SECOND SUPPLEMENT dated 5 September 2019 to the Base Prospectus dated 26 April 2019

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 "*Original Base Prospectus*" and, as supplemented by the supplement dated 9 July 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 pursuant to the Prospectus (Directive 2003/71/EC) Regulations 2005 of Ireland (S.I. No. 324 of 2005) (as amended, the "*Irish Prospectus Regulations*"). The Central Bank of Ireland only approves this Supplement as meeting the requirements imposed under Irish and European Union law pursuant to the Irish Prospectus Regulations. This document constitutes a supplement for the purposes of the Irish Prospectus Regulations 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. In connection herewith, the Issuer is relying upon Article 46(3) of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017.

A copy of each of: (a) the consolidated BRSA financial statements of the Group as of and for the six month period ended 30 June 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 six month period ended 30 June 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) and in the previous supplement to the Original Base Prospectus, there has been no: (a) significant new factor, material mistake or inaccuracy relating to the information included in the Original Base Prospectus since the publication of the Original Base Prospectus, (b) significant change in the financial or trading position of either the Group or the Issuer since 30 June 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 Fitch of long-term issuances of Notes under the Programme are hereby amended to "B+."

INFORMATION RELATING TO THE BENCHMARKS REGULATION

The second sentence of the second paragraph of the section titled "*Information Relating to the Benchmarks Regulation*" on page iv of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

> As of 5 September 2019, Intercontinental Exchange Benchmark Administration Limited, European Money Markets Institute (EMMI) and Czech Financial Benchmark Facility (CFBF) appear on the Register of Administrators, but none of the other Benchmark Administrators appear on the Register of Administrators, though The Bank of England, as a central bank, is not required to appear on the Register of Administrators pursuant to Article 2(2) of the Benchmarks Regulation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The fifth and ninth sub-paragraphs titled "loan-to-deposit ratio" and "NPL ratio" of the third paragraph of the section titled "Alternative Performance Measures" on page x of the Original Base Prospectus are hereby deleted in their entirety and replaced by the following, respectively:

> *loan-to-deposit ratio:* As of a particular date, this is: (a)(i) after the implementation of TFRS 9 as of 1 January 2018, the sum of performing loans and loans under follow-up (in both cases, including cash loans and lease and factoring receivables and, with respect to loans under follow-up, excluding NPLs) as of such date, and (ii) prior to the implementation of TFRS 9, the sum of performing loans and loans under follow-up (in both cases, including cash loans and, with respect to loans under follow-up, excluding NPLs) as of such date, *divided* by (b) the total deposits as of such date.
>
> *NPL ratio*: As of a particular date, this is: (a) the total NPLs (gross) as of such date *as a percentage of* (b)(i) after the implementation of TFRS 9 as of 1 January 2018, the sum of: (A) performing loans and loans under follow-up (in both cases, including cash loans and lease and factoring receivables and, with respect to loans under follow-up, excluding NPLs (gross)) and (B) NPLs (gross) as of such date, and (ii) prior to the implementation of TFRS 9, the sum of: (A) performing loans and loans under follow-up (in both cases, including cash loans and, with respect to loans under follow-up, excluding NPLs (gross)) and (B) NPLs (gross) as of such date. Where the NPL ratio is referenced solely with respect to a category of loans (*e.g.*, the NPL ratio of SME loans), then this ratio is calculated solely with respect to such category of loans.

RISK FACTORS

The last sentence of the seventh paragraph of the risk factor titled "Risks Relating to Turkey – Political Developments" on page 16 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

> On 15 July 2019, the EU adopted certain measures against Turkey over Turkey's drilling for gas in waters off Cyprus, including reducing certain funding (including loans via the European Investment Bank) and the suspension of high level communications and of the negotiations for a comprehensive air transport agreement. Any decision of the EU to end Turkey's EU accession bid or to impose sanctions on Turkey might result in (or contribute to) a deterioration of the relationship between Turkey and the EU.

The second sentence of the fourth paragraph of the risk factor titled "Risks Relating to Turkey – Terrorism and Conflicts" on page 20 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

> On 12 July 2019, Turkey accepted its first shipment of Russian S-400 surface-to-air missile systems. As a result, Turkey was excluded from NATO's F-35 stealth-fighter-jet programme on 17 July 2019. As of 5 September 2019, it is uncertain if the United States and/or any other NATO member will impose any sanctions or other measures

against Turkey and, if imposed, how such might impact the Turkish economy and/or the relationship between Turkey and the United States and/or any other NATO member.

The following language is hereby included before the last sentence of the fifth paragraph of the risk factor titled "Risks Relating to Turkey – High Current Account Deficit" on page 23 of the Original Base Prospectus:

On 25 July 2019, the Central Bank cut its policy rate by 425 basis points to 19.75%. On 5 August 2019, the Central Bank: (a) increased reserve requirements for foreign-exchange deposits/participation funds by 100 basis points for all maturity brackets and (b) reduced the remuneration rate for U.S. dollar-denominated required reserves, reserve options and free reserves held at the Central Bank by 100 basis points to 1.00%. As a result, approximately US$2.1 billion of foreign exchange liquidity was withdrawn from the market. On 20 August 2019, the Central Bank revised the reserve requirement ratios for Turkish Lira liabilities of banks whose annual loan growth (to be calculated according to the procedures and principles determined by the Central Bank) is between 10% and 20% of the sum of their loans of a standard nature and loans under close monitoring (calculated in Turkish Lira) (excluding foreign currency-indexed loans and loans extended to banks). Accordingly, the reserve requirement ratio for such liabilities is set at 2% in all maturity brackets, excluding: (i) deposits and participation funds with one year or longer maturity (excluding deposits/participation funds obtained from banks abroad) and (ii) other liabilities with a longer than three year maturity (including deposits/participation funds obtained from banks abroad). Such reserve requirement ratios will be applied for a three month period after the calculation period, which will be determined by the Central Bank.

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 Original Base Prospectus, as amended by the supplement dated 9 July 2019:

On 12 July 2019, Fitch downgraded Turkey's long-term foreign currency issuer default credit rating to "BB- (negative outlook)" from "BB (negative outlook)" and long-term local currency issuer default credit rating to "BB- (negative outlook)" from "BB+ (negative outlook)."

The last sentence of the fifth paragraph of the risk factor titled "Risks Relating to the Group's Business - Foreign Exchange and Currency Risk" starting on page 33 of the Original Base Prospectus as amended by the supplement dated 9 July 2019 is hereby deleted in its entirety and replaced by the following:

On 17 June 2019, the Central Bank announced a facility through which it makes loans to primary dealer banks at a rate lower than the one week repo rate. On 25 July 2019, the Central Bank cut its policy rate by 425 basis points to 19.75%. From 31 December 2018 to 31 July 2019, the Turkish Lira depreciated by 5.9% against the U.S. dollar.

The following language is hereby included before the last sentence of the third paragraph of the risk factor titled "Risks Relating to the Group's Business - Foreign Currency Borrowing and Refinancing Risk" on page 37 of the Original 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. On 19 July 2019, following the downgrade of Turkey's long-term foreign currency credit rating and long-term local currency credit rating, Fitch further downgraded the Bank's Long-Term Foreign Currency Issuer Default Rating and Long-Term Local Currency Issuer Default Rating from "BB-" to "B+" and "BB" to "BB-," respectively, and the Bank's support rating from "3" to "4."

The two paragraphs of the risk factor titled "Risks Relating to the Group's Business - Audit Qualification" on page 42 of the Original 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 six month period ended 30 June 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 reduction in 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. In 2016, 2017 and 2018, the general reserves were allocated 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 six months of 2019 for the same purpose.

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. 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.

FORM OF APPLICABLE FINAL TERMS/PRICING SUPPLEMENT

The reference to "Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**")" in the second sentence of the section titled "Prohibition of Sales to EEA Retail Investors" on page 71 of the Original Base Prospectus is hereby deleted in its entirety and replaced by "Directive 2003/71/EC, as amended or superseded, as implemented in the Republic of Ireland by the Prospectus Directive 2003/71/EC Regulations 2005 of Ireland (S.I. No. 324 of 2005) (as amended) (the "**Prospectus Directive**")."

The reference to "Directive 2003/71/EC (as amended or superseded)" in the first sentence of the first paragraph and the second sentence of the third paragraph of the section titled "Part A - Contractual Terms" on page 72 of the Original Base Prospectus is hereby deleted in its entirety and replaced by "Directive 2003/71/EC, as amended or superseded, as implemented in the Republic of Ireland by the Prospectus Directive 2003/71/EC Regulations 2005 of Ireland."

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

The penultimate sentence of the third paragraph of the section titled "Capital Adequacy" (starting on page 163 of the Original Base Prospectus) inserted into the Base Prospectus by the supplement dated 9 July 2019 is hereby deleted in its entirety and replaced by the following:

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

The section titled "Recent Developments" included in the Base Prospectus by the supplement dated 9 July 2019 is hereby deleted in its entirety and replaced by the section set out on Schedule A hereto.

THE GROUP AND ITS BUSINESS

The outlook of the Bank's credit ratings from S&P set out on page 210 of the Original Base Prospectus is hereby amended by deleting "Stable" and replacing it with "Negative" (which action was adopted on 31 July 2019).

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

Fitch (19 July 2019)

Outlook:	Negative
Long Term Foreign Currency:	B+
Short Term Foreign Currency:	B
Long Term Turkish Lira:	BB-
Short Term Turkish Lira:	B
Viability Rating:	b+
Support:	4
National:	AA (tur)

MANAGEMENT

The following section is hereby included at the end of the section titled "The Executives" starting on page 221 of the Original Base Prospectus:

Recent Developments

Following the resignation of Mr. Ali Fuat Erbil from his position as the CEO of the Bank on 19 August 2019, the Board resolved to appoint Mr. Recep Baştuğ as the new CEO. Following the completion of the necessary legal procedures, Mr. Baştuğ assumed his role as of 1 September 2019. As the CEO of the Bank, as of the same date, Mr. Baştuğ also became a member of the Board and Mr. Erbil ceased to be a Board member. Additional details regarding Mr. Recep Baştuğ are set forth below:

Recep Baştuğ (*CEO*)

Mr. Baştuğ graduated from Çukurova University's Faculty of Economics. He joined the Bank as an Internal Auditor in 1989 and worked as a Corporate Branch Manager between 1995 and 1999 and as a Commercial Regional Manager between 1999 and 2004. He served as the Commercial Banking Coordinator between 2004 and 2013 and was appointed as an Executive Vice President in January 2013. Mr. Baştuğ was a board member of Garanti Bank Moscow, Garanti Leasing and Garanti Fleet. With over 25 years of experience in banking and business administration, Mr. Baştuğ was responsible for marketing commercial banking in İstanbul and Ankara, marketing commercial banking in Anatolia and consumer finance. Mr. Baştuğ resigned from his duties, effective from 31 March 2018, and became a board member at Ciner Group. As of 1 September 2019, Mr. Baştuğ has been appointed to serve as a Board member and the CEO of the Bank.

Information regarding Mr. Ali Fuat Erbil has been deleted from the Base Prospectus as of 1 September 2019.

TURKISH REGULATORY ENVIRONMENT

The first paragraph of the section titled "*Loan Loss Reserves*" on page 241 of the Original Base Prospectus is hereby deleted in its entirety and replaced by the following:

> Pursuant to Article 53 of the Banking Law, banks must formulate, implement and regularly review policies regarding compensation for losses that have arisen or are likely to arise in connection with loans and to reserve an adequate level of provisions against such losses, for qualification and classification of loans, receipt of guarantees and securities and measurement of their value and reliability. In addition, such policies must address issues such as monitoring loans under review, write-off of such loans in accordance with Turkish Financial Reporting Standards as published by the POA, follow-up procedures and the repayment (including restructuring) of loans. Banks must also establish and operate systems to perform these functions. All special provisions set aside for loans and other receivables in accordance with this article are considered as expenditures deductible from the corporate tax base in the year in which they are set aside. The loans that can no longer be collected that are written-off after having reserved requisite provisions are considered to be bad debt within the context of Article 322 of the Tax Procedural Law No. 213.

SCHEDULE A

RECENT DEVELOPMENTS

The following summary financial and operating data for the six month period ended 30 June 2018 and 2019 and balance sheet information as of 31 December 2018 and 30 June 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). 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 other provision expenses, expected credit losses, other operating expenses and provision for taxes for such period. The Group's net profit/(loss) for the first six months of 2019 was TL 3,668,768 thousand, a 6.8% decrease from TL 3,935,990 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 Six Months Ended 30 June	
	2018	**2019**
	(TL thousands)	
Interest income	16,656,566	22,098,622
Interest expense	(8,056,712)	(12,200,461)
Net interest income	**8,599,854**	**9,898,161**
Net fees and commissions income/expenses	2,425,350	2,974,890
Dividend income	5,188	9,022
Net trading income/losses (net)	(332,157)	(979,437)
Other operating income	2,066,046	3,376,478
Total operating profit	**12,764,281**	**15,279,114**
Other provision expenses	(35,529)	(204,711)
Expected credit losses	(3,560,254)	(5,520,742)
Other operating expenses	(4,130,655)	(4,889,235)
Profit/(loss) before taxes	**5,037,843**	**4,664,426**
Provision for taxes	(1,101,853)	(995,658)
Net profit/(loss)	**3,935,990**	**3,668,768**
Attributable to equityholders of the Bank	3,901,414	3,628,371
Attributable to minority interests	34,576	40,397

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

	For the Six Months Ended 30 June	
	2018	**2019**
Exceptional items	*(TL thousands)*	
Sale/liquidation of equity participations and other assets	(129,674)	(14,746)
Sale of NPLs	-	(25,845)
Other income	-	(83,000)(1)
General reserves	-	100,000(2)
Tax effects of the items listed above	13,000	5,686
Total impact on net profit/(loss)	**(116,674)**	**(17,905)**
Net profit/(loss)	3,935,990	3,668,768
Net profit/(loss) adjusted for exceptional items	**3,819,316**	**3,650,863**

(1) This only includes an administrative fee reversal.

(2) 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 report. 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 4.4% in the first six months of 2019 as compared to the same period of the previous year. This decrease was mainly due to an increase in net expected credit losses as a consequence of low economic activity in Turkey and higher interest rates and unemployment.

The Bank expects that Turkey's economic performance in 2019 will be somewhat weaker than 2018 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. Net interest income represented 67.4% and 64.8% of the Group's total operating profit in the first six months of 2018 and 2019, respectively.

Net interest income amounted to TL 9,898,161 thousand in the first six months of 2019, which was a 15.1% increase from TL 8,599,854 thousand in the same period of the previous year. The Group's net interest margin expanded in the first six months of 2019 when compared to the same period of 2018 due to an increase in the loan-to-deposit spread and higher income from CPI-linkers.

The Group's annualised net interest margin was 5.8% in the first six months of 2019, compared to 5.4% in the same period of the previous year. The improvements in the Group's net interest income in the first six months of 2019 were mainly due to an increase in the loan-to-deposit spread and increased earnings on CPI-linkers. Nevertheless, the Group's annualised net interest margin decreased slightly in the first six months of 2019 compared to overall 2018 due to a lower contribution from CPI-linkers, which was offset in part by improved core spreads. The calculation of the Group's net interest margin for the indicated periods is as follows:

	For The Six Months Ended 30 June	
	2018	2019
	(TL thousands, except percentages)	
Net interest income	8,599,854	9,898,161
Average interest-earning assets	321,900,086	344,889,962
Net interest margin	**2.7%**	**2.9%**
Annualisation factor(1)	2.02	2.02
Net interest margin (annualised)	**5.4%**	**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 Group declined to 3.53% for the first six months of 2019 from 4.40% in the same period of the previous year, which decline was principally the result of a significant increase in deposit costs. During the first six 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 inflation, represented 70% of the Bank's Turkish Lira-denominated securities and equaled 9% of its interest-earning assets as of 30 June 2019)). Deposit costs increased significantly in the first half of 2019 compared to the same period of the previous year, which increase reflected: (a) significantly lower deposit cost base in the first half of 2018 compared to the first half of 2019 due to the Central Bank's policy rate increase in September 2018, (b) lower loan growth in the first half of 2019 leading to an increase in deposit costs and (c) dollarisation (*i.e.*, customers preferring to have foreign currency deposits (especially in U.S. dollars) rather than Turkish Lira deposits) that put a pressure on Turkish Lira deposit pricings in the first half of 2019. The calculation of the Group's loan–to–time deposit spread for the indicated periods is as follows:

	For The Six Months Ended 30 June	
	2018	2019
	(TL thousands, except percentages)	
Interest income on loans(1)	13,469,355	17,327,088
Average total performing loans(2)	239,952,520	251,279,049
Yield on loans(3)	**5.61%**	**6.90%**
Interest expense on time deposits	5,336,242	9,447,724
Average total time deposits(4)	155,420,104	183,609,241
Cost of time deposits(5)	**3.43%**	**5.15%**
Loan-to-time deposit spread(6)	**2.18%**	**1.75%**
Annualisation factor(7)	2.02	2.02
Loan-to-time deposit spread (annualised)	**4.40%**	**3.53%**

(1) This does not include interest income received from factoring receivables amounting to TL 212,742 thousand and TL 201,743 thousand for the six months ended 30 June 2019 and 2018, respectively.
(2) 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).
(3) This is calculated by dividing the interest income on loans by average total performing loans.
(4) 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).
(5) This is calculated by dividing interest expense on time deposits by average total time deposits.
(6) This is the yield on loans for such period *minus* the cost of time deposits for such period.
(7) The annualisation factor for a period is 365 *divided by* the number of days in such period.

In both 2018 and the first six 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 July 2019, the last 12 month consumer price inflation was 16.65% and the last 12 month domestic producer price inflation was 21.66% (Turkstat). In second quarter of 2019, Turkey's GDP contracted by 1.5% year-over-year from the second quarter of 2018, but grew at a rate of 1.2% from the first quarter of 2019. As a result of these conditions, in 2018 and in the first half 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 six months of 2019, the Group's interest income increased by 32.7% 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 Six Months Ended 30 June	
	2018	**2019**
	(TL thousands)	
Interest income on loans	13,671,098	17,539,830
Interest income on reserve deposits	157,681	157,343
Interest income on banks	237,304	522,678
Interest income on money market transactions	7,868	84,600
Interest income on securities portfolio	2,188,841	3,264,180
Financial lease income	246,532	261,631
Other interest income	147,242	268,360
Total interest income	**16,656,566**	**22,098,622**

In the first six months of 2019, the increase in interest income from the same period of the previous year was principally due to a 28.3% increase in "interest income on loans" (resulting largely from an increase in interest rates) and the 49.1% 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 six months of 2019, the Group's interest expense increased by 51.4% 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 5.4% as of 30 June 2019 compared to 30 June 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 Six Months Ended 30 June	
	2018	**2019**
	(TL thousands)	
Interest on deposits	5,336,242	9,447,724
Interest on funds borrowed	963,375	1,089,822
Interest on money market transactions	621,618	79,262
Interest on securities issued	1,088,873	1,424,104
Lease interest expense	20	93,302
Other interest expense	46,584	66,247
Total interest expense	**8,056,712**	**12,200,461**

The increase in the Group's interest expense in the first six months 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 (50.4% and 51.5%, respectively, as of 30 June 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 six months of 2019 increased by 22.7% 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 half of 2018 and the first half 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 Six Months Ended 30 June	
	2018	2019
	(*TL thousands*)	
Fees and commissions received	**3,142,253**	**4,156,118**
Non-cash loans	251,751	363,737
Others	2,890,502	3,792,381
Fees and commissions paid	**716,903**	**1,181,228**
Non-cash loans	6,600	7,608
Others	710,303	1,173,620
Net fees and commissions income/expenses	**2,425,350**	**2,974,890**

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 9,022 thousand in the first six months of 2019 and TL 5,188 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 six months of 2019, the Group experienced a net trading loss of TL 979,437 thousand, which increased by 194.9% compared to a trading loss of TL 332,157 thousand for the same period of the previous year. The increased net trading loss in the first six months of 2019 was mainly due to higher swap costs and decreased currency hedging-related gains. The following table sets out the categories of the Group's net trading income/losses during both of the indicated period:

	For the Six Months Ended 30 June	
	2018	2019
	(*TL thousands*)	
Trading Income		
Trading account income	1,144,869	770,832
Derivative financial instruments	10,505,240	7,273,850
Foreign exchange gain	40,282,789	55,179,189
Total trading income	**51,932,898**	**63,223,871**
Trading Losses		
Trading account losses	(407,834)	(414,857)
Derivative financial instruments	(10,435,495)	(9,689,036)
Foreign exchange losses	(41,421,726)	(54,099,415)
Total trading losses	**(52,265,055)**	**(64,203,308)**
Net trading income/losses	**(332,157)**	**(979,437)**

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 six months of 2019 was 63.4% 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 Six Months Ended 30 June	
	2018	**2019**
	(*TL thousands*)	
Prior Year Reversals	1,464,561	2,764,279
Stage 1	*629,348*	*867,555*
Stage 2	*390,247*	*1,120,030*
Stage 3	*405,956*	*640,677*
Others	*39,010*	*136,017*
Income from term sale of assets	129,674	40,591
Others	471,811	571,608
Other operating income	**2,066,046**	**3,376,478**

The increase in total other operating income in the first six 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:

	For the Six Months Ended 30 June	
	2018	**2019**
	(TL thousands)	
Expected credit losses	**3,560,254**	**5,520,742**
12 month ECL (Stage 1)	*695,843*	*974,614*
Significant increase in credit risk (Stage 2)	*1,561,307*	*2,551,974*
Impaired credits (Stage 3)	*1,303,104*	*1,994,154*
Impairment losses on securities	**10,876**	**4,735**
Financial assets measured at fair value through profit or loss	*10,876*	*2,986*
Financial assets measured at fair value through other comprehensive income	**-**	*1,749*
Impairment losses on associates, subsidiaries and joint-ventures	**-**	**-**
Associates	**-**	**-**
Subsidiaries	**-**	**-**
Joint-ventures (business partnerships)	**-**	**-**
Others[(1)]	**24,653**	**199,976**
Total	**3,595,783**	**5,725,453**

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

The Group's NPL ratio increased to 5.7% as of 30 June 2019 from 5.1% as of 31 December 2018, which change was mainly due to some transfers 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 Group's Stage 3 loans coverage level was 58.5% as of 30 June 2019. Under TFRS 9, when calculating coverage levels, the Group takes into account the collateral value of each loan. For the Group's provisions allocated for its Stage 2 loans, see "Provision for Losses on Loans or other Receivables and Expected Credit Losses." The inflow of net new NPLs (approximately 67% of which were from retail loans during the first half of 2019), when excluding the net currency impact, has been declining since the last quarter of 2018 and was TL 1,969 million in the last quarter of 2018, TL 1,004 million in the first quarter of 2019 and TL 281 million in the second quarter of 2019.

The calculation of the Group's NPL ratio for the indicated dates is as follows:

	As of 31 December 2018	As of 30 June 2019
	(TL thousands, except percentages)	
Performing loans	217,177,324[2]	216,815,495
Loans under follow-up[1]	38,712,181	41,950,309
Total	**255,889,505**	**258,765,804**
NPLs (gross)	13,753,384	15,605,968
Total loans	**269,642,889**	**274,371,772**
NPL ratio	**5.1%**	**5.7%**

(1) NPLs are not included.
(2) Includes loans measured at fair value through profit or loss amounting to TL 4,081,161 thousand as of 31 December 2018.

Considering the economic slowdown and increasing unemployment rate, and despite the better-than-expected trend in the inflow of net new NPLs during the first half of 2019, the Bank's management expects the Group's NPL ratio to continue increasing 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 30 June 2019
	(TL thousands, except percentages)	
Loans under follow up	38,712,181	41,950,309
Total loans (gross)	269,642,889	274,371,772
Stage 2 loans to total loans (gross)	**14.4%**	**15.3%**

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 30 June 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 33% of the Bank's Stage 2 loans (81% 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 67% 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 16% 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 24%, 10%, 21% and 6% of the total, respectively.

In the first six 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 continued to reclassify certain Stage 1 loans as Stage 2 loans in accordance with the requirements of TFRS 9.

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

	As of 31 December 2018	As of 30 June 2019
	(TL thousands, except percentages)	
Expected credit loss for loans (Stage 2 loans)	4,027,289	4,867,663
Loans under follow up	38,712,181	41,950,309
Stage 2 coverage ratio	**10.4%**	**11.6%**

The Bank's management increased the general reserves by TL 100,000 thousand to TL 2,350,000 thousand in the first six 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. Each of the review reports included in the New Financial Statements was 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 half of 2019 increased by 18.4% to TL 4,889,235 thousand from TL 4,130,655 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 50.6% in the first six months of 2019 from 44.9% 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 six 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 Six Months Ended 30 June	
	2018	**2019**
	(TL thousands)	
Personnel expenses	1,718,108	2,094,674
Reserve for employee termination benefits	44,213	60,371
Impairment losses on tangible assets	-	26
Depreciation expenses of tangible assets	154,430	203,466
Amortisation expenses of intangible assets	59,586	68,316
Impairment losses on assets to be disposed	-	2,379
Depreciation expenses of right-of-use assets	-	156,013
Impairment losses on assets held for sale and discontinued assets	-	577
Operational lease-related expenses	252,227	85,093
Repair and maintenance expenses	37,399	42,527
Advertisement expenses	101,272	81,049
Loss on sale of assets	2,779	3,438
Other expenses[(1)]	1,293,770	1,513,354
Others[(2)]	466,871	577,952
Other operating expenses	**4,130,655**	**4,889,235**

(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 21.9% in the first six 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 Six Months Ended 30 June	
	2018	**2019**
	(TL thousands, except percentages)	
Net interest income	8,599,854	9,898,161
Net fees and commissions income/expenses	2,425,350	2,974,890
Net trading income/losses	(332,157)	(979,437)
Dividend income	5,188	9,022
Other income	2,066,046	3,376,478
Expected credit losses and general reserves	(3,560,254)	(5,620,742)
Total income	**9,204,027**	**9,658,372**
Other operating expenses	4,130,655	4,889,235
Total cost	**4,130,655**	**4,889,235**
Cost-to-income ratio	**44.9%**	**50.6%**

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

	For The Six Months Ended 30 June	
	2018	**2019**
	(TL thousands, except percentages)	
Other operating expenses	4,130,655	4,889,235
Average total assets	367,030,560	414,920,108
Operating expenses to average total assets	**1.1%**	**1.2%**
Annualisation factor[(1)]	2.02	2.02
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 six months of 2019 amounted to TL 995,658 thousand, which was a 9.6% decrease from TL 1,101,853 thousand for the same period of the previous year. The Group's taxation charges for this period in 2019 included a deferred tax credit of TL 228,393 thousand compared to a deferred tax charge of TL 34,315 thousand for the same period of the previous year. The decrease in the Group's taxation charges for the first six 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 six months of 2019 was 21.3% 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 six 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 30 June 2019	
	Amount	% of Total	Amount	% of Total
Assets	*(TL thousands, except for percentages)*			
Cash and Cash Equivalents	72,335,566	18.1	84,575,848	20.0
Financial Assets Measured at Fair Value through Profit/(Loss) (FVTPL)[1]	4,641,037	1.2	5,052,797	1.2
Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)	27,162,953	6.8	28,671,724	6.8
Derivative Financial Assets	4,093,695	1.0	3,137,651	0.7
Loans[1][2]	256,099,555	64.1	265,859,567	63.0
Lease Receivables	6,966,040	1.7	6,596,866	1.6
Factoring Receivables	2,586,133	0.7	1,915,339	0.5
Other Financial Assets Measured at Amortised Cost[3]	24,654,009	6.2	26,950,829	6.4
Expected Credit Losses(-)[4]	(13,148,150)	(3.3)	(15,149,803)	(3.6)
Assets Held for Sale and Assets of Discontinued Operations	857,695	0.2	1,075,937	0.3
Ownership Investments (net)	132,871	0.0	149,357	0.0
Tangible Assets	4,494,918	1.1	5,524,982	1.3
Intangible Assets	416,072	0.1	428,033	0.1
Investment Property	558,309	0.1	558,401	0.1
Current Tax Assets	175,266	0.0	132,005	0.0
Deferred Tax Assets	1,519,177	0.4	1,888,657	0.4
Other Assets	5,698,455	1.6	4,916,666	1.2
Total assets	**399,153,601**	**100.0**	**422,284,856**	**100.0**
Liabilities				
Deposits	245,016,346	61.4	260,060,882	61.6
Funds Borrowed	33,339,727	8.4	31,425,864	7.4
Money Markets Funds	2,634,590	0.7	1,969,992	0.5
Securities Issued (net)	26,911,463	6.7	30,822,240	7.3
Financial Liabilities Measured at FVTPL	12,312,230	3.1	13,594,698	3.2
Derivative Financial Liabilities	4,510,162	1.1	4,939,951	1.2
Lease Payables	—	—	1,091,486	0.3
Provisions	5,369,512	1.3	5,478,206	1.3
Current Tax Liability	646,881	0.2	1,548,609	0.4
Deferred Tax Liability	19,121	0.0	26,101	0.0
Subordinated Debts	3,977,018	1.0	4,339,333	1.0
Other Liabilities	17,529,709	4.4	16,430,638	3.8
Total liabilities	**352,266,759**	**88.3**	**371,728,000**	**88.0**
Shareholders' equity	**46,886,842**	**11.7**	**50,556,856**	**12.0**
Total liabilities and shareholders' equity	**399,153,601**	**100.0**	**422,284,856**	**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," "Lease Receivables" and "Factoring Receivables" line items, as applicable.

(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 30 June 2019 increased by 5.8% 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 75.8% of the Group's total assets as of 30 June 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 Six Months Ended 30 June 2019
	(TL thousands, except percentages)
Net profit/(loss)	3,668,768
Average total assets	414,920,108
Return on average total assets	**0.9%**
Annualisation factor(1)	2.02
Return on average total assets (annualised)	**1.8%**

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

Loans. Loans (excluding financial lease and factoring receivables) represented 63.0% of the Group's total assets as of 30 June 2019, decreasing from 64.1% 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 six months of 2019 was mainly due to an increase in Turkish Lira commercial lending, which was driven by KGF lending. In the first six months of 2019, the Bank originated TL 7 billion of KGF-guaranteed loans, fully utilising its allocated KGF limit. As of 30 June 2019, the outstanding amount of KGF-guaranteed loans was TL 17 billion, which represented 11% of the Group's Turkish Lira business lending portfolio. Excluding KGF lending, demand for loans was weak in the first six months of 2019.

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 12.0% of the Group's total assets as of 30 June 2019, slightly increasing from 11.9% as of 31 December 2018. Securities issued by the Turkish government represented 90.2% and 91.1% of the Group's portfolio of financial assets as of 30 June 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 six months of 2019: (a) the Group's total liabilities increased by 5.5%, which was largely the result of a 6.1% increase in deposits from customers and banks and a 14.5% increase in securities issued (which itself was largely a result of the 94.3% increase in Turkish Lira-denominated securities resulting mainly from demand in the Turkish market), and (b) the Group's shareholders' equity increased by 7.8%, 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 Six Months Ended 30 June 2019
	(TL thousands, except percentages)
Net profit/(loss)	3,668,768
Average shareholders' equity	48,623,443
Return on average shareholders' equity	**7.5%**
Annualisation factor(1)	2.02
Return on average shareholders' equity (annualised)	**15.2%**

(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 six months of 2019, the Group's off-balance sheet exposure increased by 9.0%, 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 30 June 2019**
	(TL thousands)	
Letters of guarantee	50,173,770	50,939,951
Letters of credit	14,685,922	10,851,020
Bank acceptance	2,788,829	2,867,178
Other guarantees	66,907	69,764
Total guarantees and sureties	**67,715,428**	**64,727,913**
Total commitments	65,539,928	89,815,034
Derivative financial instruments	360,581,304	383,892,052
Others	—	—
Total off-balance sheet commitments and contingencies	**493,836,660**	**538,434,999**

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. Each of the Group's Tier 1 capital adequacy ratio and common equity Tier 1 capital adequacy ratio decreased from 14.2% as of 31 December 2018 to 14.1% as of 30 June 2019 (15.8% and 15.6%, respectively, with respect to the Bank's Tier 1 capital adequacy ratio and 15.8% and 15.6%, respectively, with respect to the Bank's common equity Tier 1 capital adequacy ratio). The Group's total capital adequacy ratio decreased from 16.5% as of 31 December 2018 to 16.4% as of 30 June 2019 (18.3% and 18.0%, 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 30 June 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	39,645,065
Profit	6,641,652	3,628,371
Tier 1 Capital (I)	46,033,825	49,856,234
Tier 2 Capital (II)	7,538,990	8,120,241
Deductions (III)	14,041	10,159
Own Funds (I+II-III)	53,558,774	57,966,316
Risk Weighted Assets (including market and operational risk)	324,153,343	353,154,686
Capital Ratios:		
Tier 1 capital adequacy ratio	14.2%	14.1%
Common equity Tier 1 capital adequacy ratio	14.2%	14.1%
Total capital adequacy ratio	16.5%	16.4%

The increase in the Group's capital in the first six months of 2019 represented the Group's profit in the relevant period.

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 30 June 2019, the Group's loan-to-deposit ratio was 104.4% and 99.5%, respectively.

The calculation of the Group's loan-to-deposit ratio for the indicated dates is as follows:

	As of 31 December 2018	As of 30 June 2019
	(TL thousands, except percentages)	
Performing loans	217,177,324[(2)]	216,815,495
Loans under follow-up[(1)]	38,712,181	41,950,309
Total	**255,889,505**	**258,765,804**
Deposits	245,016,346	260,060,882
Loan-to-deposit ratio	**104.4%**	**99.5%**

(1) NPLs are not included.

(2) Includes loans measured at fair value through profit or loss amounting to TL 4,081,161 thousand as of 31 December 2018.

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 six 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%
30 April 2019	247.99%	359.60%
31 May 2019	255.79%	517.85%
30 June 2019	222.89%	446.87%