FIRST SUPPLEMENT dated 9 July 2019 to the Base Prospectus dated 26 April 2019

Garanti

TÜRKİYE GARANTİ BANKASI A.Ş.

US$6,000,000,000

Global Medium Term Note Programme

This supplement (this "*Supplement*") is supplemental to, and must be read in conjunction with, the Base Prospectus dated 26 April 2019 (the "*Base Prospectus*," which also serves as the "*Listing Particulars*") prepared by Türkiye Garanti Bankası A.Ş. (the "*Issuer*" or the "*Bank*") under the Issuer's global medium term note programme. Capitalised terms used but not otherwise defined herein shall have the meaning ascribed thereto in the Base Prospectus. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("*Euronext Dublin*") for the approval of this Supplement as a supplement to the Listing Particulars (this "*Listing Particulars Supplement*"). Except where expressly provided or the context otherwise requires, where Notes with a maturity of less than one year are to be admitted to trading on the regulated market of Euronext Dublin, references herein to this "Supplement" shall be construed to be references to this "Listing Particulars Supplement" and references herein to the "Base Prospectus" shall be construed to be references to the "Listing Particulars."

This Supplement has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC (as amended or superseded, the "*Prospectus Directive*"). The Central Bank of Ireland only approves this Supplement as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. This document constitutes a supplement for the purposes of the Prospectus Directive and has been prepared and published for the purposes of incorporating into the Base Prospectus the latest financial statements and updating the Base Prospectus with certain recent events in connection with the Issuer. As a result, certain modifications to the Base Prospectus are hereby being made.

A copy of each of: (a) the consolidated BRSA financial statements of the Group as of and for the three month period ended 31 March 2019 (including any notes thereto and the independent auditor's review report thereon, the "*Group's New Financial Statements*") and (b) the unconsolidated BRSA financial statements of the Issuer as of and for the three month period ended 31 March 2019 (including any notes thereto and the independent auditor's review report thereon, the "*Issuer's New Financial Statements*" and, with the Group's New Financial Statements, the "*New Financial Statements*") have been filed with the Central Bank of Ireland and Euronext Dublin and, by means of this Supplement, are incorporated by reference into, and form part of, the Base Prospectus. Copies of the New Financial Statements can be obtained without charge from the registered office of the Issuer and from the Issuer's website at: (i) with respect to the Group's New Financial Statements, https://www.garantiinvestorrelations.com/en/library/brsa-consolidated-financials-pdf/PDF/1268/0/0, and (ii) with respect to the Issuer's New Financial Statements, https://www.garantiinvestorrelations.com/en/financial-information/brsa-unconsolidated-financials-pdf/PDF/1281/0/0 (such website is not, and should not be deemed to constitute, a part of, or be incorporated into, this Supplement or the Base Prospectus). The New Financial Statements, which are in English, were prepared as convenience translations of the corresponding Turkish language financial statements (which translations the Issuer confirms are direct and accurate). The New Financial Statements were not prepared for the purpose of their incorporation by reference into the Base Prospectus.

The New Financial Statements were reviewed by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of KPMG International Cooperative) ("*KPMG*") and KPMG's review reports included within the New Financial Statements note that they applied limited procedures in accordance with professional standards for a review of such information and such reports state that they did not audit and they do not express an opinion on the interim financial information in the New Financial Statements. Accordingly, the degree of reliance upon their reports on such information should be restricted in light of the limited nature of the review procedures applied. The financial information in the New Financial Statements is subject to any adjustments that may be necessary as a result of the audit process to be undertaken in respect of the full financial year.

In addition, the independent auditor's review reports included within the New Financial Statements were qualified with respect to general reserves that were allocated by the Group. These additional provisions were taken in accordance with the conservatism principle applied by the Group in considering the circumstances that might arise from any changes in the economy or market conditions. See "Risk Factors - Risks Relating to the Group's Business - Audit Qualification" in the Base Prospectus as amended by this Supplement.

Statements contained herein shall, to the extent applicable and whether expressly, by implication or otherwise, modify or supersede statements set out in, or previously incorporated by reference into, the Base Prospectus. Where there is any inconsistency between the information contained in (or incorporated by reference into) the Base Prospectus and the information contained herein (or incorporated by reference into the Base Prospectus by means of this Supplement), the information contained herein (or incorporated by reference into the Base Prospectus by means of this Supplement) shall prevail.

Except as disclosed herein (including in the New Financial Statements incorporated by reference into the Base Prospectus by means of this Supplement), there has been no: (a) significant new factor, material mistake or inaccuracy relating to the information included in the Base Prospectus since the publication of the Base Prospectus, (b) significant change in the financial or trading position of either the Group or the Issuer since 31 March 2019 and (c) material adverse change in the financial position or prospects of the Issuer since 31 December 2018.

The Issuer accepts responsibility for the information contained herein. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained herein is in accordance with the facts and contains no omission likely to affect the import of such information. None of the Dealers or the Arranger make any representation, express or implied, or accept any responsibility, for the contents hereof or any information incorporated by reference into the Base Prospectus by means of this Supplement.

AMENDMENTS

The following amendments are made to the Base Prospectus:

All references in the Base Prospectus to the expected initial ratings by Moody's of long-term issuances of Notes under the Programme are hereby amended to "B2."

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The following definition is hereby included under the section titled "Alternative Performance Measures" starting on page ix of the Base Prospectus after the "loan-to-deposit" definition and before the "net fees and commissions income/expenses to total operating profit" definition:

> *Loan-to-time deposit spread*: For a particular period, the yield on loans for such period *minus* the cost of time deposits for such period.

The following definitions are hereby included under the section titled "Alternative Performance Measures" starting on page ix of the Base Prospectus after "return on average total assets" definition and before "total average yield" definition:

> *Stage 2 coverage ratio*: As of a particular date, this is: (a) ECLs for Stage 2 loans (including lease and factoring receivables) as of such date *as a percentage of* (b) loans under follow up (including lease and factoring receivables) as of such date.
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> *Stage 2 loans to total loans (gross)*: As of a particular date, this is: (a) the loans under follow up (including lease and factoring receivables) as of such date *as a percentage of* (b) total loans (gross) (including lease and factoring receivables) as of such date.

RISK FACTORS

The following language is hereby included at the end of the second sentence of the sixth paragraph of the risk factor titled "Risks Relating to Turkey - Political Developments" on page 16 of the Base Prospectus:

> On 6 July 2019, the governor of the Central Bank was removed from his post by a Presidential Decree and, on the same day, President Erdoğan appointed Mr. Murat Uysal, one of the Central Bank's then-deputy governors, as the new governor of the Central Bank.

The penultimate paragraph of the risk factor titled "Risks Relating to Turkey - Political Developments" on page 17 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

> Municipal elections were held on 31 March 2019 and the AKP lost control of several major cities, including İstanbul and Turkey's capital city Ankara, to the opposition parties; *however*, the AKP claimed election fraud in, and requested to repeat the elections in, İstanbul and, on 6 May 2019, the Supreme Election Board (the highest authority in Turkey regulating elections) ordered a revote for İstanbul mayor in an election to be held on 23 June 2019. Mr. Ekrem İmamoğlu, the CHP's candidate who had been declared the winner of the 31 March 2019 elections and had been installed as mayor until the revote decision of the Supreme Election Board, increased his majority to 54.21% and was reinstalled as mayor on 27 June 2019. The impact of this election is uncertain, including the future interaction between the national government and the local government of İstanbul and any resulting changes within the Turkish political environment.

The penultimate sentence of the fifth paragraph of the risk factor titled "Risks Relating to Turkey – High Current Account Deficit" on page 23 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

> On 30 April 2019, the Central Bank noted that it has been actively using short-term swap transactions, borrowing U.S. dollars from local banks with an agreement to repay at a later date, to limit the impact of the tight liquidity of the Turkish Lira. While the accounting of these swap transactions might be viewed as overstating the Central Bank's foreign reserves, which had been on a decreasing trend as of 10 May 2019 when the impact of these swap transactions are excluded, the Central Bank has stated that such method of accounting is in line with international standards. In 2019, through 31 May 2019, the Central Bank has maintained a tight monetary policy stance. After

the volatility seen in March 2019, the Central Bank paused one week repo auctions from 22 March 2019 until 8 April 2019 and provided funding through overnight lending, which had a cost of 150 basis points higher than the policy rate. After the volatility seen in early May 2019, the Central Bank again suspended its one week repo auctions from 9 May 2019 until 21 May 2019. On 9 May 2019, the Central Bank further reduced the upper limit of the foreign exchange maintenance facility within the Reserve Options Mechanism from 40% to 30%. On 9 May 2019 and 27 May 2019, the Central Bank increased reserve requirements for foreign-exchange deposits by 100 and 200 basis points, respectively, through which approximately US$3.0 billion and US$4.2 billion of liquidity, respectively, was withdrawn from the market.

The following language is hereby included at the end of the second paragraph of the risk factor titled "Risks Relating to Turkey – Government Default" on page 25 of the Base Prospectus:

On 14 June 2019, Turkey's foreign currency long-term credit rating was further downgraded to "B1 (negative outlook)" from "Ba3 (negative outlook)."

The following sentence is hereby added at the end of the fifth paragraph of the risk factor titled "Risks Relating to the Group's Business - Foreign Exchange and Currency Risk" (such fifth paragraph ending on page 34 of the Base Prospectus):

Following the depreciation of the Turkish Lira in early May 2019, the Central Bank again suspended its one week repo auctions from 9 May 2019 until 21 May 2019. From 31 December 2018 to 31 May 2019, the Turkish Lira depreciated by 11.0% against the U.S. dollar.

The following sentence is hereby added at the end of the fourth sentence of the seventh paragraph of the risk factor titled "Risks Relating to the Group's Business - Foreign Exchange and Currency Risk" (*i.e.*, second full paragraph on page 34 of the Base Prospectus):

Following the depreciation of the Turkish Lira in early May 2019, the Central Bank again suspended its one week repo auctions from 9 May 2019 until 21 May 2019. On 9 May 2019 and 27 May 2019, the Central Bank increased reserve requirements for foreign exchange deposits by 100 and 200 basis points, respectively, through which approximately US$3.0 billion and US$4.2 billion of liquidity, respectively, was withdrawn from the market. As of 15 May 2019, the tax on certain foreign exchange sales was increased from zero to 0.1% pursuant to Presidential Decree No. 1106 dated 14 May 2019; *however*, such tax will remain zero for transactions between banks (including non-Turkish banks), for transactions with the Turkish Treasury, for repayment of foreign-currency loans to banks and for exporters that are members of exporter associations (*İhracatçı Birlikleri*).

The following language is hereby included at the end of the third sentence of the risk factor titled "Risks Relating to the Group's Business - Foreign Currency Borrowing and Refinancing Risk" on page 37 of the Base Prospectus:

On 18 June 2019, following the downgrade of Turkey's foreign currency long-term credit rating, Moody's downgraded certain ratings of the Bank, including the Bank's senior unsecured rating, by one notch.

The two paragraphs of the risk factor titled "Risks Relating to the Group's Business - Audit Qualification" on page 42 of the Base Prospectus are hereby replaced in their entirety by the following:

The Group's audit reports for the BRSA Financial Statements for 2016, 2017 and 2018 and review report for the BRSA Financial Statements as of and for the three month period ended 31 March 2019 were qualified with respect to general reserves that were allocated by the Group. In 2016, the Bank's management reversed a net TL 42,000 thousand of general reserves, resulting in a level of general reserves to TL 300,000 thousand as of the end of 2016. In 2017, the Bank's management increased the general reserves by TL 860,000 thousand to TL 1,160,000 thousand. In 2018, the Bank's management further increased the general reserves by TL 1,090,000 thousand to TL 2,250,000 thousand for the possible effects of negative circumstances that might arise in the economy or market conditions, which was followed by another increase of TL 100,000 thousand (to TL 2,350,000 thousand) in the first three months of 2019.

The Bank's auditors have qualified their respective audit and review (as applicable) reports for such periods as general reserves are not permitted under the BRSA Accounting and Reporting Legislation or IFRS. Similar qualifications have been taken with respect to the IFRS Financial Statements. Although these reserves do not impact the Group's level of tax, the Group's capital adequacy ratios and net profit/(loss) might otherwise be higher in the periods in which such reserves are established and lower in the periods in which such reserves are reversed. Future financial statements might include similar qualifications. Each auditor's statements on such qualification can be found in its report attached to each of the applicable financial statements incorporated by reference herein.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The first sentence of the third paragraph of the section titled "Significant Factors Affecting the Group's Financial Condition and Results of Operations - Provisions for Probable Loan Losses" on page 135 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

Although general reserves do not impact the Group's level of tax, the Group's capital adequacy ratios and net profit/(loss) might otherwise be higher in the periods in which such reserves are established and lower in the periods in which such reserves are reversed.

The following language is hereby included before the last sentence of the third paragraph of the section titled "Capital Adequacy" on page 164 of the Base Prospectus:

Moody's further downgraded certain ratings of Turkey and the Bank in June 2019.

The section titled "Recent Developments" set out on Schedule A hereto is hereby included at the end of the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page 130 of the Base Prospectus.

THE GROUP AND ITS BUSINESS

The Bank's credit ratings from Moody's set out on page 211 of the Base Prospectus are hereby deleted in their entirety and replaced by the following:

Moody's (18 June 2019)

Deposit Outlook:	Negative
Long Term Foreign Currency Deposit:	B3
Long Term Turkish Lira Deposit:	B2
Short Term Foreign Currency Deposit:	Not – Prime
Short Term Turkish Lira Deposit:	Not – Prime
Senior Unsecured Debt Outlook:	Negative
Senior Unsecured Debt:	B2
Baseline Credit Assessment (BCA):	b3
Adjusted BCA:	b3
National Scale Rating (NSR) Long Term Deposit:	A1.tr
NSR Short Term Deposit:	TR-1

As the case described in the section titled "Litigation and Administrative Proceedings **-** Consumer Transactions Inspection" on page 212 of the Base Prospectus has been decided in the Bank's favour (on 24 May 2019, the Council of State rejected the Custom Ministry's appeal described therein), such section is hereby deleted in its entirety.

The following section is hereby included at the end of the section titled "Litigation and Administrative Proceedings" starting on page 211 of the Base Prospectus:

Recent Developments

Authorities in Netherlands requested information and documents from GBI, the Bank's subsidiary in the Netherlands, related to the so-called "Russian Laundromat" and GBI delivered the requested information and documents. As of 8 July 2019, the regulators has not started any process against GBI in relation to this matter.

TURKISH REGULATORY ENVIRONMENT

The following language is hereby included at the end of the fifth paragraph of the section titled "Liquidity and Reserve Requirements" on page 253 of the Base Prospectus:

> On 9 May 2019 and 27 May 2019, the Central Bank increased reserve requirements for foreign-exchange deposits by 100 and 200 basis points, respectively.

The sixth paragraph of the section titled "Consumer Loan, Provisioning and Credit Card Regulations" on page 262 of the Base Prospectus is hereby deleted in its entirety and and replaced with the following language:

> In July 2019, the Central Bank amended the Communiqué on Maximum Interest Rates to be Applied for Credit Card Transactions (which it had originally published in November 2016), replacing the then-existing rates applicable from July until September 2019. Pursuant to these amendments: (a) the maximum contractual interest rates for Turkish Lira and foreign currency credit card transactions are 2.00% and 1.60%, respectively, and (b) the monthly maximum default interest rates are 2.40% and 2.00% for credit card transactions in Turkish Lira and foreign currency, respectively, until the end of September 2019.

SCHEDULE A

RECENT DEVELOPMENTS

The following summary financial and operating data for the three month period ended March 31, 2018 and 2019 and balance sheet information as of December 31, 2018 and March 31, 2019 have been extracted from the New Financial Statements without material adjustment. This information should be read in conjunction with the New Financial Statements (including the notes thereto). Except to the extent stated otherwise, the financial data for the Group included herein are extracted from the consolidated New Financial Statements without material adjustment. Potential investors in the Notes should note that this section also includes certain financial information for the Bank only, which is extracted from the unconsolidated New Financial Statements of the Bank without material adjustment. Such financial information is identified as being of "the Bank" in the description of the associated tables or information (rather than for the Group on a segmented basis).

Please note that the New Financial Statements incorporated by reference herein have not been prepared in accordance with the international accounting standards adopted pursuant to the procedure of Article 3 of Regulation (EC) No. 1606/2002 and that there might be material differences in the financial information had Regulation (EC) No. 1606/2002 applied to the historical financial information presented herein. A narrative description of such differences as they apply to the Group has been included in Appendix A ("Overview of Significant Differences Between IFRS and the BRSA Accounting and Reporting Legislation") to the Base Prospectus.

Net Profit/(Loss)

The Group's net profit/(loss) for a period is calculated by reducing its total operating profit for such period by expected credit losses on loans and other receivables, other operating expenses and provision for taxes for such period. The Group's net profit/(loss) for the first three months of 2019 was TL 1,757,409 thousand, a 12.6% decrease from TL 2,011,202 thousand in the same period of the previous year. The table below summarises the Group's statement of profit or loss for the indicated periods, the components of which are described in greater detail in the following sections:

	For the Three Months Ended 31 March	
	2018	**2019**
	(TL thousands)	
Interest income	7,882,405	10,906,980
Interest expense	(3,771,443)	(5,997,223)
Net interest income	**4,110,962**	**4,909,757**
Net fees and commissions income/expenses	1,238,226	1,499,103
Dividend income	820	568
Net trading income/losses (net)	(282,461)	(142,765)
Other operating income	1,352,404	2,026,080
Total operating profit	**6,419,951**	**8,292,743**
Other provision expenses	(19,788)	(244,880)
Expected credit losses	(1,783,039)	(3,386,617)
Other operating expenses	(2,042,531)	(2,417,203)
Profit/(loss) before taxes	**2,574,593**	**2,244,043**
Provision for taxes	(563,391)	(486,634)
Net profit/(loss)	**2,011,202**	**1,757,409**
Attributable to equityholders of the Bank	1,994,071	1,736,526
Attributable to minority interests	17,131	20,883

The net profit/(loss) for these periods was affected by certain exceptional items, which are quantified in the table below:

	For the Three Months Ended 31 March	
	2018	2019
Exceptional items	*(TL thousands)*	
Sale/liquidation of equity participations and other assets	(123,933)	-
Sale of NPLs	-	-
Other operating expenses	-	-
General reserves[(1)]	-	100,000
Tax effects of the items listed above	13,000	-
Total impact on net profit/(loss)	**(110,933)**	**100,000**
Net profit/(loss)	2,011,202	1,757,409
Net profit/(loss) adjusted for exceptional items	**1,900,269**	**1,857,409**

(1) As such general reserves are not permitted under the BRSA Accounting and Reporting Legislation, the Group's independent auditors noted this departure in the Group's New Financial Statements by qualifying their review opinion. Should the Bank's management determine that market conditions have improved to such an extent that such additional provisions are not required, then they might elect to reverse such reserves in future periods, which would have the result of increasing income in such period.

Net profit/(loss) adjusted for exceptional gains/losses (*e.g.*, asset sales and general reserves) decreased by 2.3% in the first three months of 2019 as compared to the same period of the previous year. This decrease was a result of an increase in net expected credit losses as a consequence of low economic activity in Turkey, higher interest rates and unemployment, which exceeded the increase in net interest income and strong fee growth.

The Bank expects that Turkey's economic performance in 2019 will be somewhat weaker than 2018, particularly in the first half of 2019, due to regional and domestic macroeconomic pressures, including high inflation (see "Risk Factors – Risks Relating to Turkey – Political Developments" in the Base Prospectus), and thus the Group's net profit and asset quality might be adversely impacted in 2019; *however*, the Turkish government has announced that it expects growth to remain broadly positive and supportive of modest growth in the banking sector.

Total Operating Profit

The Group's total operating profit is comprised of its net interest income, net fees and commissions income/expenses, dividend income, net trading income/losses and other operating income. Each of these is described in greater detail below.

Net Interest Income

The Group's net interest income is the difference between its interest income and its interest expense (each described below) and is the principal area of income for the Group. As a result, the differential between the interest rates that the Group receives on interest-earning assets and the interest rates that it pays on interest-bearing liabilities (*i.e.*, its average spread) and the volume of such assets and liabilities have the most significant impact on the Group's results of operations. This net interest income represented 59.2% and 64.0% of the Group's total operating profit in the first three months of 2018 and 2019, respectively.

Net interest income amounted to TL 4,909,757 thousand in the first three months of 2019, which was a 19.4% increase from TL 4,110,962 thousand in the same period of the previous year. The Group's net interest margin expanded in the first three months of 2019 when compared to the same period of 2018 due to increasing loan yields and higher income from CPI-linkers.

The Group's annualised net interest margin was 5.8% in the first three months of 2019, compared to 5.3% in the same period of the previous year. The improvements in the Group's net interest income in the first three months of 2019 was mainly due to improving loan-to-deposit spreads and increased earnings on CPI-linkers. The calculation of the Group's net interest margin for the indicated periods is as follows:

	For The Three Months Ended 31 March	
	2018	2019
	(TL thousands, except percentages)	
Net interest income	4,110,962	4,909,757
Average interest-earning assets	312,867,890	343,883,792
Net interest margin	**1.3%**	**1.4%**
Annualisation factor(1)	4.06	4.06
Net interest margin (annualised)	**5.3%**	**5.8%**

(1) The annualisation factor for a period is 365 *divided by* the number of days in such period.

The loan–to–time deposit spread for the Bank declined to 3.52% for the first quarter of 2019 from 4.42% in the same period of the previous year, which decline was principally the result of a significant increase in deposit costs. During the first three months of 2019, the Central Bank's average funding cost doubled compared to the same period of the previous year, which affected the Group's interest-bearing liabilities (principally deposits (given the short-term nature of deposits (average duration is between 30 to 40 days), the repricing of deposits is faster than interest-earning assets (principally loans)). The pressure on such spread was partially offset by higher income provided by CPI-linked securities during the same period (CPI-linked securities, which serve as a hedge against volatility and high interest rates, represented 71% of the Bank's Turkish Lira-denominated securities and equaled 8% of its interest-earning assets as of 31 March 2019). While deposit costs increased significantly in the first quarter of 2019 compared to the same period of the previous year, deposit costs were on a downward trend in the first quarter of 2019 compared to the previous quarter due to lower loan growth and the related reduced competition for deposits during such period. The calculation of the Group's loan–to–time deposit spread for the indicated periods is as follows:

	For The Three Months Ended 31 March	
	2018	2019
	(TL thousands, except percentages)	
Interest income on loans	6,453,427	8,641,764
Average total performing loans(1)	233,180,392	251,222,168
Yield on loans(2)	**2.77%**	**3.44%**
Interest expense on time deposits	2,534,118	4,728,286
Average total time deposits(3)	151,097,082	183,786,426
Cost of time deposits(4)	1.68%	2.57%
Loan-to-time deposit spread(5)	**1.09%**	**0.87%**
Annualisation factor(6)	4.06	4.06
Loan-to-time deposit spread (annualised)	**4.42%**	**3.52%**

(1) This is calculated by averaging the amount of total performing loans as of the balance sheet date immediately prior to the commencement of such period (*e.g.*, for any calendar year, 31 December of the previous year) and each intervening quarter-end date (*i.e.*, 31 March, 30 June, 30 September and 31 December, as applicable).
(2) This is calculated by dividing the interest income on loans by average total performing loans.
(3) This is calculated by averaging the amount of time deposits as of the balance sheet date immediately prior to the commencement of such period (*e.g.*, for any calendar year, 31 December of the previous year) and each intervening quarter-end date (*i.e.*, 31 March, 30 June, 30 September and 31 December, as applicable).
(4) This is calculated by dividing interest expense on time deposits by average total time deposits.
(5) This is the yield on loans for such period *minus* the cost of time deposits for such period.
(6) The annualisation factor for a period is 365 *divided by* the number of days in such period.

In both 2018 and the first three months of 2019, economic conditions were volatile in Turkey as a result of several factors, including global macro-economic and political circumstances and considerable uncertainty regarding Turkey's political and geopolitical conditions, contributing to currency volatility, higher inflation and lower growth. Inflation increased by 20.3% in 2018 and, as of June 2019, the last 12 month consumer price inflation was 15.7% and the last 12 month domestic producer price inflation was 25.0% (Turkstat). In first quarter of 2019, Turkey's GDP contracted by 2.6% year-over-year from the first quarter of 2018, but grew at a rate of 1.3% on quarter-on-quarter term, confirming the end of technical recession after the negative realisations in three previous consecutive quarters. As a result of these conditions, in 2018 and in the first quarter of 2019, the Central Bank took a variety of policy actions, including adjusting policy rates and otherwise making adjustments to its monetary policy as described in the Base Prospectus.

Interest Income. Interest income is the interest (including the amortisation of interest-earning assets purchased at a discount and the interest component of lease receivables entered into for margin management purposes) and certain loan-related fees (such as closing fees received on project finance loans) received by the Group on its interest-earning assets, principally loans and debt securities. Interest income is a function of both the volume of interest-earning assets and the yield that the Group earns on these holdings. In the first three months of 2019, the Group's interest income increased by 38.4% from the same period of the previous year. The following table sets out the interest earnings on the Group's interest-earning assets during both of the indicated periods:

	For the Three Months Ended 31 March	
	2018	**2019**
	(TL thousands)	
Interest income on loans	6,453,427	8,641,764
Interest income on reserve deposits	71,905	70,868
Interest income on banks	103,351	240,625
Interest income on money market transactions	3,357	32,950
Interest income on securities portfolio	1,065,672	1,644,243
Financial lease income	115,632	130,385
Other interest income	69,061	146,145
Total interest income	**7,882,405**	**10,906,980**

In the first three months of 2019, the increase in interest income from the same period of the previous year was principally due to a 33.9% increase in "interest income on loans" (resulting largely from an increase in interest rates) and the 54.3% increase in "interest income on securities portfolio" (which was due both to a sharp increase in interest rates and considerably higher yields provided by CPI-linked securities as a result of the high inflation environment).

Interest Expense. Interest expense is the interest and certain loan-related fee expenses (such as fees paid on syndicated loans) of the Group on its interest-bearing liabilities, principally time deposits. As with interest income, interest expense is a function of both the volume of interest-bearing liabilities and the interest rates that the Group pays on these liabilities. In the first three months of 2019, the Group's interest expense increased by 59.0% from the same period of the previous year, which increase was primarily due to a significant increase in the Central Bank's weighted average funding rate (which had increased by 11.25% in 2018) and growth in Turkish Lira deposits by 13% as of 31 March 2019 compared to 31 March 2018. The following table sets out the interest expense on the Group's interest-bearing liabilities by category during both of the indicated periods:

	For the Three Months Ended 31 March	
	2018	**2019**
	(TL thousands)	
Interest on deposits	2,534,118	4,728,286
Interest on funds borrowed	413,536	483,535
Interest on money market transactions	291,312	37,617
Interest on securities issued	519,561	650,529
Lease interest expense	20	46,421
Other interest expense	12,896	50,835
Total interest expense	**3,771,443**	**5,997,223**

The increase in the Group's interest expense in the first three quarters of 2019 as compared to the same period of the previous year was principally in line with the increase in interest rates. As the Group's interest-bearing deposits represent the largest portion of its liabilities (50.9% and 51.8%, respectively, as of 31 March 2018 and 2019), the interest rates that the Group pays on its deposits typically have the largest impact on the Group's interest expense.

Net Fees and Commissions Income/Expenses

The Group earns fee and commission income on both capital-intensive products (such as origination fees on cash loans and fees for credit cards, letters of credit and guarantees) and capital-free products (such as money transfers, payment system fees, investment advice and brokerage fees in respect of debt and equity trading). The principal drivers for fee and commission income are money transfer and payment system fees. The Group's net fees and commissions income/expenses for the first three months of 2019 increased by 21.1% from the same period of the previous year. This robust growth in net fees and commissions was principally driven by earnings from payment systems and money transfer fees. Some payment system fees, such as merchant fees and interchange fees, are linked to prevailing market rates, which almost doubled between the first quarter of 2018 and the first quarter of 2019. In addition, due to the increase in digital banking penetration and an increasing customer base, money transfer fees continued to increase significantly.

The following table sets out the breakdown of the Group's fees and commissions income and expenses and their respective amounts during both of the indicated periods:

	For the Three Months Ended 31 March	
	2018	2019
	(*TL thousands*)	
Fees and commissions received	**1,567,005**	**2,047,757**
Non-cash loans	119,616	177,794
Others	1,447,389	1,869,963
Fees and commissions paid	**328,779**	**548,654**
Non-cash loans	3,031	3,651
Others	325,748	545,003
Net fee and commission income	**1,238,226**	**1,499,103**

Dividend Income

Dividend income, which is principally received from the Group's securities portfolio and certain small equity investments, is a very small portion of the Group's income. Dividend income of TL 568 thousand in the first three months of 2019 and TL 820 thousand in the same period of the previous year both represented less than 0.1% of the Group's total operating profit for the period.

Net Trading Income/Losses

Net trading income/losses represent trading account income/losses, income/losses from derivative financial instruments and foreign exchange gain/losses. In the first three months of 2019, the Group experienced a net trading loss of TL 142,765 thousand, which decreased by 49.5% compared to a trading loss of TL 282,461 thousand for the same period of the previous year. The decreased net trading loss in the first three months of 2019, despite higher swap costs, resulted from high foreign exchange transaction volumes and an increase in mark-to-market gains from derivative transactions.

The following table sets out the categories of the Group's net trading income/losses during both of the indicated period:

	For the Three Months Ended 31 March	
	2018	2019
	(*TL thousands*)	
Trading Income		
Trading account income	396,852	852,739
Derivative financial instruments	3,558,792	5,597,019
Foreign exchange gain	12,670,695	25,292,465
Total trading income	**16,626,339**	**31,742,223**
Trading Losses		
Trading account losses	(177,244)	(362,948)
Derivative financial instruments	(3,270,767)	(4,774,010)
Foreign exchange losses.......................	(13,460,789)	(26,748,030)
Total trading losses	**(16,908,800)**	**(31,884,988)**
Net trading income/losses	**(282,461)**	**(142,765)**

Other Operating Income

Other operating income includes various additional sources of income, including the collection or reversal of previous periods' provisions (including from the sale of NPLs), banking services-related costs recharged to customers, premium income from insurance business and income on custody services. Total other operating income in the first three months of 2019 was 49.8% greater than for the same period of the previous year. The following table sets out the Group's other operating income by category during both of the indicated periods:

	For the Three Months Ended 31 March	
	2018	2019
	(*TL thousands*)	
Prior Year Reversals	980,302	1,761,809
Stage 1	*459,886*	*598,942*
Stage 2	*282,815*	*774,431*
Stage 3	*229,296*	*358,279*
Others	*8,305*	*30,157*
Income from term sale of assets	123,933	12,241
Others	248,169	252,030
Other operating income	**1,352,404**	**2,026,080**

The increase in total other operating income in the first three months of 2019 compared to the same period of the prior year was largely driven by an increase in reversals of previous years' provisions for expected credit losses.

Provision for Losses on Loans or other Receivables and Expected Credit Losses

The Group's results might be materially negatively affected by provisions that the Group takes for its expected credit losses ("*ECLs*") on financial assets and loans measured at amortised cost, financial assets measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts not measured at fair value through profit or loss based upon TFRS 9. The following table sets out the Group's expected credit losses and other provisions by category during the indicated periods:

	Three Months Ended 31 March	
	2018	2019
	(TL thousands)	
Expected credit losses	**1,783,039**	**3,386,617**
12 month ECL (Stage 1)	*438,373*	*719,113*
Significant increase in credit risk (Stage 2)	*793,528*	*1,614,697*
Impaired credits (Stage 3)	*551,138*	*1,052,807*
Impairment losses on securities	**4,004**	**18,608**
Financial assets measured at fair value through profit or loss	*4,004*	*2,153*
Financial assets measured at fair value through other comprehensive income	-	*16,455*
Impairment losses on associates, subsidiaries and joint-ventures	-	-
Associates	-	-
Subsidiaries	-	-
Joint-ventures (business partnerships)	-	-
Others[(1)]	**15,784**	**226,272**
Total	**1,802,827**	**3,631,497**

(1) Includes general reserves amounting to TL 100,000 thousand for the first three months of 2019.

The Group's NPL ratio increased to 5.4% as of 31 March 2019 from 5.1% as of 31 December 2018, which change was partially due to a reduction in the Group's loan growth and some transfers (generally with sufficient ECL provisions) from Stage 2 (significant increase in credit risk) to Stage 3 (credit-impaired) as a consequence of the recent contraction in the growth of the Turkish economy. The inflow of new NPLs (approximately 67% of which were from retail loans during the first quarter of 2019), when excluding the net currency impact corresponding to TL 381 million as of 31 March 2019 and TL (781) million as of 31 December 2018, decreased in the first quarter of 2019 compared to the last quarter of 2018. The calculation of the Group's NPL ratio for the indicated dates is as follows:

	As of 31 December 2018	As of 31 March 2019
	(TL thousands, except percentages)	
Loans	255,889,505	266,931,553
NPLs	13,753,384	15,138,830
Total loans	**269,642,889**	**282,070,383**
NPL ratio	**5.1%**	**5.4%**

Considering the economic slowdown and increasing unemployment rate, the Bank's management expects that the Group's NPL ratio will continue to increase during 2019, though remaining below 7% as of 31 December 2019.

The calculation of the Group's Stage 2 loans to total loans (gross) for the indicated dates is as follows:

	As of 31 December 2018	As of 31 March 2019
	(TL thousands, except percentages)	
Loans under follow up	38,712,181	40,864,447
Total loans (gross)	269,642,889	282,070,383
Stage 2 loans to total loans (gross)	**14.4%**	**14.5%**

A loan can be assigned to Stage 2 as a result of either a quantitative model or a qualitative assessment. The quantitative model considers the probability of default for loans that are not yet 30 days past due. As of 31 March 2019, loans that had been assigned to Stage 2 as a result of the quantitative assessment (referred to as loans with a "significant increase in credit risk (*SICR*)") constituted 35% of the Bank's Stage 2 loans (80% of such amount was for loans that were not delinquent at all as of such date). The Bank allocated provisions equal to 4% of this amount as of such date. The remaining 65% of the Stage 2 loans (*i.e.*, those that were so assigned as a result of a qualitative assessment) as of such date is comprised of loans that are 30 days or more past due, are under watch-list or are being restructured. The Bank allocated provisions equal to 15.5% of this amount as of such date. Among the loans assigned to Stage 2 as a result of this qualitative assessment: (a) energy, (b) food, farming and agriculture, (c) consumer and (d) real estate loans constituted 36%, 12%, 10% and 8% of the total, respectively.

In the first three months of 2019, given the Bank's management's view that a potential increase in credit risk might arise due to the challenging operating environment and the risk that some loans might need to be restructured in the medium to long term, especially with respect to the Group's energy loan portfolio, the Group chose to reclassify certain Stage 1 loans as Stage 2 loans as a matter of prudence.

The calculation of the Group's Stage 2 coverage ratio for the indicated dates is as follows:

	As of 31 December 2018	As of 31 March 2019
	(TL thousands, except percentages)	
Expected credit loss for loans (Stage 2 loans)	4,027,289	4,563,561
Loans under follow up	38,712,181	40,864,447
Stage 2 coverage ratio	**10.4%**	**11.2%**

The Bank's management increased the general reserves by TL 100,000 thousand to TL 2,350,000 thousand in the first three months of 2019 (as compared to no change regarding general reserve level in the same period of 2018) due to the possible effects of negative circumstances that might arise in the economy or in market conditions. The New Financial Statements were qualified with respect to general reserves that were allocated by the Group. The provisions were taken in accordance with the conservatism principle applied by the Group in considering the circumstances that may arise from any changes in the economy or market conditions. See "Risk Factors – Risks Relating to the Group's Business – Audit Qualification" in the Base Prospectus.

Other Operating Expenses

The Group's other operating expenses include traditional business expenses such as depreciation and amortisation expenses on tangible and intangible assets, personnel expenses and operational lease-related expenses. Other operating expenses in the first quarter of 2019 increased by 18.3% to TL 2,417,203 thousand from TL 2,042,531 thousand in the same period of 2018, which increase principally resulted from an increase in the personnel expenses and other normal course expenses, largely influenced by the significant inflation over the period. The Group's cost-to-income ratio increased to 50.3% in the first three months of 2019 from 44.0% during the same period of the previous year, while its annualised ratio of operating expenses to average total assets increased to 2.4% in the first three months of 2019 from 2.3% in the same period of the previous year. This increase in the cost-to-income ratio was due both to the volatility in the value of the Turkish Lira and an increase in the inflation rate during the period.

The following table sets out the Group's other operating expenses by category during each of the indicated periods:

	For the Three Months Ended 31 March	
	2018	**2019**
	(TL thousands)	
Personnel expenses	814,443	1,025,090
Reserve for employee termination benefits	22,019	29,879
Impairment losses on tangible assets	-	-
Depreciation expenses of tangible assets	76,576	101,232
Amortisation expenses of intangible assets	29,198	33,026
Impairment losses on assets to be disposed	-	-
Depreciation expenses of right-of-use assets	-	75,676
Impairment losses on assets held for sale and discontinued assets	-	80
Operational lease-related expenses	124,121	40,140
Repair and maintenance expenses	17,367	20,212
Advertisement expenses	42,461	32,401
Loss on sale of assets	190	970
Other expenses[(1)]	641,181	698,244
Others[(2)]	274,975	360,253
Other operating expenses	**2,042,531**	**2,417,203**

(1) Other expenses includes various normal course expenses such as legal expenses, utility charges, none of which is individually material. See Note 5.4.7 in Section Five of the Group's New Financial Statements.

(2) Others includes SDIF-related expenses, repayments of certain fees and commissions to customers and insurance business-claim losses. See Note 5.4.7 in Section Five of the Group's New Financial Statements.

Personnel expenses, the Group's largest other operating expense, include the salaries and wages that it pays to its employees. Personnel expenses increased by 25.9% in the first three months of 2019 from the same period of the previous year as a result of higher wage levels, which were largely impacted by inflation. The Group's management anticipates that the currently elevated level of Turkish inflation will continue to result in higher personnel expenses throughout 2019.

The calculation of the Group's cost-to-income ratio for the indicated periods is as follows:

	For the three Months Ended 31 March	
	2018	**2019**
	(TL thousands, except percentages)	
Net interest income	4,110,962	4,909,757
Net fees and commissions income/expenses	1,238,226	1,499,103
Net trading income/losses	(282,461)	(142,765)
Dividend income	820	568
Other income	1,352,404	2,026,080
Expected credit losses and general reserves	(1,783,039)	(3,486,617)
Total income	**4,636,912**	**4,806,126**
Other operating expenses	2,042,531	2,417,203
Total cost	**2,042,531**	**2,417,203**
Cost-to-income ratio	**44.0%**	**50.3%**

The calculation of the Group's operating expenses to average total assets for the indicated periods is as follows:

	For The Three Months Ended 31 March	
	2018	**2019**
	(TL thousands, except percentages)	
Other operating expenses	2,042,531	2,417,203
Average total assets	358,106,834	411,237,734
Operating expenses to average total assets	**0.6%**	**0.6%**
Annualisation factor(1)	4.06	4.06
Operating expenses to average total assets (annualised)	**2.3%**	**2.4%**

(1) The annualisation factor for a period is 365 *divided by* the number of days in such period.

Provision for Taxes

The Group is subject to different forms of income taxation in each market in which it has operations, although the principal driver is Turkish taxation of the Group's taxable income. Taxation and duties other than on income are included in operating expenses whereas taxation on income is applied to profit/(loss) before taxes in order to determine the Group's net operating profit/(loss) after taxes. The provision for taxes for a particular period is a combination of the current tax charge, which is the tax that is calculated to apply to the taxable income for such period, and deferred tax charges/(credits), which reflect the Group's calculation of taxes that it might be required to pay in the future as a result of certain events (*e.g.*, mark-to-market increases in the valuation of financial assets, which would result in the payment of taxes should such financial asset be sold).

Income taxation charges for the first three months of 2019 amounted to TL 486,634 thousand, which was a 13.6% decrease from TL 563,391 thousand for the same period of the previous year. The Group's taxation charges for this period in 2019 included deferred tax charges of TL 203,788 thousand compared to deferred tax credit of TL 88,781 thousand for the same period of the previous year. The decrease in the Group's taxation charges for the first three months of 2019 compared to the same period of the previous year reflects both reduction in the Group's taxable income as well as the tax effect of general reserves.

The Group's effective income tax rate (calculated based upon its reported provision for taxes *divided by* its profit/(loss) before taxes) for the first three months of 2019 was 21.7%, as compared to 21.9% for the same period of the previous year. The deviation from the applicable 22% statutory tax rate in the first three months of 2019 was mainly due to general reserves.

Financial Condition

The following summary balance sheet data for each of the indicated dates have been extracted from the Group's New Financial Statements (including the notes thereto). This information should be read in conjunction with the Group's New Financial Statements.

	As of 31 December 2018		As of 31 March 2019	
	Amount	**% of Total**	**Amount**	**% of Total**
Assets	*(TL thousands, except for percentages)*			
Cash and Cash Equivalents	72,335,566	18.1	78,325,718	18.5
Financial Assets Measured at Fair Value through Profit/(Loss) (FVTPL)(1)	4,641,037	1.2	4,720,391	1.1
Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)	27,162,953	6.8	27,987,022	6.6
Derivative Financial Assets	4,093,695	1.0	5,500,280	1.3
Loans(1)(2)	257,214,233	64.4	272,866,758	64.5
Lease Receivables	6,068,225	1.5	6,858,800	1.6
Factoring Receivables	2,279,270	0.6	2,344,825	0.6
Other Financial Assets Measured at Amortised Cost(3)	24,654,009	6.2	25,669,072	6.1
Expected Credit Losses(-)(4)	(13,148,150)	(3.3)	(14,612,239)	(3.5)
Assets Held for Sale and Assets of Discontinued Operations	857,695	0.2	867,235	0.2
Ownership Investments (net)	132,871	0.0	133,089	0.0
Tangible Assets	4,494,918	1.1	5,514,005	1.3
Intangible Assets	416,072	0.1	436,618	0.1
Investment Property	558,309	0.1	558,309	0.1
Current Tax Assets	175,266	0.0	135,406	0.0
Deferred Tax Assets	1,519,177	0.4	1,430,072	0.3
Other Assets	5,698,455	1.6	4,586,506	**1.3**
Total assets	**399,153,601**	**100.0**	**423,321,867**	**100.0**
Liabilities				
Deposits	245,016,346	61.4	262,790,687	62.1
Funds Borrowed	33,339,727	8.4	35,315,335	8.3
Money Markets Funds	2,634,590	0.7	1,617,087	0.4
Securities Issued (net)	26,911,463	6.7	29,715,980	7.0
Financial Liabilities Measured at FVTPL	12,312,230	3.1	13,319,268	3.1
Derivative Financial Liabilities	4,510,162	1.1	4,688,382	1.1
Lease Payables	—	—	1,031,677	0.2
Provisions	5,369,512	1.3	5,461,826	1.3
Current Tax Liability	646,881	0.2	821,709	0.2
Deferred Tax Liability	19,121	0.0	21,248	0.0
Subordinated Debts	3,977,018	1.0	4,302,079	1.0
Other Liabilities	17,529,709	4.4	15,809,958	3.9
Total liabilities	**352,266,759**	**88.3**	**374,894,236**	**88.6**
Shareholders' equity	**46,886,842**	**11.7**	**48,426,631**	**11.4**
Total liabilities and shareholders' equity	**399,153,601**	**100.0**	**423,321,867**	**100.0**

(1) According to required changes in the format of BRSA Financial Statements effective from 1 January 2019, loans measured at fair value through profit or loss amounting to TL 4,081,161 thousand as of 31 December 2018 that were previously classified under "Loans (net)" have been reclassified to the "Financial Assets Measured at Fair Value through Profit/(Loss) (FVTPL)" line item.

(2) According to required changes in the format of BRSA Financial Statements effective from 1 January 2019, non-performing loans amounting to TL 13,753,384 thousand as of 31 December 2018 that were previously classified as a separate line item under the "Loans (net)" line item have been reclassified to the "Loans" line item.

(3) According to required changes in the format of BRSA Financial Statements effective from 1 January 2019, financial assets measured at amortised cost amounting to TL 24,654,009 thousand as of 31 December 2018 that were previously classified as "financial assets measured at amortised cost" under the "Financial assets (net)" line item have been reclassified to the "Other Financial Assets Measured at Amortised Cost" line item.

(4) According to required changes in the format of BRSA Financial Statements effective from 1 January 2019, and parallel to the reclassification described in footnote (3), expected credit losses for financial assets measured at amortised cost amounting to TL 54,125 thousand as of 31 December 2018 that were previously classified under the "Financial assets (net)" line item have been reclassified to the "Expected Credit Losses(-)" line item.

As set out in the table above, the Group's total assets as of 31 March 2019 increased by 6.1% from 31 December 2018, which increase was largely the result of the growth in loans due both to the increase in Turkish Lira commercial lending and foreign exchange rates. The Group's loans and financial assets jointly represented 77.0% of the Group's total assets as of 31 March 2019, decreasing from 77.4% as of 31 December 2018.

The calculation of the Group's return on average total assets for the indicated period is as follows:

	For the three Months Ended 31 March 2019
	(TL thousands, except percentages)
Net profit/(loss)...	1,757,409
Average total assets...	411,237,734
Return on average total assets	**0.4%**
Annualisation factor[1]...	4.06
Return on average total assets (annualised)	**1.7%**

(1) The annualisation factor for a period is 365 *divided by* the number of days in such period.

Loans. Loans to customers represented 64.5% of the Group's total assets as of 31 March 2019, slightly increasing from 64.4% as of 31 December 2018. Note 5.1.5 in Section Five of the Group's New Financial Statements provides significant details about the breakdown of the Group's loan portfolio, including information on performing loans, collateral, maturity, consumer loan breakdown and provisions. The growth in the Group's loan portfolio during the first three months of 2019 was mainly due to an increase in Turkish Lira commercial lending. In the first quarter of 2019, the Bank originated TL 7 billion of KGF-guaranteed loans, fully utilising its allocated KGF limit. As of 31 March 2019, the outstanding amount of KGF-guaranteed loans was TL 20 billion, which represented 21% of the Group's Turkish Lira business lending portfolio.

Financial Assets. Financial assets (including: (a) financial assets measured at fair value through profit or loss, (b) financial assets measured at fair value through other comprehensive income and (c) financial assets measured at amortised cost), which are principally comprised of Turkish government securities, represented 11.6% of the Group's total assets as of 31 March 2019, decreasing from 11.9% as of 31 December 2018. Securities issued by the Turkish government represented 90.4% and 91.1% of the Group's portfolio of financial assets as of 31 March 2019 and 31 December 2018, respectively. For additional information on the Group's securities portfolio, see Notes 5.1.2, 5.1.3 and 5.1.8 in Section Five of the Group's New Financial Statements.

Liabilities and Shareholders' Equity. In the first three months of 2019: (a) the Group's total liabilities increased by 6.1%, which was largely the result of a 7.3% increase in deposits from customers and a 5.9% increase in loans and advances from banks, and (b) the Group's shareholders' equity increased by 3.3%, which was due largely to internal capital generation as a result of the net income during the period.

The calculation of the Group's return on average shareholders' equity for the indicated period is as follows:

	For the three Months Ended 31 March 2019
	(TL thousands, except percentages)
Net profit/(loss)	1,757,409
Average shareholders' equity	47,656,737
Return on average shareholders' equity	**3.7%**
Annualisation factor[1]	4.06
Return on average shareholders' equity (annualised)	**15.0%**

(1) The annualisation factor for a period is 365 *divided by* the number of days in such period.

Off-Balance Sheet Commitments and Contingencies

In the normal course of business in order to meet the needs of its customers and to hedge the Group's own positions (and generally not for speculative purposes), the Group enters into certain off-balance sheet transactions. These transactions expose the Group to credit risk that is not reflected on the Group's balance sheet. The Group applies to these transactions the same credit policies in making commitments and assuming conditional obligations as it does for on-balance sheet transactions, including the requirement to obtain collateral when it is considered necessary.

The most significant category of such transactions includes letters of guarantee, letters of credit, bank acceptances and other support that the Group provides to its import and export customers, as well as off-balance sheet exposure for derivative financial instruments and the Group's commitments to make loans to its borrowers. During the first three months of 2019, the Group's off-balance sheet exposure increased by 19.0%, which was largely a result of an increase in foreign exchange swaps due to the depreciation of the Turkish Lira against foreign currencies.

The following table summarises the Group's exposure under the principal categories of its off-balance sheet exposures as of the indicated dates:

	As of 31 December 2018	As of 31 March 2019
	(TL thousands)	
Letters of guarantee	50,173,770	50,709,543
Letters of credit	14,685,922	11,729,087
Bank acceptance	2,788,829	2,986,359
Other guarantees	66,907	68,319
Total guarantees and sureties	**67,715,428**	**65,493,308**
Total commitments	65,539,928	73,598,108
Derivative financial instruments	360,581,304	448,813,732
Others	—	—
Total off-balance sheet commitments and contingencies	**493,836,660**	**587,905,148**

Capital Adequacy

The Group maintains regulatory capital adequacy ratios on both a Bank-only and consolidated basis in excess of the regulatory minimums required and recommended levels. The Group's Tier 1 capital adequacy ratio decreased from 14.2% as of 31 December 2018 to 13.3% as of 31 March 2019, with the Group's common equity Tier 1 capital adequacy ratio decreasing from 14.2% as of 31 December 2018 to 13.3% as of 31 March 2019 (15.8% and 14.7%, respectively, with respect to the Bank). The Group's total capital adequacy ratio decreased from 16.5% as of 31 December 2018 to 15.5% as of 31 March 2019 (18.3% and 17.1%, respectively, with respect to the Bank). These decreases in the capital adequacy ratios were principally a result of an increase in operational, market and credit risks that resulted mainly due to the depreciation of the Turkish Lira against foreign currencies, which more than offset the increase in shareholders' equity.

The following table sets forth the calculation of the Group's capital adequacy ratios as of each of the indicated dates:

	As of 31 December 2018	As of 31 March 2019
	(TL thousands, except percentages)	
Paid-in capital	4,200,000	4,200,000
Paid-in capital inflation adjustment	772,554	772,554
Reserves	32,977,973	32,991,476
Profit	6,641,652	1,736,526
Tier 1 Capital (I)	46,033,825	47,489,631
Tier 2 Capital (II)	7,538,990	8,118,538
Deductions (III)	14,041	16,246
Own Funds (I+II-III)	53,558,774	55,591,923
Risk Weighted Assets (including market and operational risk)	324,153,343	358,226,378
Capital Ratios:		
Tier 1 capital adequacy ratio	14.2%	13.3%
Common equity Tier 1 capital adequacy ratio	14.2%	13.3%
Total capital adequacy ratio	16.5%	15.5%

The increase in the Group's capital in the first three months of 2019 represented the growth in the Group's retained earnings.

Liquidity and Funding

The Group manages its assets and liabilities to seek to ensure that it has sufficient liquidity to meet its present and future financial obligations and that it is able to take advantage of appropriate business opportunities as they arise. Financial obligations arise from withdrawals of deposits, repurchase transactions, extensions of loans or other forms of credit, as well as the Group's own working capital needs. The ability to replace interest-bearing deposits at their maturity is a key factor in determining liquidity requirements, as well as the exposure to interest and exchange rate risks. As of 31 December 2018 and 31 March 2019, the Group's loan-to-deposit ratio was 104.4% and 101.6%, respectively.

The Group's liquidity ratios (calculated as simple averages of daily observations during the month) as of the end of 2018 and the last day of each of the first three months of 2019 are shown below:

	Turkish Lira + Foreign Currency	Foreign Currency
31 December 2018	163.06%	157.88%
31 January 2019	238.35%	269.06%
28 February 2019	245.14%	257.89%
31 March 2019	256.42%	278.16%