**HACI ÖMER SABANCI HOLDİNG A.Ş.**

**CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

**(ORIGINALLY ISSUED IN TURKISH)**

**CONVENIENCE TRANSLATION INTO ENGLISH OF INDEPENDENT AUDITOR'S REVIEW REPORT ORIGINALLY ISSUED IN TURKISH**
**INDEPENDENT AUDITOR'S REPORT**

To the General Assembly of Hacı Ömer Sabancı Holding A.Ş.

## A. Audit of the Consolidated Financial Statements

### 1. Opinion

We have audited the accompanying consolidated financial statements of Hacı Ömer Sabancı Holding A.Ş. ("Holding" or the "Company"), its subsidiaries and its joint ventures (collectively referred to as the "Group"), which comprise the consolidated statement of balance sheet as at 31 December 2018 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Turkish Financial Reporting Standards ("TFRS").

### 2. Basis for Opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section for our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

### 3. Emphasis of Matter

As explained in Note 2, Subsidiaries are companies in which Holding exercises a dominant influence and power to govern the financial and operating policies through exercise of voting power related to shares held by Holding together with voting power which Holding effectively exercises related to shares held by Sabancı family members. Sabancı family members allow Holding to exercise voting power in respect of shares held in these companies. In the accompanying consolidated financial statements the shares held by Sabancı family members are presented as non-controlling interest. Our conclusion is not modified in respect of this matter.

## 4. Key Audit Matters

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

| *Key audit matters* | *How our audit addressed the key audit matter* |
|---|---|
| **Impairment of loans and receivables based on TFRS 9 (Note 30)**<br><br>The Group has total provision for impairment of TRY 7,9 billion in respect to loans and advances of TRY 193 billion which represent a significant portion of the Group's total assets in its consolidated financial statements as at 31 December 2018.<br><br>TFRS 9 is a new and complex accounting standard which requires considerable judgement and interpretation. These judgements are key in the development of the financial models built to measure the expected credit losses on loans recorded at amortized cost. In addition, the operation of the models require large data inputs that are generated through more than one system and the accuracy and completeness of the data are key in the determination of expected credit losses on loans. Impairment allowances are calculated on a collective basis for portfolios of loans of a similar nature and on individual basis for significant loans taking into account Management's best estimate at the balance sheet date and historical losses incurred.<br><br>Our audit was focused on this area due to existence of complex estimates and information used in the impairment assessment such as macro-economic expectations, current conditions, historical loss experiences; the significance of the loan balances; the classification of loans as per their credit risk (staging) and the importance of determination of the associated impairment allowances. Timely and correctly identification of loss event and level of judgements and estimations made by the management have significant impacts on the amount of impairment provisions for loans. Therefore, this area is considered as key audit matter. | Within our audit procedures, we assessed policies and procedures together with the overall governance established by the Group with respect to classification of loans and receivables and estimation of impairment in-line with the TFRS 9 framework. We have tested the design and operating effectiveness of controls implemented by the Group in line with its governance, policies and procedures.<br><br>Together with our modelling specialists, we have evaluated and tested the methodologies used in building impairment models in line with the requirement of TFRS 9 and the Group's policies for the significant portfolio of loans. We have tested model calculations through re-performance together with our modelling specialists. We have independently assessed together with our related specialists methodologies used in the models in respect to segmentation, use of macro-economic expectations, life time expected credit losses, losses given default.<br><br>We have carried credit review on a selected sample of loans and receivables with the objective to identify whether the classification of loans is performed appropriately in line with TFRS 9 staging rules, whether the loss event had occurred and whether the provision for impairment has been recognized in a timely manner within the TFRS 9 framework.<br><br>In addition, we have evaluated the appropriateness of specific impairment provision with supportable input on non-performing loans and on other significant individual loans. Based on our discussions with the Group management, we evaluated and challenged whether the key assumptions and other judgements underlying the estimation of impairment were reasonable.<br><br>We have reviewed disclosures made within the TFRS 9 framework in the financial statements of the Group with respect to loan and receivables and related impairment provision. |

## 4. Key Audit Matters (Continued)

| *Key audit matters* | *How our audit addressed the key audit matter* |
|---|---|
| **First time adoption of TFRS 9 Financial Instruments Standard (Note 2.2)**<br><br>TFRS 9 replaces TAS 39 Financial Instruments: recognition and measurement of financial instruments.<br><br>TFRS 9 has three phases as follow:<br><br>Phase 1 - classification and measurement of financial assets and financial liabilities;<br>Phase 2 - Impairment methodology;<br>Phase 3 - Hedge accounting.<br><br>The application of expected credit loss model with respect to changes arising as part of TFRS 9 adaptation is explained in the above paragraph on impairment of loans and receivables in accordance with TFRS 9. The Group continued to apply TAS 39 with respect to hedge accounting requirements. The application of TFRS 9 resulted into changes in previously reported carrying amounts and the related accounting policies. Therefore, this area is considered as key audit matter. | With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprises the following:<br><br>We have read the Group's TFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of IFRS 9;<br><br>We have obtained and checked the Group's business model assessment. We tested the contractual cash flow criteria, which give rise to cash flows that are "solely payments of principal and interest" (SPPI test).<br><br>We checked the appropriateness of the opening balance adjustments and the related disclosures.<br><br>With respect to impairment, using expected credit loss model, our work plan is described in the above paragraph with respect to How Our Audit Addressed the Key Audit Matter for impairment of loans and receivables in accordance with TFRS 9. |

## 4. Key audit matters (Continued)

| *Key audit matters* | *How our audit addressed the key audit matter* |
|---|---|
| **Valuation of Pension Fund Obligations (Note 2.3.19)**<br><br>The Bank's Personnel Pension Fund Foundation (Pension Fund) is established in accordance with the Social Security Law numbered 506 article No 20 and is within the scope of Funds to be transferred to the Social Security Institution (SSI). Council of Ministers is authorized to determine the transfer date. The total obligation of the fund is estimated using different methods and assumption for benefits to be transferred and for non-transferrable benefits. The valuations of the pension obligations require significant judgement and technical expertise in choosing appropriate assumptions. The Bank's management uses external actuaries for the purpose of valuations of pension obligations. The reason we focused on this area during our audit is; the importance of the actuarial and economic assumptions such as transferrable social benefits, discount rates, salary increases, demographic assumptions used in the valuation of pension obligation and the significant impact that may arise from the possible change in the assumptions used in the evaluation of pension fund liabilities. | Within our audit we tested on a sample basis the accuracy of the employee data supplied by the Bank management to the external actuary firm for the purpose of evaluation pension obligation. In addition, we verified the existence and values of the Pension Fund assets.<br><br>Through use of our actuarial specialist, we assessed the reasonableness of assumptions and evaluation made by the external actuaries in the calculation of the liability.<br><br>In addition to the above procedures we have reviewed the disclosures of Group's financial statements with respect to the pension fund. |

## 5. Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

The Group management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with TFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## 6. Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

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

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

6. **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)**

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

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

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

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

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

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

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

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

## B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2018 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.

2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.

3. In accordance with subparagraph 4 of Article 398 of the TCC, the auditor's report on the early risk identification system and committee was submitted to the Company's Board of Directors on 22 February 2019.

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

Burak Özpoyraz, SMMM
Partner

İstanbul, 22 February 2019

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## HACI ÖMER SABANCI HOLDİNG A.Ş.

## CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2018 AND 2017

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

| | Note References | 31 December 2018 USD (*) | Audited Current Period 31 December 2018 | Audited Prior Period 31 December 2017 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | **35.222.154** | **185.300.225** | **163.547.705** |
| Cash and Cash Equivalents | 5 | 4.496.886 | 23.657.667 | 14.519.064 |
| Financial Assets | | 1.738.797 | 9.147.636 | 8.832.334 |
| - Through Profit or Loss | 6.a | 33.990 | 178.817 | 39.890 |
| - Through Other Comprehensive Income | 6.b | 1.035.994 | 5.450.262 | 4.190.446 |
| - At Amortised Cost | 6.c | 668.813 | 3.518.557 | 4.593.808 |
| - Time Deposits | 6.d | - | - | 8.190 |
| Trade Receivables | 8 | 382.217 | 2.010.806 | 1.881.888 |
| Receivables from Finance Sector Operations | 30 | 21.182.700 | 111.440.065 | 97.520.756 |
| Reserve Deposits with the Central Bank of the Republic of Turkey | | 5.024.567 | 26.433.745 | 33.055.479 |
| Other Receivables | 9 | 339.133 | 1.784.144 | 2.464.026 |
| Derivative Financial Instruments | 29 | 978.496 | 5.147.767 | 1.812.017 |
| Inventories | 10 | 559.761 | 2.944.845 | 2.312.094 |
| Prepaid Expenses | 11 | 171.188 | 900.603 | 749.214 |
| Assets Related to Current Tax | | 3.073 | 16.167 | 9.093 |
| Other Current Assets | 20 | 342.633 | 1.802.560 | 370.559 |
| | | **35.219.451** | **185.286.005** | **163.526.524** |
| Non-current Assets Held for Sale | 22 | 2.703 | 14.220 | 21.181 |
| **Non-current Assets** | | **35.428.548** | **186.386.046** | **190.587.046** |
| Financial Assets | | 9.058.260 | 47.654.602 | 52.944.726 |
| - Through Other Comprehensive Income | 6.b | 7.395.995 | 38.909.591 | 38.655.381 |
| - At Amortised Cost | 6.c | 1.662.265 | 8.745.011 | 14.289.345 |
| Trade Receivables | 8 | 23.999 | 126.256 | 121.678 |
| Receivables From Finance Sector Operations | 30 | 19.359.749 | 101.849.702 | 114.186.246 |
| Other Receivables | 9 | 580.614 | 3.054.550 | 998.184 |
| Derivative Financial Instruments | 29 | 3.334.192 | 17.540.849 | 7.698.970 |
| Investments Accounted Through Equity Method | 12 | 1.284.278 | 6.756.459 | 6.439.214 |
| Investment Property | 13 | 26.028 | 136.930 | 282.506 |
| Property, Plant and Equipment | 14 | 1.259.609 | 6.626.678 | 5.529.745 |
| Intangible Assets | | 400.858 | 2.108.876 | 1.690.195 |
| - Goodwill | 16 | 161.420 | 849.215 | 873.097 |
| - Other Intangible Asset | 15 | 239.438 | 1.259.661 | 817.098 |
| Prepaid Expenses | 11 | 3.990 | 20.991 | 23.098 |
| Deferred Tax Assets | 28 | 70.832 | 372.640 | 552.671 |
| Other Non-current Assets | 20 | 26.139 | 137.513 | 119.813 |
| **Total Assets** | | **70.650.702** | **371.686.271** | **354.134.751** |

* USD amounts presented above are translated from TRY for convenience purposes only, at the official TRY Exchange rate announced by CBRT at 31 December 2018, and therefore do not form part of these consolidated financial statements (Note 2.1.6).

These consolidated financial statements have been approved for issue by the Board of Directors on 22 February 2019 and signed on its behalf by Mehmet Göçmen, Member of Board of Directors and CEO and Barış Oran, CFO. General Assembly has the right to change these consolidated financial statements.

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

**HACI ÖMER SABANCI HOLDİNG A.Ş.**

**CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2018 AND 2017**
(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

| | Note References | 31 December 2018 USD (*) | Audited Current Period 31 December 2018 | Audited Prior Period 31 December 2017 |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| **Current Liabilities** | | **48.555.190** | **255.444.010** | **247.467.413** |
| Short Term Borrowings | 7 | 1.848.769 | 9.726.191 | 13.917.173 |
| Short Term Portion of Long Term Borrowings | 7 | 3.956.674 | 20.815.668 | 16.018.279 |
| Trade Payables | 8 | 641.097 | 3.372.749 | 2.882.349 |
| Payables from Finance Sector Operations | 31 | 39.121.699 | 205.815.346 | 204.692.399 |
| Payables related to Employee Benefits | 19 | 17.805 | 93.671 | 75.997 |
| Other Payables | 9 | 1.167.559 | 6.142.410 | 5.401.108 |
| Derivative Financial Instruments | 29 | 1.016.620 | 5.348.337 | 2.138.123 |
| Deferred Income | 11 | 55.479 | 291.868 | 217.393 |
| Current Tax Liabilities | 28 | 11.860 | 62.396 | 802.451 |
| Short Term Provisions | | 191.261 | 1.006.206 | 651.217 |
| - Short Term Provisions for Employee | 19 | 62.223 | 327.351 | 318.279 |
| - Other Short Term Provisions | 17 | 129.038 | 678.855 | 332.938 |
| Other Short Term Liabilities | 20 | 525.555 | 2.764.894 | 665.662 |
| | | **48.554.378** | **255.439.736** | **247.462.151** |
| Liabilities Related to Assets Held for Sale | 22 | 812 | 4.274 | 5.262 |
| **Non-current Liabilities** | | **11.375.710** | **59.846.465** | **54.669.399** |
| Long Term Borrowings | 7 | 6.695.107 | 35.222.289 | 25.322.315 |
| Payables from Finance Sector Operations | 31 | 2.626.719 | 13.818.904 | 23.664.909 |
| Other Payables | 9 | 450.987 | 2.372.596 | 1.541.534 |
| Derivative Financial Instruments | 29 | 1.441.414 | 7.583.133 | 3.375.454 |
| Deferred Income | 11 | 22.208 | 116.833 | 143.793 |
| Long Term Provisions | | 85.975 | 452.305 | 416.977 |
| - Long Term Provisions for Employee Benefits | 19 | 85.165 | 448.045 | 412.364 |
| - Other Long Term Provisions | 17 | 810 | 4.260 | 4.613 |
| Deferred Tax Liabilities | 28 | 35.261 | 185.504 | 149.352 |
| Other Long Term Liabilities | 20 | 18.039 | 94.901 | 55.065 |
| **EQUITY** | | **10.719.802** | **56.395.796** | **51.997.939** |
| **Equity Attributable To The Parent** | **21** | **5.567.484** | **29.289.967** | **26.591.788** |
| Share Capital | 21 | 387.843 | 2.040.404 | 2.040.404 |
| Adjustments to Share Capital | | 651.364 | 3.426.761 | 3.426.761 |
| Share Premium | 21 | 4.227 | 22.237 | 22.237 |
| Treasury shares (-) | 21 | (36.205) | (190.470) | (190.470) |
| Other Comprehensive Income or Expenses That Will Not Be Reclassified to Profit or Loss | | (14.215) | (74.784) | (76.380) |
| - Actuarial Gain/Loss | | (14.215) | (74.784) | (76.380) |
| Other Comprehensive Income or Expenses Will Be Reclassified to Profit or Loss | | (2.111.551) | (370.833) | 64.615 |
| - Currency Translation Reserve | 21 | (1.778.222) | 1.382.776 | 724.660 |
| - Gains/Losses on Hedge | 21 | (101.823) | (535.681) | (349.708) |
| - Revaluation Reserve | 21 | (231.506) | (1.217.928) | (310.337) |
| Restricted Reserves | 21 | 199.600 | 1.050.078 | 1.032.916 |
| Retained Earnings | | 5.693.762 | 19.556.239 | 16.790.619 |
| Net Income for the Period | | 792.659 | 3.830.335 | 3.481.086 |
| **Non-controlling Interests** | | **5.152.318** | **27.105.829** | **25.406.151** |
| **TOTAL EQUITY AND LIABILITIES** | | **70.650.702** | **371.686.271** | **354.134.751** |

* USD amounts presented above are translated from TRY for convenience purposes only, at the official TRY Exchange rate announced by CBRT at 31 December 2018, and therefore do not form part of these consolidated financial statements (Note 2.1.6).

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

## HACI ÖMER SABANCI HOLDİNG A.Ş.

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
## FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

| | Note References | 1 January - 31 December 2018 (USD) (*) | Audited Current Period 1 January - 31 December 2018 | Audited Prior Period 1 January - 31 December 2017 |
|---|---|---|---|---|
| **CONTINUING OPERATIONS** | | | | |
| Sales (net) | 4, 23 | 3.364.952 | 16.260.337 | 13.839.851 |
| Cost of Sales (-) | 4, 23 | (2.660.719) | (12.857.297) | (10.943.850) |
| **Gross Profit from Non-Financial Operations** | | **704.233** | **3.403.040** | **2.896.001** |
| Interest, Premium, Commission and Other Income | 4 | 7.869.510 | 38.027.550 | 27.296.414 |
| Interest, Premium, Commission and Other Expense (-) | 4 | (5.114.009) | (24.712.239) | (14.663.543) |
| **Gross Profit from Financial Operations** | | **2.755.501** | **13.315.311** | **12.632.871** |
| **GROSS PROFIT** | | **3.459.734** | **16.718.351** | **15.528.872** |
| General and Administrative Expenses (-) | 24 | (1.385.646) | (6.695.806) | (5.334.974) |
| Marketing Expenses (-) | 24 | (409.683) | (1.979.695) | (1.745.064) |
| Research and Development Expenses (-) | 24 | (3.122) | (15.086) | (7.853) |
| Other Income from Operating Activities | 25 | 386.141 | 1.865.933 | 1.328.631 |
| Other Expense from Operating Activities (-) | 25 | (369.958) | (1.787.733) | (765.417) |
| Share of Profit of Investments Accounted Through the Equity Method | 12 | 167.305 | 808.460 | 576.380 |
| **OPERATING PROFIT** | | **1.844.771** | **8.914.424** | **9.580.575** |
| Income from Investing Activities | 26 | 153.004 | 739.354 | 110.729 |
| Expense from Investing Activities (-) | 26 | (1.379) | (6.663) | (17.653) |
| **OPERATING PROFIT BEFORE FINANCIAL EXPENSES** | | **1.996.396** | **9.647.115** | **9.673.651** |
| Financial Income | 27 | 46.916 | 226.709 | 141.096 |
| Financial Expenses (-) | 27 | (201.885) | (975.562) | (596.754) |
| **INCOME BEFORE TAX FROM CONTINUING OPERATIONS** | | **1.841.427** | **8.898.262** | **9.217.993** |
| **Tax Expense from Continuing Operations** | | | | |
| Current Tax Expense | 28 | (280.857) | (1.357.175) | (1.793.988) |
| Deferred Tax Income/(Expense) | 28 | (61.805) | (298.659) | 10.390 |
| **PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS** | | **1.498.765** | **7.242.428** | **7.434.395** |
| **DISCONTINUED OPERATIONS** | | | | |
| Income After Tax From Discontinued Operations | 22 | 5 | 23 | 3.503 |
| **PROFIT FOR THE PERIOD** | | **1.498.770** | **7.242.451** | **7.437.898** |
| **ALLOCATION OF PROFIT** | | | | |
| - Non-controlling interests | | 706.111 | 3.412.116 | 3.956.812 |
| - Equity holders of the parent | | 792.659 | 3.830.335 | 3.481.086 |
| Earnings per share | | | | |
| - hundreds of ordinary shares (TRY) | | 0,39 | 1,88 | 1,71 |
| Earnings per share from continuing operations | | | | |
| - hundreds of ordinary shares (TRY) | | 0,39 | 1,88 | 1,70 |

* USD amounts presented above are translated from TRY for convenience purposes only, at the average of official TRY Exchange rates announced by CBRT in 2018, and therefore do not form part of these consolidated financial statements (Note 2.1.6).

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

## HACI ÖMER SABANCI HOLDİNG A.Ş.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

| | Note References | Audited Current period 1 January - 31 December 2018 | Audited Prior period 1 January - 31 December 2017 |
|---|---|---|---|
| **NET INCOME FOR THE YEAR** | | **7.242.451** | **7.437.898** |
| **Other Comprehensive Income/(Loss):** | | | |
| **Items That Will Not Be Reclassified To Profit or Loss** | | **2.416** | **(43.822)** |
| Actuarial (losses)/gains, after tax | 28 | 3.887 | (47.749) |
| Other comprehensive income/(expense) shares of investments accounted by equity method, after tax | 28 | (1.471) | 3.927 |
| **Items That Will Be Reclassified To Profit or Loss** | | **(1.122.129)** | **786.527** |
| Fair value gains/(losses) from financial assets through other comprehensive income | 28 | (1.934.514) | 354.369 |
| Currency translation differences | 28 | 1.512.992 | 539.555 |
| Cash flow hedges after tax | 28 | (205.284) | 51.132 |
| Income/(loss) from the derivative financial assets related to net investment hedge in a foreign operation, after tax | 28 | (384.609) | (201.629) |
| Other comprehensive income/(expense) shares of investments accounted by equity method, after tax | | (110.714) | 43.100 |
| **OTHER COMPREHENSIVE INCOME/(LOSS) (AFTER TAX)** | | **(1.119.713)** | **742.705** |
| **TOTAL COMPREHENSIVE INCOME** | | **6.122.738** | **8.180.603** |
| **ALLOCATION OF TOTAL COMPREHENSIVE INCOME** | | | |
| - Non-controlling Interests | | 2.784.107 | 4.382.918 |
| - Equity Holders of the Parent | | 3.338.631 | 3.797.685 |

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

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

| | | | | | Accumulated Other Comprehensive Income or Loss That Will | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Not be reclassified | Be Reclassified Profit or Loss | | | | | | | | |
| | Share capital | Adjustment to share capital | Treasury Shares (-) | Share premium | Actuarial gains/ losses | Currency translation reserve | Hedge reserve | Revaluation funds | Restricted reserves | Retained earnings | Net income for the year | Equity attributable to the parent | Non-controlling interests | Total |
| **Balances at 1 January 2017** | **2.040.404** | **3.426.761** | **(190.470)** | **22.237** | **(59.814)** | **499.438** | **(323.312)** | **(444.676)** | **929.750** | **14.585.848** | **2.660.131** | **23.146.297** | **21.661.046** | **44.807.343** |
| Transfers | - | - | - | - | - | - | - | - | 103.166 | 2.556.965 | (2.660.131) | - | - | - |
| Dividens paid (*) | - | - | - | - | - | - | - | - | - | (424.786) | - | (424.786) | (637.813) | (1.062.599) |
| Subsidiary acquisition or sale | - | - | - | - | - | - | - | - | - | 72.592 | - | 72.592 | - | 72.592 |
| Total Comprehensive Income | - | - | - | - | (16.566) | 225.222 | (26.396) | 134.339 | - | - | 3.481.086 | 3.797.685 | 4.382.918 | 8.180.603 |
| **Balances at 31 December 2017** | **2.040.404** | **3.426.761** | **(190.470)** | **22.237** | **(76.380)** | **724.660** | **(349.708)** | **(310.337)** | **1.032.916** | **16.790.619** | **3.481.086** | **26.591.788** | **25.406.151** | **51.997.939** |
| **Balances at 1 January 2018** | **2.040.404** | **3.426.761** | **(190.470)** | **22.237** | **(76.380)** | **724.660** | **(349.708)** | **(310.337)** | **1.032.916** | **16.790.619** | **3.481.086** | **26.591.788** | **25.406.151** | **51.997.939** |
| **Effect of changes in accounting policies** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **57.591** | **-** | **(43.869)** | **-** | **13.722** | **29.183** | **42.905** |
| **Restated balance as of 1 January 2018** | **2.040.404** | **3.426.761** | **(190.470)** | **22.237** | **(76.380)** | **724.660** | **(349.708)** | **(252.746)** | **1.032.916** | **16.746.750** | **3.481.086** | **26.605.510** | **25.435.334** | **52.040.844** |
| Transfers | - | - | - | - | - | - | - | - | 31.033 | 3.450.053 | (3.481.086) | - | - | - |
| Dividens paid (*) | - | - | - | - | - | - | - | - | - | (639.523) | - | (639.523) | (1.042.122) | (1.681.645) |
| Other (**) | - | - | - | - | 696 | - | - | (435) | (13.871) | 15.765 | - | 2.155 | - | 2.155 |
| Transactions with non-controlling interests (***) | - | - | - | - | - | - | - | - | - | (16.806) | - | (16.806) | (71.490) | (88.296) |
| Total Comprehensive Income | - | - | - | - | 900 | 658.116 | (185.973) | (964.747) | - | - | 3.830.335 | 3.338.631 | 2.784.107 | 6.122.738 |
| **Balances at 31 December 2018** | **2.040.404** | **3.426.761** | **(190.470)** | **22.237** | **(74.784)** | **1.382.776** | **(535.681)** | **(1.217.928)** | **1.050.078** | **19.556.239** | **3.830.335** | **29.289.967** | **27.105.829** | **56.395.796** |

(*) Dividends paid by the Holding per share with a TRY 1 nominal value is TRY 0,30 ( 2017: TRY 0,20).
(**) Enerji Enerji A.Ş.'s initial public offering, consisting 20% of the Entity's share, was completed on February 8, 2018.
(***) In April 2018, 6.908.992 lot shares corresponding to 5.11% of the shares of Çimsa Çimento Sanayi ve Ticaret AS, a subsidiary of the Group, were purchased at a price of TRY 12,78 per lot.

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

| | Note References | Audited 1 January - 31 December 2018 | Audited 1 January - 31 December 2017 |
|---|---|---|---|
| Net income before tax from continuing operations | | 8.898.262 | 9.217.993 |
| Net income after tax from discontinued operations | | 23 | 3.503 |
| **Adjustments to reconcile income to net cash provided by operating activities** | | | |
| Depreciation and amortisation expenses | 13,14,15 | 837.400 | 721.392 |
| Provision for loan losses | | 7.106.229 | 1.655.531 |
| Changes in the fair value of derivative instruments | | (6.138.539) | (130.573) |
| Interest income and foreign currency gains | | (7.778.924) | (2.888.612) |
| Interest expenses | | 838.909 | 280.925 |
| Provision for employment termination benefits | | 146.888 | 103.369 |
| Impairments charge on property, plant and equipment, intangible assets and investment property | 14,15 | (10.178) | (31.505) |
| Impairment of goodwill | 16 | 150.200 | 141.718 |
| Income from sale of property, plant and equipment, intangible asset and investment property | | (598.483) | (91.451) |
| Income from associates and joint ventures | | (808.460) | (576.380) |
| Income from sale of shares | | (144.538) | - |
| Provision for / (reversal of) inventory impairment | | 2.538 | (3.402) |
| Provision for doubtful receivables | | 102.853 | (138) |
| Adjustments for unrealized currency translation differences | | 28.146 | 324.569 |
| Other | | 1.459 | 10.930 |
| **Net cash provided by operating activities before changes in operating assets and liabilities** | | **2.633.785** | **8.737.869** |
| Changes in trade receivables | | (184.855) | (452.794) |
| Changes in inventories | | (562.451) | (304.009) |
| Changes in other receivables and current assets | | (2.719.544) | (1.432.006) |
| Change in trade payables | | 462.708 | 391.832 |
| Changes in other liabilities and other payables | | 3.929.590 | 933.671 |
| Net cash provided by operating activities of non-current assets | | 5.973 | (5.857) |
| **Changes in assets and liabilities in finance segment** | | | |
| Changes in securities at amortized cost | | (138.308) | 23.201 |
| Changes in receivables from financial operations | | (7.515.936) | (31.746.273) |
| Changes in payables to financial operations | | (8.639.974) | 29.522.976 |
| Central Bank of the Republic of Turkey account | | 6.160.679 | 931.307 |
| Income taxes paid | 28 | (1.204.843) | (1.250.598) |
| Employment termination benefits paid | | (107.311) | (81.370) |
| **Net cash provided by (used) in operating activites** | | **(7.880.487)** | **5.267.949** |
| **Cash flows from investing activities** | | | |
| Capital expenditures | 4 | (2.131.841) | (1.410.413) |
| Sale (purchase) of financial assets | | 4.340.100 | (7.324.945) |
| Cash outflow due to the purchase of subsidiaries | | (576.535) | - |
| Cash provided from the share sale of joint ventures | | 738.168 | - |
| Proceeds from sale of non-current assets, property, plant and equipment and intangible assets | | 1.154.660 | 172.060 |
| Dividends received | 12 | 490.026 | 351.375 |
| Capital increase in joint ventures | 12 | (714.000) | - |
| **Net cash provided by/used in investing activities** | | **3.300.578** | **(8.211.923)** |
| **Cash flows from fınancing activities:** | | | |
| Cash inflow from financial liabilities | | 20.180.086 | 11.538.358 |
| Financial liability repayments | | (10.276.282) | (5.477.339) |
| Dividend paid | | (639.523) | (424.786) |
| Dividend paid to non-controlling interets | | (1.042.122) | (637.813) |
| **Net cash provided by fınancing activities** | | **8.222.159** | **4.998.420** |
| Effect of change in foreign currency rates on cash and cash equivalents | | 5.036.545 | 685.424 |
| Net increase/(decrease) in cash and cash equivalents | | 8.678.795 | 2.739.870 |
| Cash and cash equivalents at the beginning of the period (*) | | 9.975.545 | 7.235.675 |
| **Cash and cash equivalents at the end of the period** | | **18.654.340** | **9.975.545** |

(*) Cash and cash equivalents at the end of the period comprise interest discounts of TRY 432 (31 December 2017: TRY 1.679). At the beginning and at the end of the current period, restricted deposit is TRY 4.541.840 and TRY 5.002.895, respectively (31 December 2017: TRY 5.356.843 and TRY 4.541.840, respectively).

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

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP

Hacı Ömer Sabancı Holding A.Ş. (the "Holding") was established in 1967 to coordinate and perform liaison services regarding the activities of companies operating in various fields including mainly finance, manufacturing and trade. The Holding is registered in Turkey. The number of employees in 2018 is 64.294 (31 December 2017: 63.152). Holding's registered address is as follows:

Sabancı Center, 4. Levent, İstanbul, Türkiye.

The Holding is registered with the Capital Markets Board ("CMB") and its shares have been quoted on Borsa Istanbul ("BIST") (previously known as the Istanbul Stock Exchange ("ISE")) since 1997. As of 31 December 2017, the principal shareholders and their respective shareholding rates in the Holding are as follows (Note 21):

| | **(%)** |
|---|---|
| Sakıp Sabancı Holding A.Ş. | 14,07 |
| Serra Sabancı | 7,21 |
| Suzan Sabancı Dinçer | 6,94 |
| Çiğdem Sabancı Bilen | 6,94 |
| Other | 64,84 |
| | **100,00** |

The Holding, its subsidiaries, associates and joint ventures are together referred as the "Group". The Holding is managed by Sabancı Family.

### Subsidiaries

As of 31 December 2018, the nature of the business of the Subsidiaries consolidated in these consolidated financial statements and, their respective business segments are as follows:

| **Subsidiaries** | **Traded Stock Market** | **Type of Activity** | **Business Segment** | **Number of Employess** |
|---|---|---|---|---|
| Akbank T.A.Ş. ("Akbank") | BIST | Banking | Banking | 17.164 |
| Carrefoursa Carrefour Sabancı Ticaret Merkezi A.Ş. ("Carrefoursa") | BİST | Trade of Consumer Goods | Retailing | 11.956 |
| Teknosa İç ve Dış Ticaret A.Ş. ("Teknosa") | BİST | Trade | Retailing | 2.364 |
| Çimsa Çimento Sanayi ve Ticaret A.Ş. ("Çimsa") | BİST | Cement and Clinker | Cement | 2.266 |
| Kordsa Teknik Tekstil Anonim Şirketi ("Kordsa") | BİST | Tire Reinforcement | Industry | 4.208 |
| Temsa Global Sanayi ve Ticaret A.Ş. ("Temsa") | - | Automative | Industry | 1.616 |
| Yünsa Yünlü Sanayi ve Ticaret A.Ş. ("Yünsa") | BİST | Textile | Industry | 1.134 |
| Exsa Export Sanayi Mamulleri Satış ve Araştırma A.Ş. ("Exsa") | - | Trade | Other | 8 |
| Ankara Enternasyonel Otelcilik A.Ş. ("AEO") | - | Tourism | Other | 2 |
| Tursa Sabancı Turizm ve Yatırım İşletmeleri A.Ş. ("Tursa") | - | Tourism | Other | 3 |
| Sabancı Dijital Teknoloji Hizmetleri A.Ş. ("Sabancı DX) | - | Information Technologies | Other | 213 |

Subsidiaries are registered in Turkey.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 1 - ORGANIZATION AND OPERATIONS OF THE GROUP (Continued)

For the purposes of segment information, Holding's stand-alone financial statements have been included within the "Other" business segment.

### Joint Ventures

As at 31 December 2018, the nature of business and operating segments of the Joint Ventures which are accounted through equity method in the consolidated financial statements are as follows:

| Joint ventures | Traded Stock Market | Type of Activity | Bussiness Segment | Ventures | Number of Employees |
|---|---|---|---|---|---|
| Aksigorta A.Ş. ("Aksigorta") | BİST | Insurance | Insurance | Ageas | 650 |
| Avivasa Emeklilik ve Hayat A.Ş. ("Avivasa") | BİST | Pension | Insurance | Aviva | 1.583 |
| Brisa Bridgestone Sabancı Lastik Sanayi ve Ticaret A.Ş. ("Brisa") | BİST | Tire | Industry | Bridgestone | 2.787 |
| Akçansa Çimento Sanayi ve Ticaret A.Ş. ("Akçansa") | BİST | Cement and clinker | Cement | Heidelberg | 2.395 |
| Enerjisa Enerji A.Ş. ("Enerjisa Enerji") | BİST | Energy | Energy | E.ON SE | 10.929 |
| Enerjisa Üretim Santralleri A.Ş. ("Enerjisa Üretim") | - | Energy | Energy | E.ON SE | 1.163 |
| Temsa İş Makinaları | - | Automotive | Industry | Marubeni | 234 |

All joint ventures are registered in Turkey.

### Associates

As at 31 December 2018, the nature of business and operating segments of the Affiliates which are accounted through equity method in the consolidated financial statements are as follows:

| Joint ventures | Traded Stock Market | Type of Activity | Bussiness Segment | Ventures | Number of Employees |
|---|---|---|---|---|---|
| Philsa Philip Morris Sabancı Sigara ve Tütün San. ve Tic. A.Ş. (Philsa) | - | Tobacco products Production | Industry | Philip Morris | 3.115 |
| Philip Morris Sabancı Pazarlama Satış A.Ş. ("Philip Morrissa") | - | Tobacco products Marketing and Sales | Industry | Philip Morris | |

Number of employees represent the total number of employees of Philsa and Philip Morrissa.

All affiliates are registered in Turkey.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

### 2.1 *Basis of Presentation*

### 2.1.1 *Statement of compliance with TAS*

Sabancı Holding, its Subsidiaries and Joint Ventures registered in Turkey maintain their books of accounts and prepare their statutory financial statements ("Statutory Financial Statements") in TRY in accordance with the Turkish Commercial Code ("TCC"), tax legislation and the Uniform Chart of Accounts issued by the Ministry of Finance, applicable Turkish insurance laws for insurance companies and banking law, accounting principles and instructions promulgated by the Banking Regulation and Supervising Agency for banks and accounting principles issued by the CMB for listed companies. The foreign Subsidiaries and Joint Ventures maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered. These consolidated financial statements are based on the statutory records, which are maintained under historical cost conversion, with the required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the Turkish Accounting Standards issued by POA.

The accompanying financial statements are prepared in accordance with the requirements of Capital Markets Board ("CMB") Communiqué Serial II, No: 14.1 "Basis of Financial Reporting in Capital Markets", which was published in the Official Gazette No:28676 on 13 June 2013. The accompanying financial statements are prepared based on the Turkish Accounting Standards and interpretations ("TAS") that have been put into effect by the Public Oversight Accounting and Auditing Standards Authority ("POA") under Article 5 of the Communiqué.

Additionally, the consolidated financial statements and disclosures are presented in accordance with the formats published by CMB on 7 June 2013 and the announcement published by Public Oversight Accounting and Auditing Standards Authority ("POA") on 2 June 2016. The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

<u>Functional and Presentation Currency</u>

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

**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## 2.1 *Basis of Presentation (continued)*

### 2.1.2 New and Revised Turkish Accounting Standards

**a) As at 31 December 2018, new standards in force and amendments to existing previous standards and interpretations (continued):**

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

- **IFRS 15, "Revenue from contracts with customers";** Group recognises revenue based on the following five principles in accordance with the TFRS 15, "Revenue from Contracts with Customers Standard"; effective from 1 January 2018:

  - Identification of customer contracts
  - Identification of performance obligations
  - Determination of the transaction price in the contracts
  - Allocation of transaction price to the performance obligations
  - Recognition of revenue when the performance obligations are satisfied

  - Group evaluates each contracted obligation separately and respective obligations, committed to deliver the distinct goods or perform services, are determined as separate performance obligations. Group determines at contract inception whether the performance obligation is satisfied over time or at a point in time. When the Group transfers control of a good or service over time, and therefore satisfies a performance obligation over time, then the revenue is recognised over time by measuring the progress towards complete satisfaction of that performance obligation.

  The Group, when the Group has fulfilled its performance obligations by transferring a contracted product or service to its customers, books the transaction amount related to this performance obligation to the consolidated financial statements as revenue. The goods or services sales are realized when the goods or services are transferred to the customers.

**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2.1 *Basis of Presentation (continued)***

**2.1.2 New and Revised Turkish Accounting Standards (continued)**

**a) As at 31 December 2018, new standards in force and amendments to existing previous standards and interpretations (continued):**

Following indicators are considered while evaluating the transfer of control of the goods and services:

a) presence of Group's collection right of the consideration for the goods or services,
b) customer's ownership of the legal title on goods or services,
c) physical transfer of the goods or services,
d) customer's ownership of significant risks and rewards related to the goods or services,
e) customer's acceptance of goods or services.
If Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less, the promised amount of consideration for the effects of a significant financing component is not adjusted. On the other hand, when the contract effectively constitutes a financing component, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised on an accrual basis as other operating income.

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

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

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

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

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### *2.1 Basis of Presentation (continued)*

### 2.1.2 New and Revised Turkish Accounting Standards (continued)

**a) As at 31 December 2018, new standards in force and amendments to existing previous standards and interpretations (continued):**

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

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

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

**b) Standards and amendments that have been issued but not yet effective as of 31 December 2018:**

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

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

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### *2.1 Basis of Presentation (continued)*

#### 2.1.2 New and Revised Turkish Accounting Standards (continued)

**b) Standards and amendments that have been issued but not yet effective as of 31 December 2018 (continued):**

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

  As of the reporting date, the Group has completed its works on IFRS 16 "Leases", and concluded that IFRS 16 has no significant impact on the consolidated financial statements.

- **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.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### *2.1 Basis of Presentation (continued)*

### 2.1.2 New and Revised Turkish Accounting Standards (continued)

**b) Standards and amendments that have been issued but not yet effective as of 31 December 2018 (continued):**

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

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

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

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

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

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

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

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### *2.1 Basis of Presentation (continued)*

### 2.1.3 *Basis of Consolidation*

**a)** The consolidated financial statements include the accounts of the parent company, Hacı Ömer Sabancı Holding A.Ş., its Subsidiaries and Joint Ventures (collectively referred to as the "Group") on the basis set out in sections (b) to (f) below. The financial statements of the companies included in the scope of consolidation have been prepared at the date of the consolidated financial statements, and are prepared in accordance with CMB Financial Reporting Standards as explained in Note 2.1.1. The result of operations of Subsidiaries, Joint Ventures and Associates are included or excluded in these consolidated financial statements subsequent to the date of acquisition or date of sale respectively.

**b)** Subsidiaries are companies in which the Holding has the power to control the financial and operating policies for the benefit of the Holding either through the power to exercise more than 50% of the voting rights relating to shares in the companies as a result of shares owned directly and indirectly by itself and/or certain Sabancı family members and companies whereby the Holding exercises control over the voting rights of the shares held by them.

**c)** Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

**d)** When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable TFRS. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under TFRS 9 "Financial instruments: recognition and measurement", when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

The companies which Holding has less that 50% shares are considered as subsidiaries since Holding exercises a dominant influence and power to govern the financial and operating policies through exercise of voting power related to shares held by Holding together with voting power which Holding effectively exercises related to shares held by Sabancı family members. Sabancı family members allow Holding to exercise voting power in respect of shares held in these companies. In the accompanying consolidated financial statements the shares held by Sabancı family members are presented as non-controlling interest.

The table below sets out all consolidated Subsidiaries and shows the proportion of ownership interest and the effective interest of the Holding in these subsidiaries at 31 December 2018 and 2017:

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### *2.1 Basis of Presentation (continued)*

### 2.1.3 Basis of Consolidation (continued)

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | Direct and indirect ownership interest by the Holding and its Subsidiaries | Proportion of ownership interest | Direct and indirect ownership interest by the Holding and its Subsidiaries | Proportion of ownership interest |
| **Subsidiaries** | **(%)** | **(%)** | **(%)** | **(%)** |
| AEO | 76,85 | 76,85 | 76,85 | 76,85 |
| Akbank | 40,75 | 40,75 | 40,75 | 40,75 |
| Sabancı DX | 100,00 | 100,00 | 100,00 | 100,00 |
| Çimsa (*) | 63,52 | 58,10 | 58,41 | 53,00 |
| Exsa (*) | 61,68 | 47,90 | 61,68 | 46,23 |
| Kordsa | 71,11 | 71,11 | 71,11 | 71,11 |
| Teknosa | 60,28 | 60,28 | 60,28 | 60,28 |
| Temsa | 48,71 | 48,71 | 48,71 | 48,71 |
| Tursa | 100,00 | 100,00 | 100,00 | 100,00 |
| Yünsa | 57,88 | 57,88 | 57,88 | 57,88 |
| Carrefoursa | 50,61 | 50,61 | 50,61 | 50,61 |

(*) In April 2018, 6.908.992 lot shares corresponding to 5,11% of Çimsa Çimento Sanayi ve Ticaret AS, a subsidiary of the Group, were purchased at a price of TRY 12,78 per lot. The effective shareholding interest in Exsa, a subsidiary of the Group, has increased from 46.23% to 47.90% as Çimsa owns 32.88% of Exsa shares.

The balance sheets and statements of profıt or loss of the Subsidiaries are consolidated on a line-by-line basis and the carrying value of the shares held by the Holding and its Subsidiaries is deducted from the related shareholders' equity. Intercompany transactions and balances between the Holding and its Subsidiaries are eliminated in consolidation. The cost of financing the shares in Subsidiaries held by the Holding and its Subsidiaries and the dividends pertaining to these shares are deducted from equity and income for the period, respectively.

The Subsidiaries are included into or excluded from the scope of consolidation subsequent to the date of transmission of the control to the Group. The shares of non-controlling shareholders in the net assets and operating results of Subsidiaries are presented in the consolidated balance sheet and profit or loss table as non-controlling interests. Sabancı Family, "Sabancı Foundation" and a retirement fund for Akbank employees called "Akbank Retirement Fund" established both by Sabancı Family, have a share in the capitals of some subsidiaries and affiliates which are accounted in the consolidated financial statements. This share is considered as non-controlling share in the consolidated financial statements and it is not included in the current period profit.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*2.1 Basis of Presentation (continued)*

**2.1.3 Basis of Consolidation (continued)**

**e)** Joint venture - If Holding and its subsidiaries have rights on net assets relating to operations subject to a joint arrangement, such net assets are accounted through equity method in the consolidated financial statements.

The table below sets out the Joint Ventures and shows the proportion of ownership interest and effective interest of the Holding in these Joint Ventures at 31 December 2018 and 31 December 2017:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| **Joint Ventures** | **Direct and indirect ownership interest by the Holding and its Subsidiaries (%)** | **Proportion of effective interest (%)** | **Direct and indirect ownership interest by the Holding and its Subsidiaries (%)** | **Proportion of effective interest (%)** |
| Akçansa | 39,72 | 39,72 | 39,72 | 39,72 |
| Aksigorta | 36,00 | 36,00 | 36,00 | 36,00 |
| Avivasa | 40,00 | 40,00 | 40,00 | 40,00 |
| Brisa | 43,63 | 43,63 | 43,63 | 43,63 |
| Enerjisa Enerji (*) | 40,00 | 40,00 | 50,00 | 50,00 |
| Enerjisa Üretim | 50,00 | 50,00 | 50,00 | 50,00 |
| Temsa Mısır | 73,75 | 73,75 | 73,75 | 73,75 |
| Temsa İş Makinaları | 51,00 | 24,84 | 51,00 | 24,84 |

(*) Enerji Enerji A.Ş.'s initial public offering, consisting 20% of the Entity's share, was completed on February 8, 2018. Ownership rate has decreased to 40% following the initial public offering.

Investments in Joint Ventures were consolidated by equity method. Sabancı family members do not have any interest in the share capital of the Joint Ventures.

**f)** Investments in Associates are accounted for by the equity method. These are companies where the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Unrealized gains that result from intercompany transactions between the Group and its Associates are adjusted to the extent of the Group's share in the associate and unrealized losses are restated if the transaction does not adreess an impairment on transferred asset. In this respect, the Group does not undertake any obligation or make commitment about its Subsidiaries.

The table below sets out all Associates and shows the total interest of the Holding in these associates at 31 December 2018 and 31 December 2017:

| **Associates** | **Proportion of effective interest by the Holding (%)** |
|---|---|
| Philsa Philip Morris Sabancı Sigara ve Tütün San. ve Tic. A.Ş. ("Philsa") | 25,00 |
| Philip Morris Sabancı Pazarlama Satış A.Ş. ("Philip Morrissa") | 24,75 |

Sabancı family members do not have any interest in the share capital of Associates.

**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## *2.1 Basis of Presentation (continued)*

### 2.1.4 Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

### 2.1.5 Comparatives and Restatement of Prior Year Financial Statements

Consolidated financial statements of the Group have been prepared comparatively with the prior period in order to give information about financial position and performance.

The Group presented the consolidated balance sheet as of 31 December 2018 comparatively with the consolidated balance sheet as of 31 December 2017 and presented the consolidated statement of profit or loss, statement of other comprehensive income, statement of cash flows and statement of changes in equity for the period 1 January - 31 December 2018 comparatively with the year 1 January - 31 December 2017.

**First transition to IFRS 15 "Revenue arising from agreements made with customers"**

The Group recognised IFRS 15 "Revenue arising from agreements made with customers", which replaced TAS 18, using the cumulative impact method as of 01 January 2018, the date of first implementation. Using this method, the Group registered the cumulative impact concerning the first transition to IFRS 15 with retained earnings on the date of first implementation. Therefore, there was no need to restate the previous years' consolidated financial statements, and the financial statements were presented in line with TAS 18. The transition impact of the standard was recognised using the to the simplified method. As per this transition method, the Group accounted the effect of the agreements that are effective from 01 January 2018, the date of first implementation, and recognised the cumulative impact under equity.

**First transition to IFRS 9 "Financial instruments" standard**

The Group applied IFRS 9 "Financial instruments", which replaced TAS 39, as of 1 January 2018, the date of first implementation. The standard includes obligations concerning the classification and measurement of financial assets and liabilities and the expected credit risk model, which will replace the currently used realised impairment model. The transition impact of the standard was recognised using to the simplified method. Using this method, the Group registered the cumulative impact concerning the first transition to IFRS 9 with the equity on the date of first implementation. Therefore, there was no need to restate the previous years' consolidated financial statements, and the financial statements were presented in line with TAS 39.

### 2.1.6 US Dollar Translation

USD amounts presented in the consolidated financial statements have been included solely for the convenience of the reader of the consolidated financial statements. Consolidated balance sheet, consolidated statement of profit or loss and consolidated statements of cash flows are translated from TRY, as a matter of arithmetic computation only, at the official USD bid rate announced by the CBRT and average USD exchange rate on 31 December 2018 of TRY 5,2609 = USD 1 and TRY 4,8322 = USD 1, respectively and do not form part of these consolidated financial statements. The resulting difference from the use of average CBRT rate for the translation of consolidated statement of profit or loss and the use of bid rate at the balance sheet date for the translation of the consolidated balance sheet is included in translation reserves under shareholders' equity in accordance with the translation requirements of TAS 21 "The effects of Changes in Foreign Exchange Rates" when the financial statements are presented in a currency other than the functional currency.

**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## *2.2* Changes in Accounting Policies and Estimates and Errors

Changes made in the accounting policies and corrections regarding accounting errors are applied retrospectively and prior year financial statements are restated.

If changes in accounting estimates and errors are for only one period, changes are applied in the current year but if the estimated changes affect the following periods, changes are applied both on the current and following years prospectively. In the current year, there are not any material errors and changes in accounting estimate methods of the Group.

If any significant accounting errors are found out, changes are applied retrospectively and prior year's financial statements are restated. There has been no significant accounting error that the Group determined in the current year.

The preparation of consolidated financial statements in conformity with Turkish Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates. Estimates are regularly reviewed, related corrections are adjusted and accounted for related period income statement. Changes in accounting estimates, if only for a period in which the change in the current period, if it relates to future periods, both in the period they are recognized in future periods, prospectively applied to the financials to see the effect on net profit/loss for the period.

### *2.2.1 Financial assets:*

The Group classifies and recognises its financial assets as "Financial Assets Whose Fair Value Difference is Reflected to Profit/Loss", "Financial Assets Whose Fair Value Difference is Reflected to Other Comprehensive Income" or "Financial Assets Measured by Amortised Cost". The financial assets are Recognized or Derecognized in records according to "Recognized or Derecognized in Financial Statements" set forth in the third section of "IFRS 9 Financial Assets", which relates to the classification and measurement of financial assets and was promulgated in Official Gazette No. 29953, dated 19 January 2017 by the Public Oversight Accounting and Auditing Standards Authority. Financial assets are measured using their fair value when they are first included in financial statements. Transaction costs are also included in the fair value during the first measurement of financial assets other than "Financial Assets Whose Fair Value Difference is Reflected to Profit/Loss". The Group includes a financial asset in the financial statements only when the Group is a party to agreement provisions concerning the financial instrument. The business model determined by bank management and the characteristics of the cash flows of the financial asset subject to agreement are considered when a financial asset is included in financial statements for the first time. When the business model determined by bank management is changed, all financial asset affected by the change are reclassified prospectively. In these cases, no adjustment is made for revenue, loss or interest previously included in financial statements.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.2 Changes in Accounting Policies and Estimates and Errors (Continued)

#### *2.2.1 Financial assets (continued):*

**a. Financial assets those stat fair value difference is accounted under profit/loss:**

Financial assets whose fair value difference is accounted under profit/loss are those which are managed by a model other than a model aiming to hold assets to collect cash flows subject to agreement, a model aiming to collect cash flows subject to agreement and sell the asset and the financial assets acquired to make a profit on the price and other fluctuations in the market in the short run, or which are part of a portfolio aiming to make a profit in the short-run regardless of acquiring the asset if the agreement conditions regarding the financial asset do not drive cash flows including interest payments arising only from the principal and the principal balance on specific dates. Financial assets whose fair value difference is reflected to profit/loss are recognised at their fair value and are valued based on their fair value. Gains and losses emerging as a result of a valuation are included in the profit/loss accounts.

**b. Financial assets whose fair value difference is accounted under other comprehensive income:**

If the financial asset is held within the scope of a business model aiming to collect cash flows subject to agreement and to sell the financial asset, and the agreement conditions regarding the financial asset cause cash flows that include interest payments which only arise from principal and principal balance on specific dates, then the financial asset is classified as a financial asset whose fair value difference is accounted under other comprehensive income. Financial assets whose fair value difference is accounted under other comprehensive income are recognised by adding transaction costs to acquisition cost reflecting the fair value. Financial assets whose fair value difference is accounted under other comprehensive income are valued based on their fair value after they are recognised. The interest income by using the effective rate method of financial assets whose fair value difference is accounted under other comprehensive income and dividend income of securities representing the share in capital are reflected on the income statement.

The difference between the fair value and amortised costs of financial assets whose fair value difference is accounted under other comprehensive income, namely, "Unrealized profit and loss", is reflected in the income statement of the relevant period until either the price of the financial asset is collected or the asset is sold, disposed of or weakened, and is tracked under "Other Accumulated Comprehensive Income or Expenses to be Reclassified in Profit or Loss" under equity. When the securities are collected or disposed of, the cumulative fair value differences reflected to equities are reflected on the income statement.

When recognising them in financial statements for the first time, the company may choose to make a irreversible choice to present future changes in the fair value of an investment in an equity instrument which is not held for sale under other comprehensive income. In this case, dividends earned from the said investment are transferred to financial statements as profit or loss.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### *2.2* Changes in Accounting Policies and Estimates and Errors (Continued)

#### *2.2.1 Financial assets (continued):*

**c. Financial assets measured by amortised cost:**

If the financial asset is held within the scope of a business model aiming to collect cash flows subject to agreement, and the agreement conditions regarding the financial asset cause cash flows that include interest payments which only arise from principal and principal balance on specific dates, then the financial asset is classified as a financial asset which is measured by amortised cost. Financial assets measured by amortised cost are first recognised by adding transaction costs to acquisition cost reflecting their fair value, and then are measured by amortised cost using the "efficient interest (internal rate of return) method". Interest income concerning financial assets measured by amortised cost are reflected in the income statement. There are bonds index-linked to consumer prices ("CPI") in the securities portfolio for which the fair value difference is reflected to other comprehensive income and which are measured by amortized cost.

The said securities are valued and recognised according to the effective interest method and are based on the index calculated considering real coupon rates, the reference inflation index on the date of issuance and estimated inflation rates. Reference indexes used to calculate the actual coupon payment amounts of the securities are created based on CPIs from two months prior. The Group sets the estimated inflation rate in line with the reference indexes. The estimated inflation rate used is updated during the year when necessary. At the end of the year, real inflation rate is used.

**d. Derivative Assets:**

The Group's derivative transactions generally consist of foreign currency swaps and interest swaps, cross currency swaps, currency options and future contracts. The Group's derivative instruments are classified as "Derivative Financial Instruments Whose Fair Value Difference is Reflected to Profit Loss" or "Derivative Financial Instruments Whose Fair Value Difference is Reflected to Other Comprehensive Income" as per "IFRS 9 Derivative Instruments" ("IFRS 9").

Receivables and liabilities arising in derivatives transactions are recognised in memorandum accounts based on contractual amounts. Derivatives transactions are valued based on their fair value after they are recognised.

If the fair value of a derivative instrument is positive, it is classified under "Fair Value Difference of Derivative Assets Which is Reflected Under Profit Loss" or "Fair Value Difference of Derivative Assets Which is Reflected Under Other Comprehensive Income", and if the fair value is negative, it is classified under "Fair Value Difference of Derivative Liabilities Which is Reflected Under Profit Loss" or "Fair Value Difference of Derivative Liabilities Which is Reflected Under Other Comprehensive Income". Differences in the fair value of derivative assets reflected under profit/loss are recognised under profit/loss from derivative financial transactions in the profit/loss item on the income statement. The fair values of derivatives are calculated according to market value or discounted cash flow.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### *2.2* Changes in Accounting Policies and Estimates and Errors (Continued)

#### *2.2.1 Financial assets (continued):*

**e. Borrowings:**

Loans are financial assets which have fixed or specifiable payments and are not listed in an active market. The said held-to-maturity loans cost is first recognised by adding transaction costs to acquisition cost, reflecting their fair value, and then are measured along with the amortised amount using the "effective interest (internal efficiency) rate method". All Group loans are tracked under "Amortized Costs".

**f. Explanations on expected loss provisions:**

The Group allocates expected loss provisions for amortised costs and financial assets whose fair value differences are measured by reflecting them to other comprehensive income.

As per the "Regulation on Classification of Loans and Procedures and Principles for Provisions to be Allocated for Loans" promulgated in Official Gazette No. 29750, dated 22 June 2016, the Group began allocating impairment provisions in line with IFRS 9 as of 01 January 2018. Within this scope, the method for allocating loan provisions as per the relevant legislation dated 31 December 2017 was changed with the implementation of the expected loan losses model as per IFRS 9. The estimate of expected credit loss includes information which is objective, weighted based on possibility and supported by past, current and future economic conditions.

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

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

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

- Loss Given Default (LGD): In case of default of the borrower, Loss Given Default has been calculated as dividing 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 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## *2.2* Changes in Accounting Policies and Estimates and Errors (Continued)

### *2.2.1 Financial assets (continued):*

**Expected Credit Loss (ECL) Calculation – Input and Forecasting Methodologies (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 TFRS 9, models of Probability of default (PD), Lost given default ( LGD) and Exposure at default (EAD) have been developed. The models used by the IRB "(Internal Rating Based Approach)" are taken into account when creating these models. The models developed under TFRS 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 rating notes /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.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### *2.2* Changes in Accounting Policies and Estimates and Errors (Continued)

#### *2.2.1 Financial assets (continued):*

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

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 practiced with using multi-scenario structure by using updated macroeconomic model scenarios

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.

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

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

### g. Explanations on IFRS 9 Financial Instruments Standard

The "IFRS 9 Financial Instruments" standard, regarding the classification and measurement of financial instruments, promulgated by the Public Oversight Accounting and Auditing Standards Authority in Official Gazette No. 29953 dated 19 January 2017, replaced the "IAS 39 Financial Instruments: Recognition and Measurement" standard as of 01 January 2018. The IFRS 9 standard sets forth new principals regarding classification and measurement of financial instruments, expected loss provisions for financial instruments and hedge accounting.

***Classification and measurement of financial instruments***

According to the IFRS 9 standard, financial assets are classified and measured based on the business model with which the financial asset is managed and whether the assets depend on contractual cash flows including interest payments for only the principal and principal balance.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### *2.2* Changes in Accounting Policies and Estimates and Errors (Continued)

### *2.2.1 Financial assets (continued):*

### g. Explanations on IFRS 9 Financial Instruments Standard (continued):

**Information about cases where contractual cash flows only include interest payments concerning the principal and principal balance:**

"Principal" is defined as the fair value when the financial asset is initially recognised in financial statements. "Interest" considers the loan risk related with the time value of money for a specific period, the other main loan risks and the costs related to the profit margin (e.g. liquidity risk and administrative costs). The Group considers the contractual conditions of the financial asset when evaluating contractual cash flows including only principal and interest payments concerning principal. This includes evaluating whether there is any contractual condition that may change the timing or amount of the contractual cash flows of the financial asset. The Group considers the following when making the evaluation:

- incidents that may change the amount and timing of cash flows,
- leverage features,
- down payment and extension conditions,
- conditions that limit the Group's access to cash flow arising from specific assets,
- things that must be considered when measuring the time value of money (e.g. resetting interest rates periodically).

The Group meets balance sheet classification and measurement criteria by implementing the above-mentioned procedures for all its financial assets. When recognised in financial statements for the first time, each financial asset is classified by reflecting its fair value in profit or loss based on its recognized cost or by reflecting the fair value change to other comprehensive income. Implementation of provisions in TAS 39 do not significantly change for the classification and measurement of financial assets. The following section includes the Group's explanations concerning the implementation of IFRS 9.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### *2.2* Changes in Accounting Policies and Estimates and Errors (Continued)

#### *2.2.1 Financial assets (continued):*

#### g. Explanations on IFRS 9 Financial Instruments Standard (continued):

Reconciliation of the statement of financial positions of classified financial assets during transition to IFRS 9:

| Amortized cost | Before IFRS 9 Book Value 31 December 2017 | Reclassifications | Remeasurements | IFRS 9 Book Value 1 January 2018 |
|---|---|---|---|---|
| Before reclassifications (held-to-maturity) | 18,883,153 | - | - | - |
| Fair value effect reclassified under other comprehensive income | - | (4,927,185) | - | - |
| Book value after reclassification | - | - | - | 13,955,968 |
| **Fair value effect reclassified under profit/loss** | | | | |
| Before reclassifications (held for purchase and sale) | 39,890 | - | - | - |
| Classified from held for sales | - | 84,865 | - | - |
| Book value after reclassification | - | - | - | 124,755 |
| **Fair value effect accounted under other comprehensive income** | | | | |
| Before reclassifications (held for sales) | 42,845,827 | - | - | - |
| Classified from held-to-maturity | - | 4,927,185 | - | - |
| Valuation effect of asset held for sales | - | - | 142,269 | |
| Fair value effect accounted under profit/loss | - | (84,865) | - | - |
| Book value after reclassification | - | - | - | 47,830,416 |

The reasons for classification of some financial assets held by the Group in accordance with IFRS 9 terms as above are explained below:

**1) Financial assets that have fair value differences accounted under other comprehensive income:**

The Group reassessed the management model for the collection of contractual cash flows in the security portfolio, the sale of the financial asset and the contractual cash flows of the investment securities. The Bank classifies securities of TRY 4.927.185 previously classified as held-to-maturity and measured at amortized cost, the fair value difference from the date of transition is measured by reflecting the other comprehensive income as it is for the purpose of selling the cash flow or selling the financial asset.

**2) Securities for which the fair value difference represents the share of capital accounted under profit/loss:**

The Group classified its securities, previously classified as available-for-sale financial assets and which represent a capital share amounting to 84.865 TRY, under Fair Value Difference Accounted under Profit/Loss as of the first implementation day of IFRS 9.

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### *2.2* Changes in Accounting Policies and Estimates and Errors (Continued)

#### *2.2.1 Financial assets (continued):*

**g. Explanations on IFRS 9 Financial Instruments Standard (continued):**

**3) Classification of financial instruments based on equity:**

The Group irreversibly classified the strategic investments in financial instruments based on equity under “Fair Value Difference Reflected to Other Comprehensive Income” and not traded at organised markets and classified as available-for-sale. When the said securities are disposed of, the changes in their fair value will not be reclassified under profit or loss.

**4) Reclassification of categories no longer in use without changing the measurement:**

In addition to the above, since the previous categories under TAS 39 following debt securities are no longer in use, they are reclassified in the scope of IFRS 9 without changing basis for measurement.

(i) Those classified as available-for-sale, and those classified as Financial Assets Whose Fair Value Difference is Accounted under Other Comprehensive Income as of 1 January 2018, and

(ii) those classified as held-to-maturity and those classified as measured by amortised cost as of 1 January 2018.

**5) Equity impact of transition to IFRS 9 and IFRS 15:**

The impact of the changes concerning the implementation of IFRS 9 on the summary consolidated financial statements dated 1 January 2018 is as follows:

| | Reported on 31 December 2017 | IFRS 9 Effect | 1 January 2018 Revised |
|---|---|---|---|
| **Consolidated balance sheet** | | | |
| Financial Investments | 61.777.060 | 142.269 | 61.919.329 |
| Receivables from Finance Sector Operations | 211.707.002 | (112.192) | 211.594.810 |
| Deferred Tax Assets | 403.319 | (6.617) | 396.702 |
| Income Tax Liability | 802.451 | 25.795 | 828.246 |

The effects of transition to IFRS 9 and IFRS 15 standards on consolidated equity as of 1 January 2018 are presented below:

| | |
|---|---|
| Subsidiaries IFRS 9 effect | 49.255 |
| Effect of IFRS 9 on joint ventures accounted by equity method | 11.209 |
| Effect of IFRS 15 on joint ventures accounted by equity method | (17.559) |
| **Total consolidated equity effects** | **42.905** |

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### *2.2* Changes in Accounting Policies and Estimates and Errors (Continued)

#### 2.2.2 Information on previous period accounting policies that are not effective during the current period:

As of 1 January 2018, the "IFRS 9 Financial Instruments" standard replaced the "TAS 39 Financial Instruments: Recognition and Measurement" standard. Below are the accounting policies that are invalid after the transition to IFRS 9. The Group classifies and recognises its financial assets as "financial assets whose fair value difference is reflected to profit/loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". The trading transactions of the said financial assets are recorded and removed from the records in accordance with the "delivery date". The classifications of financial assets are decided upon on the date of their acquisition, considering bank management's purpose for the acquisition.

**a. Financial assets whose fair value difference is accounted under profit/loss:**

This category has two subcategories: "Financial assets held for trading" and "financial assets classified as financial assets whose fair value difference is reflected to profit/loss" during the first period. Available-for-sale financial assets are acquired to gain profit from the short-term fluctuations in prices and such, or, independent of the reason for acquisition, are part of a portfolio aimed at gaining short-term profit. Financial assets held for trading are recognised at their fair value and are valued based on their fair value. Gains and losses emerging as a result of a valuation are included in the profit/loss accounts. Interest gained from financial assets held for trading is recorded as interest income, and profit shares gained are recorded as dividend income. Unless derivative financial instruments are defined as hedging instruments, they are classified as financial assets held for trading.

**b. Financial assets available for sale:**

Available-for-sale financial assets include those other than loans and receivables, assets held-to-maturity, financial assets whose the fair value is reflected in profit/loss and financial assets that are not derivative financial assets. Available-for-sale financial assets are recognised by adding transaction costs to acquisition costs reflecting fair value. Available-for-sale financial assets are valued at fair value after they are recorded. Interest income of available-for-sale debt securities calculated using the effective interest method and dividend income of securities representing a share of capital are reflected on the income statement. The "unrealized profit and loss" arising from the amortised cost of available-for-sale financial assets and changes in fair value is not reflected to the period statement until either the price of the financial asset is collected or the asset is sold, disposed of or weakened and tracked under "real estate valuation differences" under equities. When the said securities are collected or disposed of, the cumulative fair value difference reflected to equities is reflected to the income statement.

Securities representing the share in capital classified as available-for-sale financial assets are recognised at fair value if they are traded in organised markets and/or their fair value is determined in a reliable manner. If they are not traded in organised markets and their fair value is not determined in a reliable manner, they are reflected on financial statements at cost after the depreciation provision is deducted.

**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***2.2* Changes in Accounting Policies and Estimates and Errors (Continued)**

***2.2.2 Information on previous period accounting policies that are not effective during the current period (continued):***

**c. Loans and receivables:**

Loans and receivables are non-derivative financial assets that are not classified as financial assets at fair value through profit or loss or available-for-sale financial assets, are unlisted in an active market and whose payments are fixed or can be determined. Loans and receivables are carried initially by adding acquisition cost which reflect fair value to transaction costs and subsequently recognized at the discounted value calculated using the "Effective interest rate method". The expenses incurred for the assets received as collateral are not considered as transaction costs and are recognized in the expense accounts.

**d. Financial assets at amortized cost:**

Financial assets at amortized cost are assets that are held until maturity with custody intentions, with regard to which the conditions required for being held to maturity, including funding capability, are fulfilled; which have fixed terms with fixed and definable payments and are not loans or receivables; for which the fair value difference is reflected in profits/losses during initial recognition; which are not shown as " fair value difference is reflected in other comprehensive income" in records; and are not derivative financial instruments. Financial assets at amortized cost are first recognised by adding transaction costs to acquisition cost reflecting their fair value and then are valued at amortised cost value using the "efficient interest (internal rate of return) method". Interest income related to financial assets at amortized cost is reflected in the income statement. The Group does not own financial assets at amortized cost securities but which cannot be subjected to this classification due to a failure to comply with the classification principles. The Group's securities portfolios, which are ready to be sold and are at amortized cost, have CPI-indexed bonds. The said securities are valued and recognised according to the effective interest method and are based on the index calculated considering real coupon rates, the reference inflation index on the date of issuance and estimated inflation rates. Reference indexes used to calculate the actual coupon payment amounts of the securities are created based on CPIs from two months prior. The Group sets the estimated inflation rate in line with the reference indexes. The estimated inflation rate used is updated during the year when necessary.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 Summary of Significant Accounting Policies

#### 2.3.1 *Cash and cash equivalents*

Cash and cash equivalents are carried at cost on the balance sheet. Cash and cash equivalents comprise short-term, highly liquid investments that are readily convertible into cash, cash on hand, with maturities of three months or less at the date acquired and conversion risk is immatterial (Note 5).

#### *2.3.2 Sale and repurchase agreements*

Securities sold under repurchase agreements ("Repo") are classified in the Group portfolio as "fair value differences that recorded as profit or loss", "available for sale" or "held to maturity" portfolios and valued according to relevant portfolio basis. Acquired Funds in return of repurchase agreements accounted under "Financial Liabilities" and expense accruals are calculated according to the "effective yield (internal rate of return) method" for the difference amout related to current period between the repurchase agreements and the determined sale and repurchase prices.

Securities purchased under agreements to resell ("reverse repo") are recorded as cash and cash equivalents in the balance sheet. For the current period portion of the difference between the purchase and resale prices determined by reverse repurchase agreements, the redisconted interest income is calculated according to the " effective yield method".

#### 2.3.3 *Reserve deposits with the Central Bank of the Republic of Turkey*

In accordance with the "Communiqué Regarding the Reserve Requirements no. 2013/15, the Group is required to maintain reserves in CBRT for TRY and foreign currency liabilities. The required reserve rates for TRY liabilities vary between 1,5% and 8% for TRY deposits and other liabilities according to their maturities as of 31 December 2018 (31 December 2017: 4% and 10,5% for all TRY liabilities). The reserve rates for foreign currency liabilities vary between 4% and 20% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2018 (31 December 2017: 4% and 24% for all foreign currency liabilities).

#### 2.3.4 *Trade receivables and expected credit losses*

Group uses a provision matrix for the calculation of the expected credit losses on trade receivables.
The provision matrix calculates fixed provision rates depending on the number of days that a trade receivable is past due and those provision rates are reviewed and, revised if necessary, in every reporting period. The changes in the expected credit losses on trade receivables are accounted for under "other operating income/expenses" account of the consolidated statement of income.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 Summary of Significant Accounting Policies (Continued)

### 2.3.4 *Trade receivables and expected credit losses (Continued)*

**Impairment**

"Expected credit loss model" defined in TFRS 9, "Financial Instruments" superseded the "incurred credit loss model" in TAS 39 "Financial Instruments: Recognition and Measurement" which was effective prior to 1 January 2018. Expected credit losses are a probability weighted estimate of credit losses over the expected life of the financial instrument. The calculation of expected credit loss is performed based on the past experiences and future expectations of the Group.

Group has preferred to apply "simplified approach" defined in TFRS 9 for the recognition of impairment losses on trade receivables, carried at amortised cost and that do not comprise of any significant finance component (those with maturity less than 12 months). In accordance with the simplified approach, Group measures the loss allowances regarding its trade receivables at an amount equal to "lifetime expected credit losses" except incurred credit losses in which trade receivables are already impaired for a specific reason.

### *2.3.5 Receivables From Finance Sector Operations*

As of 1 January 2018, Group has adopted "three stage approach (general model)" defined in TFRS 9 for the recognition of impairment losses on receivables from finance sector operations, carried at amortised cost or carried at fair value through other comprehensive income. General model considers the changes in the credit quality of the financial instruments after the initial recognition. Three stages defined in the general model are as follows:

"Stage 1", includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ("'ECL'") are recognised and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date and represents the credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

"Stage 2", includes financial instruments that have had a significant increase in credit risk since initial recognition but those do not have objective evidence of impairment. For these assets, lifetime expected credit losses are recognised and interest revenue is calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

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

Group appropriately classifies its financial instruments considering common risk factors (such as the type of the instrument, credit risk rating, guarantees, time to maturity and sector) to determine whether the credit risk on a financial instrument has increased significantly and to account appropriate amount of credit losses in the consolidated financial statements.

The changes in the expected credit losses on receivables from finance sector operations are accounted for under "other operating income/expenses" account of the consolidated statement of income.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 Summary of Significant Accounting Policies (Continued)

#### 2.3.6 *Related parties*

For the purpose of the consolidated financial statements, shareholders, key management personnel and Board members, in each case together with their families and companies controlled by or affiliated with them, are considered and referred to as related parties. Related party activities and balances are disclosed in Note 33.

#### 2.3.7 *Inventories*

Inventories are stated at the lower of cost and net realizable value. Cost of inventories includes all procurement costs, conversion costs and other costs that incurred for bringing the stock in current position and situation. The unit cost of inventories is determined on the moving weighted average basis (Note 10). Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

#### 2.3.8 *Derivative financial instruments*

Derivative financial instruments, including forward foreign exchange contracts and currency and interest rate swap instruments are initially recognised in the balance sheet at cost (including transaction costs) and are subsequently re-measured at their fair value. All derivative financial instruments are classified as financial assets at fair value through profit or loss. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate.

The fair value of over-the-counter forward foreign exchange contracts is determined based on the comparison of the original forward rate with the forward rate calculated in reference to the market interest rates of the related currency for the remaining period of the contract. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Changes in the fair value of derivatives at fair value through profit or loss are included in the income statement.

Certain derivative transactions, while providing effective economic hedges under the risk management position, do not qualify for hedge accounting under the specific rules under TAS 39 and are therefore treated as derivatives at fair value through profit or loss and their fair value gains and losses are reported in the income statement.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 Summary of Significant Accounting Policies (Continued)

#### 2.3.8 *Derivative financial instruments (Continued)*

Gains and losses on interest rate swaps used for hedging purposes are recognised as income or expense on the same basis as the corresponding expense or income on the hedged position. Gains and losses on interest rate swaps are included in the interest income and expense as appropriate.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of hedged asset or liability attributable to the hedged risk is recorded as part of the carrying value of the hedged asset or liability during the effective hedging relationship. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to the income statement over the period to maturity.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged cash flows are recognised in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged cash flows are recognised in the income statement.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 Summary of Significant Accounting Policies (Continued)

#### 2.3.9 *Investment property*

Land and buildings that are held to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business are classified as investment property and carried at cost less accumulated depreciation (except land) under the cost method less impairment charges, if any (Note 13). The cost of a self constructed investment property is its cost at the date when the construction or development is complete. Until that date, the Group applies TAS 16 "Property, Plant and Equipment". At that date, the property becomes investment property and thus is transferred to investment property. Assets held under operating leases are not disclosed as investment property. Fair values of investment properties are not materially different from costs. Depreciation periods are determined by useful lifes and between 20-49 years.

#### 2.3.10 *Property, plant and equipment*

Property, plant and equipment are carried at cost less accumulated depreciation in the consolidated financial statements (Note 14). Depreciation is provided on property, plant and equipment on a straight-line basis. The depreciation periods for property, plant and equipment, which approximate the economic useful lives of such assets, are as follows:

| | Years |
|---|---|
| Land improvements | 4-50 |
| Buildings | 10-50 |
| Machinery and equipment | 3-30 |
| Motor vehicles | 3-7 |
| Furniture and fixtures | 3-15 |
| Other property, plant and equipment | 5-10 |

Gains or losses on disposals of property, plant and equipment are determined with respect to the difference between collections received and carrying amounts of property, plant and equipment and are included in the related income and expense accounts, as appropriate.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset plus the residual value of the related assets. Ordinary repair and maintenance expenses are charged to the income statements during the financial period in which they were incurred. Capital expenditures resulting in a capacity increase and increase in future economic benefits are included in the asset's carrying amount.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 Summary of Significant Accounting Policies (Continued)

#### 2.3.11 *Intangible assets*

Intangible assets consist of licences, computer software, development costs, purchased technology, mining rights, acquired rights of use, and other identifiable rights. Intangible assets are initially accounted at cost and amortised using the straight-line method over an estimated useful life that does not exceed 20 years (Note 15). The amortisation of mining rights commences when the extraction begins.

Customer relations and agreements acquired in business combination are recognised at fair value at the acquisition date. Customer relations and contracts are depreciated on a straight-line basis over their estimated useful lives and carried at cost less accumulated amortization and impairment losses (Note 15).

#### 2.3.12 *Non-current assets held for sale and discontinued operations*

Non-current assets held for sale (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. These assets may be a component of an entity, a disposal group or an individual non-current asset. The sale of assets held for sale is expected to be occur within the following 12 months from the balance sheet date. Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset (or disposal group).

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale.

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount or fair value. If fair value is below the carrying value of asset, the related impairment is accounted for expense in the consolidated statement of profit or loss.

#### 2.3.13 *IFRS Interpretation 12 - Service Concession Arrangements*

IFRS Interpretation 12, provides guidance on the accounting of public-to-private service concession arrangements by operators.

An arrangement within the scope of IFRS Interpretation 12 typically involves a private sector entity (an operator) constructing an infrastructure used to provide a public service or upgrading it, operating and maintaining that infrastructure for a specified period of time.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 Summary of Significant Accounting Policies (Continued)

### 2.3.13 *IFRS Interpretation 12 - Service Concession Arrangements (Continued)*

The fee received/to be received by Enerjisa Elektrik Dağıtım A.Ş., which is a subsidiary of the Group, for its distribution services will be recognised over the fair value of the service. The fee amount is recognised as a financial asset. Group recognises this financial asset in line with the cash paid by the licensee or paid by another party as instructed by the licensee in return for the electricity distribution service. The amount to be paid by the licensee or paid by another party as instructed by the licensee is recognised as a receivable as per IFRS 39 "Financial Instruments".

A financial asset of Enerjisa Elekrik Dağıtım A.Ş., the Group's subsidiary, is recognised in its own statement of financial position under "Financial Assets" at the current market value calculated by discounting estimated future cash inflows to be realized during the project based on the annual investments determined with the transfer of the operational rights contract concluded in advance, using the effective interest rate method. The revenue calculated based on the effective interest rate method is recognised as "interest revenue earned from a service concession agreement".

### 2.3.14 *Shareholders' equity*

In the restatement of shareholders' equity items, the addition of funds formed due to hyperinflation such as the revaluation value increase fund in share capital is not considered as a contribution from shareholders. Additions of legal reserves and retained earnings to share capital are considered as contributions by shareholders. In the restatement of shareholders' equity items added to share capital the capital increase registry dates or the payment dates are considered. In the restatement of premium in excess of par, the payment dates are considered (Note 21).

Treasury shares under equity stands for the Holding shares owned by the subsidiaries. Those shares are accounted through reducing the share capital of the Holding by the amount of Holding shares owned by subsidiaries in the accompanying consolidated financial statements.

Revaluation fund included in the value increase funds is related to the value increase at the date of the transaction of the net assets owned by the Group before the sale transaction. Since the significant part of the amounts included in revaluation funds are related with the assets subject to amortisation, the revaluation funds are accounted for by transferring the related revaluation fund to the retained earnings during the amortisation period or the disposal period of the aforementioned assets.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in "Hedge Funds" under equity. The Group hedges the net investment risk on foreign investments 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 Funds" account under shareholders' equity.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 Summary of Significant Accounting Policies (Continued)

#### 2.3.15 *Research expenses and development costs*

Research costs are expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

#### 2.3.16 *Borrowing costs*

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the income statement as financial expense over the period of the borrowings.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, one that takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale. Borrowing costs that are not in this scope are recognised directly in the income statement.

The financing costs of borrowings attributable to ongoing investments (interest expenses and foreign Exchange loses based on the difference between the TRY benchmark interest and interest regarding the foreign currency denominated loans) are capitalised until the completion of the investments.

#### 2.3.17 *Deferred financing charges*

Deferred financing charges (primarily comprising legal and other costs incurred in relation to obtaining long-term bank borrowings from financial institutions) are amortised using the effective interest method over the remaining life of the long-term bank borrowings.

#### 2.3.18 *Income taxes*

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

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

<u>Current tax</u>

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 Summary of Significant Accounting Policies (Continued)

#### 2.3.18 *Income taxes (Continued)*

<u>Deferred Tax</u>

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

<u>Current and deferred tax for the period</u>

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 Summary of Significant Accounting Policies (Continued)

#### *2.3.19 Employee benefits*

Retirement benefits

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

On 1 November 2005, Banking Law No.5411 ("New Law") which requires the transfer of the pension funds of the banks to the Social Security Institution within three years following the publication date was published in the Official Gazette. However, President of the Turkish Republic applied to the Constitutional Court on 2 November 2005 for the abrogation of the related article of Banking Law, and this article was abrogated with the decision No E. 2005/39, K. 2007/33 dated 22 March 2007, which was published in the Official Gazette No 26731 dated 15 December 2007, and its execution was annulled at the publication date of the decision.

Following the publication of the reasoned ruling of the Constitutional Court in December 2007, the relevant commission of the Turkish Parliament began to work on a new law provision establishing the transfer of the pension funds. The law provision was drawn up as a draft in the first months of 2008 and the legislation processes are in progress as of the preparation date of these consolidated financial statements and at 17 April 2008, at No. 5754 of the Social Security Act ( " New Law" ) circuit that regulates the principles and provisions of the Parliamentary General Assembly agreed and 8 May 2008 and published in the Official Gazette No. 26870th be entered into force. Following the publication of the reasoned decree of the Constitutional Court, Turkish Grand National Assembly commenced to work on a new law regarding the transfer of the members of funds to the Social Security Institution; the related articles of the Social Security Law ("New Law") numbered 5754 regarding the transfer of the funds, were ratified by the TGNA General Meeting on 17 April 2008 and came into effect following the publication in the Official Gazette numbered 26870, dated 8 May 2008.

The New Law was requiring that present value of post-employment benefits at the transfer date shall be calculated by a commission consisting of the representatives of SSI, Ministry of Finance, Undersecretariat of Treasury, Undersecretariat of State Planning Organization, BRSA, SDIF and banks and funds, by using a technical discount rate of 9,8 percent taking into consideration the transferrable contributions and payments of the funds including any monthly payment differences paid by the funds above the limits within the framework of SSI regulations. Accordingly the transfer required by the New Law was to be completed until 8 May 2011. According to the decision of the Council of Ministers published on the Official Gazette dated 9 April 2011 no. 27900, the time frame for related transfer has been extended for two years. The transfer should be completed until 8 May 2014. With the change in first clause of 20nd provisional article of the "Social Insurance and General Health Insurance Law no. 5510" published on the Official Gazette no. 28227 dated 8 March 2012, the postponement right of the Council of Ministers has been extended from two years to four years.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 *Summary of Significant Accounting Policies (Continued)*

#### *2.3.19 Employee benefits (Continued)*

Retirement benefits (Continued)

The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 and numbered 29335. According to paragraph (I) of Article 203 of Law no. 703 which published İn the Official Gazette no. 30473 dated 9 July 2018, the phrase, placed in 20th provisional article of Social Insurance and General Health Insurance Law no.5510, "Council of Ministers" is authorized to determine the date of transfer to the Social Security Institution has been replaced with "president".

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

With respect to that, according to the technical balance sheet report as at 31 December 2018 prepared considering the related articles of the New Law regarding the transferrable benefit obligations and in accordance with TAS 19 for the non-transferrable social benefits and payments which are included in the articles of association and audited within the framework stated in the first paragraph above. The fund has no technical or actual deficit which requires a provision. Since the Bank has no legal right to hold the present value of any economic benefits available in the form of refunds from Pension Fund or reductions in future contributions to Pension Fund, no asset is recognized in the Bank's financial statements.

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

The Group's obligation in respect of the post-employment benefits transferrable to SSI, has been determined as the value of the payment that would need to be made to SSI to settle the obligation at the balance sheet date in accordance with the related article of the New Law and other related laws and regulations; and the Group's obligation related to other non-transferrable benefits has been calculated in accordance with TAS 19 by a registered actuary. Therefore, the actuarial parameters and results reflect the provisions of the New Law for the post-employment pension and medical benefits transferrable to SSI (e.g. a technical interest rate of 9,80%), except for the non-transferrable other benefits. Accordingly,the surplus of the Fund amounts to TRY6.195 as of 31 December 2018 (31 December 2017: TRY207.041).

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 *Summary of Significant Accounting Policies (Continued)*

#### 2.3.19 *Employee benefits (Continued)*

Retirement benefits (Continued)

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Current value of funded liabilities | (5.784.979) | (4.979.328) |
| Net present value of future contributions | 4.163.438 | 3.817.272 |
| **Total Transfer Liability to Social Security Institution** | **(1.621.541)** | **(1.162.056)** |
| Past service obligation | (167.755) | (182.305) |
| **Transfer to the Social Security Institution and Additional Liabilities** | **(1.789.296)** | **(1.344.361)** |
| Market value of assets | 1.795.491 | 1.551.402 |
| **Fund surplus after assets** | **6.195** | **207.041** |

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

The principal actuarial assumptions used were as follows:

| **Discount rate** | 31 December 2018 | 31 December 2017 |
|---|---|---|
| - Pension benefits transferrable to SSI | 9,80% | 9,80% |
| - Post-employment medical benefits transferrable to SSI | 9,80% | 9,80% |
| - Other non-transferrable benefits | 5,73% | 4,21% |

The average life expectancy of a person who retired at age 60 for men and 58 years for women was determined according to the mortality table based on statistical data and was 17 years for men and 23 years for women.

The movement table of the fair value of the assets is as follows:

| **Death rate** | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **End of previous period** | **1.551.402** | **1.394.112** |
| Real return of fund assets | 338.869 | 238.028 |
| Employer contributions | 232.880 | 204.575 |
| Employee contributions | 199.473 | 174.371 |
| Paid compensations | (527.133) | (459.684) |
| **End of period** | **1.795.491** | **1.551.402** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 *Summary of Significant Accounting Policies (Continued)*

#### *2.3.19 Employee benefits (continued)*

Retirement benefits (Continued)

The distribution of fund assets is as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| Bank placements | 1.160.797 | 65% | 977.331 | 63% |
| Tangible assets | 17.975 | 1% | 18.242 | 1% |
| Securities and shares | 358.510 | 20% | 397.520 | 26% |
| Other | 258.209 | 14% | 158.309 | 10% |
| **End of period** | **1.795.491** | **100%** | **1.551.402** | **100%** |

Provision for Employment Termination Benefit

The provision for employment termination benefits represents the present value of the estimated total reserve of the future probable obligation of the Group arising from the retirement of the employees, completion of one year of service of the employees, employees' being calling up for military service or death of the employees calculated in accordance with the Turkish Labour Law (Note 19). All actuarial gains and losses are accounted for under equity.

#### 2.3.20 *Provisions, contingent liabilities and assets*

Provisions are recognised 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 a reliable estimate of the amount can be made.

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 financial tables and are treated as contingent assets or liabilities.

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised. A contingent asset is disclosed where an inflow of economic benefit is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

Present obligations arising under onerous contracts are recognized and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 *Summary of Significant Accounting Policies (Continued)*

### 2.3.21 *Investment incentives*

The Group benefits from research and development ("R&D") grants within the scope of the Communiqué No: 98/10 of The Scientific and Technological Research Council of Turkey ("TÜBİTAK") and Money Credit and Coordination Board related to R&D grants for its research and development projects given that such projects satisfy specific criteria with respect to the evaluation of TÜBİTAK Technology Monitoring and Evaluation Board.

The government grants are recognised when there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

The government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Accordingly, government grants are recognised as income when the related costs which they are intended to compensate were incurred. Similarly, grants related to depreciable assets are recognised as income over the periods and in the proportions in which depreciation on those assets is charged.

### 2.3.22 *Insurance technical reserves*

<u>Unearned premiums reserve</u>

Unearned premium reserve is calculated on a daily basis for all policies in force as of balance sheet date for unearned portions of premiums written except for marine and earthquake premiums issued before 14 June 2007. During the calculation of unearned portion of premiums written on a daily basis, it is supposed that the policies start at 12,00 noon and finish at 12,00 noon again. Within the framework of the "Regulation Regarding the Technical Reserves of Insurance, Reinsurance and Pension Companies and the Assets to which These Reserves Are Invested," ("Regulation on Technical Reserves") issued in Official Gazette No: 26606 dated 7 August 2007, unearned premium reserve and the reinsurer's share of the unearned premium reserve of the policies, are calculated as the unearned portion of the premuiums and ceded premiums to reinsurers without deducting commissions or any other deductions, on an accrual and gross basis. For marine policies with an uncertain end date, unearned premium reserve is calculated as 50% of the premiums written in the last three months.

<u>Continued risk provisions</u>

Within the framework of Regulation on Technical Reserves, insurance companies are requires to account for an unexpired risk reserve against the probability thati future lossed incurred from in force policies may exceed the unearned premium reserve accounted for the related policies considering expected loss ratios. Expected loss ratio is calculated by dividing the current year incurred lossed to current year earned premiums. If the loss ratio for a branch is higher than 95% the unexpired risk reserve for that branch is calculated by multiplying the ratio in excess of 95% with the unearned premim reserve for the related branch. The difference between gross amount and net amount is considered as reinsurance portion. Opening outstanding claims provision amount is revised consistently with the current period, in calculation of expected loss ratio considered in the calculation of unexpired risk reserve as of 31 December 2018.

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 *Summary of Significant Accounting Policies (Continued)*

#### 2.3.22 *Insurance technical reserves (Continued)*

Outstanding claim and provision

Group insurance companies allocate outstanding claims reserve for accrued and unsettled but not yet reported unearned but unreported amounts in the previous accounting period or in the current accounting period. Compensations that have been filed before the accounting period but have been notified after these dates are regarded as realized but not reported compensation claims.

According to "Regulation Regarding the Amendment of the Regulation on the Technical Reserves of Insurance and Reinsurance Companies and Pension Funds and the Assets to be Invested in These Provisions" published in the Official Gazette dated July 28, 2010 and numbered 27655 and the "Circular on Outstanding Claims" dated 5 December 2014 and numbered 2014/16, the Company's Unfunded Claims Provisions were calculated using actuarial chain ladder methods.

Life mathematical reserves

Life mathematical reserves comprise actuarial mathematical reserves (those with minimum income guarantee determined by the tariffs approved by the Treasury and those including risk guarantees over one year) and life profit share reserved and represent the Company's total liability to the policyholders in the life branch.

Mathematical reserve; is the sum of reserves specified in the contract's technical terms and calculated using statical and actuarial methods in order to cover the liabilities of insurane companies to policyholders and beneficiaries for life, health, sickness and personal accident insurance contracts with periods longer than a year and if it is committed, the reserves for the part allocated to insured from the revenues derived from the investment of such reserves. In accordance with the Insurance Law, the remaining amount of life branch premiums that are collected in accordance with life insurance agreements, after deduction of expense charges, mortality risk premium and commissions are accounted for as life mathematical reserves. The apptroval of mathematical reserves is made by the actuaries based on current mortaliy tables valid for Turkish insurance companies and prepared by considering mortality statics prepared abroad.

#### 2.3.23 *Revenue recognition*

Banking

Interest income and expense are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective yield method based on the actual purchase price until, in management's estimates and judgment, collection becomes doubtful. Interest income includes coupons earned on fixed income securities and accrued discount on treasury bills (Note 4.f.i).

Interest income and expenses are recognized in the income statement by using the "Effective interest rate method".

## NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2.3 *Summary of Significant Accounting Policies (Continued)*

### 2.3.23 *Revenue recognition*

Fees and commission income/expenses are primarily recognized on an accrual basis or "Effective interest rate method" 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.

Insurance

Life:

Premium income represents premiums accrued on policies issued during the period, adjusted by the reserve for unearned premiums for annual life policies, during the period (Note 4 f.ii).

Non-Life:

Premium income represents premiums on policies written during the period, net of cancellations, as adjusted by the reserve for unearned premiums.

Other segments

Revenues are recognised on an accrual basis at the time deliveries or acceptances are made, the amount of the revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group, at the fair value of the consideration received or receivable. Net sales represent the invoiced value of goods shipped less sales returns and commission and excluding sales taxes. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised as interest income on a time proportion basis that takes into account the effective yield on the asset.

### 2.3.24 *Earnings per share*

Earnings per share for each class of share disclosed in these consolidated statements of income are determined by dividing the net income after translation adjustment attributable to that class of shares by the weighted average number of shares of that class that have been outstanding during the period concerned. As disclosed in Note 32 earnings per share are calculated in accordance with IAS 33 "Earnings Per Share".

Income as per share stated in the income statement is calculated by dividing the net profit by the weighted average of the equity securities available in the market during the whole year.

Companies in Turkey can increase their capitals that they distributed to their shareholders from the profits of previous year by "free of charge equity securities". Such "free of charge share" distributions are considered as issued share incalculation of profit as per share. Accordingly, number of weighted average shares used in these calculations is calculated considering the retrospective impacts of related equity securities.

**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2.3 *Summary of Significant Accounting Policies (Continued)***

**2.3.25 *Foreign currency transactions (Continued)***

Functional Currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity. The consolidated financial statements are presented in Turkish lira, which is the functional currency of the Holding.

Foreign currency transactions and balances

Income and expenses arising in foreign currencies have been translated at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into Turkish lira at the exchange rates prevailing at the balance sheet dates. Exchange gains or losses arising from the settlement and translation of foreign currency items have been included in the consolidated income statement.

Foreign Group companies

The results of Group undertakings using a measurement currency other than Turkish lira are first translated into Turkish lira by using the average exchange rate for the period. The assets and liabilities of such Group undertakings are translated into Turkish lira by using the closing rate at the balance sheet date. Differences arising on retranslation of the opening net assets of such Group undertakings and differences between the average and year-end rates are included in translation reserve as a separate item in the shareholders' equity.

**2.3.26 *Business combinations***

The acquisition of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with TAS 12 Income *Taxes* and TAS 19 Employee Benefits respectively;

- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2.3 *Summary of Significant Accounting Policies (Continued)***

**2.3.26 *Business combinations (Continued)***

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquire, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or TAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is premeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

**NOTE 2 - BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

### 2.3 *Summary of Significant Accounting Policies (Continued)*

### 2.3.26 *Business combinations (Continued)*

Partial share purchase-sale transactions with non-controling interests

The group applies a policy of treating transactions with non- controling interests as transactions with equity owners of the group. For purchases from non- controling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to non- controling interests are also recorded in equity. For disposals to non- controling interests, differences between any proceeds received and the relevant share of non- controling interests are recorded in equity under retained earnings since.

### 2.3.27 *Segment reporting*

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

A reportable segment is a business segment or a geographical segment identified based on the foregoing definitions for which segment information is required to be disclosed. A business segment or geographical segment should be identified as a reportable segment if a majority of its revenue is earned from sales to external customers and its revenue from sales to external customers and from transactions with other segments is 10% or more of the total revenue, external and internal, of all segments; or its segment result, whether profit or loss, is 10% or more of the combined result of all segments in profit or the combined result of all segments in loss, whichever is the greater in absolute amount; or its assets are 10% or more of the total assets of all segments.

The Group has selected business segments as the Group's primary segment reporting format based on the risks and returns on products produced and services rendered reflecting the primary source of the enterprise's risks and returns. Geographical segments have not been disclosed in these consolidated financial statements as the secondary segment reporting format on the grounds of materiality as the operations of the Group in geographical areas other than Turkey are not reportable geographical segments individually when compared with the overall consolidated financial statements.

Operating segments are reported in a manner consistent with the reporting provided to the chief operating decision- maker. The chief operating decision-maker is responsible for the decisions related to the allocation of resources to the segments and assessment of performance of segments.

**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)**

## 2.3 *Summary of Significant Accounting Policies (Continued)*

### 2.3.28 *Leasing transactions*

***a) The Group as a lessee***

*Finance leases*

Leases of property, plant and equipment where the Group substantially assumes all the risks and rewards of ownership are classified as finance leases. Finance leases are included in the property, plant and equipment at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset. An impairment loss is recognised when a decrease in the carrying amount of the leased property is identified. Interest expenses and foreign exchange losses related to the finance lease liabilities are accounted in the consolidated statement of income. Lease payments are deducted from finance lease liabilities.

*Operating leases*

Leases where a significant portion of the risks and rewards of ownership are retained by the lesser are classified as operating leases. Payments (after deducting the incentives received from the lesser) made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease.

***b) The Group as a lessor***

*Operating leases*

Assets leased out under operating leases are included in investment property, property, plant and equipment or other current assets in the balance sheet and  rental income is recognised equally on a monthly basis. Rental income is recognised on a straight-line basis over the lease term.

**NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)**

## 2.4 *Critical accounting estimates and assumptions*

The preparation of consolidated financial statements in conformity with CMB Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates. Estimates are regularly reviewed, related corrections are adjusted and accounted for related period income statement. Changes in accounting estimates, if only for a period in which the change in the current period, if it relates to future periods, both in the period they are recognized in future periods, prospectively applied to the financials to see the effect on net profit/loss for the period.

### a) Goodwill

Goodwill arising from the acquisition of an associate is the portion of the consideration paid that exceeds the fair value of the net identifiable assets, liabilities and contingent liabilities in the acquiree and the non-controlling interest in the acquiree.

Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination of goodwill. Each unit or unit group in which the honorifics are distributed is the smallest asset group of the business in which the honor is monitored for internal business purposes. Goodwill impairment is made more frequently once a year, or when the event or condition changes indicate a possibility of impairment. The book value of the goodwill is compared with the recoverable amount which is the greater of the fair value of the deducted value and the extinguishing costs. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of profit or loss and an impairment loss recognized for goodwill is not reversed in subsequent periods.

The Group recognised various goodwill balances arising from purchases made by the Group or its subsidiaries in different industries. Impairment tests for cash generating units are determined based on the recoverable value in use. Value in use is calculated by discounting the cash inflows expected to be realized with the permanent use of the unit. Goodwill impairment tests are made using projections for certain years.

### b) The Fund

The Retirement Fund Foundation ("Fund") of the bank was established as per provisional article 20 of Law No. 506, and it is within the scope of funds to be transferred to SSI. The Council of Ministers is authorized to determine the date of transfer. Total liabilities of the fund, benefits to be transferred and additional benefits to remain the responsibility of the Fund are determined using separate methods and assumptions. Selecting appropriate assumptions for the valuation of retirement fund liabilities requires judgement and a high level of technical expertise. Bank management benefits from the services of an external actuary company for these valuations.

## NOTE 2 - BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

### 2.4 *Critical accounting estimates and assumptions (continued)*

### c) Deferred Tax

The Group recognizes deferred tax assets and liabilities based upon temporary differences arising between its financial statements as reported for TAS purposes and its statutory tax financial statements Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. If based on the weight of all available evidence, it is the Group's belief that taxable profit will not be available sufficient to utilize some portion of these deferred tax assets, then some portion of or all of the deferred tax assets are not recognized.

### d) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques based on market-observable data, market comparable approach that reflects recent transaction prices for similar properties and discounted cash flows.

## NOTE 3 - BUSINESS COMBINATIONS

**The business combinations between the period 1 January and 31 December 2018 are as follows:**

Kordsa Inc., which is 100% subsidiary of Kordsa, a subsidiary of the Group, and resident in the USA, completed the acquisition of two different unlimited companies that named as "Fabric Development, Inc." and "Textile Products, Inc.", which provide advanced composite materials to commercial aviation industry and fully owned by Piyush A.Shah and Abantika P.Shah as of 13 July 2018. The total purchase price of FDI shares, amounting to USD 40.587.000 (full amount), was paid in cash, and the total purchase price of TPI shares, amounting to USD 49.271.000 (full amount) was paid in cash. In parallel with the acquisition, the capital of Kordsa Inc. has increased amounting to USD 65 million by Kordsa.

On 1 October 2018, Kordsa Inc., which is 100% subsidiary of Kordsa, a subsidiary of the Group, and resident in the USA, completed the acquisition of a company named "Advanced Honeycomb Technologies Corporation" which provides advanced composite materials to the commercial aviation industry and owned by Richard Greven, Monnie Greven, Walsh Family Trust of 1981 ve Richard A. Greven, Jr. for total USD 3.180.872 (full amount).

In accordance with the IFRS 3, Business Combinations, measurement of the fair value of identifiable assets and liabilities required for recognition by using the acquisition method, and allocation of the purchase price to tangible and intangible fixed assets ("Purchase price allocation") are performed by an independent valuation organization, Houlihan Lokey Financial Advisors, Inc. and valuation studies are ongoing as of the report date. In this context, the fair value of the identifiable assets, liabilities and contingent liabilities of the related companies have been adjusted in accordance with IFRS and therefore the estimated amounts are reflected in the financial statements.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 3 - BUSINESS COMBINATIONS (Continued)

### The business combinations between the period 1 January and 31 December 2018 are as follows: (Continued)

Purchase price, assets and liabilities recorded at acquisition date:

| **Identifiable assets and liabilities purchased (Full TRY)** | **FDI Fair Value** | **TPI Fair Value** | **AHT Fair Value** | **Total Fair Value** |
|---|---|---|---|---|
| Cash and cash equivalent | 6.373.688 | 7.402.016 | - | 13.775.704 |
| Trade receivables | 16.870.387 | 31.771.430 | 1.299.873 | 49.941.690 |
| Inventories | 28.972.634 | 34.584.778 | 1.809.040 | 65.366.452 |
| Prepaid expenses | 383.197 | 407.450 | - | 790.647 |
| Other current assets | 1.949.941 | - | 706.844 | 2.656.785 |
| Property, plant and equipments | 6.781.139 | 6.553.161 | 1.042.295 | 14.376.595 |
| Other long-term assets | 48.506 | 48.506 | 101.833 | 198.845 |
| Trade payables | (3.739.813) | (23.952.263) | - | (27.692.076) |
| Deferred income | - | (1.532.790) | - | (1.532.790) |
| Other current liabilities | (2.711.590) | (904.889) | (1.587.403) | (5.203.882) |
| Other intangibles assets | 94.101.640 | 122.235.120 | 7.787.260 | 224.124.020 |
| **Total identifiable net assets** | **149.029.729** | **176.612.519** | **11.159.742** | **336.801.990** |

Cost of acquisition (full amount TRY 488.238.894) is fully paid. As a result of the acquisition transaction, the amount of TRY 115.525.559 (full amount) of the fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recorded as goodwill in the balance sheet. The position of the companies in the market as the strongest companies offering high quality composite production and the fact that Kordsa will add value to the growth targets in the composite sector is the basis of goodwill.

Goodwill movement relating this combination as of 31 December 2018 is as follows;

| **(Full amount TRY)** | **31 December 2018** |
|---|---|
| Acquisition during the year | 336.462.914 |
| *FDI* | *140.851.275* |
| *TPI* | *183.250.699* |
| *AHT* | *12.360.940* |
| Transfers to tangible and intangible assets | (220.937.355) |
| *FDI* | *(93.380.930)* |
| *TPI* | *(121.298.940)* |
| *AHT* | *(6.257.485)* |
| **Goodwill (Note 16)** | **115.525.559** |

### The business combinations between the period 1 January and 31 December 2017 are as follows:

None.

## NOTE 4 - SEGMENT REPORTING

Holding key management reviews the results and performance of its reportable operating segments based on EBITDA (earnings before interest, tax, foreign currency gains and losses and due date income and expenses as part of other operating income and expenses and depreciation and amortization). In addition to the requirements of segment reporting, The Group's management presented this information for certain financial statement readers to utilize this data during their analyses.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 4 - SEGMENT REPORTING (Continued)

### a) External Revenues (Consolidated):

| | 1 January - 31 December 2018 | 1 January - 31 December 2017 |
|---|---|---|
| Banking | 38.027.550 | 27.296.414 |
| Industry | 5.768.365 | 4.317.140 |
| Retail | 8.665.651 | 7.926.799 |
| Cement | 1.703.150 | 1.490.574 |
| Other | 123.171 | 105.338 |
| **Total (*)** | **54.287.887** | **41.136.265** |

(*) The distribution of income refers to total revenue in the consolidated income statement.

### b) Segment Assets (Consolidated):

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Banking | 352.550.041 | 337.538.775 |
| Industry | 6.859.211 | 4.816.631 |
| Retail | 3.526.148 | 4.083.814 |
| Cement | 3.269.258 | 3.042.382 |
| Other | 3.694.905 | 2.600.516 |
| **Segment assets** | **369.899.563** | **352.082.118** |
| | | |
| Assets classified as held for sale | 14.220 | 21.181 |
| Investments accounted through equity method (Note 12) | 6.756.459 | 6.439.214 |
| Unallocated assets | (623.106) | (955.871) |
| Less: intersegment eliminations | (4.360.865) | (3.451.891) |
| **Total assets as per consolidated financial statements** | **371.686.271** | **354.134.751** |

### c) Segment Liabilities (Consolidated):

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Banking | 310.344.568 | 297.938.890 |
| Industry | 4.117.957 | 2.562.011 |
| Retail | 3.514.724 | 3.996.900 |
| Cement | 2.051.464 | 1.834.398 |
| Other | 213.635 | 195.468 |
| **Segment liabilities** | **320.242.348** | **306.527.667** |
| | | |
| Assets classified as held for sale | 4.274 | 5.262 |
| Unallocated Liabilities | (597.547) | (946.791) |
| Less: intersegment eliminations | (4.358.600) | (3.449.326) |
| **Total liabilities as per consolidated financial statements** | **315.290.475** | **302.136.812** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 4 - SEGMENT REPORTING (Continued)

### d) The balance sheet items by segment:

#### i) Banking:

| | Combined (*) 31 December 2018 | Consolidated (**) 31 December 2018 | Combined (*) 31 December 2017 | Consolidated (**) 31 December 2017 |
|---|---|---|---|---|
| Cash and cash equivalents | 23.184.134 | 23.184.134 | 13.881.582 | 13.881.582 |
| Financial investments | 56.787.861 | 56.787.861 | 61.764.823 | 61.764.823 |
| Derivative financial instruments | 22.605.903 | 22.605.903 | 9.452.332 | 9.452.332 |
| Reserve deposits with the Central Bank of Republic of Turkey | 26.433.745 | 26.433.745 | 33.055.479 | 33.055.479 |
| Receivables from finance sector operations | 213.936.745 | 213.936.745 | 212.706.935 | 212.706.935 |
| Property, plant and equipment | 1.521.567 | 1.521.567 | 973.573 | 973.573 |
| Intangible assets | 646.192 | 646.192 | 478.542 | 478.542 |
| Other receivables and other assets | 7.433.894 | 7.433.894 | 5.225.509 | 5.225.509 |
| **Total segment assets** | **352.550.041** | **352.550.041** | **337.538.775** | **337.538.775** |
| | | | | |
| Financial liabilities | 61.571.596 | 61.571.596 | 51.890.944 | 51.890.944 |
| Payables from finance sector operations | 223.310.872 | 223.310.872 | 230.770.592 | 230.770.592 |
| Derivative financial instruments | 12.825.003 | 12.825.003 | 5.498.740 | 5.498.740 |
| Other payables and other liabilities | 12.637.097 | 12.637.097 | 9.778.614 | 9.778.614 |
| **Total segment liabilities** | **310.344.568** | **310.344.568** | **297.938.890** | **297.938.890** |

(*) Combined data reflects the total amounts of the Companies, which belong to the related segment.
(**) Consolidated data reflects the total amounts after intra-segment eliminations of the subsidiaries and the joint ventures which belong to the related segment considering the Holding's portion of ownership before intersegment eliminations.

As of 31 December 2018, the cash flows from financing activities of the Bank is TRY (1.623.409) (31 December 2017: TRY 2.204.931).
As of 31 December 2018, the cash flows from investing activities of the Bank is TRY 3.805.272 (31 December 2017: TRY (7.319.775)).
As of 31 December 2018, the cash flows from investing activities of the Bank is TRY (1.483.420) (31 December 2017: TRY 4.299.418).

Accumulated non-controlling interests of Akbank as of 31 December 2018 is TRY 25.006.743 (31 December 2017: TRY 23.462.932).

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

**NOTE 4 - SEGMENT REPORTING (Continued)**

**d) The balance sheet items by segment (continued):**

**ii) Insurance:**

| | Combined (*) 31 December 2018 | Consolidated (**) 31 December 2018 | Combined (*) 31 December 2017 | Consolidated (**) 31 December 2017 |
|---|---|---|---|---|
| Cash and cash equivalents | 1.687.939 | - | 1.941.785 | - |
| Financial investments | 2.318.944 | - | 1.068.201 | - |
| Receivables from finance sector operations | 820.924 | - | 711.505 | - |
| Investments accounted through equity method (Note 12) | - | 490.529 | - | 435.071 |
| Property, plant and equipment | 54.008 | - | 45.619 | - |
| Intangible assets | 105.201 | - | 79.147 | - |
| Other receivables and other assets | 2.741.080 | - | 2.074.898 | - |
| **Total segment assets** | **7.728.096** | **490.529** | **5.921.155** | **435.071** |
| Payables from finance sector operations | 6.000.266 | - | 4.473.101 | - |
| Other payables and other liabilities | 460.419 | - | 326.724 | - |
| **Total segment liabilities** | **6.460.685** | **-** | **4.799.825** | **-** |

(*) Combined data reflects the total amounts of the Companies, which belong to the related segment.

(**) Consolidated data reflects the total amounts after intra-segment eliminations of the subsidiaries and the joint ventures which belong to the related segment considering the Holding's portion of ownership before intersegment eliminations.

Insurance segment consists of Aksigorta and Avivasa.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

**NOTE 4 - SEGMENT REPORTING (Continued)**

**e) The balance sheet items by segment (continued):**

**iii) Energy:**

| | **Combined (*) 31 December 2018** | **Consolidated (**) 31 December 2018** | **Combined (*) 31 December 2017** | **Consolidated (**) 31 December 2017** |
|---|---|---|---|---|
| Cash and cash equivalents | 1.650.093 | - | 208.188 | - |
| Financial investments | 836 | - | 836 | - |
| Trade receivables | 4.197.534 | - | 2.685.139 | - |
| Inventories | 297.056 | - | 217.618 | - |
| Investments accounted through equity method (Note 12) | - | 5.116.565 | - | 4.960.285 |
| Property, plant and equipment | 10.199.559 | - | 10.116.942 | - |
| Intangible assets | 5.483.176 | - | 5.715.215 | - |
| Other receivables and other assets | 14.920.870 | - | 13.748.493 | - |
| **Total segment assets** | **36.749.124** | **5.116.565** | **32.692.431** | **4.960.285** |
| Financial liabilities | 16.930.099 | - | 14.820.651 | - |
| Trade payables | 2.822.560 | - | 1.859.818 | - |
| Other payables and other liabilities | 5.503.553 | - | 6.091.391 | - |
| **Total segment liabilities** | **25.256.212** | **-** | **22.771.860** | **-** |

(*) Combined data reflects the total amounts of the Companies, which belong to the related segment.
(**) Consolidated data reflects the total amounts after intra-segment eliminations of the subsidiaries and the joint ventures which belong to the related segment considering the Holding's portion of ownership before intersegment eliminations.

Energy segment consists of Enerjisa Enerji A.Ş. and Enerjisa Üretim Santralleri A.Ş.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

**NOTE 4 - SEGMENT REPORTING (continued)**

**d) The balance sheet items by segment (continued):**

**iv) Industry:**

| | Combined (*) 31 December 2018 | Consolidated (**) 31 December 2018 | Combined (*) 31 December 2017 | Consolidated (**) 31 December 2017 |
|---|---|---|---|---|
| Cash and cash equivalents | 510.289 | 226.141 | 227.760 | 33.244 |
| Financial investments | 107 | 107 | 141 | 141 |
| Trade receivables | 2.326.415 | 1.567.588 | 2.185.680 | 1.354.018 |
| Inventories | 2.189.688 | 1.618.064 | 1.536.591 | 1.143.366 |
| Investments accounted through equity method | 342.609 | 744.416 | 367.944 | 666.147 |
| Property, plant and equipment | 3.911.684 | 2.139.571 | 3.305.540 | 1.593.964 |
| Intangible assets | 557.990 | 491.972 | 268.799 | 207.776 |
| Other receivables and other assets | 2.199.518 | 829.988 | 872.574 | 505.304 |
| **Total segment assets** | **12.038.300** | **7.617.847** | **8.765.029** | **5.503.960** |
| | | | | |
| Financial liabilities | 5.145.695 | 2.483.597 | 3.420.139 | 1.390.144 |
| Trade payables | 1.613.319 | 847.072 | 1.211.520 | 624.032 |
| Other payables and other liabilities | 1.245.916 | 791.562 | 792.793 | 553.097 |
| **Total segment liabilities** | **8.004.930** | **4.122.231** | **5.424.452** | **2.567.273** |

(*) Combined data reflects the total amounts of the Companies, which belong to the related segment.
(**) Consolidated data reflects the total amounts after intra-segment eliminations of the subsidiaries and the joint ventures which belong to the related segment considering the Holding's portion of ownership before intersegment eliminations.

Industry segment consists of Kordsa, Temsa, Yünsa, Brisa, Philsa and Philip Morrissa.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

**NOTE 4 - SEGMENT REPORTING (Continued)**

**d) The balance sheet items by segment (continued):**

**v) Retail:**

| | Combined (*) 31 December 2018 | Consolidated (**) 31 December 2018 | Combined (*) 31 December 2017 | Consolidated (**) 31 December 2017 |
|---|---|---|---|---|
| Cash and cash equivalents | 514.619 | 514.619 | 584.336 | 584.336 |
| Trade receivables | 121.818 | 120.403 | 118.254 | 117.720 |
| Inventories | 1.131.851 | 1.131.851 | 1.020.866 | 1.020.866 |
| Investment property | 8.930 | 8.930 | 186.962 | 186.962 |
| Property, plant and equipment | 722.996 | 722.996 | 904.493 | 904.493 |
| Intangible assets | 89.576 | 89.576 | 99.139 | 99.139 |
| Other receivables and other assets | 875.522 | 937.773 | 1.108.927 | 1.170.298 |
| **Total segment assets** | **3.465.312** | **3.526.148** | **4.022.977** | **4.083.814** |
| | | | | |
| Financial liabilities | 875.502 | 875.502 | 1.599.951 | 1.599.951 |
| Trade payables | 2.194.155 | 2.194.155 | 1.939.207 | 1.938.672 |
| Other payables and other liabilities | 445.067 | 445.067 | 457.738 | 458.277 |
| **Total segment liabilities** | **3.514.724** | **3.514.724** | **3.996.896** | **3.996.900** |

(*) Combined data reflects the total amounts of the Companies, which belong to the related segment.
(**) Consolidated data reflects the total amounts after intra-segment eliminations of the subsidiaries and the joint ventures which belong to the related segment considering the Holding's portion of ownership before intersegment eliminations.

Retail segment consists of Teknosa and Carrefoursa.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

**NOTE 4 - SEGMENT REPORTING (Continued)**

**d) The balance sheet items by segment (continued):**

**vi) Cement:**

| | Combined (*) 31 December 2018 | Consolidated (**) 31 December 2018 | Combined (*) 31 December 2017 | Consolidated (**) 31 December 2017 |
|---|---|---|---|---|
| Cash and cash equivalents | 492.848 | 217.427 | 255.014 | 217.946 |
| Financial investments | 184.662 | 64 | 162.783 | 64 |
| Trade receivables | 864.981 | 421.740 | 999.154 | 513.467 |
| Inventories | 435.195 | 190.255 | 297.729 | 146.775 |
| Investments accounted through equity method | - | 404.949 | - | 377.711 |
| Property, plant and equipment | 2.867.206 | 2.027.479 | 2.682.867 | 1.855.212 |
| Intangible assets | 63.521 | 18.210 | 59.260 | 16.841 |
| Other receivables and other assets | 583.567 | 394.084 | 483.487 | 292.077 |
| **Total segment assets** | **5.491.980** | **3.674.208** | **4.940.294** | **3.420.093** |
| | | | | |
| Financial liabilities | 2.045.633 | 1.480.472 | 1.762.257 | 1.376.837 |
| Trade payables | 635.486 | 296.068 | 578.203 | 290.768 |
| Other payables and other liabilities | 441.045 | 274.924 | 308.403 | 166.793 |
| **Total segment liabilities** | **3.122.164** | **2.051.464** | **2.648.863** | **1.834.398** |

(*) Combined data reflects the total amounts of the Companies, which belong to the related segment.
(**) Consolidated data reflects the total amounts after intra-segment eliminations of the subsidiaries and the joint ventures which belong to the related segment considering the Holding's portion of ownership before intersegment eliminations.

Cement segment consists of Akçansa and Çimsa.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

**NOTE 4 - SEGMENT REPORTING (Continued)**

**d) The balance sheet items by segment (continued):**

**vii) Other:**

| | **Combined (*) 31 December 2018** | **Consolidated (**) 31 December 2018** | **Combined (*) 31 December 2017** | **Consolidated (**) 31 December 2017** |
|---|---|---|---|---|
| Cash and cash equivalents | 3.191.791 | 3.191.791 | 2.216.076 | 2.216.076 |
| Financial investments | 11.939.453 | 14.207 | 11.788.296 | 12.032 |
| Trade receivables | 47.530 | 45.747 | 46.315 | 46.098 |
| Inventories | 4.675 | 4.675 | 1.087 | 1.087 |
| Property, plant and equipment | 232.546 | 196.482 | 219.983 | 183.920 |
| Intangible assets | 13.745 | 13.745 | 14.835 | 14.835 |
| Other receivables and other assets | 227.773 | 228.258 | 164.697 | 126.468 |
| **Total segment assets** | **15.657.513** | **3.694.905** | **14.451.289** | **2.600.516** |
| | | | | |
| Financial liabilities | 252 | 252 | - | - |
| Trade payables | 56.099 | 53.891 | 43.501 | 43.482 |
| Other payables and other liabilities | 168.445 | 159.492 | 181.490 | 151.986 |
| **Total segment liabilities** | **224.796** | **213.635** | **224.991** | **195.468** |

(*) Combined data reflects the total amounts of the Companies, which belong to the related segment.
(**) Consolidated data reflects the total amounts after intra-segment eliminations of the subsidiaries and the joint ventures which belong to the related segment considering the Holding's portion of ownership before intersegment eliminations.

Other segment consists of Sabancı Holding A.Ş., Exsa, Tursa, AEO and Sabancı DX.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 4 - SEGMENT REPORTING (Continued)

### e) The reconciliation of the consolidated statement of profit or loss:

| | 1 January - 31 December 2018 | | | 1 January - 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **Total Consolidation of Segments Before Elimination** | **Elimination and Consolidation Adjustments** | **Consolidated** | **Total Consolidation of Segments Before Elimination** | **Elimination and Consolidation Adjustments** | **Consolidated** |
| **Total revenue** | **54.514.390** | **(226.503)** | **54.287.887** | **41.270.922** | **(134.657)** | **41.136.265** |
| Cost of sales and interest, premiums, commissions and other expenses | (38.363.837) | 794.301 | (37.569.536) | (25.911.463) | 304.070 | (25.607.393) |
| General administration expenses | (6.768.867) | 73.061 | (6.695.806) | (5.406.271) | 71.297 | (5.334.974) |
| Sales, marketing and distribution expenses | (1.980.321) | 626 | (1.979.695) | (1.745.586) | 522 | (1.745.064) |
| Research and development expenses | (15.085) | (1) | (15.086) | (7.853) | - | (7.853) |
| Other operating income/(expense) - net | 83.921 | (5.721) | 78.200 | 565.158 | (1.944) | 563.214 |
| Interest in income of joint ventures | 808.461 | (1) | 808.460 | 576.379 | 1 | 576.380 |
| **Operating profit** | **8.278.662** | **635.762** | **8.914.424** | **9.341.286** | **239.289** | **9.580.575** |
| Income/(expense) from investing activities - net | 1.529.680 | (796.989) | 732.691 | 396.365 | (303.289) | 93.076 |
| **Operating profit before financial expense** | **9.808.342** | **(161.227)** | **9.647.115** | **9.737.651** | **(64.000)** | **9.673.651** |
| Financial income/(expense) net | (916.472) | 167.619 | (748.853) | (519.222) | 63.564 | (455.658) |
| **Income before tax** | **8.891.870** | **6.392** | **8.898.262** | **9.218.429** | **(436)** | **9.217.993** |
| Tax | (1.655.835) | 1 | (1.655.834) | (1.783.598) | - | (1.783.598) |
| Profit/(loss) after tax from discontinued operations | 23 | - | 23 | 3.503 | - | 3.503 |
| **Income for the period** | **7.236.058** | **6.393** | **7.242.451** | **7.438.334** | **(436)** | **7.437.898** |
| **Net income attributable to equity holders of the parent** | | | **3.830.335** | | | **3.481.086** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 4 - SEGMENT REPORTING (Continued)

**f) The items of statement of profit or loss:**

**i) Banking:**

| | Combined (*) 31 December 2018 | Consolidated (**) 31 December 2018 | Combined (*) 31 December 2017 | Consolidated (**) 31 December 2017 |
|---|---|---|---|---|
| Interest, commission and other income | 38.166.302 | 38.166.302 | 27.351.649 | 27.351.649 |
| Interest, commission and other expenses | (25.492.000) | (25.492.000) | (14.958.755) | (14.958.755) |
| General administration expenses | (5.937.871) | (5.937.871) | (4.901.449) | (4.901.449) |
| Other operating income/(expense) - net | 258.294 | 258.294 | 675.049 | 675.049 |
| **Operating profit** | **6.994.725** | **6.994.725** | **8.166.494** | **8.166.494** |
| Income/(expense) from investing activities - net | 6.567 | 6.567 | 2.658 | 2.658 |
| **Profit before tax** | **7.001.292** | **7.001.292** | **8.169.152** | **8.169.152** |
| Tax | (1.433.550) | (1.433.550) | (1.684.366) | (1.684.367) |
| **Net income** | **5.567.742** | **5.567.742** | **6.484.786** | **6.484.785** |
| **Net income attributable to equity holders of the parent** | | **2.268.860** | | **2.642.546** |
| EBITDA | 7.337.881 | | 8.427.357 | |

(*) Combined data reflects the total amounts of the Companies, which belong to the related segment.
(**) Consolidated data reflects the total amounts of the Companies by deducting the financial asset values of the Holding's subsidiaries, joint ventures and associations before elimination which belong to the related segment considering the Holding's portion of ownership.

Net income of non-controlling interests of Akbank as of 31 December 2018 is TRY 3.298.882 (31 December 2017: TRY 3.842.239).

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 4 - SEGMENT REPORTING (Continued)

**f) The items of statement of profit or loss (continued):**

**ii) Insurance:**

| | Combined (*) 31 December 2018 | Consolidated (**) 31 December 2018 | Combined (*) 31 December 2017 | Consolidated (**) 31 December 2017 |
|---|---|---|---|---|
| Gross premiums | 2.352.613 | - | 1.653.363 | - |
| Gross written premiums | 3.982.708 | - | 3.107.028 | - |
| Unearned premiums reserves | (1.630.095) | - | (1.453.665) | - |
| Premiums, commission and other expenses | (2.211.092) | - | (1.352.372) | - |
| General administration expenses | (495.301) | - | (425.462) | - |
| Other operating income/(expense) - net | 844.967 | - | 440.584 | - |
| Interest in income of joint ventures (Note 12) | - | 156.955 | - | 107.047 |
| **Operating profit** | **491.187** | **156.955** | **316.113** | **107.047** |
| Income/(expense) from investing activities - net | 69.045 | - | 44.592 | - |
| **Operating profit before financial expense** | **560.232** | **156.955** | **360.705** | **107.047** |
| Financial income/(expense) - net | (25.749) | - | (8.219) | - |
| **Profit before tax** | **534.483** | **156.955** | **352.486** | **107.047** |
| Tax | (120.781) | - | (71.214) | - |
| **Net income** | **413.702** | **156.955** | **281.272** | **107.047** |
| **Net income attributable to equity holders of the parent** | | **156.955** | | **107.047** |
| EBITDA | 492.323 | | 324.218 | |

(*) Combined data reflects the total amounts of the Companies, which belong to the related segment.
(**) Consolidated data reflects the total amounts of the Companies by deducting the financial asset values of the Holding's subsidiaries, joint ventures and associations before elimination which belong to the related segment considering the Holding's portion of ownership.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

**NOTE 4 - SEGMENT REPORTING (Continued)**

**f) The items of statement of profit or loss (continued):**

**iii) Energy:**

| | Combined (*) 31 December 2018 | Consolidated (**) 31 December 2018 | Combined (*) 31 December 2017 | Consolidated (**) 31 December 2017 |
|---|---|---|---|---|
| Sales revenue (net) | 23.647.118 | - | 16.510.145 | - |
| Cost of sales | (16.783.387) | - | (12.070.041) | - |
| General administration expenses | (1.938.006) | - | (1.602.825) | - |
| Sales, marketing and distribution expenses | - | - | - | - |
| Other operating income/(expense) - net | (1.152.397) | - | 444 | - |
| Interest in income of joint ventures (Note 12) | - | 318.574 | - | 106.994 |
| **Operating profit/(loss)** | **3.773.328** | **318.574** | **2.837.723** | **106.994** |
| Income / (expense) from investment activities -net | 194 | - | (286.275) | - |
| **Operating profit/(loss) before financial expense** | **3.773.522** | **318.574** | **2.551.448** | **106.994** |
| Financial income/(expense) - net | (2.805.712) | - | (2.255.381) | - |
| **Profit/(loss) before tax** | **967.810** | **318.574** | **296.067** | **106.994** |
| Tax | (181.124) | - | (82.261) | - |
| **Net income/(loss)** | **786.686** | **318.574** | **213.806** | **106.994** |
| **Net income/(loss) attributable to equity holders of the parent** | | **318.574** | | **106.994** |
| EBITDA | 4.724.333 | | 3.468.228 | |

(*) Combined data reflects the total amounts of the Companies, which belong to the related segment.

(**) Consolidated data reflects the total amounts of the Companies by deducting the financial asset values of the Holding's subsidiaries, joint ventures and associations before elimination which belong to the related segment considering the Holding's portion of ownership.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 4 - SEGMENT REPORTING (Continued)

**f) The items of statement of profit or loss (continued):**

**iv) Industry:**

| | Combined (*) 31 December 2018 | Consolidated (**) 31 December 2018 | Combined (*) 31 December 2017 | Consolidated (**) 31 December 2017 |
|---|---|---|---|---|
| Sales revenue (net) | 8.767.466 | 5.768.690 | 6.613.036 | 4.318.900 |
| Cost of sales | (6.913.838) | (4.679.447) | (5.234.243) | (3.549.257) |
| General administration expenses | (522.258) | (369.594) | (282.253) | (119.835) |
| Sales, marketing and distribution expenses | (586.010) | (315.973) | (458.194) | (228.968) |
| Research and development expenses | (12.273) | (11.234) | (7.836) | (6.296) |
| Other operating income/(expense) - net | 215.023 | 128.692 | 161.638 | 122.198 |
| Interest in income of joint ventures (Note 12) | 222.907 | 264.679 | 268.581 | 310.119 |
| **Operating profit** | **1.171.017** | **785.813** | **1.060.729** | **846.861** |
| Income/(expense) from investing activities - net | 903 | 952 | 25.795 | 25.588 |
| **Operating profit before financial expense** | **1.171.920** | **786.765** | **1.086.524** | **872.449** |
| Financial income/(expense) - net | (716.781) | (381.547) | (332.585) | (172.248) |
| **Profit before tax** | **455.139** | **405.218** | **753.939** | **700.201** |
| Tax | (715) | (2.390) | (53.368) | (51.265) |
| Profit after tax from discontinued operations | 23 | 23 | 3.503 | 3.503 |
| **Net income** | **454.447** | **402.851** | **704.074** | **652.439** |
| **Net income attributable to equity holders of the parent** | | **361.200** | | **473.476** |
| EBITDA | 1.296.666 | | 1.162.015 | |

(*) Combined data reflects the total amounts of the Companies, which belong to the related segment.

(**) Consolidated data reflects the total amounts of the Companies by deducting the financial asset values of the Holding's subsidiaries, joint ventures and associations before elimination which belong to the related segment considering the Holding's portion of ownership.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

**NOTE 4 - SEGMENT REPORTING (Continued)**

**f) The items of statement of profit or loss (continued):**

**v) Retail:**

| | **Combined (*) 31 December 2018** | **Consolidated (**) 31 December 2018** | **Combined (*) 31 December 2017** | **Consolidated (**) 31 December 2017** |
|---|---|---|---|---|
| Sales revenue (net) | 8.680.380 | 8.677.090 | 7.951.844 | 7.946.868 |
| Cost of sales | (6.733.071) | (6.729.531) | (6.170.358) | (6.165.388) |
| General administration expenses | (217.482) | (217.124) | (194.523) | (194.523) |
| Sales, marketing and distribution expenses | (1.639.662) | (1.639.662) | (1.501.124) | (1.500.496) |
| Other operating income/(expense) - net | (358.922) | (358.922) | (300.403) | (300.403) |
| **Operating profit/(loss)** | **(268.757)** | **(268.149)** | **(214.564)** | **(213.942)** |
| Income/(expense) from investing activities - net | 566.265 | 566.265 | 15.643 | 15.643 |
| **Operating profit/(loss) before financial expense** | **297.508** | **298.116** | **(198.921)** | **(198.299)** |
| Financial income/(expense) - net | (323.406) | (323.406) | (246.973) | (246.973) |
| **Profit/(loss) before tax** | **(25.898)** | **(25.290)** | **(445.894)** | **(445.272)** |
| Tax | (50.212) | (50.212) | 42.076 | 42.076 |
| **Net income/(loss)** | **(76.110)** | **(75.502)** | **(403.818)** | **(403.196)** |
| **Net income/(loss) attributable to equity holders of the parent** | | **(44.767)** | | **(202.437)** |
| EBITDA | 58.569 | | 94.252 | |

(*) Combined data reflects the total amounts of the Companies, which belong to the related segment.
(**) Consolidated data reflects the total amounts of the Companies by deducting the financial asset values of the Holding's subsidiaries, joint ventures and associations before elimination which belong to the related segment considering the Holding's portion of ownership.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 4 - SEGMENT REPORTING (Continued)

**f) The items of statement of profit or loss (continued):**

**vi) Cement:**

| | Combined (*) 31 December 2018 | Consolidated (**) 31 December 2018 | Combined (*) 31 December 2017 | Consolidated (**) 31 December 2017 |
|---|---|---|---|---|
| Sales revenue (net) | 3.418.750 | 1.703.180 | 3.009.581 | 1.490.580 |
| Cost of sales | (2.645.410) | (1.295.375) | (2.313.682) | (1.100.486) |
| General administration expenses | (186.098) | (110.198) | (143.275) | (79.827) |
| Research and development expenses | (3.851) | (3.851) | (1.557) | (1.557) |
| Sales, marketing and distribution expenses | (40.024) | (18.398) | (30.581) | (10.984) |
| Other operating income/(expense) - net | 36.662 | 38.440 | 24.776 | 28.526 |
| Interest in income of joint ventures | - | 68.252 | - | 52.219 |
| **Operating profit** | **580.029** | **382.050** | **545.262** | **378.471** |
| Income/(expense) from investing activities - net | 63.370 | 33.771 | 58.836 | 50.000 |
| **Operating profit before financial expense** | **643.399** | **415.821** | **604.098** | **428.471** |
| Financial income/(expense) - net | (291.407) | (211.263) | (164.945) | (99.587) |
| **Profit before tax** | **351.992** | **204.558** | **439.153** | **328.884** |
| Tax | (64.007) | (22.014) | (78.360) | (47.462) |
| **Net income** | **287.985** | **182.544** | **360.793** | **281.422** |
| **Net income attributable to equity holders of the parent** | | **134.920** | | **163.635** |
| EBITDA | 724.066 | | 680.324 | |

(*) Combined data reflects the total amounts of the Companies, which belong to the related segment.

(**) Consolidated data reflects the total amounts of the Companies by deducting the financial asset values of the Holding's subsidiaries, joint ventures and associations before elimination which belong to the related segment considering the Holding's portion of ownership.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 4 - SEGMENT REPORTING (Continued)

**f) The items of statement of profit or loss (continued):**

**vii) Other:**

| | Combined (*) 31 December 2018 | Consolidated (**) 31 December 2018 | Combined (*) 31 December 2017 | Consolidated (**) 31 December 2017 |
|---|---|---|---|---|
| Sales revenue (net) | 1.417.271 | 199.129 | 1.046.801 | 162.925 |
| Cost of sales | (167.878) | (167.484) | (137.869) | (137.577) |
| General administration expenses | (140.822) | (134.080) | (115.369) | (110.637) |
| Sales, marketing and distribution expenses | (6.288) | (6.288) | (5.138) | (5.138) |
| Other operating income/(expense) - net | 25.219 | 17.416 | 45.031 | 39.787 |
| **Operating profit** | **1.127.502** | **(91.307)** | **833.456** | **(50.640)** |
| Income/(expense) from investing activities - net | 929.294 | 922.126 | 307.254 | 302.476 |
| **Operating profit before financial expense** | **2.056.796** | **830.819** | **1.140.710** | **251.836** |
| Financial income/(expense) - net | (256) | (256) | (414) | (414) |
| **Profit before tax** | **2.056.540** | **830.563** | **1.140.296** | **251.422** |
| Tax | (147.669) | (147.669) | (42.580) | (42.580) |
| **Net income** | **1.908.871** | **682.894** | **1.097.716** | **208.842** |
| **Net income attributable to equity holders of the parent** | | **634.592** | | **189.825** |
| EBITDA | 1.153.409 | | 860.379 | |

(*) Combined data reflects the total amounts of the Companies, which belong to the related segment.

(**) Consolidated data reflects the total amounts of the Companies by deducting the financial asset values of the Holding's subsidiaries, joint ventures and associations before elimination which belong to the related segment considering the Holding's portion of ownership.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 4 - SEGMENT REPORTING (Continued)

### g) Detail of net income/(loss) attributable to equity holders of the parent

One-off income expenses are one-time income or expenses that the Group does not expect to encounter in routine operations. The net income attributable to equity holders of the parent with adjusted segments is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Banking | 2.268.860 | 2.642.546 |
| Insurance | 156.957 | 107.047 |
| Industry | 380.860 | 442.215 |
| Cement | 120.649 | 150.690 |
| Energy | 576.014 | 221.504 |
| Retail | (183.637) | (110.016) |
| Other | 511.660 | 161.292 |
| **Total** | **3.831.363** | **3.615.278** |

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Adjusted net income for reported operating segments (Equity holders of the Parent) | 3.831.363 | 3.615.278 |
| One off income/(expenses) related to Carrefoursa | 149.991 | (95.994) |
| One off income/(expenses) related to Teknosa | (11.121) | 3.573 |
| One off income/(expenses) related to Enerjisa | (257.440) | (114.510) |
| One off income/(expenses) related to Holding | 122.932 | 31.125 |
| Other | (5.390) | 41.614 |
| **Net income (Equity holders of the Parent)** | **3.830.335** | **3.481.086** |

| **One off income/(expenses) details** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Profit on sale of fixed assets | 253.463 | 39.405 |
| Impairment of fixed assets | - | (150.866) |
| Impairment of goodwill | (377.619) | (71.723) |
| Other | 123.129 | 48.990 |
| **Total** | **(1.027)** | **(134.193)** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

**NOTE 4 - SEGMENT REPORTING (Continued)**

**h) Combined EBITDA Detail**

| 31 December 2018 | Profit Before Tax | Depreciation Expenses | Income/ (expenses) from Investing Activities - net | Financial income/ (expense) - net | Operational Foreign Exchange Differences/ Interest | EBITDA |
|---|---|---|---|---|---|---|
| Banking | 7.001.292 | 343.156 | 6.567 | - | - | 7.337.881 |
| Industry | 455.138 | 336.019 | 903 | (716.781) | 210.369 | 1.296.666 |
| Cement | 351.992 | 194.603 | 63.370 | (291.407) | 50.566 | 724.066 |
| Retail | (25.898) | 173.239 | 566.265 | (323.406) | (154.087) | 58.569 |
| Energy | 967.810 | 697.314 | 194 | (2.805.712) | (253.691) | 4.724.333 |
| Insurance | 534.483 | 34.671 | 69.045 | (25.749) | 33.535 | 492.323 |
| Other | 2.056.540 | 29.431 | 929.294 | (256) | 3.524 | 1.153.409 |

| 31 December 2017 | Profit Before Tax | Depreciation Expenses | Income/ (expenses) from Investing Activities - net | Financial income/ (expense) - net | Operational Foreign Exchange Differences/ Interest | EBITDA |
|---|---|---|---|---|---|---|
| Banking | 8.169.152 | 260.863 | 2.658 | - | - | 8.427.357 |
| Industry | 753.939 | 244.051 | 25.795 | (332.585) | 142.765 | 1.162.015 |
| Cement | 439.153 | 169.312 | 58.836 | (164.945) | 34.252 | 680.324 |
| Retail | (445.894) | 207.682 | 15.643 | (246.973) | (101.134) | 94.252 |
| Energy | 296.067 | 663.025 | (286.275) | (2.255.381) | 32.520 | 3.468.228 |
| Insurance | 352.486 | 25.021 | 44.592 | (8.219) | 16.916 | 324.218 |
| Other | 1.140.296 | 27.601 | 307.254 | (414) | 678 | 860.379 |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

**NOTE 4 - SEGMENT REPORTING (Continued)**

**i) Depreciation and amortisation charges, impairment and capital expenditures (Consolidated):**

**1 January - 31 December 2018**

| | Finance | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Banking** | **Insurance** | **Industry** | **Cement** | **Energy** | **Retail** | **Other** | **Total** |
| Depreciation and amortization | 343.156 | - | 177.711 | 110.439 | - | 173.239 | 29.394 | 833.939 |
| Capital expenditures | 1.063.720 | - | 600.342 | 260.714 | - | 157.725 | 49.340 | 2.131.841 |

**1 January - 31 December 2017**

| | Finance | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Banking** | **Insurance** | **Industry** | **Cement** | **Energy** | **Retail** | **Other** | **Total** |
| Depreciation and amortization | 260.863 | - | 139.028 | 86.378 | - | 207.682 | 27.441 | 721.392 |
| Impairment/(reversal of impairment) of property, plant and equipment and investment properties | (1.478) | - | 11.014 | - | - | 21.969 | - | 31.505 |
| Capital expenditures | 483.587 | - | 255.710 | 421.552 | - | 221.867 | 27.697 | 1.410.413 |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 4 - SEGMENT REPORTING (Continued)

### j) Depreciation and amortisation charges, impairment and capital expenditures (Combined):

**1 January - 31 December 2018**

| | Finance | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Banking | Insurance | Industry | Cement | Energy | Retail | Other | Total |
| Depreciation and amortization | 343.156 | 34.671 | 336.019 | 194.603 | 697.314 | 173.239 | 29.394 | 1.808.396 |
| Capital expenditures | 1.063.720 | 72.589 | 839.672 | 361.604 | 1.875.173 | 157.725 | 49.340 | 4.419.823 |

**1 January - 31 December 2018**

| | Finance | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Banking | Insurance | Industry | Cement | Energy | Retail | Other | Total |
| Depreciation and amortization | 260.863 | 25.021 | 244.051 | 169.312 | 663.025 | 207.682 | 27.601 | 1.597.555 |
| Impairment/(reversal of impairment) of property, plant and equipment and investment properties | (1.478) | - | 11.014 | - | - | 21.969 | - | 31.505 |
| Capital expenditures | 483.586 | 58.107 | 968.112 | 539.283 | 1.972.521 | 221.867 | 27.696 | 4.271.172 |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 5 - CASH AND CASH EQUIVALENTS

The detail of cash and cash equivalents at 31 December 2018 and 2017 is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Cash | | |
| - Banking | 3.680.078 | 2.307.696 |
| - Other companies | 30.941 | 43.920 |
| Bank - time deposit | 6.408.625 | 4.271.101 |
| Bank - demand deposit | 12.986.154 | 7.882.898 |
| Receivables from repo transactions | 539.374 | - |
| Other cash and cash equivalents | 12.495 | 13.449 |
| **Total** | **23.657.667** | **14.519.064** |

Effective interest rates of USD, EUR and TRY denominated time deposits are 2,35% (31 December 2017: 1,79%), 0,22% (31 December 2017: 0,10%) and 23,83% (31 December 2017: 16,21%), respectively.

The maturity analysis as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Demand | 16.709.668 | 10.247.962 |
| Up to 3 months | 6.947.999 | 4.271.102 |
| **Total** | **23.657.667** | **14.519.064** |

As of 31 December 2018, total amount of the restriction on the Group's off- shore cash and cash equivalents, payment accounts related to floating interest rate bond issue, time and demand deposits in the banks is TRY 5.002.895 (31 December 2017: TRY 4.541.840).

## NOTE 6 - FINANCIAL ASSETS

### a) Financial Assets Through Profit or Loss:

The detail of financial assets at fair value through profit and loss is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Equity securities | 150.685 | 23.432 |
| Government bonds | 10.113 | 9.525 |
| Other | 18.019 | 6.933 |
| **Total** | **178.817** | **39.890** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 6 - FINANCIAL ASSETS (Continued)

### a) Financial Assets Through Profit or Loss (continued)

Effective interest rates of TRY denominated securities at fair value through profit and loss are as follow:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| TRY | 13,22% | 16,16% |

The Group's activities in the finance sector as collateral for the purchase and sale of financial assets is TRY 10.599 (31 December 2017: TRY 9.731).

The maturity analysis of financial assets at fair value through profit and loss as of 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| 3 to 12 months | 10.113 | 16.459 |
| 1 to 5 years | 11.893 | - |
| No maturity | 156.811 | 23.431 |
| **Total** | **178.817** | **39.890** |

Period remaining to contractual repricing dates:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Up to 3 months | 11.893 | 2.060 |
| 3 to 12 months | 10.113 | 14.399 |
| No maturity | 156.811 | 23.431 |
| **Total** | **178.817** | **39.890** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 6 - FINANCIAL ASSETS (Continued)

### b) Financial Assets Through Other Comprehensive Income:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Debt securities | | |
| - Government bonds | 23.928.005 | 23.159.176 |
| - Eurobonds | 12.574.559 | 13.657.442 |
| - Investment funds | 237.585 | 277.987 |
| - Other bonds denominated in foreign currency | 7.600.049 | 5.648.781 |
| **Sub-total** | **44.340.198** | **42.743.386** |
| Equity securities | | |
| - Listed | 153 | 116 |
| - Unlisted | 19.502 | 102.325 |
| **Sub-total** | **19.655** | **102.441** |
| **Financial Assets Through Other Comprehensive Income** | **44.359.853** | **42.845.827** |

Effective interest rates of USD, EUR, JPY and TRY denominated available-for-sale securities are 4,55% (31 December 2017: 4,20%), 2,38% (31 December 2017: 2,47%), 3,09% (31 December 2017: 3,09%) and 20,97% (31 December 2017: 12,48%), respectively. The Group's financial assets through other comprehensive income subject to funds provided from repo are TRY 12.114.655 (31 December 2017: TRY 20.055.533). Financial assets through other comprehensive income that are given as collateral because of the Group's financing activities are amounting to TRY 8.854.043 (31 December 2017: TRY 3.470.880).

Akbank has Consumer Price Index ("CPI'') linked government bonds under available-for-sale and held-to maturity portfolios with semi-annual fixed real coupon rates and a maturity of 5 to 10 years. The Bank uses the index calculated by considering the estimated inflation rate as the inflation index at the balance sheet date which is used in the valuation of the relevant securities.The estimated inflation rate used is updated as needed within the year.

The maturity analysis in accordance with expiring date as at 31 December 2018 and 2017 is as follows:

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Banking | Other companies | Total | Banking | Other companies | Total |
| Up to 3 months | 1.215.426 | - | 1.215.426 | 826.336 | - | 826.336 |
| 3 to 12 months | 3.997.086 | - | 3.997.086 | 3.086.122 | - | 3.086.122 |
| 1 to 5 years | 29.373.727 | 13.777 | 29.387.504 | 25.783.774 | - | 25.783.774 |
| Over 5 years | 9.522.087 | - | 9.522.087 | 12.871.607 | - | 12.871.607 |
| No maturity | 237.750 | - | 237.750 | 277.988 | - | 277.988 |
| **Total** | **44.346.076** | **13.777** | **44.359.853** | **42.845.827** | **-** | **42.845.827** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 6 - FINANCIAL ASSETS (Continued)

### b) Financial Assets Through Other Comprehensive Income (continued):

Period remaining to contractual repricing dates for available-for-sale securities:

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Banking | Other companies | Total | Banking | Other companies | Total |
| Up to 3 months | 8.558.547 | - | 8.558.547 | 6.936.341 | - | 6.936.341 |
| 3 to 12 months | 13.645.080 | - | 13.645.080 | 11.749.801 | - | 11.749.801 |
| 1 to 5 years | 15.273.796 | 13.777 | 15.287.573 | 16.298.430 | - | 16.298.430 |
| Over 5 years | 6.617.448 | - | 6.617.448 | 7.485.228 | - | 7.485.228 |
| No maturity | 251.205 | - | 251.205 | 376.027 | - | 376.027 |
| **Total** | **44.346.076** | **13.777** | **44.359.853** | **42.845.827** | **-** | **42.845.827** |

### c) Financial Assets at Amortised Cost:

The breakdown of financial assets at amortised cost is listed below:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Government bonds | 12.263.568 | 18.883.153 |
| **Total** | **12.263.568** | **18.883.153** |

Effective interest rates of USD, EUR and TRY denominated debt securities are 4,89% (31 December 2017: 4,11%), 3,58% (31 December 2017: 3,62%) and TRY is 26,70% (31 December 2017: 13,22%).

The movement table of financial assets at amortised cost is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **1 January** | **18.883.153** | **17.976.984** |
| Additions | 1.654.189 | 226 |
| Foreign exchange differences in monetary assets | 1.683.148 | 1.223.819 |
| Valuation effect | 572.514 | 523.600 |
| Disposals through sales and redemptions (*) | (10.713.907) | (766.185) |
| Allowance for impairment | 184.471 | (75.291) |
| **Total** | **12.263.568** | **18.883.153** |

(*) The Bank has reviewed the marketable securities management model in accordance with IFRS 9, and has reclassified its securities to financial assets through other comprehensive income amounting to TRY4.927.185 because appropriate model is collecting cash flows or selling the financial asset which are previously classified and measured at amortized cost.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 6 - FINANCIAL ASSETS (Continued)

### c) Financial Assets at Amortised Cost (continued):

Period remaining to contractual maturity dates for financial assets at amortised cost at 31 December 2018 and 2017 is as follows:

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **Banking** | **Other companies** | **Total** | **Banking** | **Other Companies** | **Total** |
| 3 to 12 months | 3.518.476 | 81 | 3.518.557 | 4.593.687 | 122 | 4.593.809 |
| 1 to 5 years | 7.640.711 | - | 7.640.711 | 12.668.937 | - | 12.668.937 |
| Over 5 years | 1.104.300 | - | 1.104.300 | 1.620.407 | - | 1.620.407 |
| | **12.263.487** | **81** | **12.263.568** | **18.883.031** | **122** | **18.883.153** |

Period remaining to contractual repricing dates for investment security, financial assets at amortised cost at 31 December 2018 and 2017 is as follows:

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **Banking** | **Other companies** | **Total** | **Banking** | **Other Companies** | **Total** |
| Up to 3 months | 3.971.097 | - | 3.971.097 | 6.403.521 | - | 6.403.521 |
| 3 to 12 months | 4.220.072 | 81 | 4.220.153 | 2.623.044 | 122 | 2.623.166 |
| 1 to 5 years | 2.968.018 | - | 2.968.018 | 8.897.479 | - | 8.897.479 |
| Over 5 years | 1.104.300 | - | 1.104.300 | 958.987 | - | 958.987 |
| **Total** | **12.263.487** | **81** | **12.263.568** | **18.883.031** | **122** | **18.883.153** |

### d) Time Deposits:

The breakdown of maturities of time deposits over 3 months is as follows:

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| 3 to 12 months | - | 8.190 |
| **Total** | **-** | **8.190** |

## NOTE 7 - FINANCIAL LIABILITIES

**Short term funds borrowed, bank borrowings and debt securities:**

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Short term | 9.726.191 | 13.917.173 |
| Short-term portion of long term | 20.815.668 | 16.018.279 |
| **Total short term** | **30.541.859** | **29.935.452** |
| **Long-term funds borrowed, bank borrowings and debt securities:** | | |
| Long term | 35.222.289 | 25.322.315 |
| **Total** | **65.764.148** | **55.257.767** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 7 - FINANCIAL LIABILITIES (continued)

Maturity analysis as of 31 December 2018 and 31 December 2017 is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Up to 3 months | 8.447.806 | 14.837.249 |
| 3 to 12 months | 22.094.053 | 15.098.203 |
| **Short term borrowings and short term portion of long term borrowings** | **30.541.859** | **29.935.452** |
| 1 to 5 years | 21.892.607 | 16.168.062 |
| Over 5 years | 13.329.682 | 9.154.253 |
| **Long term borrowings** | **35.222.289** | **25.322.315** |
| **Total financial liabilities** | **65.764.148** | **55.257.767** |

The maturity schedule of long term borrowings at 31 December 2018 and 2017 is summarised below:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| 2018 | - | 5.296.171 |
| 2019 | 7.770.555 | 5.029.825 |
| 2020 | 4.168.543 | 2.191.491 |
| 2021 | 5.887.176 | 3.650.575 |
| 2022 and beyond | 17.396.015 | 9.154.253 |
| **Total** | **35.222.289** | **25.322.315** |

The repricing schedule of borrowings at 31 December 2018 and 2017 is summarized below:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Up to 3 months | 38.453.236 | 33.182.206 |
| 3 to 12 months | 10.334.947 | 9.872.514 |
| 1 to 5 years | 9.449.170 | 7.133.178 |
| Over 5 years | 7.526.795 | 5.069.869 |
| **Total** | **65.764.148** | **55.257.767** |

Financial liability movement as of 31 December 2018 is as follows;

| | 2018 | 2017 |
|---|---|---|
| 1 January | 55.257.767 | 48.918.074 |
| Additions | 20.180.086 | 11.538.358 |
| Payments | (10.276.282) | (5.477.339) |
| Interest accruals | 431.302 | 134.944 |
| Foreign exchange effects | 161.274 | 82.620 |
| Borrowing costs capitalized | 10.001 | 61.110 |
| **31 December** | **65.764.148** | **55.257.767** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 7 - FINANCIAL LIABILITIES (Continued)

The transactions related with the funds and loans as of 31 December 2018 are as follows:

**Akbank - Funds borrowed via syndicated credit**

As of 31 December 2018, Akbank has three outstanding syndicated loan. On 15 August 2017, the first syndicated loan was signed and raised EUR 515.1 million (Full Amount) and USD 542.6 million (Full Amount) consisting of 1 year and 2 year maturities. The current amount is USD 205 million (Full Amount).The cost of 2 year maturity loan is Euribor+220 bps. The second syndicated loan of EUR 483 million (Full Amount) and USD 604.5 million (Full Amount) with a maturity of 1 year and 2 years was obtained through the loan agreement signed on 26 March 2018. The cost of 1 year maturity loan is Euribor + 120 bps and Libor + 130 bps and the cost of 2 years maturity loan is Euribor +210 bps. The third syndicated loan of EUR 595 million (Full Amount) and USD 385 million (Full Amount) with a maturity of 1 year was obtained through the loan agreement signed on 27 September 2018. The cost of the loan is Euribor +265 bps and Libor +275 bps.

**Issued securities:**

Securities issued consist of USD and TRY assets.

The repayment plan for USD securities issued is summarized below:

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | **USD** | **TRY** | **USD** | **TRY** |
| 2018 | - | - | 1.208.548 | 4.519.968 |
| 2019 | 979.670 | 5.153.064 | 452.230 | 1.691.340 |
| 2020 | 1.071.920 | 5.638.299 | 848.888 | 3.174.841 |
| 2021 | 574.885 | 3.023.895 | 516.436 | 1.931.471 |
| 2022 | 946.571 | 4.978.963 | 773.845 | 2.894.180 |
| 2023 | 538.218 | 2.831.027 | 464.207 | 1.736.134 |
| 2024 | 493.616 | 2.596.420 | 482.772 | 1.805.567 |
| 2025 | 448.497 | 2.359.094 | 426.707 | 1.595.884 |
| 2026 | 57.488 | 302.387 | 63.293 | 236.716 |
| 2027 | 309.511 | 1.628.028 | 293.150 | 1.096.381 |
| 2028 | 221.586 | 1.165.542 | 9.893 | 37.000 |
| **Total** | **5.641.962** | **29.676.719** | **5.539.969** | **20.719.482** |

The balance amounting to USD 5.641.962 consists of securitization deals and USD denominated securities issued by the Bank.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 7 - FINANCIAL LIABILITIES (Continued)

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | **EUR** | **TRY** | **EUR** | **TRY** |
| 2018 | | | 75.260 | 336.963 |
| 2019 | 91.366 | 549.857 | 93.331 | 417.871 |
| 2020 | 23.104 | 139.044 | 45.817 | 205.136 |
| 2021 | 362 | 2.179 | 23.075 | 103.314 |
| 2022 | 348 | 2.094 | 334 | 1.495 |
| 2023 | 335 | 2.016 | 321 | 1.437 |
| 2024 | 321 | 1.932 | 309 | 1.383 |
| 2025 | 309 | 1.860 | 297 | 1.330 |
| 2026 | 297 | 1.787 | 285 | 1.276 |
| 2027 | 285 | 1.715 | 274 | 1.227 |
| 2028 | 274 | 1.649 | 263 | 1.178 |
| 2029 | 6.808 | 40.955 | 6.543 | 29.295 |
| **Total** | **123.809** | **745.088** | **246.109** | **1.101.905** |

The balance amounting to EUR 123.809 consists of securitization deals and EUR denominated securities issued by the Group.

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | **RON** | **TRY** | **RON** | **TRY** |
| 2018 | - | - | 80.994 | 77.398 |
| 2019 | 56.222 | 72.167 | 54.049 | 51.649 |
| **Total** | **56.222** | **72.167** | **135.043** | **129.047** |

The balance amounting to RON 56.222 consists of securization deals and RON denominated securities issued by the Bank.

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | **HUF** | **TRY** | **HUF** | **TRY** |
| 2019 | 764.752 | 14.354 | 782.916 | 11.431 |
| **Total** | **764.752** | **14.354** | **782.916** | **11.431** |

The balance amounting to HUF 764.752 consists of securization deals and HUF denominated securities issued by the Bank.

| | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | **JPY** | **TRY** | **JPY** | **TRY** |
| 2018 | | | 9.925 | 329 |
| 2019 | 1.002.770 | 47.772 | 992.585 | 32.894 |
| **Total** | **1.002.770** | **47.772** | **1.002.510** | **33.223** |

The balance amounting to JPY1.002.770 consists of securization deals and JPY denominated securities issued by the Bank.

In addition, as of 31 December 2018, there are TRY 2.669.292 issued by the Group, TRY 278.354 with 3-6 months maturity, TRY 257.048 with 1-5 years maturity and TRY 1.650.033 with 5 years maturity.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 8 - TRADE RECEIVABLES AND PAYABLES

**Short and long term trade receivables:**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade receivables | 1.910.959 | 1.542.005 |
| Notes receivables | 416.478 | 547.529 |
| | **2.327.437** | **2.089.534** |
| Less: expected credit losses | (190.375) | (85.968) |
| **Total** | **2.137.062** | **2.003.566** |

As of 31 December 2018, trade receivables of TRY 284.200 were past due but not impaired (31 December 2017: TRY 148.463). The aging analysis of these trade receivables is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Up to 3 months | 119.099 | 92.542 |
| 3 to 6 months | 51.108 | 30.421 |
| 6 to 9 months | 66.210 | 2.139 |
| Over 9 months | 47.783 | 23.361 |
| **Total** | **284.200** | **148.463** |

As of 31 December 2018 and 2017, the aging analysis of overdue and impaired trade receivables is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Up to 3 months | 3.869 | 1.068 |
| 3 to 6 months | 1.059 | 1.056 |
| 6 to 9 months | 2.348 | - |
| Over 9 months | 183.099 | 83.844 |
| **Total** | **190.375** | **85.968** |

| **Short and long term trade payables:** | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade payables | 3.371.306 | 2.881.047 |
| Expense accruals | 1.443 | 1.302 |
| **Total** | **3.372.749** | **2.882.349** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 9 - OTHER RECEIVABLES AND PAYABLES

| Other short term receivables: | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Receivables from credit card payments | 35.689 | 38.266 |
| Other receivables(*) | 1.748.455 | 2.425.760 |
| **Total** | **1.784.144** | **2.464.026** |

| Other long term receivables: | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Deposits and guarantees given | 49.703 | 709.870 |
| Other receivables(*) | 3.004.847 | 288.314 |
| **Total** | **3.054.550** | **998.184** |

(*) Other receivables mainly consist of the collaterals obtained by Akbank for derivative transactions.

| Other short term payables: | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Payables related to credit card transactions | 4.003.963 | 3.988.420 |
| Taxes and funds payable | 566.985 | 420.915 |
| Export deposits and transfer orders | 95.021 | 71.952 |
| Payment orders to correspondent banks | 42.924 | 268.028 |
| Financial lease payables | 23.712 | 31.976 |
| Other(*) | 1.409.805 | 619.817 |
| **Total** | **6.142.410** | **5.401.108** |

| Other long term payables: | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Financial lease payables | 58.606 | 59.490 |
| Taxes and funds payable | - | 3.981 |
| Other(*) | 2.313.990 | 1.478.063 |
| **Total** | **2.372.596** | **1.541.534** |

(*) Other payables mainly include the collateral provided by Akbank for derivative transactions.

## NOTE 10 - INVENTORIES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Raw materials | 526.711 | 312.005 |
| Work in process | 303.342 | 277.804 |
| Finished goods and merchandises | 1.960.169 | 1.542.792 |
| Spare parts | 90.939 | 64.886 |
| Other | 138.580 | 186.965 |
| | **3.019.741** | **2.384.452** |
| Allowance for impairment on inventory (-) | (74.896) | (72.358) |
| **Total** | **2.944.845** | **2.312.094** |

The movement table of allowance for impairment on inventory is as follows:

| | 2018 | 2017 |
|---|---|---|
| 1 January | (72.358) | (74.708) |
| Provisions | (33.376) | (24.490) |
| Provisions no longer required | 30.838 | 26.840 |
| **31 December** | **(74.896)** | **(72.358)** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 11 - PREPAID EXPENSES AND DEFERRED INCOME

| **Short-term prepaid expenses:** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Prepaid expenses | 845.205 | 734.945 |
| Advance given for inventory purchases | 16.357 | 12.157 |
| Other | 39.041 | 2.112 |
| **Total** | **900.603** | **749.214** |

| **Long-term prepaid expenses:** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Advance given for property, plant and equipment purchases | 2.627 | 3.551 |
| Prepaid expenses | 18.364 | 19.547 |
| **Total** | **20.991** | **23.098** |

| **Short-term deferred income:** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Unearned commission income | 235.687 | 140.937 |
| Advances received | 30.648 | 53.594 |
| Deferred income | 24.965 | 22.144 |
| Other | 568 | 718 |
| **Total** | **291.868** | **217.393** |

| **Long-term deferred income:** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Unearned commission income | 116.833 | 143.793 |
| **Total** | **116.833** | **143.793** |

## NOTE 12 - INVESTMENTS ACCOUNTED THROUGH EQUITY METHOD

Book value of Associates and Joint Ventures is as follows:

| | **31 December 2018** | **Share (%)** | **31 December 2017** | **Share (%)** |
|---|---|---|---|---|
| Aksigorta | 232.657 | 36,00 | 205.889 | 36,00 |
| Avivasa | 257.872 | 40,00 | 229.182 | 40,00 |
| Brisa | 401.808 | 43,63 | 298.202 | 43,63 |
| Akçansa | 404.949 | 39,72 | 377.711 | 39,72 |
| Enerjisa Üretim Santralleri | 2.596.999 | 50,00 | 2.020.084 | 50,00 |
| Enerjisa Enerji | 2.519.566 | 40,00 | 2.940.201 | 50,00 |
| Philsa | 188.256 | 25,00 | 207.015 | 25,00 |
| Philip Morrissa | 37.357 | 24,75 | 51.490 | 24,75 |
| Temsa Mısır | (8.104) | 73,75 | (1.248) | 73,75 |
| Temsa İş Makineleri | 125.099 | 51,00 | 110.688 | 51,00 |
| **Total** | **6.756.459** | | **6.439.214** | |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 12 - INVESTMENTS ACCOUNTED THROUGH EQUITY METHOD (Continued)

Share of income from Associates and Joint Ventures included in Holding's consolidated net income is as follows:

| | **1 January - 31 December 2018** | **1 January - 31 December 2017** |
|---|---|---|
| Aksigorta | 76.722 | 49.160 |
| Avivasa | 80.233 | 57.887 |
| Brisa | 41.772 | 41.537 |
| Akçansa | 68.252 | 52.219 |
| Enerjisa Üretim Santralleri | 19.495 | (387.011) |
| Enerjisa Enerji | 299.079 | 494.005 |
| Philsa | 146.119 | 159.736 |
| Philip Morrissa | 50.586 | 74.132 |
| Temsa Mısır | 231 | 11.296 |
| Temsa İş Makineleri | 25.971 | 23.419 |
| **Total** | **808.460** | **576.380** |

The summary financial information of Associates and Joint Ventures is as follows:

| | **31 December 2018** | | **31 December 2017** | |
|---|---|---|---|---|
| | **Total assets** | **Total liabilities** | **Total assets** | **Total liabilities** |
| Aksigorta | 5.464.195 | 4.817.924 | 4.098.960 | 3.527.045 |
| Avivasa | 2.263.901 | 1.642.760 | 1.822.195 | 1.272.780 |
| Brisa | 4.803.642 | 3.882.699 | 3.540.658 | 2.857.178 |
| Akçansa | 2.103.125 | 1.070.700 | 1.778.315 | 814.465 |
| Enerjisa Üretim Santralleri | 13.628.412 | 8.434.414 | 12.649.409 | 8.609.240 |
| Enerjisa Enerji | 23.120.713 | 16.821.798 | 20.043.023 | 14.162.620 |
| Philsa | 3.350.586 | 2.597.563 | 3.276.178 | 2.448.119 |
| Philip Morrissa | 1.267.960 | 1.117.021 | 1.529.981 | 1.321.939 |
| Temsa Mısır | 14.416 | 25.404 | 23.120 | 24.814 |
| Temsa İş Makineleri | 567.374 | 262.701 | 551.677 | 374.999 |
| **Total** | **56.584.324** | **40.672.984** | **49.313.516** | **35.413.199** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 12 - INVESTMENTS ACCOUNTED THROUGH EQUITY METHOD (Continued)

**Sales**

| | **1 January - 31 December 2018** | **1 January - 31 December 2017** |
|---|---|---|
| Aksigorta | 3.417.338 | 2.635.576 |
| Avivasa | 565.371 | 471.452 |
| Brisa | 2.998.776 | 2.294.136 |
| Akçansa | 1.715.570 | 1.519.001 |
| Enerjisa Üretim Santralleri | 5.300.705 | 4.165.327 |
| Enerjisa Enerji | 18.346.413 | 12.344.818 |
| Philsa (*) | 25.241.521 | 21.453.357 |
| Philip Morrissa | 24.901.916 | 22.412.588 |
| Temsa İş Makineleri | 935.064 | 700.259 |

(*) Philsa, which is a manufacturing company, conducts its sales activities through Philip Morrissa, which is a marketing company.

**Net profit/(loss)**

| | **1 January - 31 December 2018** | **1 January - 31 December 2017** |
|---|---|---|
| Aksigorta | 213.118 | 136.557 |
| Avivasa | 200.584 | 144.719 |
| Brisa | 95.741 | 95.203 |
| Akçansa | 179.757 | 148.814 |
| Enerjisa Üretim Santralleri | 38.990 | (774.022) |
| Enerjisa Enerji | 747.697 | 988.010 |
| Philsa | 584.476 | 638.944 |
| Philip Morrissa | 204.387 | 299.522 |
| Temsa Mısır | 313 | 15.315 |
| Temsa İş Makineleri | 50.924 | 45.920 |

(Amounts expressed in thousands of Turkish Lira (“TRY”) unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 12 - INVESTMENTS ACCOUNTED THROUGH EQUITY METHOD (Continued)

The movement of the associates and joint ventures is as follows;

| | 2018 | 2017 |
|---|---|---|
| **1 January** | **6.439.214** | **6.101.005** |
| Profit/(loss) share | 808.460 | 576.380 |
| Initial public offering effect (*) | (593.630) | - |
| Capital increase (***) | 714.000 | - |
| Dividend income from joint ventures | (490.026) | (358.216) |
| Dividends paid to joint ventures | - | 6.841 |
| Other comprehensive income/(expense) shares | (121.559) | 40.612 |
| Effect of business combination subject to common control (**) | - | 72.592 |
| **31 December** | **6.756.459** | **6.439.214** |

(*) Enerji Enerji A.Ş.’s initial public offering, consisting 20% of the Entity’s share, was completed on February 8, 2018.

(**) As of 31 December 2018, Enerjisa Enerji’s distribution service operations business line, which was previously operated as a separate business line; was transferred to the distribution companies of Enerjisa Enerji A.Ş.

(***) The Group joined the cash capital increase of Enerjisa Üretim amounting to TRY 1.428.000.000 (Full Amount); paying its share of TRY 714.000.000 (Full Amount) on March 7, 2018.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 13 - INVESTMENT PROPERTY

| | 1 January 2018 | Additions | Disposals | Impairment | Currency translation differences | Transfers | 31 December 2018 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| Land | 187.643 | - | (74.684) | (1.234) | 20.917 | 938 | 133.580 |
| Buildings | 124.220 | 7.543 | (133.210) | (33) | 5.442 | - | 3.962 |
| **Total** | **311.863** | **7.543** | **(207.894)** | **(1.267)** | **26.359** | **938** | **137.542** |
| | | | | | | | |
| **Accumulated depreciation** | | | | | | | |
| Buildings | (29.357) | (1.547) | 32.516 | - | (2.224) | - | (612) |
| **Net book value** | **282.506** | | | | | | **136.930** |

| | 1 January 2017 | Additions | Disposals | Impairment | Currency translation differences | 31 December 2017 |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| Land | 180.729 | - | - | 10.760 | (3.846) | 187.643 |
| Buildings | 123.239 | 1.056 | - | - | (75) | 124.220 |
| **Total** | **303.968** | **1.056** | **-** | **10.760** | **(3.921)** | **311.863** |
| | | | | | | |
| **Accumulated depreciation** | | | | | | |
| Buildings | (25.492) | (3.940) | - | - | 75 | (29.357) |
| **Net book value** | **278.476** | | | | | **282.506** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 14 - PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment for the year ended 31 December 2018 is as follows:

| | 1 January 2018 | Currency translation differences | Additions | Disposals (**) | Transfers (*) | Impairment | 31 December 2018 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| Land and land improvements | 549.569 | 9.764 | 4.828 | (70.482) | 5.299 | - | 498.978 |
| Buildings | 2.688.983 | 136.368 | 83.913 | (91.933) | 126.233 | - | 2.943.564 |
| Machinery and equipment | 3.906.821 | 528.733 | 61.456 | (5.269) | 427.541 | - | 4.919.282 |
| Motor vehicles | 111.243 | 2.280 | 19.793 | (11.184) | - | - | 122.132 |
| Furniture and fixtures | 3.143.030 | 20.096 | 512.996 | (356.139) | 12.897 | - | 3.332.880 |
| **Total** | **10.399.646** | **697.241** | **682.986** | **(535.007)** | **571.970** | **-** | **11.816.836** |
| | | | | | | | |
| **Construction in progress** | 644.620 | 31.545 | 852.022 | (19.084) | (645.488) | - | 863.615 |
| **Total** | **11.044.266** | **728.786** | **1.535.008** | **(554.091)** | **(73.518)** | **-** | **12.680.451** |
| | | | | | | | |
| **Accumulated depreciation:** | | | | | | | |
| Land and land improvements | (235.214) | (5.378) | (8.161) | 689 | 8.480 | 5.546 | (234.038) |
| Buildings | (977.040) | (52.980) | (60.382) | 43.680 | (12) | 469 | (1.046.265) |
| Machinery and equipment | (1.990.166) | (242.789) | (201.076) | 4.241 | - | 1.879 | (2.427.911) |
| Motor vehicles | (95.743) | (1.470) | (9.611) | 4.685 | - | - | (102.139) |
| Furniture and fixtures | (2.216.358) | (14.608) | (290.221) | 275.471 | 12 | 2.284 | (2.243.420) |
| **Total** | **(5.514.521)** | **(317.225)** | **(569.451)** | **328.766** | **8.480** | **10.178** | **(6.053.773)** |
| **Net book value** | **5.529.745** | | | | | | **6.626.678** |

(*) Transfers from Construction in progress during the period amounting of TRY 65.038 was accounted as intangible assets.
(**) As a result of the sale of two real estate properties in the period by the retailing group, the assets with net book values of TRY 64.503 and TRY 40.093 respectively were disposed from the property, plant and equipment; and an income of TRY 569.337 was accounted under investment income.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 14 - PROPERTY, PLANT AND EQUIPMENT (Continued)

The movement in property, plant and equipment for the year ended 31 December 2017 is as follows:

| | 1 January 2017 | Currency translation differences | Additions | Disposals | Transfers (*) | Impairment | 31 December 2017 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| Land and land improvements | 626.281 | 4.623 | 8.810 | (96.200) | 36.091 | (30.036) | 549.569 |
| Buildings | 2.402.987 | 33.364 | 35.859 | 10.400 | 207.847 | (1.474) | 2.688.983 |
| Machinery and equipment | 3.248.618 | 122.629 | 73.852 | (166.493) | 625.784 | 2.431 | 3.906.821 |
| Motor vehicles | 113.579 | (7.473) | 11.768 | (7.464) | 833 | - | 111.243 |
| Furniture and fixtures | 2.883.082 | 5.558 | 338.340 | (94.992) | 20.909 | (9.867) | 3.143.030 |
| **Total** | **9.274.547** | **158.701** | **468.629** | **(354.749)** | **891.464** | **(38.946)** | **10.399.646** |
| **Construction in progress** | 944.284 | 910 | 640.268 | (5.079) | (935.763) | - | 644.620 |
| **Total** | **10.218.831** | **159.611** | **1.108.897** | **(359.828)** | **(44.299)** | **(38.946)** | **11.044.266** |
| **Accumulated depreciation:** | | | | | | | |
| Land and land improvements | (234.731) | 1.956 | (7.954) | 5.515 | - | - | (235.214) |
| Buildings | (975.917) | (14.904) | (32.732) | 36.010 | 3.441 | 7.062 | (977.040) |
| Machinery and equipment | (1.914.886) | (67.366) | (156.685) | 148.771 | - | - | (1.990.166) |
| Motor vehicles | (95.865) | 472 | (6.625) | 6.275 | - | - | (95.743) |
| Furniture and fixtures | (2.032.923) | (3.660) | (310.946) | 82.784 | (3.441) | 51.828 | (2.216.358) |
| **Total** | **(5.254.322)** | **(83.502)** | **(514.942)** | **279.355** | **-** | **58.890** | **(5.514.521)** |
| **Net book value** | **4.964.509** | | | | | | **5.529.745** |

(*) Transfers from Construction in progress during the period amounting to TRY 44.299 was accounted as intangible assets.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 15 - INTANGIBLE ASSETS

The movements in intangible assets for the years ended 31 December 2018 and 2017 are as follows

| | 1 January 2018 | Currency translation differences | Additions | Impairment | Disposals | Transfers | 31 December 2018 |
|---|---|---|---|---|---|---|---|
| Cost (*) | 1.827.717 | 39.638 | 604.155 | 113 | (5.324) | 64.100 | 2.530.399 |
| Accumulated amortization (-) | (1.010.619) | 3.149 | (266.402) | (104) | 3.238 | - | (1.270.738) |
| **Net book value** | **817.098** | | | | | | **1.259.661** |

| | 1 January 2017 | Currency translation differences | Additions | Impairment | Disposals | Transfers | 31 December 2017 |
|---|---|---|---|---|---|---|---|
| Cost (*) | 1.474.679 | 7.117 | 300.459 | (2.315) | (600) | 48.377 | 1.827.717 |
| Accumulated amortization (-) | (801.910) | (5.704) | (202.510) | 3.116 | 467 | (4.078) | (1.010.619) |
| **Net book value** | **672.769** | | | | | | **817.098** |

(*) Intangible assets mainly consist of licenses and software.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 16 - GOODWILL

The movements in goodwill for the years ended 31 December 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| 1 January | 873.097 | 1.014.815 |
| Additions (*) (Note 3) | 115.526 | - |
| Currency translation differences | 10.792 | - |
| Impairment provision (**) | (150.200) | (141.718) |
| **31 December** | **849.215** | **873.097** |

(*) In 2018, Kordsa Inc., which is 100% subsidiary of Kordsa, a subsidiary of the Group, completed the acquisition of companies named "Advanced Honeycomb Technologies Corporation", Fabric Development, Inc. ("FDI"), Textile Products, Inc. ("TPI") providing advanced composite materials to the commercial aviation industry (Note 3 – Business Combinations).

(**) The Group's subsidiary Carrefoursa booked impairment amounting to total TRY 150.199.730 (Full Amount) for its goodwill related to Kiler Shopping investment during the period (31 December 2017: Total TRY 141.718.000-Full Amount). This impairment provision is recognised under other income/expense from operating activities. If the discount rate after tax and long term growth ratios applied on cash flow estimations was 1% more than the estimation of the management, the Group would recognise an extra impairment provision amounting to total TRY 13.776.458 (Full Amount) for the goodwill in its consolidated financial statements.

## NOTE 17 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

| **Other short term provisions** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Provision for liabilities | 611.896 | 241.673 |
| *Credit bonus provision* | *53.120* | *69.960* |
| *Litigation* | *173.323* | *97.249* |
| *Uncompensated and not encashed non-cash loans* | *378.740* | *67.754* |
| *Onerous contracts* | *5.246* | *4.260* |
| *Other short-term provisions* | *1.467* | *2.450* |
| Other | 66.959 | 91.265 |
| **Total** | **678.855** | **332.938** |

| **Other long term provisions** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Provision for liabilities | 4.260 | 4.613 |
| *Other long-term provisions* | *4.260* | *4.613* |
| **Total** | **4.260** | **4.613** |

| **Commitments - Banking segment** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Letters of guarantee given | 34.426.832 | 34.576.533 |
| Letters of credit | 6.255.037 | 6.579.073 |
| Foreign currency acceptance | 2.740.066 | 3.757.710 |
| Other guarantees given | 7.884.108 | 5.914.738 |
| **Total** | **51.306.043** | **50.828.054** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 17 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

| Commitments - Non-banking segment | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Letters of guarantee given | 812.587 | 649.971 |
| Other guarantees given | 413.072 | 294.789 |
| Mortgages, guarantees and pledges for tangible assets | 11.480 | 25.185 |
| **Total** | **1.237.139** | **969.945** |

**Commitments for resale and repurchase of debt securities:**

Commitments for the resale and repurchase of debt securities (government bonds, treasury bills and Eurobonds) at 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Repurchase commitments | 14.434.653 | 29.229.448 |

**Transactions for held for trading**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Foreign currency purchases | 11.135.973 | 10.601.547 |
| Foreign currency sales | 10.525.900 | 10.564.713 |
| **Total** | **21.661.873** | **21.166.260** |

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Currency swap purchases | 141.036.291 | 111.502.891 |
| Currency swap sales | 139.431.917 | 106.924.680 |
| Interest swap purchases | 68.273.548 | 46.369.365 |
| Interest swap sales | 68.273.548 | 46.369.365 |
| **Total** | **417.015.304** | **311.166.301** |

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Spot purchases | 7.628.722 | 5.034.625 |
| Spot sales | 7.347.903 | 5.050.637 |
| **Total** | **14.976.625** | **10.085.262** |

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Currency, interest and securities options purchases | 37.759.363 | 50.144.128 |
| Currency, interest and securities options sales | 37.740.163 | 50.460.763 |
| **Total** | **75.499.526** | **100.604.891** |

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Other purchase transactions | 16.286.966 | 6.225.924 |
| Other sales transactions | 8.749.610 | 8.623.132 |
| **Total** | **25.036.576** | **14.849.056** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 17 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

**Types of derivative transactions held for hedges:**

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Interest swap purchases | 15.800.831 | 11.759.837 |
| Interest swap sales | 15.800.831 | 11.759.837 |
| **Total** | **31.601.662** | **23.519.674** |

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Foreign currency purchases | - | 31.708 |
| Foreign currency sales | - | 97.386 |
| **Total** | **-** | **129.094** |

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Foreign currency purchases | 17.128.717 | 3.482.506 |
| Foreign currency sales | 13.443.865 | 2.507.376 |
| **Total** | **30.572.582** | **5.989.882** |

The maturity analysis of the off-balance sheet assets of the Banking segment at 31 December 2018 is as follows:

| | Up to 1 year | Over 1 year | Total |
|---|---|---|---|
| Letters of guarantees given | 5.334.189 | 29.092.644 | 34.426.833 |
| Letters of credits | 2.387.038 | 3.868.000 | 6.255.038 |
| Acceptance credits | 2.457.752 | 282.314 | 2.740.066 |
| Other guarantees | 3.682.397 | 4.201.709 | 7.884.106 |
| **Total** | **13.861.376** | **37.444.667** | **51.306.043** |

The maturity analysis of the off-balance sheet assets of the Banking segment at 31 December 2017 is as follows:

| | Up to 1 year | Over 1 year | Total |
|---|---|---|---|
| Letters of guarantees given | 6.616.283 | 27.960.249 | 34.576.532 |
| Letters of credits | 5.188.694 | 1.390.378 | 6.579.072 |
| Acceptance credits | 2.900.711 | 857.000 | 3.757.711 |
| Other guarantees | 2.497.120 | 3.417.619 | 5.914.739 |
| **Total** | **17.202.808** | **33.625.246** | **50.828.054** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 17 - PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

The economic sector risk concentrations of the commitments of the Banking segment at 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Financial institutions | 7.182.375 | 7.006.200 |
| Construction | 7.911.886 | 6.252.263 |
| Chemicals | 1.558.845 | 2.791.301 |
| Wholesale | 9.162.663 | 9.970.378 |
| Small-scale retailers | 5.252.181 | 4.806.478 |
| Steel and mining | 3.218.621 | 3.152.082 |
| Food and beverage | 1.398.630 | 798.144 |
| Electricity, gas and water | 2.458.803 | 1.926.591 |
| Automotive | 1.185.086 | 855.703 |
| Other manufacturing | 4.884.605 | 2.965.513 |
| Electronics | 298.176 | 676.712 |
| Textile | 1.446.126 | 1.423.271 |
| Transportation | 700.841 | 621.471 |
| Telecommunications | 207.104 | 224.582 |
| Tourism | 337.699 | 278.993 |
| Agriculture and forestry | 180.924 | 165.071 |
| Other | 3.921.478 | 6.913.301 |
| **Total** | **51.306.043** | **50.828.054** |

Aksigorta, one of the Group's joint ventures, has been subjected to tax investigation by the T.C. Ministry of Finance Tax Audit Board starting from 24 June 2014. This limited tax investigation, with subject to Banking Insurance Transaction Tax, covers the years 2009, 2010, 2011 and 2012; 1,8 Million TRY (Ful Amount) tax charge and 2,8 Million TRY (Ful Amount) tax penalty charge for year 2009, 2 Million tax TRY (Ful Amount) charge and 3 Million TRY (Ful Amount) tax penalty charge for year 2010, 3 Million TRY (Ful Amount) tax charge and 4,6 Million TRY (Ful Amount) tax penalty charge for year 2011, 4,3 Million TRY (Ful Amount) tax charge and 6,4 Million TRY (Ful Amount) tax penalty charge for year 2012, and totally 27,9 Million TRY (Ful Amount) tax charge and tax penalty charge has been issued to the Company for the claim recovery and salvage operations of the banking and insurance transactions which had not been subjected to taxation. The Company has not booked any provision on its financial statements. On 16 January 2015, the Company filed a reconciliation request for the year 2009 and on 20 February 2015 filed a reconciliation request for the years 2010,2011 and 2012 to the Large Taxpayers Office Commission of Reconciliation. The negotiations with the Ministry of Finance Central Reconciliation Commission at the date of 15 February 2018 has not been reached on reconciliation. The lawsuit was started against to tax and penalties. The cases related to 2009 and 2010 have been concluded in favor of the Company by the 3rd Tax Court of Istanbul and the cases related to other periods are still ongoing.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 18 - COMMITMENTS

Collaterals, pledges and mortgages ("CPM") given by the Subsidiaries at 31 December 2018 is as follows:

| | 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Total TL Equivalent | TL | USD | EUR | Other |
| A, Total amount of the Collaterals given for its own legal entity | 1.221.533 | 318.497 | 107.680 | 55.593 | - |
| B, Collaterals given on behalf of fully consolidated companies | 1.489.327 | 360.398 | 10.056 | 177.684 | 4.944 |
| C, Collaterals given on behalf of the third parties'debt for continuation of their economic activities | 51.306.043 | 21.761.622 | 3.087.613 | 2.122.216 | 508.077 |
| D,Total amount of other Collaterals | | | | | |
| i, Given on behalf of majority shareholder | | | | | |
| ii, Given on behalf of other group companies which are not in the scope of B and C | - | - | - | - | - |
| iii, Given on behalf of third parties which are not in scope of C | - | - | - | - | - |
| **Total Colleterals** | **54.016.903** | **22.440.517** | **3.205.349** | **2.355.493** | **513.021** |
| A, Total amount of the mortgages given for its own legal entity | - | - | - | - | - |
| B, Mortgages given on behalf of fully consolidated companies | - | - | - | - | - |
| C, Mortgages given on behalf of third parties'debt for continuation of their economic activities | - | - | - | - | - |
| D,Total amount of other Mortgages | | | | | |
| i, Given on behalf of majority shareholder | - | - | - | - | - |
| ii, Given on behalf of other group companies which are not in the scope of B and C | - | - | - | - | - |
| iii, Given on behalf of third parties which are not in scope of C | - | - | - | - | - |
| **Total Mortgages** | - | - | - | - | - |
| A, Total amount of the pledges given for its own legal entity | - | - | - | - | - |
| B, Pledges given on behalf of fully consolidated companies | - | - | - | - | - |
| C, Pledges given on behalf of third parties'debt for continuation of their economic activities | - | - | - | - | - |
| D, Total amount of other Pledges | | | | | |
| i, Given on behalf of majority shareholder | - | - | - | - | - |
| ii, Given on behalf of other group companies which are not in the scope of I | - | - | - | - | - |
| iii, Given on behalf of third parties which are not in scope of C | - | - | - | - | - |
| **Total Pledges** | - | - | - | - | - |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 18 - COMMITMENTS (Continued)

Collaterals, pledges and mortgages ("CPM") given by the Joint Ventures at 31 December 2018 is as follows:

| | 31 December 2018 | | | | |
|---|---|---|---|---|---|
| | Total TL Equivalent | TL | USD | EUR | Other |
| A. Total amount of the Collaterals given for its own legal entity | 1.165.180 | 1.118.379 | 7.269 | 1.419 | - |
| B. Collaterals given on behalf of fully consolidated companies | - | - | - | - | - |
| C. Collaterals given on behalf of the third parties' debt for continuation of their economic activities | 2.850 | 2.850 | - | - | - |
| D.Total amount of other Collaterals | - | - | - | - | - |
| i. Given on behalf of majority shareholder | | | | | |
| ii. Given on behalf of other group compani which are not in the scope of B and C | - | - | - | - | - |
| iii. Given on behalf of third parties which are not in scope of C | - | - | - | - | - |
| **Total Colleterals** | **1.168.030** | **1.121.229** | **7.269** | **1.419** | **-** |
| A. Total amount of the mortgages given for its own legal entity | - | - | - | - | - |
| B. Mortgages given on behalf of fully consolidated companies | - | - | - | - | - |
| C. Mortgages given on behalf of third parties' debt for continuation of their economic activities | - | - | - | - | - |
| D.Total amount of other Mortgages | | | | | |
| i. Given on behalf of majority shareholder | - | - | - | - | - |
| ii. Given on behalf of other group companies which are not in the scope of B and C | - | - | - | - | - |
| iii. Given on behalf of third parties which are not in scope of C | - | - | - | - | - |
| **Total Mortgages** | **-** | **-** | **-** | **-** | **-** |
| A. Total amount of the pledges given for its own legal entity | - | - | - | - | - |
| B. Pledges given on behalf of fully consolidated companies | - | - | - | - | - |
| C. Pledges given on behalf of third parties' debt for continuation of their economic activities | - | - | - | - | - |
| D. Total amount of other Pledges | | | | | |
| i. Given on behalf of majority shareholder | - | - | - | - | - |
| ii. Given on behalf of other group companies which are not in the scope of B and C | - | - | - | - | - |
| iii. Given on behalf of third parties which are not in scope of C | - | - | - | - | - |
| **Total Pledges** | **-** | **-** | **-** | **-** | **-** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 18 - COMMITMENTS (Continued)

Collaterals, pledges and mortgages ("CPM") given by the Subsidiaries at 31 December 2017 is as follows:

| | 31 December 2017 | | | | |
|---|---|---|---|---|---|
| | **Total TL Equivalent** | **TL** | **USD** | **EUR** | **Other** |
| A, Total amount of the Collaterals given for its own legal entity | 1.295.945 | 434.563 | 133.887 | 78.704 | 987 |
| B, Collaterals given on behalf of fully consolidated companies | 1.135.741 | 276.886 | 64.605 | 135.303 | 3.528 |
| C, Collaterals given on behalf of the third parties'debt for continuation of their economic activities | 50.828.054 | 21.370.968 | 4.744.023 | 2.471.376 | 385.992 |
| D,Total amount of other Collaterals | | | | | |
| i, Given on behalf of majority shareholder | | | | | |
| ii, Given on behalf of other group companie which are not in the scope of B and C | - | - | - | - | - |
| iii, Given on behalf of third parties which are not in scope of C | - | - | - | - | - |
| **Total Colleterals** | **53.259.740** | **22.082.417** | **4.942.515** | **2.685.383** | **390.507** |
| A, Total amount of the mortgages given for its own legal entity | 97.082 | - | - | 21.500 | - |
| B, Mortgages given on behalf of fully consolidated companies | - | - | - | - | - |
| C, Mortgages given on behalf of third parties'debt for continuation of their economic activities | - | - | - | - | - |
| D,Total amount of other Mortgages | | | | | |
| i, Given on behalf of majority shareholder | - | - | - | - | - |
| ii, Given on behalf of other group companies which are not in the scope of B and C | - | - | - | - | - |
| iii, Given on behalf of third parties which are not in scope of C | - | - | - | - | - |
| **Total Mortgages** | **97.082** | **-** | **-** | **21500** | **-** |
| A, Total amount of the pledges given for its own legal entity | - | - | - | - | - |
| B, Pledges given on behalf of fully consolidated companies | - | - | - | - | - |
| C, Pledges given on behalf of third parties'debt for continuation of their economic activities | - | - | - | - | - |
| D, Total amount of other Pledges | | | | | |
| i, Given on behalf of majority shareholder | - | - | - | - | - |
| ii, Given on behalf of other group companies which are not in the scope of I | - | - | - | - | - |
| iii, Given on behalf of third parties which are not in scope of C | - | - | - | - | - |
| **Total Pledges** | **-** | **-** | **-** | **-** | **-** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 18 - COMMITMENTS (Continued)

Collaterals, pledges and mortgages ("CPM") given by the Joint Ventures at 31 December 2017 is as follows;

| | 31 December 2017 | | | | |
|---|---|---|---|---|---|
| | **Total TL Equivalent** | **TL** | **USD** | **EUR** | **Other** |
| A, Total amount of the Collaterals given for its own legal entity | 895.128 | 893.057 | 393 | 130 | - |
| B, Collaterals given on behalf of fully consolidated companies | - | - | - | - | - |
| C, Collaterals given on behalf of the third parties'debt for continuation of their economic activities | 495 | 495 | - | - | - |
| D,Total amount of other Collaterals | - | - | - | - | - |
| i, Given on behalf of majority shareholder | | | | | |
| ii, Given on behalf of other group companies which are not in the scope of B and C | - | - | - | - | - |
| iii, Given on behalf of third parties which are not in scope of C | - | - | - | - | - |
| **Total Colleterals** | **895.623** | **893.552** | **393** | **130** | **-** |
| A, Total amount of the mortgages given for its own legal entity | - | - | - | - | - |
| B, Mortgages given on behalf of fully consolidated companies | - | - | - | - | - |
| C, Mortgages given on behalf of third parties'debt for continuation of their economic activities | - | - | - | - | - |
| D,Total amount of other Mortgages | | | | | |
| i, Given on behalf of majority shareholder | - | - | - | - | - |
| ii, Given on behalf of other group companies which are not in the scope of B and C | - | - | - | - | - |
| iii, Given on behalf of third parties which are not in scope of C | - | - | - | - | - |
| **Total Mortgages** | **-** | **-** | **-** | **-** | **-** |
| A, Total amount of the pledges given for its own legal entity | - | - | - | - | - |
| B, Pledges given on behalf of fully consolidated companies | - | - | - | - | - |
| C, Pledges given on behalf of third parties'debt for continuation of their economic activities | - | - | - | - | - |
| D, Total amount of other Pledges | | | | | |
| i, Given on behalf of majority shareholder | - | - | - | - | - |
| ii, Given on behalf of other group companies which are not in the scope of B and C | - | - | - | - | - |
| iii, Given on behalf of third parties which are not in scope of C | - | - | - | - | - |
| **Total Pledges** | **-** | **-** | **-** | **-** | **-** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 19 - EMPLOYEE BENEFITS

| **Payables related to employee benefits** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Due to personnel | 73.302 | 27.587 |
| Social security premiums payable | 20.369 | 46.798 |
| Other | - | 1.612 |
| **Total** | **93.671** | **75.997** |

| **Short-term provision for employee benefits:** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Unused vacation pay provision | 142.222 | 117.631 |
| Bonus provision | 23.526 | 26.220 |
| Other | 161.603 | 174.428 |
| **Total** | **327.351** | **318.279** |

| **Long-term provision for employee benefits:** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Unused vacation pay provision | 3.638 | 3.785 |
| Provision for employment termination benefits | 416.591 | 385.500 |
| Other | 27.816 | 23.079 |
| **Total** | **448.045** | **412.364** |

Provision for retirement pay liability:

Under Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or achieves the retirement age. Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement. At 31 December 2018, the amount payable consists of one month's salary limited to a maximum of TRY 5.434,42-Full Amount (31 December 2017: TRY 4.F732,48-Full Amount) for each year of service.

There are no agreements for pension commitments other than the legal requirement as explained above.

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

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. TAS 19 *Employee Benefits* stipulates the development of company's liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2018, the provision has been calculated by estimating the present value of the future probable obligation arising from the retirement of the employees. However the discount rate used in the calculation of the provisions differs for each subsidiary and associate, the average discount rate is 4,30% - 5,80% at the respective balance sheet date (31 December 2017: 3,70% – 5,10%). Severance pay ceiling is revised semi-annually.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

TRY6.017,60 severance pay ceiling, which is effective on 1 January 2019, has been considered in the provision for employment termination benefits calculations of the Group.

**NOTE 19 - EMPLOYEE BENEFITS (Continued)**

Provision for retirement pay liability (continued):

Movements in the provision for employment termination benefits for the years ended 31 December 2018 and 2017 are as follows:

| | **2018** | **2017** |
|---|---|---|
| 1 January | 385.500 | 303.541 |
| Charge for the period | 135.916 | 99.616 |
| Payments | (107.311) | (81.370) |
| Interest cost | 10.972 | 3.753 |
| Foreign currency translation adjustments | 3.349 | 1.113 |
| Actuarial (loss) / gain | (11.834) | 58.847 |
| **31 December** | **416.592** | **385.500** |

## NOTE 20 - OTHER ASSETS AND LIABILITIES

| **Other Current Assets** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Notes receivables in clearance | 1.212.261 | 149.829 |
| Deductible, deferred and other VAT | 530.602 | 156.615 |
| Other | 59.697 | 64.115 |
| **Total** | **1.802.560** | **370.559** |

| **Other Non-Current Assets** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Long term tax claims and other legal receivables | 13.920 | 26.941 |
| Deductible, deferred and other VAT | 3.902 | 4.928 |
| Other non-current assets | 119.691 | 87.944 |
| **Total** | **137.513** | **119.813** |

| **Other Short Term Liabilities** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Notes receivables in clearance | 2.468.350 | 291.353 |
| Saving deposits insurance | 52.010 | 50.641 |
| Other short term liabilities | 244.534 | 323.668 |
| **Total** | **2.764.894** | **665.662** |

| **Other Long Term Liabilities** | | |
|---|---|---|
| Other Long Term Liabilities | 94.901 | 55.065 |
| **Total** | **94.901** | **55.065** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 21 - EQUITY

The Holding's authorised and issued capital consists of 204.040.393.100 (31 December 2017: 204.040.393.100) shares of Kr 1 each.

The Holding's authorised and paid-in share capital and shareholding structure at 31 December 2018 and 2017 is as follows:

| Shareholders: | Share (%) | 31 December 2018 | Share (%) | 31 December 2017 |
|---|---|---|---|---|
| Sakıp Sabancı Holding A.Ş. | 14,07 | 287.100 | 14,07 | 287.100 |
| Serra Sabancı | 7,21 | 147.160 | 7,21 | 147.160 |
| Suzan Sabancı Dinçer | 6,94 | 141.567 | 6,94 | 141.567 |
| Çiğdem Sabancı Bilen | 6,94 | 141.567 | 6,94 | 141.567 |
| Other | 64,84 | 1.323.010 | 64,84 | 1.323.010 |
| **Share Capital** | **100,00** | **2.040.404** | **100,00** | **2.040.404** |
| **Treasury shares (-)** | | **(190.470)** | | **(190.470)** |
| **Share premium** | | **22.237** | | **22.237** |

According to Exsa Export Sanayi Mamulleri Satış ve Araştırma A.Ş. (Exsa)'s Board of Director decision on 22 December 2015, company performed share buyback at BİST (İstanbul Stock Market). Hence; with these transactions Exsa's share at Sabancı Holding reached at 1,17% as of 31 December 2018. These shares are shown in consolidated equity as capital adjustments due to treasury shares.

### Restricted Reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code (TCC). The Company, reserves 5% of the historical statutory profit as first legal reserve, until the total reserve reaches 20% of the historical paid in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

Furthermore, to be entitled to the exemption for sale of participation shares and property, 75% of related gain is required to be held in a fund account in the liabilities and it must not be withdrawn from the entity for a period of five years. Based on the exemption for sale of participation shares and property, 75% of the related gain is required to be held in account "gain on sale of subsidiaries". In 2012, related to the initial public offering of Teknosa, Holding accounted for 75% of this gain in this account.

The details of restricted reserves mentioned above are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Legal reserves | 705.591 | 699.547 |
| Investments sales income | 344.487 | 333.369 |
| **Total** | **1.050.078** | **1.032.916** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 21 - EQUITY (Continued)

### Dividend Distribution

Listed companies processes their profit distributions according to the II-19.1 numbered CMB profit distribution decleration become effective on or after February 1, 2014.

Group companies distribute their profits within the frame of profit distribution policies determined by general assembly and according to the related decleration by the approval of general assembly. Within the mentioned decleration, minimum rate of distribution is not determined. Companies distribute their profits according to the predetermined terms in their articles of incorporation or profit distribution policies.

### Accumulated Other Comprehensive Income or Loss to be Reclassified to Profit or Loss

| | Revaluation fund | Cash Flow Hedge Fund | Net Investment Hedge Fund | Currency translation differences |
|---|---|---|---|---|
| **Balance as of 1 January 2017** | **(444.676)** | **(177.288)** | **(146.024)** | **499.438** |
| Increases/(decreases) during the period | 189.636 | 46.922 | (102.703) | 225.222 |
| Gains transferred to income statement | (13.368) | 23.735 | - | - |
| Net gains & losses included in the income statement due to transfer of financial assets through other comprehensive income into financial assets at amortized cost | (2.160) | - | - | - |
| Tax effect | (39.769) | (14.891) | 20.541 | - |
| **Balance as of 31 December 2017** | **(310.337)** | **(121.522)** | **(228.186)** | **724.660** |
| **Balance as of 1 January 2018-restated** | **(252.746)** | **(121.522)** | **(228.186)** | **724.660** |
| Increases/(decreases) during the period | (1.127.006) | (43.804) | (200.933) | 658.116 |
| Gains transferred to income statement | (149.035) | 6.311 | - | - |
| Net gains & losses included in the income statement due to transfer of financial assets through other comprehensive income into financial assets at amortized cost | 38.628 | - | - | - |
| Tax effect | 272.231 | 8.248 | 44.205 | - |
| **Balance as of 31 December 2018** | **(1.217.928)** | **(150.767)** | **(384.914)** | **1.382.776** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 22 - ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

**1 January - 31 December 2018**

Nile Kordsa Company for Industrial Fabrics S.A.E., a subsidiary of Kordsa, which is a subsidiary of the Group, had a full period profit amounting to TRY 22.778 (Full Amount) as of 31 December 2018 (31 December 2017: TRY 3.503.342 (Full Amount) ). For the year ended 31 December 2018 and 31 December 2017, operating results of this company reclassified as income/expense from the discontinued operations in consolidated financial statements. The amount recognised under "Assets Held For Sale" is TRY 14.220.459 (Full Amount) as of 31 December 2018 (31 December 2017: Full Amount TRY 11.194.785). The amount recognised under "Liabilities Held For Sale" is TRY 4.273.745 (Full Amount) as of 31 December 2018 (31 December 2017: TRY 5.261.866 – Full Amount).

**1 January - 31 December 2017**

As of 31 December 2017, Temsa, a subsidiary of the Group acquired a real estate with value of TRY 16.671.395 in return of receivables as a guarantee. The Entity has intention to dispose of the real estate and impairment is booked amounting to total Full Amount TRY 6.685.000. The remaining Full Amount TRY 9.986.395 is accounted under "Assets Held for Sale".

Nile Kordsa Company for Industrial Fabrics S.A.E., a subsidiary of Kordsa, which is a subsidiary of the Group, had a full period profit amounting to Total Full TRY 3.503.342 as of 31 December 2017 . For the year ended 31 December 2017, operating results of this company reclassified as income/expense from the discontinued operations in consolidated financial statements. The amount recognised under "Assets Held For Sale" is Total Full TRY 11.194.785 as of 31 December 2017.. The amount recognised under "Liabilities Held For Sale" is Total Full Amount TRY 5.261.866 as of 31 December 2017.

## NOTE 23 - REVENUE AND COST OF SALES

| | 1 January- 31 December 2018 | 1 January- 31 December 2017 |
|---|---|---|
| Domestic sales | 14.785.979 | 12.191.647 |
| Foreign sales | 2.156.318 | 2.209.411 |
| Less: Discounts | (681.960) | (561.207) |
| **Total** | **16.260.337** | **13.839.851** |

| | 1 January- 31 December 2018 | 1 January- 31 December 2017 |
|---|---|---|
| Cost of raw materials and merchandises | (10.370.697) | (9.085.652) |
| Change in finished good work in process inventory and merchandises | (23.091) | (88.261) |
| Depreciation and amortization expenses | (273.841) | (214.672) |
| Personnel expenses | (518.870) | (427.389) |
| Other | (1.670.798) | (1.127.876) |
| **Total** | **(12.857.297)** | **(10.943.850)** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 24 - EXPENSES BY NATURE

**Research and development expenses:**

Allocation of research and development expenses on nature basis for the years ended 31 December 2018 and 2017 are as follows:

| | **1 January- 31 December 2018** | **1 January- 31 December 2017** |
|---|---|---|
| Personnel expenses | (9.300) | (2.016) |
| Consultancy expenses | (3.990) | (2.839) |
| Repair and maintenance expenses | (959) | (408) |
| Depreciation and amortization expenses | (765) | (2.456) |
| Other | (72) | (134) |
| **Total** | **(15.086)** | **(7.853)** |

**Marketing expenses:**

Allocation of marketing, selling and distribution expenses on nature basis for the years ended 31 December 2018 and 2017 are as follows:

| | **1 January- 31 December 2018** | **1 January- 31 December 2017** |
|---|---|---|
| Personnel expenses | (719.275) | (648.231) |
| Rent expenses | (478.492) | (392.214) |
| Transportation, logistic and distribution expenses | (130.115) | (84.680) |
| Depreciation and amortization expenses | (129.584) | (146.473) |
| Advertisement expenses | (72.235) | (70.269) |
| Energy expenses | (56.779) | (24.691) |
| Maintenance and repair expenses | (46.637) | (41.242) |
| Consultancy expenses | (42.929) | (24.835) |
| Outsourced services | (36.781) | (38.408) |
| Insurance expenses | (8.171) | (9.355) |
| Material expenses | (3.736) | (3.828) |
| Communication expenses | (3.276) | (1.886) |
| Other | (251.685) | (258.952) |
| **Total** | **(1.979.695)** | **(1.745.064)** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 24 - EXPENSES BY NATURE (Continued)

**General administrative expenses:**

Allocation of general administrative expenses on nature basis for the years ended 31 December 2018 and 2017 are as follows:

| | 1 January-<br>31 December<br>2018 | 1 January-<br>31 December<br>2017 |
|---|---|---|
| Personnel expenses | (2.570.013) | (2.222.383) |
| Credit card and banking service expenses | (726.023) | (549.689) |
| Repair and maintenance expenses | (535.697) | (350.364) |
| Depreciation and amortization expenses | (429.749) | (357.791) |
| Consultancy expenses | (239.725) | (171.874) |
| Insurance expenses | (231.087) | (208.442) |
| Taxes, duties and charges | (217.329) | (185.104) |
| Communication expenses | (180.498) | (152.069) |
| Advertisement expenses | (128.118) | (147.058) |
| Energy expenses | (59.534) | (51.783) |
| Material expenses | (52.040) | (37.585) |
| Outsourced services | (1.264) | (9.951) |
| Other | (1.324.729) | (890.881) |
| **Total** | **(6.695.806)** | **(5.334.974)** |

## NOTE 25 - OTHER INCOME AND EXPENSES FROM OPERATING ACTIVITIES

The details of other income from operating activities for the years ended 31 December 2018 and 2017 are as follows:

| | 1 January-<br>31 December<br>2018 | 1 January-<br>31 December<br>2017 |
|---|---|---|
| Foreign currency gains resulting from operations | 1.390.732 | 395.410 |
| Due date income from trade receivables | 97.565 | 53.012 |
| Other income | 377.636 | 880.209 |
| **Total** | **1.865.933** | **1.328.631** |

The details of other expenses from operating activities for the years ended 31 December 2018 and 2017 are as follows

| | 1 January-<br>31 December<br>2018 | 1 January-<br>31 December<br>2017 |
|---|---|---|
| Foreign currency losses resulting from operations | (1.128.327) | (250.798) |
| Due date expense from trade payables | (234.153) | (118.578) |
| Goodwill impairment provision expenses | (150.200) | (141.718) |
| Provision expense | (22.698) | (38.383) |
| Other expenses | (252.355) | (215.940) |
| **Total** | **(1.787.733)** | **(765.417)** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 26 - INCOME AND EXPENSES FROM INVESTING ACTIVITIES

### Income from investing activities

The details of other income from investing activities for the years ended 31 December 2018 and 2017 are are as follows:

| | 1 January- 31 December 2018 | 1 January- 31 December 2017 |
|---|---|---|
| Fixed asset sales profit | 598.483 | 91.451 |
| Gain on sale of associates | 126.411 | - |
| Dividend income | 6.593 | 2.698 |
| Interest income on time deposits | 2.366 | 1.971 |
| Other | 5.501 | 14.609 |
| **Total** | **739.354** | **110.729** |

### Expenses from investing activities

The details of other expenses from investing activities for the years ended 31 December 2018 and 2017 are are as follows:

| | 1 January- 31 December 2018 | 1 January- 31 December 2017 |
|---|---|---|
| Loss on sale of fixed assets | (6.663) | (10.968) |
| Other | - | (6.685) |
| **Total** | **(6.663)** | **(17.653)** |

## NOTE 27 - FINANCE INCOME/EXPENSES

| | 1 January- 31 December 2018 | 1 January- 31 December 2017 |
|---|---|---|
| **Financial income** | | |
| Foreign currency gains | 221.567 | 141.096 |
| Interest income | 5.142 | - |
| **Total** | **226.709** | **141.096** |
| | | |
| **Financial expenses** | | |
| Foreign currency losses | (376.587) | (195.996) |
| Interest expense | (324.206) | (338.727) |
| Other financial expenses | (274.769) | (62.031) |
| **Total** | **(975.562)** | **(596.754)** |

Financial income and financial expenses relate to segments outside of banking.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 28 - TAX ASSETS AND LIABILITIES

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Corporate and income taxes payable | 464.788 | 1.705.443 |
| Less: prepaid taxes | (402.392) | (902.992) |
| **Total taxes payable** | **62.396** | **802.451** |

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

The Corporate Tax Law was amended as of 13 June 2006 with Law No 5520. The majority of the clauses of Law No 5520 are effective as of 1 January 2006. The effective tax rate of the fiscal year 2018 is 22% (2017: 20%). Corporation tax is payable at a rate of 20% on the total income of the Holding after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption, and investment allowance, etc. and corporate income tax deductions (like research and development expenditures deduction). No further tax is payable unless the profit is distributed.

In accordance with the "Law on the Amendment of Certain Tax Acts and Some Other Laws" numbered 7061 and published in Official Gazette on 5 December 2017; the corporate tax rate for the years 2018, 2019 and 2020 has been increased from 20% to 22%. Therefore, deferred tax assets and liabilities as of 31 December 2018 are calculated with 22% tax rate for the temporary differences that will be realised in 2018, 2019 and 2020; and with 20% tax rate for the temporary differences that will be realised after 2021 and onwards.

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

Corporations calculate corporate tax quarterly at the rate of 22% on their corporate income and declare it until the 10th day and pay it on the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

In Turkey, corporate tax rate is 20%. This ratio will be applied as 22% for a period of three years, according to Law No: 7061 "The Law regarding amendments on Certain Tax Laws and their implications on Deferred Tax Calculations" published in the Official Gazette dated 5 December 2017.

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

Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

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

## NOTE 28 - TAX ASSETS AND LIABILITIES (Continued)

There are numerous exemptions in the Corporate Tax Law concerning the corporations. Those related to Group are as follows:

***Affiliation Privilege***

Dividend income from participation in shares of capital of another full-fledged taxpayer corporation (except for dividends from investment funds participation certificates and investment partnerships shares) are exempt from corporate tax

***Emission premiums exemption***

Gains from issued premiums derived from the disposal of sales at nominal values during incorporations and the capital increase of joint stock companies are exempt from corporate tax.

***Exemption for participation into foreign subsidiaries***

The participation income of corporations participating in 10% or more of the capital of a limited liability or joint stock company which does not have its legal or business center in Turkey (except for corporations whose principal activity is financial leasing or by investment of marketable securities) for at least one year until the date of the income is generated and transferred to Turkey until the date of the filing of the corporate income tax return of the fiscal year in which the income is generated is exempt from corporation tax subject to those subsidiaries being subject to corporate income tax, or alike, in their country of legal residence or business center at the rate of at least 15% (the corporate income tax rate applicable in Turkey for those companies whose principal activity is financial assurance or insurance).

***Exemption for sale of participation shares and property***

75% of the gains derived from the sale of preferential rights, usufruct shares and founding shares from investment equity and real property which have remained in assets for more than two full years are exempt from corporate tax. As of 1 January 2018, the exemption for real estate has been revised to 50%. To be entitled to the exemption, the relevant gain is required to be held in a fund account in the liabilities and it must not be withdrawn from the entity for a period of five years. The proceed related to the sale transaction has to be collected up until the end of the second calendar year following the year the sale was realized.

Brokerage houses and real estate companies who are dealing with the trading and the leasing of the real estate cannot benefit from this exemption.

***Investment incentives***

The corporate tax rate in Turkey is 22%. However, there is a reduced corporate tax application for investments related to incentive certificate. The two factors that are important in calculating the discounted corporate tax in the Investment Incentive System are the contribution rate to investment and the rate of tax reduction. The amount of contribution of the investments to be met by Government through the tax is defined as the amount of contribution to the investment and dividing this amount by the total amount invested is defined as the rate of contribution to the investment. These rates are determined by the President according to the sectors and regions. Regulations on Reduced Corporate Tax are included in the Decree No: 2012/3305 of the Council of Ministers and 1 Serial Number of Corporate Tax.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 28 - TAX ASSETS AND LIABILITIES (Continued)

The tax charges for comprehensive income statement items for the years ended 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **Before Tax** | **Tax Charge** | **After Tax** | **Before Tax** | **Tax Charge** | **After Tax** |
| Net gain from financial assets through other comprehensive income | (2.503.516) | 550.774 | (1.952.742) | 446.266 | (89.253) | 357.013 |
| Cash flow hedges | (378.805) | 83.337 | (295.468) | 113.190 | (22.638) | 90.552 |
| Income/(loss) from the derivative financial assets related to the hedging of net investment in foreign operations | (493.088) | 108.479 | (384.609) | (252.034) | 50.405 | (201.629) |
| Change in foreign currency translation differences | 1.510.690 | - | 1.510.690 | 540.591 | - | 540.591 |
| Actuarial gain/losses | 3.098 | (682) | 2.416 | (55.778) | 11.956 | (43.822) |
| **Other comprehensive income** | **(1.861.622)** | **741.909** | **(1.119.713)** | **792.235** | **(49.530)** | **742.705** |

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Profit before tax included in the consolidated financial statements | 8.898.262 | 9.217.993 |
| Expected tax charge according to parent company's tax rate 22% (2017: 20%) | (1.957.617) | (1.843.599) |
| Tax rate differences of subsidiaries | 4.607 | 7.871 |
| **Expected tax charge of the Group** | **(1.953.011)** | **(1.835.728)** |
| Profit exempt from taxation | 28.892 | 142.915 |
| Non-deductible expenses | (16.252) | (187.404) |
| Utilization of carryforward tax losses that are not subject to deferred tax | (37.551) | (19.627) |
| Impact of profits from investments accounted through equity method | 177.861 | 115.276 |
| The effect of timing differences will not be subject to tax | 91 | - |
| Investment incentives impact | 35.154 | 5.604 |
| Real estate sales profit exemption | 22.981 | 2.319 |
| Other | 86.001 | (6.953) |
| **Current year tax charge of the Group** | **(1.655.834)** | **(1.783.598)** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 28 - TAX ASSETS AND LIABILITIES (Continued)

***Deferred tax***

The Group recognises deferred income tax assets and liabilities based upon temporary differences arising between their financial statements as reported under TAS and their statutory tax financial statements. These differences usually result from the recognition of revenue and expenses in different reporting periods for TAS and tax purposes, carry forward tax losses and investment incentive exceptions. Deferred income taxes are calculated on temporary differences that are expected to be realized or settled based on the taxable income in coming years under the liability method using a principal tax rate of 20% in Turkey.

Since the subsidiaries and joint ventures which are separately taxpayers presented their deferred tax assets and liabilities as net values in their financial statements, the effect of the presentation of the net amounts has been reflected to the Group's consolidated balance sheet. Temporary differences and deferred tax assets and liabilities presented in the table below are based on the gross values.

According to Law No: 7061 "The Law regarding amendments on Certain Tax Laws and their implications on Deferred Tax Calculations" published in the Official Gazette dated 5 December 2017 and temporary 10th Article added to Corporate Income Tax Law No. 5520, tax ratio will be applied as 22% for the periods of 2018, 2019 and 2020. After these three years, it is foreseen that the tax rate will be 20%. The Council of Ministers is authorised to reduce the rate up to 20%.

For the period ended 31 December 2018, tax on the income generated for the three-month periods are paid at the rate of 20% (2017: 20%) according to tax legislation and the amounts paid in this manner are deducted from the tax calculated on the annual earnings. With the amendment made in the law, this ratio was set at 22% for the years 2018, 2019 and 2020.

At 31 December 2018, the Group has not recognized deferred income tax assets over carry forward tax losses in the amount of TRY 840.246 which can be offset against future taxable profits for a period of five years (31 December 2017: TRY 1.142.324). As of 31 December 2018 and 31 December 2017 carry forward tax losses and the latest annual periods are as follows:

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| 2019 | - | 11.970 |
| 2020 | 24.796 | 41.345 |
| 2021 | 465.178 | 741.504 |
| 2022 | 344.549 | 347.505 |
| 2023 | 5.723 | - |
| **Total** | **840.246** | **1.142.324** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 28 - TAX ASSETS AND LIABILITIES (Continued)

### Deferred tax (continued)

Deferred tax assets/(liabilities) for the years ended at 31 December 2018 and 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Deferred tax assets | 372.640 | 552.671 |
| Deferred tax liabilities | (185.504) | (149.352) |
| **Net Deferred Tax Assets** | **187.136** | **403.319** |

The movements in deferred income tax assets/(liabilities) for the six-month periods ended 31 December 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| 1 January | 403.319 | 496.251 |
| Charged to equity | 149.563 | (99.691) |
| Change in foreign currency translation differences | (35.408) | (3.403) |
| Charged to statement of profit or loss | (298.659) | 10.390 |
| Other | (31.679) | (228) |
| **31 December** | **187.136** | **403.319** |

## NOTE 29 - DERIVATIVE FINANCIAL INSTRUMENTS

| **31 December 2018** | **Fair Value** | |
|---|---|---|
| **Derivative instruments held for trading:** | **Asset** | **Liability** |
| **Foreign exchange derivative instruments** | | |
| Currency and interest rate swaps purchases and sales transactions | 12.772.069 | 11.181.788 |
| Forward currency purchases and sales transactions | 1.084.169 | 450.783 |
| Currency purchases and sales options | 521.910 | 609.422 |
| Other purchases and sales transactions | 3.249.356 | 867 |
| **Total derivative instruments held for trading** | **17.627.504** | **12.242.860** |
| **Derivative instruments held for hedging:** | | |
| Currency and interest rate swap purchases and sales transactions | 5.058.434 | 688.610 |
| Currency purchases and sales transactions | 2.678 | - |
| **Total derivative instruments held for hedging** | **5.061.112** | **688.610** |
| **Total derivative instruments** | **22.688.616** | **12.931.470** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 29 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

| **31 December 2017** | **Fair Value** | |
|---|---|---|
| **Derivative instruments held for trading:** | **Asset** | **Liability** |
| | | |
| **Foreign exchange derivative instruments** | | |
| Currency and interest rate swaps purchases and sales transactions | 6.104.829 | 4.722.590 |
| Forward currency purchases and sales transactions | 421.897 | 457.597 |
| Currency purchases and sales options | 203.603 | 242.212 |
| Other purchases and sales transactions | 1.587.534 | 5.092 |
| **Total derivative instruments held for trading** | **8.317.863** | **5.427.491** |
| | | |
| **Derivative instruments held for hedging:** | | |
| Currency and interest rate swap purchases and sales transactions | 1.136.284 | 75.710 |
| Forward currency purchases and sales transactions | 19.817 | 10.376 |
| Currency purchases and sales transactions | 37.023 | - |
| **Total derivative instruments held for hedging** | **1.193.124** | **86.086** |
| | | |
| **Total derivative instruments** | **9.510.987** | **5.513.577** |

Akbank, Brisa, Yünsa, Carrefoursa and Enerjisa hedge against cash flow risk through the use of interest rate swaps against the cash flow risk arising from its financial debts.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 30 - RECEIVABLES FROM FINANCE SECTOR OPERATIONS

**Banking**

| **Loans and advances to customers** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Consumer loans and credit cards receivables | 45.957.225 | 48.763.903 |
| Project finance loans (*) | 48.446.550 | 35.328.282 |
| Construction | 21.226.158 | 29.093.069 |
| Financial institutions | 25.290.619 | 28.290.165 |
| Small-scale enterprises | 14.967.236 | 17.271.905 |
| Mining | 6.241.256 | 6.746.537 |
| Telecommunication | 6.983.889 | 6.804.962 |
| Other manufacturing industries | 8.031.069 | 6.418.826 |
| Food and beverage, wholesale and retail | 5.149.361 | 5.392.196 |
| Textile | 6.004.275 | 5.273.075 |
| Chemicals | 4.608.734 | 4.099.549 |
| Automotive | 4.556.178 | 3.616.780 |
| Other | 17.894.126 | 15.759.297 |
| **Total loans and advances to customers** | **215.356.676** | **212.858.546** |
| Provision for loan losses | (8.482.445) | (6.963.538) |
| Leasing receivables | 6.415.536 | 5.811.994 |
| **Net loans and advances to customers** | **213.289.767** | **211.707.002** |

The above table includes the total live and follow-up lending of the bank and the credit risk reserve is set as a result of the bank evaluation considering the whole credit risk.

(*) Within the scope of acquisition financing of Türk Telekomunikasyon A.Ş. (Türk Telekom) provided to Ojer Telekomünikasyon A.Ş. within a syndicate formed by various domestic and foreign banks, where the financing structure includes acquired company's shares pledged as collateral, the Bank has transferred cash loan risk amounting TRY 3.269 millon from "Loans and receviables-Monitored" to "Non-performing Loans" and subsequently has written off TRY 3.269 millon (Full Amount). Furthermore, TRY 119 million ((Full Amount) receivable amount of the Group's subsidiary is classified under Receivables from Financial Sector Operations.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 30 - RECEIVABLES FROM FINANCE SECTOR OPERATIONS (Continued)

### Banking (Continued)

For the restructuring of the syndication loan extended to Ojer Telekominasyon A.Ş (OTAŞ), the main shareholder of Türk Telekom, an agreement has been made between all creditors including Akbank. As per the agreed structure, 192.500.000.000 Class A Shares in Türk Telekom, representing 55% of Türk Telekom's issued share capital, which have been pledged as security for the existing facilities, are taken over on 21 December 2018 by a special purpose vehicle Levent Yapılandırma Yönetimi A.Ş. ("LYY") owned directly or indirectly by the creditors. The Bank participated in LYY with a share of 35,56% for its share in receivables from OTAŞ. Within the scope of the acquisition of Türk Telekom shares by LYY and related agreements, the amount of credit extended to LYY by the Bank for the acquisition of shares, which are the guarantee of OTAŞ loans, is 1.272 million USD (6.990 million TRY Full Amount) as of 31 December 2018. This loan has been reclassified as "Receivables from Finance Sector Operations". The maturity of related loan is 1 year and it can be extended. As stated in agreements for abovementioned loan, it is expected that a part of the loan given to LYY shall be transferred from loans to capital and added to LYY capital in the following period. The shares of Türk Telekom, are pledged for this loan and constitute the guarantee of the loan granted to LYY. The main purpose of LYY is transferring the shares of Türk Telekom to an expert investor by providing the necessary conditions as soon as possible.

| **31 Aralık 2018** | **Commercial Loans** | | **Consumer Loans** | | **Credit Cards** | | **Financial Lease** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Balance | Expected Credit Loss | Balance | Expected Credit Loss | Balance | Expected Credit Loss | Balance | Expected Credit Loss | Balance | Expected Credit Loss |
| **Loans** | **169.476.968** | **5.576.750** | **30.310.656** | **1.476.363** | **15.543.270** | **928.150** | **6.441.318** | **501.182** | **221.772.212** | **8.482.445** |
| Stage 1 | 133.575.347 | 391.823 | 25.569.867 | 179.790 | 13.096.826 | 105.190 | 5.048.008 | 61.129 | 177.290.048 | 737.932 |
| Stage 2 | 23.328.009 | 2.257.273 | 3.572.225 | 336.290 | 1.659.792 | 148.050 | 792.903 | 122.000 | 29.352.929 | 2.863.613 |
| Stage 3 | 5.883.404 | 2.927.654 | 1.168.564 | 960.283 | 786.652 | 674.910 | 600.407 | 318.053 | 8.439.027 | 4.880.900 |
| Financial assets through profit or loss | 6.690.208 | | - | - | - | - | - | - | 6.690.208 | - |
| **Financial assets** | **76.107.578** | **48.418** | - | - | - | - | - | - | **76.107.578** | **48.418** |
| **Other** | **14.475.064** | **59.733** | - | - | - | - | - | - | **14.475.064** | **59.733** |
| **Non cash loans** | **52.795.371** | **381.930** | - | - | - | - | - | - | **52.795.371** | **381.930** |
| Stage 1 & 2 | 52.614.940 | 331.189 | - | - | - | - | - | - | 52.614.940 | 331.189 |
| Stage 3 | 180.431 | 50.741 | - | - | - | - | - | - | 180.431 | 50.741 |
| **Total** | **313.501.958** | **6.066.831** | **30.310.657** | **1.476.364** | **15.543.270** | **928.150** | **6.441.318** | **501.182** | **365.797.203** | **8.972.528** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 30 - RECEIVABLES FROM FINANCE SECTOR OPERATIONS (Continued)

### Banking (Continued)

| | 31 December 2017 | | | |
|---|---|---|---|---|
| | **Commerical Loans** | **Consumer Loans & Credit Cards** | **Leasing receivables** | **Total** |
| Neither past due nor impaired | 155.086.230 | 45.485.413 | 5.669.203 | 206.240.846 |
| Past due and not individually impaired | 7.065.496 | 688.697 | 65.599 | 7.819.792 |
| Individually impaired | 2.191.560 | 2.341.151 | 287.070 | 4.819.781 |
| **Total gross** | **164.343.286** | **48.515.261** | **6.021.872** | **218.880.419** |
| Less: allowance for individually impaired loans | (1.651.263) | (2.341.151) | (156.454) | (4.148.868) |
| Less: allowance for collectively impaired loans | (2.401.255) | (569.869) | (53.425) | (3.024.549) |
| **Total allowance for impairment** | **(4.052.518)** | **(2.911.020)** | **(209.879)** | **(7.173.417)** |
| **Total net** | **160.290.768** | **45.604.241** | **5.811.993** | **211.707.002** |

Effective interest rates of USD, EUR,YEN and TRY denominated loans and advances to customers are 7,26% p.a. (31 December 2017: 5,93% p.a.), 4,28% p.a. (31 December 2017: 3,73% p.a.), 9,06% p.a. (31 December 2017: 4,24% p.a.), and 18,41% (31 December 2017: 14,55% p.a) respectively.

As of 31 December 2018, the movement table of the credit risk provision of the banking industrial segment based on asset classes is as follows:

| | **Corporate** | **Commercial** | **Leasing Receivables** | **Total** |
|---|---|---|---|---|
| **1 January 2018** | **3.942.225** | **3.021.313** | **209.879** | **7.173.417** |
| IFRS 9 | 845.575 | (919.590) | 49.480 | (24.535) |
| Gross provisions | 4.986.256 | 1.753.633 | 366.340 | 7.106.229 |
| Collections | (709.473) | (440.373) | (5.794) | (1.155.640) |
| Written-off (*) | (3.598.126) | (900.176) | (118.724) | (4.617.026) |
| **31 December 2018** | **5.466.457** | **2.514.807** | **501.181** | **8.482.445** |

(*) Akbank has sold TRY 774 million (total TRY amount) in the following loans portfolio to three companies which are Güven Varlık Yönetimi A.Ş., Efes Varlık Yönetim A.Ş. and Hayat Varlık Yönetimi A.Ş. for a consideration of TRY 36 million (Full amount). Akbank has sold TRY 446 million (Full amount) in the non-performing loans portfolio to three companies which are Arsan Varlık Yönetim A.Ş., İstanbul Varlık Yönetim A.Ş. and Sümer Varlık Yönetim A.Ş. for a consideration of TRY 19.4 million (Full amount).

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 30 - RECEIVABLES FROM FINANCE SECTOR OPERATIONS (Continued)

### Banking (Continued)

The movement of loan loss provision of banking segment as of 31 December 2017 by class is as follows:

| | Corporate | Commercial | Total |
|---|---|---|---|
| **1 January 2017** | **3.662.282** | **3.302.324** | **6.964.606** |
| Gross provisions | 803.777 | 844.244 | 1.648.021 |
| Collections | (337.650) | (584.286) | (921.936) |
| Written-off (*) | (186.184) | (540.969) | (727.153) |
| **31 December 2017** | **3.942.225** | **3.021.313** | **6.963.538** |

(*) The Bank has sold TRY450,1 million (total TRY amount) which is previously 100% impaired in the following loans portfolio to Güven Varlık Yönetimi A.Ş. for a consideration of TRY 49,1 (Full amount TRY) million.

The maturity analysis of loans and advances given to customers at 31 December 2018 and 31 December 2017 is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Up to 3 months | 61.110.257 | 52.114.105 |
| 3 to 12 months | 48.173.860 | 43.286.730 |
| **Current** | **109.284.117** | **95.400.835** |
| 1 to 5 years | 74.553.660 | 86.445.812 |
| Over 5 years | 23.036.454 | 24.048.361 |
| **Non-current** | **97.590.114** | **110.494.173** |
| **Total** | **206.874.231** | **205.895.008** |

The repricing dates of the loans and advances given to customers as of 31 December 2018 and 31 December 2017 are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Up to 3 months | 86.877.733 | 76.335.391 |
| 3 to 12 months | 52.351.839 | 48.493.144 |
| 1 to 5 years | 60.537.709 | 71.314.084 |
| Over 5 years | 7.106.950 | 9.752.389 |
| **Total** | **206.874.231** | **205.895.008** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 31 - PAYABLES FROM FINANCE SECTOR OPERATIONS

**Banking**

| | 31 December 2018 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | **Demand** | **Time** | **Total** | **Demand** | **Time** | **Total** |
| Saving deposits | 20.345.719 | 105.662.512 | 126.008.231 | 17.851.983 | 89.346.331 | 107.198.314 |
| Commercial deposits | 19.275.050 | 48.031.661 | 67.306.711 | 17.616.473 | 57.209.394 | 74.825.867 |
| Interbank money market deposits | 1.487.220 | 6.564.165 | 8.051.385 | 1.187.569 | 12.741.468 | 13.929.037 |
| Funds provided from repo transactions | - | 14.275.016 | 14.275.016 | - | 28.850.276 | 28.850.276 |
| Other | 1.321.784 | 2.671.123 | 3.992.907 | 546.072 | 3.007.742 | 3.553.814 |
| **Total** | **42.429.773** | **177.204.477** | **219.634.250** | **37.202.097** | **191.155.211** | **228.357.308** |

Effective interest rates of USD, EUR and TRY denominated customer deposits are 3,51% p.a. (31 December 2017: 1,97% p.a.), 0,26% p.a. (31 December 2017: 0,49% p.a.) and 22,55% p.a. (31 December 2017: 10,81% p.a.).

As of 31 December 2018 and 2017, deposits and money market borrowings, the analysis of the remaining maturity dates and repricing dates in the contract are presented below:

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Demand | 39.131.043 | 35.239.920 |
| Up to 3 months | 153.046.100 | 166.467.421 |
| 3 to 12 months | 20.966.242 | 19.360.469 |
| 1 to 5 years | 5.955.533 | 6.693.448 |
| Over 5 years | 535.332 | 596.050 |
| **Total** | **219.634.250** | **228.357.308** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 32 - EARNINGS PER SHARE

Earnings per share for each class of share disclosed in the consolidated statements of income is determined by dividing the net income attributable to that class of share by the weighted average number of shares of that class that have been outstanding during the year.

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Earnings per share total TRY | | |
| - ordinary share ('00) | 1,88 | 1,71 |
| Earnings per share from continuing operations total TRY | | |
| - ordinary share ('00) | 1,88 | 1,70 |
| Number of treasury shares | (190.470.000) | (190.470.000) |
| Earnings per share | | |
| excluding treasury shares (total TRY) | | |
| - ordinary share ('00) | 1,88 | 1,71 |
| Earnings per share from continuing operations | | |
| excluding treasury shares (total TRY) | | |
| - ordinary share ('00) | 1,88 | 1,71 |
| Weighted average number of shares | | |
| as of the reporting date (per share of Kr 1 nominal value) | | |
| - ordinary share | 204.040.393.100 | 204.040.393.100 |

## NOTE 33 - RELATED PARTY DISCLOSURES

**Key management personnel compensation:**

The Group defined its key management as CEO, general secretary, SBU presidents, head of departments and group directors. Short term benefits include wages, bonuses, social security, health insurance, premium bonus and incentive premium. Other long term benefits include private pension system payments. Benefits provided for retirement include retirement and unused vacation payments paid to senior executives for retirement and transfer.

The detailed schedule of compensation paid or payable to key management for the years ended 31 December 2018 and 2017 are as follows:

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Short term benefits | 25.556 | 21.759 |
| Benefits provided by termination | 3.125 | 2.165 |
| Other long term benefits | 271 | 234 |
| **Total** | **28.953** | **24.158** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIALINSTRUMENTS

### 34.1 Financial Instruments and Financial Risk Management

### 34.1.1 Financial risk management

The Group's activities expose it to a variety of financial risks. These risks; market risk (including currency risk, fair value interest rate risk, price risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on seek to minimizing the variability of financial markets and the potential adverse effects on the Group's financial performance. The Group benefits from derivative financial instruments to hedge against various risks that it is exposed to.

Risk management is implemented by individual Subsidiaries and Joint Ventures under policies, approved by their Board of Directors.

#### 34.1.1.1 Foreign Exchange Risk

The Group is exposed to foreign exchange risk through the impact of rate changes on the translation of foreign currency assets and liabilities to local currency. These risks are monitored and limited by analysing foreign currency position. The Group benefits from derivative instruments with the aim of minimizing the foreign exchange risk arising from balance sheet items by using swap and forward usage is limited to foreign exchange risk.

The difference between the assets and liabilities of Akbank both denominated in foreign currency is defined as the "Net Foreign Currency ("FC") position" and is the exposure to foreign currency risk. Another dimension of the foreign exchange risk is the change in the value of the foreign currencies themselves within the net FC position (cross rate risk). Akbank's exposure to currency risk is within the limits set by Risk Management Committee. The Risk Management Committee monitors the general economic conditions and developments in the markets and sets new limits when necessary. These limits are set and monitored separately for the net FC position and for the cross rate risk. As a means of managing foreign exchange risk, futures contracts such as swap and forward are also used when necessary to provide hedging protection.

The Group is mainly exposed to foreign exchange risk in EUR, USD and GBP.

Foreign currency denominated assets and liabilities held by the Group before consolidation elimination at 31 December 2018 and 2017 terms of TRY are as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---:|---:|
| Assets | 178.595.578 | 161.104.048 |
| Liabilities | (201.601.365) | (182.835.953) |
| **Net foreign currency balance sheet position** | **(23.005.787)** | **(21.731.905)** |
| Net foreign currency position of off-balance sheet derivative financial instruments | 26.926.316 | 25.034.376 |
| **Net foreign currency balance sheet and off-balance sheet position** | **3.920.529** | **3.302.471** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

### 34.1.1.1 Foreign Exchange Risk (continued)

| **31 December 2018** | **Total TRY Equivalent** | **USD TRY Equivalent** | **EUR TRY Equivalent** | **GBP TRY Equivalent** | **Other TRY Equivalent** |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Cash and Cash Equivalents | 23.603.634 | 16.396.562 | 5.458.393 | 1.403.846 | 344.833 |
| Financial Investments | 26.175.616 | 19.210.249 | 6.342.367 | - | 623.000 |
| Receivables From Financial Operations | 95.632.459 | 44.747.843 | 50.843.790 | 3.001 | 37.825 |
| Reserve Deposits at Central Bank | 23.504.830 | 11.522.486 | 8.549.661 | - | 3.432.683 |
| Trade Receivables | 932.242 | 216.542 | 638.387 | 23.246 | 54.067 |
| Other Assets | 8.746.797 | 6.404.821 | 2.220.539 | 143 | 121.294 |
| **Total Assets** | **178.595.578** | **98.498.503** | **74.053.137** | **1.430.236** | **4.613.702** |
| **Liabilities:** | | | | | |
| Funds Borrowed and Debt Securities in Issue | 57.923.109 | 45.858.329 | 11.873.391 | - | 191.389 |
| Customer Deposits | 138.209.510 | 87.646.861 | 43.801.101 | 3.267.100 | 3.494.448 |
| Trade payables | 288.550 | 116.258 | 132.337 | 956 | 38.999 |
| Other Payables and Provisions | 5.180.196 | 2.123.396 | 2.973.325 | 2.230 | 81.245 |
| **Total Liabilities** | **201.601.365** | **135.744.844** | **58.780.154** | **3.270.286** | **3.806.081** |
| **Net assets/(liabilities) foreign currency position of off-balance sheet derivative financial instruments** | **26.926.316** | **38.527.196** | **(12.450.162)** | **1.852.690** | **(1.003.409)** |
| **Monetary items net assets/(liabilities) foreign currency Position** | **3.920.529** | **1.280.855** | **2.822.821** | **12.640** | **(195.788)** |

Net profit effect of the consolidated to the total net foreign currency position is TRY1.675.565 as of 31 December 2018 (Bank and Philsa-Philip Morrissa excluded).

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

### 34.1.1.1 Foreign Exchange Risk (continued)

| **31 December 2017** | **Total TRY Equivalent** | **USD TRY Equivalent** | **EUR TRY Equivalent** | **GBP TRY Equivalent** | **Other TRY Equivalent** |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Cash and Cash Equivalents | 12.318.462 | 7.893.806 | 4.145.078 | 52.544 | 227.034 |
| Financial Investments | 32.180.170 | 25.185.618 | 6.392.315 | - | 602.237 |
| Receivables From Financial Operations | 83.896.510 | 41.048.634 | 42.768.170 | 11.770 | 67.936 |
| Reserve Deposits at Central Bank | 26.021.620 | 15.713.902 | 5.189.660 | - | 5.118.058 |
| Trade Receivables | 1.121.971 | 376.046 | 606.215 | 8.308 | 131.402 |
| Other Assets | 5.565.315 | 4.003.835 | 1.376.868 | 135 | 184.477 |
| **Total Assets** | **161.104.048** | **94.221.841** | **60.478.306** | **72.757** | **6.331.144** |
| **Liabilities:** | | | | | |
| Funds Borrowed and Debt Securities in Issue | 45.039.292 | 32.586.221 | 12.256.491 | 4.043 | 192.537 |
| Customer Deposits | 133.504.077 | 84.394.537 | 44.909.486 | 2.020.256 | 2.179.798 |
| Trade payables | 511.452 | 335.149 | 126.560 | 432 | 49.311 |
| Other Payables and Provisions | 3.781.132 | 1.378.168 | 2.238.673 | 6.000 | 158.291 |
| **Total Liabilities** | **182.835.953** | **118.694.075** | **59.531.210** | **2.030.731** | **2.579.937** |
| **Net assets/(liabilities) foreign currency position of off-balance sheet derivative financial instruments** | **25.034.376** | **26.382.824** | **314.075** | **1.961.391** | **(3.623.914)** |
| **Monetary items net assets/(liabilities) foreign currency Position** | **3.302.471** | **1.910.590** | **1.261.171** | **3.417** | **127.293** |

Net profit effect of the consolidated to the total net foreign currency position is TRY 447.981 as of 31 December 2017 (Bank and Philsa-Philip Morrissa excluded).

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

### 34.1.1.1 Foreign Exchange Risk (continued)

As the Bank is exposed to a negligible foreign currency position risk, exchange rate changes have no significant effect on the financial statements.

The foreign exchange risk of Group companies other than that of the banking segment for the years ended
31 December 2018 and 2017 is summarized as follows:

| **31 December 2018** | **Profit/Loss** | |
|---|---|---|
| | **Appreciation of foreign currency** | **Appreciation of foreign currency** |
| Change in USD against TRY by 20% | | |
| USD net assets/liabilities | 287.692 | (287.692) |
| USD hedge items (-) | - | - |
| **USD net effect** | **287.692** | **(287.692)** |
| Change in EUR against TRY by 20% | | |
| EUR net assets/liabilities | 1.124 | (1.124) |
| EUR hedge items (-) | - | - |
| **EUR net effect** | **1.124** | **(1.124)** |
| Change in GBP against TRY by 20% | | |
| GBP net assets/liabilities | 3.826 | (3.826) |
| GBP hedge items (-) | - | - |
| **GBP net effect** | **3.826** | **(3.826)** |
| Change in other currency against TRY by 20% | | |
| Other currency net assets/liabilities | (730) | 730 |
| Other Hedges items(-) | - | - |
| **Other currency net effect** | **(730)** | **730** |

| **31 December 2017** | **Profit/Loss** | |
|---|---|---|
| | **Appreciation of foreign currency** | **Appreciation of foreign currency** |
| Change in USD against TRY by 20% | | |
| USD net assets/liabilities | 167.258 | (167.258) |
| USD hedge items (-) | - | - |
| **USD net effect** | **167.258** | **(167.285)** |
| Change in EUR against TRY by 20% | | |
| EUR net assets/liabilities | 101.876 | (101.876) |
| EUR hedge items (-) | - | - |
| **EUR net effect** | **101.876** | **(101.876)** |
| Change in GBP against TRY by 20% | | |
| GBP net assets/liabilities | 898 | (898) |
| GBP hedge items (-) | - | - |
| **GBP net effect** | **898** | **(898)** |
| Change in other currency against TRY by 20% | | |
| Other currency net assets/liabilities | 3.186 | (3.186) |
| Other Hedges items(-) | - | - |
| **Other currency net effect** | **3.186** | **(3.186)** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

### 34.1.1.2 Interest Rate Risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. In addition to the natural hedges that arise from offsetting interest rate sensitive assets and liabilities, the Group also manages this risk through derivative transactions for hedging purposes.

Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rate expose the Group to fair value interest rate risk. During 2018 and 2017, the Group's borrowings at floating rates are denominated in TRY, USD, EUR and GBP.

As of 31 December 2018 and 2017, the interest position table of the Group's non-banking industrial segments is as follows:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Fixed interest rate financial instruments** | | |
| Financial assets | 122.991 | 104.893 |
| Time deposits | 122.991 | 104.893 |
| Financial liabilities | 3.278.377 | 3.156.886 |
| **Floating interest rate financial instruments** | | |
| Financial liabilities | 399.176 | 260.643 |

Renewing existing positions for non-banking industrial segments by the Group. Various scenarios were prepared for bank loans with floating interest rates taking into account alternative financing and hedging. According to this scenarios: (Please refer to Note 34.1.1.5 for banking industrial segment).

At 31 December 2018, if the annual interest rate on TRY denominated floating rate borrowings had been higher/lower by 10% with all other variables held constant, income before tax for the year would have been TRY(25.731) (31 December 2017: TRY(6.500).lower/higher, mainly as a result of higher interest expense on floating rate borrowings.

At 31 December 2018, if the annual interest rate on USD denominated floating rate borrowings had been higher/lower by 1% with all other variables held constant, income before tax for the year would have been TRY(1.419) (31 December 2017: TRY1.751) lower/higher, mainly as a result of higher interest expense on floating rate borrowings.

At 31 December 2017, if the annual interest rate on EUR denominated floating rate borrowings had been higher/lower by 1% with all other variables held constant, income before tax for the year would have been TRY(861) (31 December 2017: TRY(777) lower/higher, mainly as a result of higher interest expense on floating rate borrowings.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

### 34.1.1.3 Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business the Group aims to maintaining flexibility in funding by keeping committed credit lines available.

*i)* ***Banking***

A major objective of Akbank's asset and liability management is to ensure that sufficient liquidity is available to meet Akbank's commitments to customers and to satisfy Akbank's own liquidity needs. The ability to fund the existing and prospective debt requirements is managed by maintaining sufficient cash and marketable securities. The primary funding sources of Akbank are equity placed in interest bearing assets, well-distributed and stable deposits and medium to long term borrowings obtained from international markets.

In spite of a substantial portion of deposits from individuals being short-term, diversification of these deposits by number and type of depositors together with the past experience of Akbank indicate that these deposits will provide a long-term and stable source of funding for Akbank.

As of 31 December 2018 and 2017 the contractual cash flows of the non-derivative financial liabilities in accordance agreement of the Group companies banking segment are as follows:

| | 31 December 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Liabilities** | **Book value** | **Contructual Cash flows** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** |
| Customer deposits | 222.839.127 | 225.656.385 | 164.373.540 | 25.266.132 | 21.293.569 | 12.072.952 | 2.650.192 |
| Funds borrowed and debt securities in issue | 60.380.409 | 69.669.966 | 1.597.187 | 5.832.101 | 20.954.385 | 32.060.105 | 9.226.188 |
| Interbank money market deposits | 66.047 | 66.047 | 50.730 | 15.317 | - | - | - |
| | **283.285.583** | **295.392.398** | **166.021.457** | **31.113.550** | **42.247.954** | **44.133.057** | **11.876.380** |

| | 31 December 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Liabilities** | **Book value** | **Contructual Cash flows** | **Up to 1 month** | **1-3 months** | **3-12 months** | **1-5 years** | **Over 5 years** |
| Customer deposits | 229.539.315 | 233.007.988 | 162.168.054 | 27.359.136 | 18.683.908 | 22.468.014 | 2.328.876 |
| Funds borrowed and debt securities in issue | 51.383.423 | 53.972.764 | 1.851.982 | 11.685.351 | 14.307.046 | 18.181.632 | 7.946.753 |
| Interbank money market deposits | 507.522 | 508.623 | 470.052 | 38.571 | - | - | - |
| | **281.430.260** | **287.489.375** | **164.490.088** | **39.083.058** | **32.990.954** | **40.649.646** | **10.275.629** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

### 34.1.1.3 Liquidity Risk (continued)

#### *ii) Other industrial segments*

The table below depicts the cash outflows the cash outflows of the Group's non-banking industrial segments for the balance sheet liabilities as of the balance sheet date. The amounts shown in the table are the contractual undiscounted cash flow amounts and the Group considers the liquidity management based on the expected undiscounted cash flows.

As of 31 December 2018 and 2017, the Group's analysis of non-derivative financial liabilities of non-banking business segments according to their contractual maturity dates as follows:

| 31 December 2018 | Book value | Contructual Cash flows | Up to 3 months | 3-12 months | 1-5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Financial liabilities | 2.784.240 | 3.540.228 | 783.910 | 1.765.710 | 990.608 | - |
| Financial lease obligations | 85.957 | 144.977 | 10.057 | 20.808 | 33.576 | 80.537 |
| Trade payables | 3.251.488 | 3.267.803 | 2.893.652 | 374.152 | - | - |
| Other payables | 147.961 | 162.805 | 70.469 | - | 92.336 | - |
| | **6.269.646** | **7.115.814** | **3.758.088** | **2.160.669** | **1.116.519** | **80.537** |

| 31 December 2017 | Book value | Contractual cash flows | Up to 3 months | 3-12 months | 1-5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Financial liabilities | 3.910.837 | 4.145.969 | 1.066.078 | 1.831.196 | 1.247.033 | 1.662 |
| Financial lease obligations | 87.136 | 93.822 | 9.228 | 23.582 | 39.009 | 22.003 |
| Trade payables | 2.844.742 | 2.856.362 | 1.854.926 | 1.001.436 | - | - |
| Other payables | 130.536 | 144.666 | 144.666 | - | - | - |
| | **6.973.251** | **7.240.819** | **3.074.898** | **2.856.214** | **1.286.042** | **23.665** |

## NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

### 34.1.1.4 Credit Risk

#### *i) __Banking__*

Credit risk of the banking industrial segment is the risk that the counterparties of Akbank may be unable to meet the terms of their agreements. Akbank sets credit limits to counterparties in order to limit the risk of credit risk to credit limitations and does not extend credit limits beyond these limits. Credit risks are determined for each individual customer, enterprise, business group and risk groups separately. While determining credit risk, criteria such as the customers' financial strength, commercial capacities, sectors, geographic areas and capital structure are evaluated. Analyses of the financial position of the customers are based on the statements of account and other information in accordance with the related legislation. Previously defined credit limits are constantly revised as a result of assessing general economic developments and monitoring changes in customers' financial information and activities. Loan limits are provided on the basis of customer-specific types and amounts of guarantees

During loan extensions, limits determined on a customer and product basis are essentially followed up; information on risk and limits is continuously checked.

There are risk control limits set for the credit risks and market risks arise from forward and option agreements and other similar agreements.

Derivatives are also carried out when necessary in order to meet and control the credit risks that may arise especially from foreign exchange and interest rate fluctuations.

Non-cash loans transformed into cash loans are included in the same risk group as cash loans which are not collected upon maturity. Credit risk management is applied for all positions involving counterparty risk.

Rescheduled or restructured loans are followed by Akbank according to Akbank's credit risk management and follow-up principles. The financial status and business activities of the relevant customer are analyzed continuously and the related units are monitored whether principal and interest payments are made according to the renewed plan.

Within the framework of Akbank's risk management approach, it is assumed that long-term commitments are exposed to more credit risk than short-term commitments and that risk factors such as risk limits and guarantees for long-term risks are covered more broadly than short-term risks.

Akbank's banking activities in foreign countries and credit transactions do not constitute an important risk in terms of the related countries' economic conditions and activities of customers and companies. When considered within the financial activities of other financial institutions, Akbank as an active participant in the national and international banking market is not exposed to a significant credit risk when evaluated together with the financial activities of other financial institutions.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

### 34.1.1.4 Credit Risk (Continued)

***i) <u>Banking (continued)</u>***

Akbank assesses the credit quality and assigns an internal risk rating to all borrowers and other counterparties based on Advanced Internal Rating Based Approach (Advanced IRB Approach).

With the help of scoring systems created for different customers, the probability of default is calculated and rating systems for corporate, commercial, SME, consumer and credit cards are created separately.

Akbank calculates the differantial of customers defaulting through rating systems created for different types of customers. Concentration data for the classed loans were given using the following tablature rating systems.

The rating tool concentration by risk classes are as follows:
.

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Above average | 50,82% | 39,10% |
| Average | 30,42% | 47,07% |
| Below average | 16,25% | 13,31% |
| Unrated | 2,52% | 0,52% |

Maximum exposure to credit risk of banking industrial segment is as follow:

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Loans and advances to other banks | 49.617.879 | 44.637.555 |
| Loans and advances | 207.349.631 | 206.894.944 |
| *Consumer loans and advances* | *43.449.413* | *45.493.948* |
| *Corporate loans and advances* | *163.900.218* | *161.400.996* |
| Financial lease receivables | 5.940.136 | 5.811.992 |
| Financial Assets through profit or loss | 28.132 | 16.459 |
| Derivative financial assets through profit or loss | 20.616.295 | 8.316.049 |
| Derivative financial assets through other comprehensive income | 1.989.608 | 1.136.284 |
| Financial assets through other comprehensive income and financial assets at amortised cost | 56.352.318 | 61.336.793 |
| Other assets | 5.130.107 | 2.467.680 |
| **Total** | **347.024.106** | **330.617.756** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

**NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)**

**34.1.1.4 Credit Risk (Continued)**

***i) <u>Banking (continued)</u>***

Marketable securities of the banking industrial segment as of 31 December 2018 and 2017. Moody's rating analysis of available-for-sale financial assets and held-to-maturity financial assets is as follows:

| 31 December 2018 | Financial assets through profit or loss | Financial assets through other comprehensive income | Financial assets at amortized cost | Total |
|---|---|---|---|---|
| Aaa | - | - | - | - |
| Aa1, Aa2, Aa3 | - | 253.903 | - | 253.903 |
| A1, A2, A3 | - | 239.278 | - | 239.278 |
| Baa1, Baa2, Baa3 | - | 266.730 | - | 266.730 |
| Ba1 | - | 840 | - | 840 |
| Ba2 | - | 62.051 | - | 62.051 |
| Ba3 | 22.006 | 37.193.092 | 9.754.326 | 46.969.424 |
| B1, B2, B3 | - | 6.072.943 | 2.509.155 | 8.582.098 |
| **Total** | **22.006** | **44.088.837** | **12.263.481** | **56.374.324** |

| 31 December 2017 | Financial assets through profit or loss | Financial assets through other comprehensive income | Financial assets at amortized cost | Total |
|---|---|---|---|---|
| Aaa | - | - | - | - |
| Aa1, Aa2, Aa3 | - | 192.304 | - | 192.304 |
| A1, A2, A3 | - | 114.203 | - | 114.203 |
| Baa1, Baa2, Baa3 | - | 671.056 | - | 671.056 |
| Ba1 | 16.459 | 41.279.319 | 18.406.623 | 59.702.401 |
| Ba2 | - | 196.879 | 476.409 | 673.288 |
| **Total** | **16.459** | **42.453.761** | **18.883.032** | **61.353.252** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

### 34.1.1.4 Credit Risk (Continued)

***i) Banking (continued)***

The geographical distribution of the financial assets of banking industrial segment for the years ended 31 December 2018 and 2017 are summarized as follows:

| **31 December 2018** | **Turkey** | **USA** | **EU Contries** | **Non-EU Contries** | **Total** |
|---|---|---|---|---|---|
| Loans and advances to banks | 31.332.399 | 5.988.306 | 12.268.242 | 28.932 | 49.617.879 |
| Loans and advances | 198.280.891 | 39.047 | 8.368.831 | 660.862 | 207.349.631 |
| *Consumer loans and advances* | *43.449.413* | - | - | - | *43.449.413* |
| *Corporate loans and advances* | *154.831.478* | *39.047* | *8.368.831* | *660.862* | *163.900.218* |
| Financial lease receivables | 5.940.136 | - | - | - | 5.940.136 |
| Financial assets at fair value through profit and loss | 28.132 | - | - | - | 28.132 |
| Derivative financial assets at fair value through profit and loss | 8.631.718 | 2.964 | 13.948.210 | 23.010 | 22.605.903 |
| Financial assets at fair value through other comprehensive income and financial assets measured at amortized cost | 55.820.051 | - | 532.267 | - | 56.352.318 |
| Other assets | 5.130.107 | - | - | - | 5.130.107 |
| **Total** | **305.163.434** | **6.030.317** | **35.117.550** | **712.804** | **347.024.106** |

| **31 December 2017** | **Turkey** | **USA** | **EU Contries** | **Non-EU Contries** | **Total** |
|---|---|---|---|---|---|
| Loans and advances to banks | 36.446.551 | 1.033.775 | 7.129.962 | 27.267 | 44.637.555 |
| Loans and advances | 199.896.496 | 34.280 | 6.119.657 | 844.511 | 206.894.944 |
| *Consumer loans and advances* | *45.493.948* | - | - | - | *45.493.948* |
| *Corporate loans and advances* | *154.402.548* | *34.280* | *6.119.657* | *844.511* | *161.400.996* |
| Financial lease receivables | 5.811.992 | - | - | - | 5.811.992 |
| Trading financial assets | 16.459 | - | - | - | 16.459 |
| Trading purpose derivative financial assets | 3.822.067 | 77 | 4.475.740 | 18.165 | 8.316.049 |
| Derivative financial instruments for hedging purposes | - | - | 1.136.284 | - | 1.136.284 |
| Available for sale and held to maturity financial assets | 60.428.260 | - | 908.533 | - | 61.336.793 |
| Other assets | 2.467.680 | - | - | - | 2.467.680 |
| **Total** | **308.889.505** | **1.068.132** | **19.770.176** | **889.943** | **330.617.756** |

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

### 34.1.1.4 Credit Risk (Continued)

#### *i) Banking industrial segment (continued)*

The industrial distribution of the financial assets of banking sector for the years ended 31 December 2018 and 2017 are summarized as follows:

| | Financial institutions | Public sector | Wholesale retail and trade | Manufacturing | Other | Individual customers | Total |
|---|---|---|---|---|---|---|---|
| Loans and advances to banks | 49.617.879 | - | - | - | - | - | 49.617.879 |
| Loans and advances | | | | | | | |
| *Customer loans* | - | - | - | - | - | *43.449.413* | *43.449.413* |
| *Corporate loans* | *24.666.717* | *1.508.632* | *25.253.466* | *71.024.751* | *41.446.652* | - | *163.900.218* |
| Financial lease receivables | 166.469 | - | 536.938 | 1.927.658 | 3.309.071 | - | 5.940.136 |
| Financial assets through profit/loss | 6.126 | 10.113 | - | - | 11.893 | - | 28.132 |
| Derivative instruments | 13.492.081 | - | - | - | 9.179.486 | 17.049 | 22.688.616 |
| Financial assets through other comprehensive income and financial assets at amortized cost | 9.663.343 | 46.778.899 | - | 86.249 | 94.929 | - | 56.623.420 |
| Other assets | 5.130.107 | - | - | - | - | - | 5.130.107 |
| **31 December 2018** | **102.742.722** | **48.297.644** | **25.790.404** | **73.038.658** | **54.042.031** | **43.466.462** | **347.377.921** |
| **31 December 2017** | **88.350.297** | **54.879.359** | **30.139.113** | **62.041.854** | **49.657.585** | **45.549.548** | **330.617.756** |

#### *ii) Other industrial segments*

Credit risk for the other than that of the banking segment arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

The Group's exposure to types of financial instruments of other industrial segments as of 31 December 2018 and 2017 is as follows.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 34 -NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

### 34.1.1.4 Credit risk (Continued)

| 31 December 2018 | Trade receivables | Receivables from insurance operations | Other receivables (*) | Bank deposits | Derivative instruments |
|---|---|---|---|---|---|
| **Maximum credit risk exposure as of reporting date (A+B+C)** | **2.137.062** | **-** | **141.795** | **477.977** | **3.491** |
| A.Restructed otherwise accepted as past due and impaired | 1.852.862 | - | 141.795 | 477.977 | 3.491 |
| B. Past due but not impaired net book value | 284.200 | - | - | - | - |
| C. Net book value of impaired assets | - | - | - | - | - |
| - Past due (Gross amount) | 190.375 | - | - | - | - |
| - Impairment | (190.375) | - | - | - | - |
| - Collateralized or guaranteed part of net value | - | - | - | - | - |

| 31 December 2017 | Trade receivables | Receivables from insurance operations | Other receivables (*) | Bank deposits | Derivative instruments |
|---|---|---|---|---|---|
| **Maximum credit risk exposure as of reporting date (A+B+C)** | **2.003.566** | **-** | **244.073** | **514.624** | **35.294** |
| A.Restructed otherwise accepted as past due and impaired | 1.855.103 | - | 225.219 | 514.624 | 35.294 |
| B. Past due but not impaired net book value | 148.463 | - | 18.854 | - | - |
| C. Net book value of impaired assets | - | - | - | - | - |
| - Past due (Gross amount) | 85.968 | - | 754 | - | - |
| - Impairment | (85.968) | - | (754) | - | - |
| - Collateralized or guaranteed part of net value | - | - | - | - | - |

(*) Does not include tax and other legal receivables.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

### 34.1.1.5 Value at Risk

Stress tests provide indications of the extent of the damage that may occur in unusual circumstances. The stress test conducted by the Akbank Risk Management department includes the interest rate stress test as predicted by Akbank's market risk policies. For all banking transactions except for the trading portfolio, the interest rate risk is monitored under the interest rate risk arising from banking accounts. The results of the stress test are analyzed by the Asset and Liability Committee (ALCO).

Calculation and reporting of interest rate risk arising from banking accounts the monthly rate is calculated in accordance with the "Regulation on Measurement and Evaluation of Interest Rate on Banking Accounts Based on Standard Shock" published in the Official Gazette dated 23 August 2011 and numbered 28034.

As of 31 December 2018 and 2017, the fair value changes of Turkish Lira and foreign exchange after performing 500 and 200 basis points in the account balances subject to the calculation is as follows;

| | | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|---|
| **Currency** | **Applied Shock (+/- x basis points)** | **Gains /Losses** | **Gains /Shareholders Equity-Losses /Shareholders Equity** | **Gains /Losses** | **Gains /Shareholders Equity-Losses /Shareholders Equity** |
| **TRY** | (400) | 2.653.182 | 5,28% | 4.767.280 | 10,68% |
| **TRY** | 500 | (2.982.938) | (5,94)% | (4.987.185) | (11,19)% |
| **USD** | (200) | (200) | (0,40)% | (193.390) | (0,43)% |
| **USD** | 200 | 201 | 0,40% | 203.408 | 0,46% |
| **EUR** | (200) | 107 | 0,21% | (272.548) | (0,61)% |
| **EUR** | 200 | (790) | (1,57)% | (157.953) | (0,35)% |
| **Total (for negative shocks)** | | **2.560.980** | **5,10%** | **4.301.342** | **9,64%** |
| **Total (for positive shocks)** | | **(3.572.417)** | **(7,11)%** | **(4.941.730)** | **(11,08)%** |

Akbank considers foreign exchange risk and interest rate risk as two significant factors of market risk. Market risk is measured by two method named as "inherent method" and "standard method".

According to the "inherent method", the market risk related to the trading portfolio is measured through the Value at Risk (VaR) approach, which takes into consideration diverse risk factors. To calculate the VaR, the Bank uses the variance-covariance, historical simulation and Monte Carlo simulation methods. The software used for this purpose is able to make calculations based on forward efficiency curves and volatility models. The VaR model is based on the assumption of a 99% confidence interval and a 10-day retention period. VaR analyses are reported daily to senior management and are also used as a risk parameter and limit management tool for the bond portfolio. The Risk Management Committee sets risk limits for market risk and closely monitors the risk limits in the light of market conditions. The risk limits are under authorization bounders and control efficiency is increased.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 34 - NATURE AND LEVEL OF RISKS DERIVED FROM FINANCIAL INSTRUMENTS (Continued)

### 34.1.1.5 Value at Risk (Continued)

RMD analyzes are supported by scenario analyzes and stress tests, which are unexpected and unlikely to occur, but take into account the effects of major events and fluctuations in the market. Retrospective testing of model outputs is regularly carried out.

According to the "standard method", market risk is measured on securities portfolio basis in a way that includes the Group's exchange risk daily and weekly, and reported to the senior management.

### 34.1.2 Capital risk management

The Group manages its capital to ensure that entities in the Group's objectives are to maintaine the Group ability to operate in order maintain optimal capital structure in order to benefit other shareholders and reduce capital cost.

In order to maintain or recapitalise the capital structure, the Group will determine the dividend payable to shareholders, issue new shares and sell its assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents and tax liabilities (current period and deferred income tax liabilities).

The net liability/invested capital ratios at 31 December 2018 and 2017 are as follows:

| Thousand TRY | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Total financial liabilities | 315.290.475 | 302.136.812 |
| Cash and cash equivalents | 23.657.667 | 14.519.064 |
| Net liability | 291.632.808 | 287.617.748 |
| Equity | 56.395.796 | 51.997.939 |
| Invested capital(**) | 348.028.604 | 339.615.687 |
| Net liability/invested capital ratio | 84% | 85% |

(*) The capital invested consists of equity and net debt total.

## NOTE 35 - FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

The estimated fair values of financial instruments have been determined by the Holding and its Subsidiaries and Joint Ventures using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Holding and its subsidiaries and joint ventures could realise in a current market transaction.

The following methods and assumptions were used in estimating the fair value of the financial instruments for which the fair value of the Group can be determined:

## NOTE 35 - FINANCIAL INSTRUMENTS (Continued)

### Fair Value of Financial Instruments (contuniued)

Financial assets

The fair value of the foreign currency denominated amounts, which are translated by using the exchange rates prevailing at period-end, is considered to approximate their fair value.

The fair values of certain financial assets carried at cost including cash and due from banks, deposits with banks and other financial assets are considered to approximate their respective carrying values due to their short-term nature. The fair value of investment securities has been estimated based on the market prices at balance sheet dates.

The trade receivables along with the related allowances for doubtfull receivables uncollectibility are carried at amortised cost using the effective yield method, and hence are accepted to approximate their fair values.

Financial liabilities

The fair value of short-term funds borrowed and other monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

Long-term borrowings, which are principally at floating rates and denominated in foreign currencies, are translated at year-end exchange rates and accordingly their carrying amounts approximate their fair values.

Trade payables are valued at amortized cost using the effective interest method and are thus considered to approximate their fair values.

Derivative financial instruments

The fair value of forward foreign exchange contracts and currency/interest rate swaps is estimated based on quoted market rates prevailing at the balance sheet date.

Fair values of the financial assets and liabilities of the Group's banking segment as of 31 December 2018 and 2017 are as follows:

Fair value classifications of the financial assets and liabilities of the Group carried at fair value is as stated below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
Level 3: Inputs for the asset or liability that are not based on observable market data.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 35 - FINANCIAL INSTRUMENTS (Continued)

### Fair Value of Financial Instruments (contuniued)

### *i) Banking*

Fair values of the financial assets and liabilities of the Group's banking segment as of 31 December 2018 and 2017 are as follows:

| Current Year - 31 December 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial Assets at Fair Value Through Profit or Loss | | | | |
| - Government Debt Securities | 10.113 | - | - | 10.113 |
| - Marketable Securities Representing Capital Share | 150.684 | - | - | 150.684 |
| - Other Financial Assets | 18.020 | - | - | 18.020 |
| Financial Assets at Fair Value Through Other Comprehensive Income | | | | |
| - Government Debt Securities | 36.502.564 | - | - | 36.502.564 |
| - Marketable Securities Representing Capital Share | - | - | - | - |
| - Other Financial Assets | 6.637.480 | 1.219.809 | - | 7.857.289 |
| Derivative Financial Assets | | | | |
| Derivative Financial Assets at Fair Value Through Profit or Loss | 1.371 | 20.697.637 | - | 20.699.008 |
| - Fair Value Difference of Derivative Financial Assets, Reflected on Other Comprehensive Income | - | 1.989.608 | - | 1.989.608 |
| Borrowings | - | 206.599.559 | 6.690.208 | 213.289.767 |
| Financial Assets measured at amortized cost (Net) | | | | |
| - Government Debt Securities | 9.411.205 | - | - | 9.411.205 |
| - Other Financial Assets | 2.852.362 | - | - | 2.852.362 |
| **Total Assets** | **55.583.799** | **230.506.613** | **6.690.208** | **292.780.620** |
| Derivative Financial Liabilities | | | | |
| Derivative Financial Liabilities at Fair Value Through Profit or Loss | 248 | 12.931.222 | - | 12.931.470 |
| - Fair Value Difference of Derivative Financial Liabilities | | | | |
| **Total Liabilities** | **248** | **12.931.222** | **-** | **12.931.470** |

(*) The fair value of the loan considered as third level is determined based on the results various valuation methods. Possible changes in the underlying assumptions may affect the carrying value of the loan.

Equity securities classified as available for sale that are not traded in an active market and whose fair value can not be reliably determined are stated at cost less any impairment losses on the consolidated financial statements.

There are no transfers between levels in the current year.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 35 - FINANCIAL INSTRUMENTS (Continued)

### Fair Value of Financial Instruments (continued)

### *i) Banking industrial segment (continued)*

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Trading financial assets** | **32.957** | **6.933** | **-** | **39.890** |
| - Government securities | 9.525 | - | - | 9.525 |
| - Stocks | 23.432 | - | - | 23.432 |
| - Other | - | 6.933 | - | 6.933 |
| **Avaible for sale financial assets** | **42.743.386** | **102.441** | **-** | **42.845.827** |
| - Government securities | 23.159.176 | - | - | 23.159.176 |
| - Eurobonds | 13.657.442 | - | - | 13.657.442 |
| - Mutual Funds | 277.987 | - | - | 277.987 |
| - Equities traded in organized markets | - | 116 | - | 116 |
| - Other | 5.648.781 | 102.325 | - | 5.751.106 |
| **Trading purpose derivative financial assets** | **2.328** | **8.313.721** | **-** | **8.316.049** |
| **Derivative financial instruments for hedging purposes** | **-** | **1.136.284** | **-** | **1.136.284** |
| **Total assets** | **42.778.671** | **9.559.379** | **-** | **52.338.050** |
| | | | | |
| **Trading financial liabilities** | **186** | **5.423.642** | **-** | **5.423.828** |
| **Derivative financial liabilities for hedging purposes** | **-** | **75.710** | **-** | **75.710** |
| **Total liabilities** | **186** | **5.499.352** | **-** | **5.499.538** |

(*) The fair value of the loan considered as third level is determined based on the results various valuation methods. Possible changes in the underlying assumptions may affect the carrying value of the loan.

Equity securities classified as available for sale that are not traded in an active market and whose fair value can not be reliably determined are stated at cost less any impairment losses on the consolidated financial statements.

There are no transfers between levels in the prior year.

(Amounts expressed in thousands of Turkish Lira ("TRY") unless otherwise indicated. Currencies other than TRY are expressed in thousands unless otherwise indicated.)

## NOTE 35 - FINANCIAL INSTRUMENTS (Continued)

**Classification of financial instruments and fair value**

| 31 December 2018 | Note | Financial Assets at Amortised Cost | Loans and receivables (cash and cash equivalents included) | Financial assets through other comprehensive income | Financial liabilites measured at amortized cost | Book value | Fair value |
|---|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | | |
| Cash and cash equivalents | 5 | - | 23.657.667 | - | - | 23.657.667 | 23.657.667 |
| Trade receivables | 8 | - | 2.137.062 | - | - | 2.137.062 | 2.137.062 |
| Other financial asset (*) | 6,9 | 12.263.567 | 4.838.694 | 44.359.853 | - | 61.462.114 | 61.056.630 |
| Receivables from financial operations | 30 | - | 213.289.767 | - | - | 213.289.767 | 242.135.332 |
| **Financial Liabilities** | | | | | | | |
| Financial payables | 7 | - | - | - | 65.764.148 | 65.764.148 | 65.764.148 |
| Trade payables | 8 | - | - | - | 3.372.749 | 3.372.749 | 3.372.749 |
| Other financial liabilities (**) | 9 | - | - | - | 8.515.006 | 8.515.006 | 8.515.006 |
| Payables from financial operations | 31 | - | - | - | 219.634.250 | 219.634.250 | 218.872.618 |
| **31 December 2017** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash and cash equivalents | 5 | - | 14.519.064 | - | - | 14.519.064 | 14.519.064 |
| Trade receivables | 8 | - | 2.003.566 | - | - | 2.003.566 | 2.003.566 |
| Other financial asset (*) | 6,9 | 18.883.153 | 3.470.400 | 42.845.827 | - | 65.199.380 | 65.369.313 |
| Receivables from financial operations | 30 | - | 211.707.002 | - | - | 211.707.002 | 190.926.453 |
| **Financial Liabilities** | | | | | | | |
| Financial payables | 7 | - | - | - | 55.257.767 | 55.257.767 | 55.257.767 |
| Trade payables | 8 | - | - | - | 2.882.349 | 2.882.349 | 2.882.349 |
| Other financial liabilities (**) | 9 | - | - | - | 6.942.642 | 6.942.642 | 6.942.642 |
| Payables from financial operations | 31 | - | - | - | 228.357.308 | 228.357.308 | 227.590.819 |

(*) Other financial assets consist of other receivables, available-for-sale securities, time deposits and securities held for to maturity.
(**) Other financial liabilities consist of other payables.

## NOTE 36 - EVENTS AFTER THE REPORTING PERIOD

The application to Capital Markets Board for increasing Akbank's, a subsidiary of the Group's, paid-in-capital by TRY1.200.000.000 (full amount) from TRY 4.000.000.000 (full amount) to TRY5.200.000.000 (full amount) has been approved by Capital Markets Board in the meeting dated 27.12.2018 numbered 65/1535. Related approval has been publicly announced in the Board Weekly Bulletin numbered 2018/59.

Within this framework; via rights (TRY2.5 for each share with nominal value of TRY 1) issue period between 03.01.2019 – 17.01.2019; a total fund amounting to TRY 3.005.741.611,22 (full amount) has been provided, consisting of TRY 2.996.306.795,62 (full amount) from exercising the pre-emptive rights to purchase new shares and TRY 9.434.815,60 (full amount) from the sale of remaining shares on 22 January 2019 at the Primary Market of Borsa Istanbul.

Following the necessary approvals, registration and announcement processes have been fully completed. The Bank's capital was increased by TRY 1.200.000.000 (full amount), and as a result of full participation in the capital increase, there was no change in the Group's effective ownership share.

Shares of Temsa İş Makinaları Üretim ve Pazarlama A.Ş. and Temsa Motorlu Araçlar Pazarlama ve Dağıtım A.Ş;respectively 51% joint venture and 100% affiliate of Temsa Ulaşım Araçları Sanayi ve Ticaret A.Ş., a subsidiary of the Group, will be transferred to new companies with spin off by the decision of the Board of Directors of Temsa Ulaşım Araçları Sanayi ve Ticaret A.Ş. dated 01.02.2019 and numbered 2019/2.

In this context, Partition Plan, Division Report, the Financial Statements of the last three years, annual reports and interim financial statements as of 30 September 2018 of Temsa Ulaşım Araçları Sanayi ve Ticaret A.Ş. were presented on the Turkey Trade Registry Gazette dated 15 February 2019 and numbered 739, for the review of shareholders.

Kordsa Inc., a 100% affiliate of Kordsa (which is a subsidiary of the Group), decided to acquire 95,83% share of a company named "Axiom Materials Acquisition LLC." (The Company). The Company provides advanced composite materials to the aviation industry and next generation transportation vehicles, and it is fully owned by Axiom Materials Holdings LLC. Kordsa Inc., has taken a decision on the acquisition of Axiom Materials Holding LLC for approximately USD 174.830.000 (full amount-except closing adjustments) following all legal approvals and providing the required conditions. The acquisition amount will become finalized after the closure conditions regarding approvals from competition law in USA and the foreign investments committee.