given Default has been calculated as dividing Expected Credit Loss to Exposure at Default (EAD). LGD models includes data such as product type, customer segment, collateral structure, customer repayment performance.

- Loss Given Default (LGD): In case of default of the borrower, Loss Given Default has been calculated as dividing Expected Credit Loss to Exposure at Default (EAD). LGD models includes data such as product type, customer segment, collateral structure, customer repayment performance. Calculated LGD remains constant until its overdue.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(3.1.7) Derecognition of financial instruments:

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

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

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

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

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

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

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

(3.1.8) Fee and commission income and expenses

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

(3.1.9) Interest income and expense

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

(3.1.10) Related parties

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

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

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

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

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

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

For the purpose of these consolidated financial statements, shareholders, key management personnel and board members, in each case together with their families and companies controlled by/affiliated with them, associated companies and other companies within the Sabancı Holding Group and Akbank T.A.Ş. Personnel Pension Fund Foundation are considered and referred to as related parties. A number of banking transactions were entered into with related parties in the normal course of business. These include loans, deposits, trade finance and foreign currency transactions (Note 16).

(3.1.11) Financial liabilities

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

(3.1.12) Property and equipment

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

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

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

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

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

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

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

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

(3.1.13) Intangible assets

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives (not exceeding a period of five years).

(3.1.14) Fund management

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

(3.1.15) Accounting for leases

(i) A group company is the lessee

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

(ii) A group company is the lessor

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

(3.1.16) Taxation on income

(i) Income taxes currently payable

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

Taxes other than on income are recorded within operating expenses.

(ii) Deferred income taxes

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

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

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

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

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

(3.1.17) Retirement benefit obligations

Obligation for other benefits

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

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

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

(i) Employment termination benefits – defined benefit plan

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

(ii) Short-term employee benefits

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

(iii) Defined contribution plans

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

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

(3.1.18) Provisions, contingent assets and contingent liabilities

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

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

(3.1.19) Offsetting

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

(3.1.20) Share capital

(i) Share issue costs

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

(ii) Share premium

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

(iii) Dividends on ordinary shares

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

(3.1.21) Acceptances

Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as commitments and contingent liabilities (Note 15).

(3.1.22) Other credit-related commitments

In the normal course of business, the Group enters into other credit-related commitments including loan commitments, letters of credit and guarantees. These are reported as off-balance sheet items at their notional amounts and are assessed using the same criteria as loans and receivables (Note 15).

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

(3.1.23) Cash and cash equivalents

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

(3.1.24) Earnings per share

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

(3.1.25) Segment reporting

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

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

(3.1.26) Reclassifications

Comparative figures are reclassified, where necessary to conform to changes in presentation of the 30 June 2019 consolidated financial statements.

The Group made some reclassifications on other comprehensive income and cash flow statement on dated 30 June 2018 to be in compliance with the presentation of financial statements dated 30 June 2019.

(3.2) Judgements and estimates

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

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

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

(3.3) The new standards, amendments and interpretations

(3.3.1) Standards, amendments and interpretations applicable as at 30 June 2019:

- **Amendment to IFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2019. This amendment confirmed two points: (1) that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cash flows that are principal and interest and (2) 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 far-reaching 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.

- **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.

(3.3.2) Standards, amendments and interpretations that are issued but not effective as at 30 June 2019:

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

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

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

- **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.

The new standards, amendments and interpretations which will be effective after 30 June 2019 are not expected to have a material impact on the Group's consolidated financial statements.

NOTE 4 – IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 16

The group has implemented accounting policy changes resulting from the initial implementation of the "IFRS 16 Leases" standard from the new standard, amendments and interpretations effective from 1 January 2019 in accordance with the transitional provisions of the relevant standard.

(4.1) IFRS 16 "Leases" Standard

Group – lessee:

The Group assesses whether the contract has the quality of a lease or whether the lease includes the transaction at the beginning of a contract. In case the contract is transferred for a certain period of time to control the use of the asset defined for a price, it is either leased or includes a lease. The Group reflects the existence of a right of use and a lease liability to the financial statements at the effective date of the lease.

Right of use assets:

The right to use asset is first recognized by cost method and includes:

a) the initial measurement amount of the lease obligation,

b) the amount obtained by deducting all the rental incentives received from all lease payments made at or before the beginning of the lease;

c) all initial direct costs incurred by the Group and

When Group applying the cost method, the existence of the right to use:

a) accumulated depreciation and accumulated impairment losses are deducted and

b) measures the restatement of the lease obligation at the restated cost.

The Lease Obligations:

At the effective date of the lease, the Group measures its leasing liability at the present value of the lease payments not paid at that time. Lease payments are discounted using the Group's average borrowing interest rates.

The lease payments included in the measurement of the lease liability consist of the payments to be made for the right of use during the lease term of the underlying asset and the unpaid payments at the effective date of the lease.

After the effective date of the lease, the Group measures the leasing liability as follows:

a) increase the book value to reflect the interest on the lease obligation

b) reduces the book value to reflect the lease payments made and

c) the book value is measured to reflect reassessments and restructuring, or reflect to fixed lease payments as of revised nature.

The interest on the lease liability for each period in the lease period is the amount calculated by applying a fixed periodic interest rate to the remaining balance of the lease liability.

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

NOTE 4 – IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 16 (Continued)

(4.2) First Transition to IFRS 16 Leasing Standard

"IFRS 16 Leasing" Standard was promulgated in Official Gazette No. 29826, dated 16 April 2018 to be applied in the accounting period starting on 31 December 2018. The Group applied IFRS 16 "Leasing" standard, which replaced IAS 17 "Leasing", as of 1 January 2019, the date of first implementation. The impact of the said transition on the equities were classified under "Other Capital Reserves" in expense equities amounting TL 118,848 Within this scope, deferred tax asset amounting TL 26.168 was reflected in the financial figures of 30 June 2019 and classified under "Other Capital Reserves" in equities. The Bank re-arranged the comparable amounts for the previous year by using the retrospective mixed transition practice. With this method, all tenure assets were measured based on the leasing debts (which are adjusted according to leasing costs paid in cash or accrued) in the transition period. Right and liability to use the asset pertaining to the lease, which were previously classified as financial leasing, were measured based on the carrying amount of the said assets before the transition.

During the first implementation, the Group recognised lease liability concerning the lease, which were previously, recognised as operational leasing as per IAS 17. These liabilities were measured based on the discounted current value by using the average borrowing rate of interest of remaining lease payments on 1 January 2019.

Details based on the asset with regard to the recognised right of use is as follows:

	30 June 2019	1 January 2019
Real estate	854,370	811,017
Total right of use assets	**854,370**	**811,017**

Details of depreciation expense based on the asset with regard to the recognised right of use is as follows:

	30 June 2019	1 January 2019
Real estate	351,282	315,566
Total right of use assets depreciation expense	**351,282**	**315,566**

Lease agreements for vehicles and ATMs, which are determined as low value by the Bank with short-term lease agreements with a duration of 12 months or less, have been evaluated within the scope of the exemption granted by the standard. Within this scope, TL 52,119 has been paid in the relevant period.

The right and obligation of the lessee to use assets classified as finance leases has been measured at the carrying amount of such assets before the transition period.

	1 January 2019
Operational leasing commitments	1,233,152
- Contracts that are excluded from the scope of IFRS 16 (-)	113,106
Low value leases (-)	113,106
Total leasing liability	1,120,046
Discounted lease liabilities (1 January 2019)	**660,638**

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

NOTE 5 - EARNINGS PER SHARE

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

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

There is no bonus share issuance as at 30 June 2019 (31 December 2018: None).

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

	30 June 2019	**30 June 2018**
Profit attributable to equity holders of the Group	2,689,003	3,224,576
Weighted average number of ordinary shares in issue (thousand Kr each)	480,883,978	400,000,000
Basic and diluted earnings per share (expressed in TL, full amount, per share)	**0.00559**	**0.00806**

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

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

NOTE 6 - SEGMENT REPORTING

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

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

Commercial Banking, Corporate, Investment and Private Banking and Wealth Management provide financial solutions and banking services to large and medium size corporate and commercial customers. The products and services offered to corporate and commercial customers include TL and foreign currency denominated working capital loans financing for investments, foreign trade financing, derivative instruments for hedging purposes of foreign currency and interest risk, letters of credit, foreign currency trading, corporate finance services and deposit and cash management services. In addition, the Bank provides timely and permanent solutions for corporate customers' working capital management, delivers cash management services tailored based on customers' requests that include collection and payment services and liquidity and information management. Project finance loans are provided within the context of investment banking activities.

In the scope of private banking, the Bank serves the members of the high-income customers who have expectations for upper-class service quality both in banking and investment transactions. Within the scope of international banking activities, activities are also being carried out in order to provide long-term funding, to provide funding under a price reflecting the country's risk, to diversify funding resources and to form an international investor base on this area.

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

NOTE 6 - 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. Furthermore, Treasury Unit also carries out marketing and pricing activities of treasury products for customers and branch network.

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

Information on business segments as of 30 June 2019 and 31 December 2018 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 2019 and 31 December 2018 is as follows:

30 June 2019					
Banking	**Retail Banking**	**Commercial Banking, Corporate and Investment Banking, Private Banking and Wealth Management**	**Treasury**	**Other and Unallocated**	**Bank's Total Activities**
Segment information regarding the balance sheet:					
Segment assets	72,809,145	166,576,765	114,050,014	8,200,118	361,636,042
Equity securities				-	21,905
Unallocated assets				-	14,311,604
Total assets				**-**	**375,969,551**
Segment liabilities	143,581,821	80,598,318	81,445,764	8,163,378	313,789,280
Unallocated liabilities				-	12,696,088
Equity				-	49,484,184
Total liabilities and equity				**-**	**375,969,551**
Segment information regarding the income statement:					
Operating Income	3,256,418	2,521,446	(10,546)	1,173,829	6,941,147
Segment result	1,474,313	1,098,261	(203,864)	1,081,285	3,449,995
Dividend income				5,526	5,526
Income taxes				(766,509)	(766,509)
Profit for the year	**1,474,313**	**1,098,261**	**(203,864)**	**320,302**	**2,689,012**
Other segment items					
Capital expenditure	-	-	-	192,796	192,796
Depreciation and amortization	(61,946)	(11,511)	(118)	(181,089)	(254,664)
Other non-cash expenses	(761,746)	(2,264,284)	(114,127)	(349,978)	(3,490,135)

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

NOTE 6 - SEGMENT REPORTING (Continued)

31 December 2018 (*)

Banking	**Retail Banking**	**Commercial Banking, Corporate and Investment Banking, Private Banking and Wealth Management**	**Treasury**	**Other and Unallocated**	**Bank's Total Activities**
Segment information regarding the balance sheet:					
Segment assets	71,535,564	155,414,381	106,291,403	7,093,603	340,334,951
Equity securities				-	19,141
Unallocated assets				-	14,448,518
Total assets				-	**354,802,610**
Segment liabilities	131,439,325	70,722,739	89,927,997	6,902,026	298,992,087
Unallocated liabilities				-	11,902,482
Equity				-	43,908,041
Total liabilities and equity				-	**354,802,610**
Segment information regarding the income statement:					
Operating Income	2,522,258	2,245,880	373,442	1,758,512	6,900,092
Segment result	1,692,942	1,835,078	242,100	386,863	4,156,983
Dividend income				4,829	4,829
Income taxes				(937,230)	(937,230)
Profit for the year	**1,692,942**	**1,835,078**	**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)

(*) 30 June 2018 amounts are used for income statement accounts.

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

NOTE 7 - LOANS AND ADVANCES TO CUSTOMERS

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

	30 June 2019	31 December 2018
Consumer loans	**27,768,181**	**29,142,092**
- Mortgage	9,691,640	10,805,847
- General purpose	17,971,604	18,198,263
- Automobile	104,937	137,982
- Other	-	-
Credit cards	**14,705,888**	**14,756,618**
- Retail	12,223,741	12,060,180
- Corporate	2,482,147	2,696,438
Corporate, commercial and small business loans	**181,322,389**	**170,081,452**
- Export financing loans	15,399,709	13,874,390
- Loans to financial institutions	12,945,631	10,256,161
- Leasing receivables	5,327,684	5,815,129
- Project finance loans	51,278,363	48,446,550
- Commercial installment loans	16,618,895	15,156,894
- Other	79,752,107	76,532,328
Performing loans	**223,796,458**	**213,980,162**
Impaired loans	10,631,163	8,439,028
Total loans and advances to customers	**234,427,621**	**222,419,190**
Provision for impairment	(10,724,660)	(8,482,446)
Net loans and advances to customers	**223,702,961**	**213,936,744**

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

	30 June 2019	31 December 2018
Gross investment in finance leases	6,653,068	7,238,273
Less: Unearned finance income	(712,975)	(796,955)
Total investment in finance leases	5,940,093	6,441,318
Provision for impairment	(517,758)	(501,182)
Net investment in finance leases	**5,422,335**	**5,940,136**

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

	30 June 2019		31 December 2018	
	Gross investment in finance leases	Total investment in finance leases	Gross investment in finance leases	Total investment in finance leases
Period ending				
2019	3,028,072	2,739,319	3,106,279	2,804,983
2020	1,476,454	1,271,650	1,568,621	1,341,508
2021(*)	2,148,542	1,929,124	2,563,373	2,294,827
Total	**6,653,068**	**5,940,093**	**7,238,273**	**6,441,318**

(*) Balances include the year 2021 and thereafter.

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

NOTE 7 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

As of 30 June 2019 and 31 December 2018, the Group's collateral types are mainly composed of mortgages, cash blockages, vehicle and machine pledges.

The Group has provided an individual impairment for impaired loans amounting to TL 6,273,256 (31 December 2018: TL 4,880,901). As of 30 June 2019 total amount of provision for impairment provided by the Group, which amounts to TL 10,724,660 (31 December 2018: 8,482,446) 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 2019			
	Commercial loans	**Consumer loans and credit cards**	**Leasing receivables**	**Total**
1 January 2019	**5,576,750**	**2,404,514**	**501,182**	**8,482,446**
Additions	2,061,281	586,060	30,902	2,678,243
Collections	(187,420)	(230,377)	(14,326)	(432,123)
Write-offs	(228)	(3,678)	-	(3,906)
30 June 2019	**7,450,383**	**2,756,519**	**517,758**	**10,724,660**

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

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

Loans and advances to related parties are as follows:

	30 June 2019	**31 December 2018**
Loans and advances measured at amortized cost (Net)	7,317,832	5,617,685
Loans and advances mçeasured at FVPL	6,927,603	6,690,208
Less: Cash collateral obtained	-	-
Net loans and advances to related parties	**14,245,435**	**12,307,893**

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

NOTE 7 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Further disclosures with respect to loans and advances to customers and expected credit loss are made in Note 17.

NOTE 8 – INVESTMENT SECURITIES

(8.1) Financial Assets At Fair Value Through Profit Or Loss:

	30 June 2019	31 December 2018
Government bonds	11,489	10,113
Share certificates	202,300	150,684
Other	62,609	18,019
Total	**276,398**	**178,816**

(8.2) Measured Fair Value Through Other Comprehensive Income:

	30 June 2019	31 December 2018
Debt securities		
- Government bonds	25,822,862	23,928,005
- Eurobonds	14,751,675	12,574,559
- Other bonds	12,588,611	7,586,273
Equity securities		
- Listed	-	-
- Unlisted	21,905	19,141
- Mutual Funds	344,693	237,585
Total	**53,529,746**	**44,345,563**

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

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

(8.3) Financial assets measured at amortised cost

Gross Amount	30 June 2019	31 December 2018
Debt securities		
- Government bonds	7,986,556	9,062,489
- Other government debt securities	753,661	691,694
- Other Marketable Securities	2,409,793	2,509,298
Total	**11,150,010**	**12,263,481**

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

NOTE 8 – INVESTMENT SECURITIES (Continued)

As at 30 June 2019, investment securities subject to repurchase agreements amount to TL 11,530,492 (31 December 2018: TL 14,749,052); and those given as collateral/blocked amount to TL 10,832,582 (31 December 2018: TL 9,514,020).

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

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

	30 June 2019	**31 December 2018**
Opening Balance	**12,263,481**	**18,883,032**
Additions	8,075	1,654,189
Redemptions (*)	(1,868,640)	(10,713,907)
Exchange differences	389,949	1,683,147
Impairment Provision (-) (**)	1,601	184,506
Change in Amortized Cost	327,412	572,514
Balance at 30 June 2019	**11,121,878**	**12,263,481**

(*) During the year 2018, the Bank has reviewed its management model for securities in accordance with IFRS 9 standard. Securities amounting to TL 4,926,185 previously classified as held to maturity and measured at amortised cost are classified to fair value through other comprehensive income because of the appropriate management model is intended to be used for selling or financing cash flows.
(**) As of 30 June 2019, expected loss provisions are included.

As stated in Note 3, 6-month real coupon rates remaining constant throughout the maturity, government bonds with 5-10 years maturity and CPI index in the fair value through other comprehensive income of the Bank is included in the securities portfolio, which are reflected at other comprehensive income and are valued at amortized cost. As stated in Investor's Guide on CPI-Indexed Government Bonds published by Undersecretariat of Treasury, the reference indices used in the calculation of actual coupon payment amounts is based on CPI of two months ago. The Bank sets the estimated inflation rate accordingly. The estimated inflation rate used is updated as needed within the year. As of 30 June 2019, the valuation of these securities is based on 12,00% annual inflation forecast. If the valuation of these CPI-indexed securities was made according to the reference index valid for 30 June 2019, the revaluation differences of financial assets within the equity of the Bank would increase 431 million (full TL amount), the net profit for the period would be 2.096 million TL (full TL amount) with a decrase of 571 million TL (full TL amount).

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

NOTE 9 - 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 Capital Markets Board ("CMB") and BRSA. Revaluations are performed, in line with IFRS 13 "Fair Value Measurement Financial Reporting Standard". While revaluating the property, the expert firm considers the following matters:

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

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

The amount of tangible assets purchased during the six months period ended 30 June 2019 amounts to TL 163,761 (30 June 2018: TL 199,025).

The net amount of tangible assets sold during the six months period ended 30 June 2019 amounts to TL 44,600 (30 June 2018: TL 4,591).

NOTE 10 - INTANGIBLE ASSETS

The amount of intangible assets purchased during the six months period ended 30 June 2019 amounts to TL 94,329 (30 June 2018: TL 119,515).

The Group have not sold any intangible assets during the six months period ended 30 June 2019 (30 June 2018: None).

NOTE 11 - DEPOSITS AND OBLIGATIONS UNDER REPURCHASE AGREEMENTS

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

	30 June 2019			31 December 2018		
	Demand	**Time**	**Total**	**Demand**	**Time**	**Total**
Saving deposits	26,443,628	110,248,561	136,692,189	20,345,719	105,662,511	126,008,230
Commercial deposits	22,571,121	59,338,565	81,909,686	18,979,659	51,597,718	70,577,377
Funds deposited under repurchase agreements	-	10,792,662	10,792,662	-	14,209,227	14,209,227
Bank deposits	1,534,364	5,404,964	6,939,328	1,487,220	6,564,165	8,051,385
Other	715,287	3,246,355	3,961,642	1,321,784	2,671,123	3,992,907
Total	**51,264,400**	**189,031,107**	**240,295,507**	**42,134,382**	**180,704,744**	**222,839,126**

At 30 June 2019, deposits of TL 15,976,245 (31 December 2018: TL 14,735,217) were from Sabancı Holding Group companies and other related parties. The total interest expense paid to related party deposits is TL 888,444 (30 June 2018: TL 564,658) for the year ended 30 June 2019.

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

NOTE 12 - INTERBANK MONEY MARKET DEPOSITS, FUNDS BORROWED

	30 June 2019	31 December 2018
Interbank money market deposits	**582,442**	**65,789**
Domestic banks		
- TL	311,111	279,606
- Foreign currency	1,145,774	1,268,471
Foreign institutions	16,680,493	24,546,902
Funds borrowed	**18,137,378**	**26,094,979**

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 2019, Akbank has three outstanding syndicated loan facilities.

First 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. Balance outstanding under this facility is USD 250 million with Libor + 210 bps for 2 years tenor.

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

Third outstanding facility with 1 year tenor was signed on 26 March 2019 and raised a total of EUR 303 million and USD 356 million with Euribor+240 bps and Libor+250 bps for 1 year.

NOTE 13 – DEBT SECURITIES ISSUED

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

The balances amounting to USD 5,405,151 thousands and EUR 101,067 thousands consist of securitization deals and other currencies TL 53,233 thousands consist of JPY denominated securities issued by the Group. The repayment schedule of the total USD, EUR and JPY denominated notes in issue is as follows:

	30 June 2019				
	USD (000)	**TL**	**EUR (000)**	**TL**	**Other TL**
2019 (*)	241,399	1,383,216	22,971	149,819	53,233
2020	1,047,101	5,999,889	45,839	298,967	-
2021	580,088	3,323,904	23,097	150,641	-
2022	992,652	5,687,896	355	2,315	-
2023	531,025	3,042,773	341	2,224	-
2024	514,671	2,949,065	328	2,139	-
2025	850,497	4,873,348	315	2,054	-
2026	77,707	445,261	303	1,976	-
2027	336,152	1,926,151	291	1,898	-
2028	233,859	1,340,011	280	1,826	-
2029	-	-	6,947	45,290	-
2030	-	-	-	-	-
2031	-	-	-	-	-
Total	**5,405,151**	**30,971,514**	**101,067**	**659,149**	**53,233**

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

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

As of 30 June 2019 the outstanding TL denominated bonds with the maturity of 1-3 months are TL 6,401,321 with the maturity of 3-6 months are TL 708,767, with the maturity of 1-5 years are TL 397,379 and with the maturity of over 5 years are TL 1,851,865.

As of 31 December 2018, the outstanding TL denominated bonds with the maturity of 1-3 months are TL 3,533,530 with the maturity of 3-6 months are TL 1,122,952 and with the maturity of over 5 years are TL 2,480,799.

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

NOTE 13 – DEBT SECURITIES ISSUED (Continued)

Net Debt Reconciliation

	Funds Borrowed	Debt Securities in Issue	Interbank Money Market Deposits	Total
Opening Balance (As of 31 December 2018)	26,094,979	35,410,828	65,789	61,571,596
Additional Liabilities	-	5,600,189	508,520	6,108,709
Principal Payments	(7,933,628)	-	-	(7,933,628)
Interest Accrual Changes	(23,973)	32,210	8,133	16,370
Closing Balance (As of 30 June 2019)	18,137,378	41,043,227	582,442	59,763,047

NOTE 14 - PROVISIONS

As of 30 June 2019, the Group has allocated reserve for employment termination benefit and vacation liability amounting to TL 242,149 and TL 136,105, respectively (31 December 2018: 215,202 and 110,046).

Provision for non-cash loans that are non-funded and non-transformed into cash as of 30 June 2019 is amounting to TL 365,516 (31 December 2018: TL 378,740).

In addition to above the accompanying consolidated financial statement include a free provision amounting to TL 650,000 thousand which consists of TL 550,000 thousand provided in prior periods and TL 100,000 thousand recognised in current period with its related tax amounting to TL 143,000 thousand by the Bank management considering the possible effects of the circumstances that may arise from the changes in the economy and market conditions.

The Group has provision for credit cards and banking services promotion activities amounting to TL 47,052 (31 December 2018: TL 50,044).

The Group have recognised a provision amounting to TL 18,972 (31 December 2018: TL 6,057) for the contingent liabilities with a high probability of realization regarding continuing opposing trials. There are also some other opposing trials. In addition the probability of realization of these trials is low so no cash outflow expected regarding these trials.

As of 30 June 2019, the corporate tax liability after the deduction of temporary taxes paid is TL 215,710 (31 December 2018: TL 8,037).

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

NOTE 15 - COMMITMENTS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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:

(15.1) Credit Related Commitments:

The following table shows the outstanding credit related commitments of the Group at 30 June 2019 and 31 December 2018:

	30 June 2019			31 December 2018		
	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	2,358,319	15,997,025	18,355,344	3,487,474	15,774,596	19,262,070
- Foreign currency	2,913,671	12,169,736	15,083,407	2,090,893	13,589,680	15,680,573
Acceptance credits						
- Turkish lira	-	-	-	-	-	-
- Foreign currency	220,364	5,803	226,167	2,458,027	282,314	2,740,341
Letter of credit						
- Turkish lira	-	12,218	12,218	41,222	5,813	47,035
- Foreign currency	3,196,394	3,013,684	6,210,078	2,623,540	3,862,187	6,485,727
Other guarantees						
- Turkish lira	30,381	2,897,682	2,928,063	-	2,812,915	2,812,915
- Foreign currency	3,513,785	2,086,243	5,600,028	4,388,703	1,378,007	5,766,710
Total	**12,232,914**	**36,182,391**	**48,415,305**	**15,089,859**	**37,705,512**	**52,795,371**

Letters of guarantee and acceptance credits for related parties amount to TL 1,197,638 at 30 June 2019 (31 December 2018: TL 1,082,245).

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

NOTE 16 - RELATED PARTY TRANSACTIONS

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

(16.1) Balances with related parties:

	30 June 2019	31 December 2018
Loans and advances measured at amortized cost (Net) (**)	7,280,382	5,573,161
Loans and advances measured at FVPL (*)	6,927,603	6,690,208
Finance lease receivables	37,450	44,524
Total Assets	**14,245,435**	**12,307,893**
Deposits and obligations under repurchase agreements	15,979,401	16,919,455
Total Liabilities	**15,979,401**	**16,919,455**
Credit related commitments	1,197,638	1,082,638
Commitment under derivative instruments (***)	14,027,236	10,451,000
Total Commitments and contingent liabilities	**15,224,874**	**11,533,638**

(*) Includes loans measured at FVPL amounting to TL 6,927,603 thousands and arising from Levent Yeniden Yapılandırma A.Ş. owned by the Group considered as related party.

(**) Loans measured at amortised cost amounting to TL 343,112 thousands arising from its invesments in Türk Telekomünikasyon A.Ş. considered as associate are disclosed as a related party balances. Amounting to 6,937,270 thousands arising from the Group's other related parties.

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

As at 30 June 2019, the Group has repurchase commitments amounting to 45,174 (31 December 2018: TL 23,021).

(16.2) Transactions with related parties:

	30 June 2019	30 June 2018
Interest income on loans	785,303	166,176
Interest income	**785,303**	**166,176**
Interest expense on deposits	888,444	564,658
Interest expense	**888,444**	**564,658**

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

	30 June 2019	31 December 2018
Deposits	1,597,910	1,208,455
Total due to customers	**1,597,910**	**1,208,455**

For the period ended 30 June 2019, benefits provided to the senior management and Board of Directors of the Group amounted to TL 45,722 (31 December 2018: TL 60,407).

NOTE 17 - FINANCIAL RISK MANAGEMENT

(17.1) Strategy in using financial instruments

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

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

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

(17.2) Credit risk

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

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

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

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

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

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

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

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

Bank's rating system:

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

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

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

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

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

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

Risk management related to class of loans and advances:

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

	30 June 2019			
	Commercial Loans	**Consumer loans and credit cards**	**Lease Receivables**	**Total**
Loans measured at amortised cost				
Stage 1	142,610,555	37,555,981	4,720,925	184,887,461
Stage 2	26,456,547	4,918,088	606,759	31,981,394
Stage 3	7,427,313	2,591,441	612,409	10,631,163
Gross	**176,494,415**	**45,065,510**	**5,940,093**	**227,500,018**
Provisions	**7,450,383**	**2,756,519**	**517,758**	**10,724,660**
Loans measured at FVPL	**6,927,603**	**-**	**-**	**6,927,603**
Net	**175,971,635**	**42,308,991**	**5,422,335**	**223,702,961**

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

(i). Loans at amortised cost:

	30 June 2019			
	Commercial Loans	**Consumer Loans & Credit Cards**	**Leasing receivables**	**Total**
Neither past due nor impaired	142,291,894	35,704,736	4,720,925	184,887,461
Past due and not individually impaired	26,775,208	6,769,333	606,759	31,981,394
Individually impaired	7,427,313	2,591,441	612,409	10,631,163
Total gross	**176,494,415**	**45,065,510**	**5,940,093**	**227,500,018**
Less: allowance for individually impaired loans	(3,853,857)	(2,075,269)	(344,130)	(6,273,256)
Less: allowance for collectively impaired loans	(3,596,526)	(681,250)	(173,628)	(4,451,404)
Total Allowance for impairment	**(7,450,383)**	**(2,756,519)**	**(517,758)**	**(10,724,660)**
Total net	**169,044,032**	**42,308,991**	**5,422,335**	**216,775,358**

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

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

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

As of 30 June 2019 and 2018, the Group's collateral types are mainly composed of mortgages, cash blockages, shares, vehicle and machine pledges.

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

In the previous period, syndicated loans previously granted to Ojer Telekomünikasyon A.Ş. were restructured. Within this scope, the transfer of 192,500,000,000 of Group A shares which consist of 55% of Türk Telekom's issued capital and are pledged in favor of the creditors in order to establish the collateral of the loans to Levent Yapılandırma Yönetimi A.Ş. which was established as a special purpose company, where all of the creditors were directly or indirectly shared was completed on 21 December 2018. The Bank participated in LYY with a share of 35.56% in receivables from OTAŞ. Within the scope of the acquisition of Türk Telekom shares by LYY and within the framework of the related agreements, the total amount of the loan granted to LYY by the Bank for the acquisition of shares, which are the guarantee of OTAŞ loans, is TL 6,928 million and has been classified under "Financial Assets At Fair Value Through Profit And Loss" as "Other Financial Assets" in the financial statements. As of 30 June 2019, the fair values are based on the results of an independent valuation firm. In this valuation, fair value is determined by considering the average of different methods (discounted cash flows, similar market multipliers, similar transaction multipliers in the same sector, market value and analyst reports). The related loan is followed as Level 3 within the scope of IFRS 13 Fair Value Standard. The potential changes in the fundamental assumptions used in the valuation will affect the carrying value of the loan. The original maturity of this loan is 1 year and can be extended. Within the framework of the signed agreements on this loan, a part of the loan granted to LYY is estimated to be converted from loan to capital and added to LYY's capital in the following period. Türk Telekom shares which are transferred to LYY and subject to loan consists of the collateral of the loan granted to LYY. The main objective of LYY is to transfer these Turk Telekom shares to an expert investor by providing the necessary conditions as quickly as possible.

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

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

(17.3) 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 2019 and 31 December 2018:

	30 June 2019		31 December 2018	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets				
Loans and advances to customers	223,702,961	218,965,292	213,936,744	204,225,068
Investment securites measured at amortised cost (Net)	11,150,010	10,721,736	12,263,481	11,858,083
Financial liabilities				
Deposits and obligations under repurchase agreements	240,295,507	239,466,026	222,839,126	221,922,158
Interbank money market deposits, funds borrowed and debt securities in issue	59,763,047	58,844,730	61,571,596	60,380,409

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

(i) Financial assets

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

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

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.

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

(i) Fair value hierarchy:

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

Aforesaid fair value hierarchy is determined as follows.

a) Quoted market prices (non-adjusted) (1st level).

b) Directly (by way of prices) or indirectly (derived from prices) data for the assets or liabilities, other than quoted prices in the 1st level (2nd level).

c) Data not based on observable data regarding assets or liabilities (3rd level).

Fair value hierarchy of the financial assets and liabilities of the Group carried at fair value and assets and liabilities carried at amortized cost for which fair value is disclosed in Note 17 (3), according to the foregoing principles is given in the table below:

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

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

	30 June 2019			
Assets carried at fair value:	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	**276,398**	**-**	**6,927,603**	**7,204,001**
- Government bonds	11,489	-	-	11,489
- Eurobonds	-	-	-	-
- Government debt securities denominated in foreign currency	-	-	-	-
- Treasury bills	-	-	-	-
- Share certificates	202,300	-	-	202,300
- Other financial assets	62,609	-	-	62,609
- Loans and advances to customers (**)	-	-	6,927,603	6,927,603
Derivative Financial Assets at Fair Value Through Profit or Loss	**929**	**18,983,830**	**-**	**18,984,759**
Derivative Financial Assets at Fair Value Through Other Comprehensive Income	**-**	**3,246,748**	**-**	**3,246,748**
Financial Assets at Fair Value Through Other Comprehensive Income	**50,050,585**	**3,457,256**	**-**	**53,507,841**
- Government bonds	25,822,862	-	-	25,822,862
- Eurobonds	14,751,675	-	-	14,751,675
- Treasury bills	-	-	-	-
- Government debt securities denominated in foreign currency	-	-	-	-
- Mutual funds	344,693	-	-	344,693
- Equity Securities	-	-	-	-
- Other financial assets	9,131,355	3,457,256	-	12,588,611
Assets for which fair values are disclosed (*)	**10,721,736**	**212,037,689**	**-**	**222,759,425**
- Loans and advances to customers	-	212,037,689	-	212,037,689
- Financial assets measured at amortised cost	10,721,736	-	-	10,721,736
- Government debt securities	7,040,307	-	-	7,040,307
- Other financial assets	3,681,429	-	-	3,681,429
Total assets	**61,049,648**	**237,725,523**	**6,927,603**	**305,702,774**
Liabilities carried at fair value:				
Trading derivative financial instruments	**555**	**10,778,556**	**-**	**10,779,111**
Hedging derivative financial instruments	**-**	**631,829**	**-**	**631,829**
Liabilities for which fair values are disclosed (*)	**-**	**298,310,756**	**-**	**298,310,756**
- Customer Deposits	-	239,466,026	-	239,466,026
- Interbank money market deposits, funds borrowed and debt securities in issue	-	58,844,730	-	58,844,730
Total liabilities	**555**	**309,721,141**	**-**	**309,721,696**

(*) Assets and liabilities carried at amortized cost for which fair value is disclosed in Note 17 (3).

(**) Loans and advances measured at fair value present the loan granted to LYY as explained in Note 17. Fair value of this loan classified under level 3, has been determined based on the weighted average of the results of valuation work that include various valuation technics such as yearly average of market price, comparable trading multiples, comparable transactions and discounted cash flows ("DCF"). The potential changes in the fundamental estimations and assumptions included in the valuation work can affect the carrying fair value of the loan.

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

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

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

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

(*) Assets and liabilities carried at amortized cost for which fair value is disclosed in Note 17 (3).

(**) Loans and advances measured at fair value present the loan granted to LYY as explained in Note 17. Fair value of this loan classified under level 3, has been determined based on the weighted average of the results of valuation work that include various valuation technics such as yearly average of market price, comparable trading multiples, comparable transactions and discounted cash flows ("DCF"). The potential changes in the fundamental estimations and assumptions included in the valuation work can affect the carrying fair value of the loan.

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

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

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

NOTE 17 - FINANCIAL RISK MANAGEMENT (Continued)

As of 30 June 2019, the movement of Level 3 financial instruments is as follows:

	30 June 2019		31 December 2018	
	Asset	**Liability**	**Asset**	**Liability**
Balance at the beginning of period	6,690,208	-	-	-
Additions	-	-	6,690,208	-
Disposals	-	-	-	-
Transfers, net	-	-	-	-
Effects of valuation differences	237,395	-	-	-
Balance at the end of the period	**6,927,603**	**-**	**6,690,208**	**-**

(17.4) 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 2019, the Group has custody accounts amounting to TL 90,027,483 in nominal value (31 December 2018: TL 75,285,862).

NOTE 18 - SUBSEQUENT EVENTS

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