TÜRKİYE İŞ BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Financial Statements
As at and For The Year Ended
31 December 2019
With Independent Auditors' Report

Güney Bağımsız Denetim ve Serbest Muhasebeci
Mali Müşavirlik Anonim Şirketi

30 April 2020

This report contains 5 pages of independent auditors' report on consolidated financial statements and 129 pages of consolidated financial statements and notes to the consolidated financial statements.

Türkiye İş Bankası Anonim Şirketi and Its Subsidiaries

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Report on the Audit of the Consolidated Financial Statements

To the Shareholders of Türkiye İş Bankası A.Ş.

Qualified Opinion

We have audited the consolidated financial statements of Türkiye İş Bankası A.Ş. (the "Bank") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of income, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter on the consolidated financial statements described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion

As explained in Note 29, the accompanying consolidated financial statements as at December 31, 2019 include a free provision for possible risks amounting to TL 980,000 thousands, of which TL 1,055,000 thousands was provided in prior years and TL 75,000 thousands reversed in the current year by the Group management for the possible effects of the negative circumstances which may arise from the possible changes in the economy and market conditions which does not meet the recognition criteria of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our qualified audit opinion on the accompanying consolidated financial statements.

Key Audit Matter	How the Key Audit Matter is addressed in our audit
IFRS 9 "Financial Instruments" Standard and recognition of impairment on financial assets and related significant disclosures	
As presented in "Note 3.7, Note 4.2, Note 12, Note 42", the Group recognizes expected credit losses of financial assets in accordance with IFRS 9 "Financial Instruments" Standard. We considered impairment of financial assets as a key audit matter since: - Amount of on and off balance sheet items that are subject to expected credit loss calculation is material to the financial statements. - There are complex and comprehensive requirements of IFRS 9. - The classification of the financial assets is based on the Group's business model and characteristics of the contractual cash flows in accordance with IFRS 9 and the Group uses significant judgment on the assessment of the business model and identification of the complex contractual cash flow characteristics of financial instruments. - The Group, according to its relevant business model category, shall classify fair value of their financial assets at fair value as level 3, when there are financial inputs that are not observable and which includes significant estimation and assumption in the fair value measurement. - Policies implemented by the Group management include compliance risk to the regulations and other practices. - Processes of IFRS 9 are advanced and complex. - Judgements and estimates used in expected credit loss calculation are complex and comprehensive. - Disclosure requirements of IFRS 9 are comprehensive and complex.	Our audit procedures included among others include: - Evaluating the appropriateness of accounting policies as to the requirements of IFRS 9, Group's past experience, local and global practices. - Reviewing and testing of processes which are used to calculate expected credit losses by involving our Information technology and Process audit specialists. - Evaluating the reasonableness of management's key judgements, estimates and data sources used in expected credit loss calculations considering the standard requirements, sectorial and global practices. - Reviewing the appropriateness of criteria in order to identify the financial assets having solely payments of principal and interest and checking the compliance to the Group's Business model. - Reviewing the Group's classification and measurement models of the financial instruments (financial instruments determined as Level 3 according to fair value hierarchy) and comparing with IFRS 9 requirements - Assessing the appropriateness of definition of significant increase in credit risk, default criteria, modification, probability of default, loss given default, exposure at default and forward looking assumptions together with the significant judgements and estimates used in these calculations to regulations and Group's past performance. Evaluating the alignment of those forward looking parameters to Group's internal processes where applicable. - Assessing the completeness and the accuracy of the data used for expected credit loss calculation. - Testing the mathematical accuracy of expected credit loss calculation on sample basis. - Evaluating the judgments and estimates used for the individually assessed financial assets. - Evaluating the accuracy and the necessity of post-model adjustments. - Auditing of IFRS 9 disclosures.

Pension Fund Obligations	
Employees of the Group are members of "Türkiye İş Bankası A.Ş. Mensupları Emekli Sandığı Vakfı", ("the Fund"), which is established in accordance with the temporary Article 20 of the Social Security Act No. 506 and related regulations. The Fund is a separate legal entity and foundation recognized by an official decree, providing all qualified employees with pension and post-retirement benefits. As disclosed in "Note 3.20", Banks will transfer their pension fund to the Social Security Institution and the authority of the "Council of Ministers" on the determination of the mentioned transfer date is changed as "President" in the Decree Law No. 703 published in the Official Gazette numbered 30473 and dated July 9, 2018. According to the technical balance sheet report as at December 31, 2019 prepared considering the related articles of the Law regarding the transferrable benefit obligations for the non- transferrable social benefits and payments which are included in the articles of association, the Fund has an actuarial and technical deficit which is fully provisioned for. The valuation of the Pension Fund liabilities requires judgment in determining appropriate assumptions such as defining the transferrable social benefits, discount rates, salary increases, demographic assumptions, inflation rate estimates and the impact of any changes in individual pension plans. The Group Management uses Fund actuaries to assist in assessing these assumptions. Considering the subjectivity of key assumptions and estimate used in the calculations of transferrable liabilities and the effects of the potential changes in the estimates used together with the uncertainty around the transfer date and given the fact that technical interest rate is prescribed under the law, we considered this to be a key audit matter.	It has been addressed whether there have been any significant changes in regulations governing pension liabilities, employee benefits plan during the period, that could lead to adjust the valuation of employee benefits. Support from the audit teams of our subsidiaries and the actuarial auditor of our firm, has been taken to assess the appropriateness of the actuarial assumptions and calculations performed by the external actuary. We further focused on the accuracy and adequacy of the Bank's provision provided for the deficit and also disclosures on key assumptions related to pension fund deficit.

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Derivative Financial Instruments	
Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, currency and interest rate options, futures and other derivative financial instruments which are held for trading are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Details of related amounts are explained in "Note 46". Fair value of the derivative financial instruments is determined by selecting most convenient market data and applying valuation techniques to those particular derivative products. Derivative Financial Instruments are considered by us as a key audit matter because of the subjectivity in the estimates, assumptions and judgements used.	Our audit procedures included among others involve reviewing policies regarding fair value measurement accepted by the Group management fair value calculations of the selected derivative financial instruments which is carried out by valuation experts of another entity who are in the same audit network within our firm and the assessment of used estimations and the judgements and testing the assessment of operating effectiveness of the key controls in the process of fair value determination.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

The Partner in charge of the audit resulting in this independent auditor's report is Fatma Ebru Yücel.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Fatma Ebru Yücel, SMMM
Partner

İstanbul, Türkiye
April 30, 2020

TÜRKİYE İŞ BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

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

Assets	**Note**	**31 Decemer 2019**	**31 December 2018**
Cash on hand	*7*	5,528,713	4,860,517
Balances with central bank	*8*	48,369,677	35,985,897
Loans and advances to banks	*9*	22,027,221	15,619,444
Financial assets at fair value through profit or loss	*10*	2,666,162	1,087,301
Derivative financial assets	*46*	5,369,818	6,337,975
Loans and advances to customers	*11*	318,424,746	302,452,366
- Measured at amortised cost		*316,274,933*	*300,034,779*
- Measured at fair value through profit or loss		*2,149,813*	*2,417,587*
Trade receivables	*13*	5,847,878	4,377,708
Insurance receivables	*15*	5,008,178	4,186,651
Inventories	*14*	4,315,307	3,508,957
Investment securities	*10*	96,625,522	78,586,220
- Financial assets at fair value through other comprehensive income		61,023,546	*47,859,826*
- Financial assets measured at amortised cost		35,601,976	*30,726,394*
Current tax assets	*28*	90,429	205,884
Investments in equity-accounted investees	*16*	981,049	859,618
Property, plant and equipment	*17*	23,172,273	19,666,272
Investment properties	*19*	4,314,742	4,281,513
Intangible assets and goodwill	*18*	1,920,650	1,588,723
Non-current assets held for sale	*20*	1,218,276	283,339
Deferred tax assets	*28*	3,075,980	2,352,038
Other assets	*21*	10,668,377	11,548,274
Total assets		**559,624,998**	**497,788,697**

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

TÜRKİYE İŞ BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

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

Liabilities and equity	**Note**	**31 December 2019**	**31 December 2018**
Deposits	*22*	294,647,350	246,122,957
- Deposits from banks	*22*	*5,905,168*	*5,547,929*
- Deposits from customers	*22*	*288,742,182*	*240,575,028*
Obligations under repurchase agreements	*23*	2,863,882	9,489,236
Derivative financial liabilities	*46*	3,013,852	4,558,566
Lease payables		1,245,427	--
Funds borrowed	*24*	79,295,160	77,779,020
Debt securities issued	*25*	44,266,745	42,362,850
Payables to money market	*26*	166,453	2,491,351
Trade payables	*27*	6,343,693	4,083,735
Taxes and dues payable	*28*	819,762	785,374
Employee benefits	*30*	5,455,826	4,507,967
Corporate tax liability	*28*	1,043,071	1,196,662
Insurance contract liabilities	*15*	13,188,011	10,875,358
Provisions	*29*	1,989,940	1,862,062
Deferred tax liabilities	*28*	287,030	328,773
Other liabilities	*31*	15,394,612	15,095,973
Subordinated liabilities	*32*	15,365,226	12,708,575
Total liabilities		**485,386,040**	**434,248,459**
Share capital	*33*	6,115,938	6,115,938
Share premium	*33*	38,611	38,550
Legal reserves	*33*	5,631,247	5,131,840
Fair value reserves	*33*	486,376	(1,935,012)
Revaluation reserves	*33*	4,821,759	4,828,448
Hedging reserves	*33*	3,149	(145)
Translation reserves	*33*	3,302,365	2,277,619
Other reserves		(789,608)	(728,886)
Retained earnings		39,172,563	34,191,616
Total equity attributable to equity holders of the Bank		**58,782,400**	**49,919,968**
Non-controlling interests	*33*	**15,456,558**	**13,620,270**
Total equity		**74,238,958**	**63,540,238**
Total liabilities and equity		**559,624,998**	**497,788,697**
Commitment and contingencies	*46*	**159,867,175**	**153,284,238**

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

TÜRKİYE İŞ BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Note	2019	2018
Interest income on loans		35,513,461	33,149,888
Interest income on securities		10,671,996	9,335,778
Interest income on deposits at banks		669,406	693,056
Interest income on reserve deposit at central banks		391,921	516,952
Interest income on finance leases		481,857	489,493
Interest income on factoring transactions		456,162	484,504
Other interest income		597,687	314,919
Total interest income		**48,782,490**	**44,984,590**
Interest expense on deposits		(16,253,179)	(13,184,190)
Interest expense on borrowings		(3,352,773)	(2,975,923)
Interest expense on interbank borrowings		(1,201,464)	(4,320,947)
Interest expense on debt securities issued		(5,014,606)	(4,095,233)
Interest expense on leasing		(204,951)	--
Other interest expense		(87,558)	(53,705)
Total interest expense		**(26,114,531)**	**(24,629,998)**
Net interest income		**22,667,959**	**20,354,592**
Fee and commission income	*34*	7,073,610	5,630,589
Fee and commission expense	*34*	(2,460,846)	(1,861,033)
Net fee and commission income	*34*	**4,612,764**	**3,769,556**
Securities trading income, net		535,632	197,395
Derivative trading expense, net		(5,141,267)	(2,588,014)
Income from manufacturing operations	*35*	18,031,650	15,549,177
Income from insurance operations	*36*	7,090,636	5,697,476
Income from other operations	*41*	1,069,795	1,662,967
Cost of manufacturing operations	*38*	(12,174,785)	(10,389,500)
Cost of insurance operations	*39*	(5,657,397)	(4,839,548)
Cost of other operations	*41*	(1,520,854)	(1,815,699)
Other operating income	*37*	1,815,650	1,030,342
Other operating expenses	*40*	(15,110,690)	(12,394,795)
Foreign exchange gains/(losses), net		(106,840)	114,505
Impairment losses, net	*42*	(6,688,048)	(5,520,902)
Dividend income		19,617	52,660
Share of income from equity-accounted investees	*16*	129,527	152,122
Profit before income tax		**9,573,349**	**11,032,334**
Income tax expense	*28*	(1,331,295)	(1,617,197)
Profit for the year		**8,242,054**	**9,415,137**
Profit attributable to			
Equity holders of the Bank		5,906,086	6,738,532
Non-controlling interest		2,335,968	2,676,605
Profit for the year		**8,242,054**	**9,415,137**
Basic and diluted earnings per share (Full TL)	*44*	**0.0525**	**0.0599**

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

TÜRKİYE İŞ BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

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

	2019	2018
Profit for the year	**8,242,054**	**9,415,137**
Other comprehensive income		
Items that will never be reclassified to profit or loss:		
Remeasurements of defined benefit liability	(71,132)	(57,893)
Revaluation of property, plant and equipment	(41,883)	1,877,485
Related tax	16,644	(172,425)
	(96,371)	**1,647,167**
Items that are or may be reclassified to profit or loss:		
Change in fair value of financial assets at fair value through other comprehensive income	3,248,825	(2,060,839)
Foreign currency translation differences	925,039	1,054,431
Cash flow hedges- effective portion of changes in fair value	30,343	(99)
Related tax	(669,359)	434,431
	3,534,848	**(572,076)**
Other comprehensive income / (expenses), net of tax	**3,438,477**	**1,075,091**
Total comprehensive income for the year	**11,680,531**	**10,490,228**
Attributable to		
Equity holders of the Bank	9,263,469	7,478,748
Non-controlling interest	2,417,062	3,011,480
Total comprehensive income for the year	**11,680,531**	**10,490,228**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Attributable to equity holders of the Bank											
Current Period	**Share capital**	**Share premium**	**Legal reserves**	**Fair value reserves**	**Revaluation reserves**	**Hedging reserves**	**Translation reserves**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total Equity**
Balance at 1 January 2019	**6,115,938**	**38,550**	**5,131,840**	**(1,935,012)**	**4,828,448**	**(145)**	**2,277,619**	**(728,886)**	**34,191,616**	**49,919,968**	**13,620,270**	**63,540,238**
Total comprehensive income for the year												
Net profit for the year	--	--	--	--	--	--	--	--	5,906,086	5,906,086	2,335,968	8,242,054
Other comprehensive income, net of tax												
Items that are or may be reclassified subsequently to profit or loss:												
Net change in fair value financial assets at fair value through other comprehensive income	--	--	--	2,421,482	--	--	--	--	--	2,421,482	164,660	2,586,142
Cash flow hedges effective portion of changes in fair value	--	--	--	--	--	3,297	--	--	--	3,297	20,370	23,667
Foreign currency translation differences for foreign operations	--	--	--	--	--	--	1,028,884	--	--	1,028,884	(103,845)	925,039
Items that are or may not be reclassified subsequently to profit or loss:												
Revaluation surplus on tangible assets	--	--	--	--	(35,805)	--	--	--	--	(35,805)	(3,602)	(39,407)
Net change in actuarial loss related to employee benefits	--	--	--	--	--	--	--	(60,475)	--	(60,475)	3,511	(56,964)
Total other comprehensive income/(expense)	--	--	--	2,421,482	(35,805)	3,297	1,028,884	(60,475)	--	3,357,383	81,094	3,438,477
Total comprehensive income/(expense) for the year	**--**	**--**	**--**	**2,421,482**	**(35,805)**	**3,297**	**1,028,884**	**(60,475)**	**5,906,086**	**9,263,469**	**2,417,062**	**11,680,531**
Contributions and distributions												
Dividend distribution	--	--	--	--	--	--	--	--	--	--	(467,464)	(467,464)
Transfer to legal reserves	--	--	485,879	--	--	--	--	--	(485,879)	--	--	--
Other(*)	--	--	--	--	--	--	--	--	9,913	9,913	6,165	16,078
Total contributions and distributions	**--**	**--**	**485,879**	**--**	**--**	**--**	**--**	**--**	**(475,966)**	**9,913**	**(461,299)**	**(451,386)**
Changes in ownership interests and other changes												
Changes in non-controlling interests without a change in control	--	61	13,528	(94)	29,116	(3)	961	(247)	144,399	187,721	(187,721)	--
Effects of other changes(**)	--	--	--	--	--	--	(5,099)	--	(593,572)	(598,671)	68,246	(530,425)
Total changes in ownership interests	**--**	**61**	**13,528**	**(94)**	**29,116**	**(3)**	**(4,138)**	**(247)**	**(449,173)**	**(410,950)**	**(119,475)**	**(530,425)**
Balance at 31 December 2019	**6,115,938**	**38,611**	**5,631,247**	**486,376**	**4,821,759**	**3,149**	**3,302,365**	**(789,608)**	**39,172,563**	**58,782,400**	**15,456,558**	**74,238,958**

(*) According to the Articles of Incorporation of the Bank, a portion of the net profit for the period is distributed to the employees as a dividend. Provision recognised in 2018 for dividends to be distributed to employees within the scope of "IAS 19 Employee Benefits" has been added to distributable profit.

(**) Includes the valuation effect of transactions explained in Note 46 – option agreements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

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

	Attributable to equity holders of the Bank											
Prior Period	**Share capital**	**Share premium**	**Legal reserves**	**Fair value reserves**	**Revaluation reserves**	**Hedging reserves**	**Translation reserves**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total Equity**
Balance at 1 January 2018	**6,115,938**	**38,435**	**4,002,230**	**(1,298,864)**	**3,514,060**	**(73)**	**1,164,355**	**(133,881)**	**31,779,606**	**45,181,806**	**11,255,558**	**56,437,364**
Adjustments in accordance with IAS 8				904,070					(1,568,382)	(664,312)	(87,264)	(751,576)
Restated balance at 1 January 2018	**6,115,938**	**38,435**	**4,002,230**	**(394,794)**	**3,514,060**	**(73)**	**1,164,355**	**(133,881)**	**30,211,224**	**44,517,494**	**11,168,294**	**55,685,788**
Total comprehensive income for the year												
Net profit for the year	--	--	--	--	--	--	--	--	6,738,532	6,738,532	2,676,605	9,415,137
Other comprehensive income, net of tax												
Items that are or may be reclassified subsequently to profit or loss:												
Net change in fair value financial assets at fair value through other comprehensive income	--	--	--	(1,541,298)	--	--	--	--	--	(1,541,298)	(85,136)	(1,626,434)
Cash flow hedges effective portion of changes in fair value	--	--	--	--	--	(71)	--	--	--	(71)	(2)	(73)
Foreign currency translation differences for foreign operations	--	--	--	--	--	--	1,099,133	--	--	1,099,133	(44,702)	1,054,431
Items that are or may not be reclassified subsequently to profit or loss:	--	--	--	--	--	--	--	--	--	--	--	--
Revaluation surplus on tangible assets	--	--	--	--	1,244,665	--	--	--	--	1,244,665	460,395	1,705,060
Net change in actuarial loss related to employee benefits	--	--	--	--	--	--	--	(62,213)	--	(62,213)	4,320	(57,893)
Total other comprehensive income/(expense)	--	--	--	(1,541,298)	1,244,665	(71)	1,099,133	(62,213)	--	740,216	334,875	1,075,091
Total comprehensive income/(expense) for the year	--	--	--	**(1,541,298)**	**1,244,665**	**(71)**	**1,099,133**	**(62,213)**	**6,738,532**	**7,478,748**	**3,011,480**	**10,490,228**
Contributions and distributions												
Dividend distribution	--	--	--	--	--	--	--	--	(1,679,172)	(1,679,172)	(448,788)	(2,127,960)
Transfer to legal reserves	--	--	1,106,087	--	--	--	--	--	(1,106,087)	--	--	--
Other(*)(**)	--	--	--	--	--	--	--	(530,307)	363,094	(167,213)	4,066	(163,147)
Total contributions and distributions	--	--	**1,106,087**	--	--	--	--	**(530,307)**	**(2,422,165)**	**(1,846,385)**	**(444,722)**	**(2,291,107)**
Changes in ownership interests and other changes												
Changes in non-controlling interests without a change in control	--	115	21,533	1,080	70,373	(1)	14,131	(1,913)	155,496	260,814	(260,814)	--
Effects of bussiness combinations and other changes(***)	--	--	1,990	--	(650)	--	--	(572)	(491,471)	(490,703)	146,032	(344,671)
Total changes in ownership interests	--	**115**	**23,523**	**1,080**	**69,723**	**(1)**	**14,131**	**(2,485)**	**(335,975)**	**(229,889)**	**(114,782)**	**(344,671)**
Balance at 31 December 2018	**6,115,938**	**38,550**	**5,131,840**	**(1,935,012)**	**4,828,448**	**(145)**	**2,277,619**	**(728,886)**	**34,191,616**	**49,919,968**	**13,620,270**	**63,540,238**

(*) According to the Articles of Incorporation of the Bank, a portion of the net profit for the period is distributed to the employees as a dividend. Provision recognised in 2017 for dividends to be distributed to employees within the scope of “IAS 19 Employee Benefits” has been added to distributable profit.
(**)The repurchase of shares amounting to TL 530,307 in accordance with the Bank's Board of Directors decision dated 17 August 2018 has been classified under Other Reserves, related amount have been allocated as Legal Reserve in accordance with Article 612 of the Turkish Trade Law.
(***) Includes effects of companies that are included in consolidation in 2018 for the first time.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

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

	Note	2019	2018
Cash flows from operating activities:			
Profit for the year		8,242,054	9,415,137
Adjustments for:			
Depreciation and amortisation		2,537,079	1,745,332
Net interest income		(22,667,959)	(20,354,592)
Income tax expense	*28*	1,331,295	1,617,197
Increase/decrease in fair value of investment properties		(294,236)	(208,510)
Impairment losses on financial assets	*42*	6,688,048	5,520,902
Increase in provision for employee benefits		947,859	524,221
Unearned premium reserve		491,172	324,360
Provision for outstanding claims	*39*	700,185	548,911
Life mathematical provisions	*39*	335,860	155,250
Other provision releases/expenses, net	*29*	115,843	(561,740)
Share of income from equity accounted investees	*16*	(129,527)	(152,122)
Increase/decrease in other allowances of impairment losses, net		64,612	96,548
Gain on sale of property, plant and equipment and others	*37*	(442,444)	(191,716)
Gain on sale of equity accounted investees		--	--
Dividend income		(19,617)	(52,660)
		(2,099,776)	**(1,573,482)**
Change in trading assets		(484,010)	(3,739,650)
Change in reserve deposits		(6,808,010)	6,268,554
Change in loans and advances to banks		3,932,472	1,254,122
Change in loans and advances to customers		(5,821,885)	(14,615,719)
Change in trade receivables		(1,455,784)	(348,233)
Change in insurance receivables		(885,631)	(1,437,804)
Change in inventories		(821,244)	(507,119)
Change in other assets		1,950,618	(5,017,017)
Change in deposits from banks		(8,532)	(949,986)
Change in deposits from customers		34,987,798	30,616,591
Change in obligations under repurchase agreements		(6,894,039)	(8,766,704)
Change in trade payables		2,259,958	(253,111)
Change in other liabilities and provisions		(1,008,260)	8,970,567
		16,843,675	**9,901,009**
Interest received		48,086,819	41,342,823
Interest paid		(26,605,407)	(24,586,564)
Income taxes paid		(3,495,811)	(1,941,291)
Net cash (used in)/from operating activities		**34,829,276**	**24,715,977**

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

Cash flows from investing activities:	**Note**	**2019**	**2018**
Dividends received		19,617	52,660
Acquisition of equity accounted investees		(38,955)	--
Acquisition of subsidiary, net of cash acquired		--	(466,823)
Acquisition of property, plant and equipment		(3,287,571)	(2,560,648)
Acquisition of intangible assets		(766,991)	(507,695)
Acquisition of investment properties		(20,361)	(93,342)
Proceeds from sale of equity participations		--	--
Proceeds from sale of investment properties		275,644	24,396
Proceeds from the sale of property, plant and equipment		1,322,648	768,170
Acquisition of investment securities		(35,729,264)	(22,400,086)
Proceeds from sale of investment securities		23,669,001	16,523,223
Net cash (used in) investing activities		**(14,556,232)**	**(8,660,145)**
Cash flows from financing activities:			
Proceeds from issue of debt securities and subordinated liabilities	*25*	34,222,398	20,725,818
Repayments of debt securities and subordinated liabilities	*25*	(36,099,746)	(24,137,825)
Proceeds from funds borrowed		31,233,957	33,098,003
Repayments of funds borrowed		(37,116,601)	(32,047,561)
Repayments of lease payables		(561,805)	--
Dividends paid		(467,464)	(2,127,960)
Net cash from financing activities		**(8,789,261)**	**(4,489,525)**
Net increase in cash and cash equivalents		**11,483,783**	**11,566,307**
Effects of foreign exchange rate fluctuations on cash and cash equivalents		1,834,770	1,216,864
Cash and cash equivalents at 1 January	*7*	34,610,082	21,826,911
Cash and cash equivalents at 31 December	*7*	**47,928,635**	**34,610,082**

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

Notes to the consolidated financial statements **Pages**

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

1. Activities of the Bank and the Group

Türkiye İş Bankası Anonim Şirketi ("the Bank") was incorporated in Turkey in 1924. The Bank provides private, retail, commercial and corporate banking, money market and securities market operations as well as international banking services. The Bank now operates a nationwide network of 1,249 (31 December 2018: 1,355) branches, 6,506 ATMs (31 December 2018: 6,560 ATMs), 15 branches in Turkish Republic of Northern Cyprus, 2 branches in U.K. (London), 2 branches in Kosovo (Pristina and Prizen), 2 branches in Iraq (Erbil and Baghdad), 1 branch in Bahrain (Manama).

The Bank also have representative offices in China and Egypt and three banking subsidiaries in Germany, Russia and Georgia. The Bank directly invests in equity participations of 24 companies operating mainly in industry and the financial sector.

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Fax	: +90 212 316 09 00
Website	: www.isbank.com.tr

The Bank and its subsidiaries are herein referred to as the "Group".

The consolidated financial statements as at and for the year ended 31 December 2019 have been approved on 30 April 2020 by relevant managers of Financial Management Division of the Bank. Authorised boards of the Bank and other regulatory bodies have the power to amend the statutory financial statements on which these IFRS financial statements are based.

The Group controls equity stakes in companies that are active in the areas of banking, insurance, private pensions, capital market brokerage, asset management, venture capital, factoring, reinsurance, finance leasing, investment banking, real estate investment, service and manufacturing. Activities carried out in these business areas and main companies are explained below in summary.

Financial services

Anadolu Anonim Türk Sigorta Şirketi ("Anadolu Sigorta")

The Company was established in 1925 and operates in almost all non-life insurance branches. The headquarters of the Company is in İstanbul. The Company's shares are traded in Borsa İstanbul A.Ş.

Anadolu Hayat Emeklilik A.Ş. ("Anadolu Hayat")

The Company was founded in 1990 and its headquarters is in İstanbul. The Company's main activities are private individual or group pension and life insurance. There are 34 private pension funds founded by the Company. The Company's shares are traded in Borsa İstanbul A.Ş.

Efes Varlık Yönetim A.Ş. ("Efes Varlık")

The field of activity of the Company, which was founded in February 2011, is to purchase and sell the receivables and other assets of deposit banks, participation banks and other financial institutions. The Company's headquarters is in İstanbul.

İş Faktoring A.Ş. ("İş Faktoring")

The Company, which operates in the factoring sector since 1993, is engaged in domestic and foreign factoring operations. The Company's headquarter is in İstanbul.

İş Finansal Kiralama A.Ş.

The Company, whose field of activity is financial leasing within the country and abroad started its operations in 1988. The headquarters of the Company is in İstanbul. The Company's shares are traded in Borsa İstanbul A.Ş.

İş Gayrimenkul Yatırım Ortaklığı A.Ş. ("İş GYO")

The Company, whose main field of activity is investing in real estate, capital market instruments backed by real estate, real estate projects and capital market instruments, is conducting its business in the sector as a real estate investment trust since 1999. The Company's shares are traded in Borsa İstanbul A.Ş. since its establishment.

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. ("İş Girişim")

The Company, which began its venture capital operations in 2000, is making long-term investments in entrepreneurships founded or to be found in Turkey with a development potential and in need of capital. The Company's shares are traded in Borsa İstanbul A.Ş. since 2004.

İş Portföy Yönetimi A.Ş. ("İş Portföy")

The purpose of the Company, which was founded in 2000, is to engage in capital market operations stated in its articles of association. Among the capital market operations, the Company offers portfolio management and investment consulting services for corporate investors exclusively.

İş Yatırım Menkul Değerler A.Ş. ("İş Menkul")

The Company is mainly engaged in intermediation, corporate finance, investment consulting and private portfolio management services. The Company's shares are traded in Borsa İstanbul A.Ş. since May 2007.

İş Yatırım Ortaklığı A.Ş.

The field of activity of the Company, which was founded in İstanbul in 1995, is portfolio management. The Company's shares are traded in Borsa İstanbul A.Ş. since April 1996.

İşbank AG

İşbank AG was founded to carry out the banking transactions of the Bank in Europe. İşbank AG has 11 branches in total, 10 branches in Germany and 1 branch in the Netherlands.

Joint Stock Company İşbank ("JSC İşbank")

JSC İşbank, which was founded in 1998 and headquartered in Moscow, provides banking services by focusing on deposit, loan and brokerage operations with its 3 branches in several regions of the Russian Federation.

Joint Stock Company İşbank Georgia ("JSC Isbank Georgia")

The Bank which was established in Georgia in the third quarter of 2015, is operating banking services mainly deposit, loan and exchange transactions. As part of the organisational structure of the Bank in abroad, Batumi and Tbilisi branches which were established in 2012 and 2014 respectively and proceed its operations as JSC Isbank Georgia.

Maxis Girişim Sermayesi Portföy Yönetimi A.Ş. ("Maxis Girişim")

The purpose of the Company, which was founded in November 2017, is to establish and manage capital investment funds in accordance with the Capital Markets Law ad related legislations.

Maxis Investments Ltd.

The purpose of the Company, which was founded in U.K. in 2005, is to engage in activities in foreign capital markets.

Milli Reasürans T.A.Ş. ("Milli Reasürans")

The Company, which was founded in 1929 to provide reinsurance services, is located in İstanbul.

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. ("TSKB GYO")

The major field of activity of the Company, which was founded in 2006, is to create and develop an investment property portfolio and to invest in capital market instruments that are based on investment properties. The Company's shares are traded in Borsa İstanbul A.Ş. since April 2010.

Türkiye Sınai Kalkınma Bankası A.Ş. ("TSKB")

TSKB, the first private industrial development and investment bank of Turkey, is founded especially to support private sector investments and facilitate contribution of domestic and foreign capital to Turkish companies. The Bank's shares are traded in Borsa İstanbul A.Ş.

Yatırım Finansman Menkul Değerler A.Ş. ("Yatırım Finansman")

The purpose of the Company, which was founded in 1976, is to engage in capital market operations stated in its articles of association. The Company is located in İstanbul.

Yatırım Varlık Kiralama A.Ş.

The purpose of the Company, which was founded in 2019, is to issue lease certificates in accordance with the Capital Markets Law and related legislations.

Arap Türk Bankası A.Ş. ("Arap Türk")

Arap Türk has been established on 18 July 1976 as a joint stock entity in accordance with an agreement signed between the Republic of Turkey and the Libyan Arab Republic. In accordance with the Articles of Association, the Board of Directors shall elect a Chairman among its Turkish members and a Deputy Chairman among its Arab members. The General Manager shall always be nominated by the Arab shareholders and assigned by the Board.

Glass

Türkiye Şişe ve Cam Fabrikaları A.Ş. ("Şişecam Group")

Şişecam Group consists of a holding company, Türkiye Şişe ve Cam Fabrikaları A.Ş., 65 subsidiaries, 2 joint ventures and 2 associates. Türkiye Şişe ve Cam Fabrikaları A.Ş. started its glass production in 1935. Besides Turkey, Şişecam Group operates in various countries such as Austria, Bosnia-Herzegovina, Bulgaria, China, Egypt, UK, USA, Georgia, Germany, Hungary, Netherlands, India, Italy, Ukraine, Russia, Romania, Slovakia and Spain.

Şişecam Group's core business is mainly glass production. In addition, Şişecam Group is engaged in the complementary industrial and commercial operations related to glass production and participated in various industrial and commercial companies' capital and management.

Other

Bayek Tedavi Sağlık Hizmetleri ve İşletme A.Ş. ("Bayek")

The Company was founded in 1992 and it operates in medical and education services.

Erişim Müşteri Hizmetleri A.Ş. (Erişim)

The company was founded in November 2012 as customer contact center.

İş Altınhas İnşaat Taahhüt ve Ticaret A.Ş. ("İş Altınhas")

The Company operates as a contractor of large size construction projects since its establishment in 1997.

İş Net Elektronik Bilgi Üretim Dağıtım Ticaret ve İletişim Hizmetleri A.Ş. ("İş Net")

İş Net locally and globally provides service in information and technology sectors since 1999.

Kanyon Yönetim İşletim ve Pazarlama Ltd. Şti. ("Kanyon")

Kanyon was established on 6 October 2004. The main objective and operation of the investment is the management of Kanyon Complex, which includes residences, offices and shops; providing maintenance, security, basic environmental set up and similar activities as well as acting as an agent in the introduction and marketing of the projects belonging to the complex, including property letting and sale.

Kültür Yayınları İş-Türk A.Ş. (Kültür)

The field of activity of the company, which was founded in 1956, is to contribute to studies of cultural and art activities, museology and science.

Tatil Budur Seyahat Acenteliği ve Turizm A.Ş. ("Tatil Budur")

The Company was founded in 1997 and it provides services in tourism sector.

Nevotek Bilişim Ses ve İletişim Sistemleri San. ve Tic. A.Ş. ("Nevotek")

Nevotek providing project consultancy, research and development of computer hardware audio technologies and telecommunication systems in domestic and foreign market. The Company is acting as an agent and performing, exporting, importing, distributorship, agency, installation, maintenance, after sale services, training and management, and marketing of these systems.

Numnum Yiyecek ve İçecek AŞ. ("Numnum")

Numnum opened its first restaurant in İstanbul, in 2013. The Company is managing and operating restaurants.

Ortopro Tıbbi Aletler Sanayi ve Ticaret A.Ş. ("Ortopro")

Ortopro was founded in 2002 and it produces, trades, exports and imports the orthopedics, medical and surgical instruments.

Radore Veri Hizmetleri A.Ş. ("Radore")

Radore was established in 2004 with the aim of developing individual and corporate web hosting services.

Softtech Yazılım Teknolojileri A.Ş. ("Softtech")

Softtech was founded under the business title of Tagsoft A.Ş in 2006. The title of the Tagsoft A.Ş, was changed to SoftTech A.Ş. and has continued its commercial activities as SoftTech A.Ş. since 28 February 2008. The Company operates as a software firm.

Toksöz Spor Malzemeleri Tic A.Ş. ("Toksöz Spor")

Toksöz Spor is selling sporting goods and products since 1985.

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

2. Basis of preparation

2.1 Basis of accounting

The Bank and its subsidiaries operating in Turkey maintain their books of account and prepare their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), Capital Markets Board of Turkey, Ministry of Treasury and Finance, the Turkish Commercial Code and tax legislation. The foreign subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB").

Accounting Policies, Changes in Accounting Estimates and Errors

As of 1 January 2019 operating leases within the framework of the "IFRS 16 Leases" standard are recognised in a similar manner to financial leases. During transition by the Parent Bank and the companies in scope of the consolidation, simplified application was preferred and in this context, comparative information has not been restated in the consolidated financial statements. According to the standard, the lease agreements are examined; their components, the lease periods and the amounts are evaluated by categories, by taking the exceptions and similar items into account.

For the contracts considered within the scope of IFRS 16, at the initial application date and / or at the time of signing the contract, the leasing liability and the right to use asset are reflected in the financial statements.

The direct costs incurred by the lessee in the beginning were evaluated, it is concluded that amounts are insignificant, initial costs are not included in the right of use asset. In accordance with IFRS 16, the right of use asset can be measured with its cost or fair value, and the Group measures the right of use assets with its cost. The net lease liability is calculated by discounting the future lease payments by the use of the Bank or alternative borrowing interest rates at the date of initial application or contract date.

Fixed assets which are recognised as right of use asset are subject to straight-line depreciation considering the lease period. Interest expenses related to the lease liabilities and foreign exchange differences are associated with statement of income.

The effect of IFRS 16 on financial statements, in accordance with the selected transition method and related accounting policies, is given below.

	1 January 2019	31 December 2019
Property, plant and equipment (Net)	21,127,112	23,172,273
Lease payables	1,456,424	1,245,427

Except for the above mentioned changes, the Group does not have any other changes in accounting policies in current year.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the items presented on a fair value basis that are financial assets at fair value through profit or loss, financial assets at fair value through other compherensive income, derivative financial assets and liabilities held for trading purpose whose fair value can reliably be measured, real estates in property plant and equipment, and investment property.

The methods used to measure fair values are discussed further in Note 3.7, 3.12 and 3.13.

2.3 Functional and presentation currency

These consolidated financial statements are presented in TL, which is the Bank's functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

Although the currency of the country in which the majority of the Group entities are domiciled is TL, some of the Group entities' functional and reporting currencies are different than TL. The table below summarises the functional currencies other than TL of the Group entities:

Functional currency of Group entities
Bosnian Herzegovina Convertible Mark (KM)
Bulgarian Lev (BGL)
British Pouns (GBP)
Chinese Yuan (CNY)
Currency of European Union (EURO)
Egyptian Pounds (EGP)
Georgian Lari (GEL)
Hungarian Forint (HUF)
Indian Rupee (INR)
Romanian New Leu (RON)
Russian Ruble (RUB)
Ukrainian Hryvnia (UAH)
Chinese Yuan (CNY)
United States Dollars (USD)

2.4 Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is disclosed below. These disclosures supplement the commentary on financial risk management.

Significant estimations and assumptions regarding Pension Funds of the Group are disclosed in Note 30.

3. Significant accounting policies

Except for the changes disclosed Note 2.1, accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities unless otherwise stated.

3.1 Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). The control exists if and only if; 1) when the Bank has the power over an affiliate which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities, 2) exposure, or rights, to variable returns from its involvement with the affiliate, 3) the ability to use its power over the affiliate to affect the amount of its returns. The Bank reassess its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint ventures are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

Structured entities

Structured entities are entities that are created to accomplish a narrow and well defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction.

Structured entities are consolidated when the substance of the relationship between the Group and the structured entity indicates that the structured entity is controlled by the Group.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

Group entities

Subsidiaries		Effective Ownership Rate %	
	Country of Incorporation	31 December 2019	31 December 2018
Manufacturing (Glass industry)			
AC Glass Holding B.V.	Netherlands	52.21	51.14
Anadolu Cam Investment B.V.	Netherlands	52.21	51.14
Anadolu Cam San. A.Ş.	Turkey	52.21	51.14
Automotive Glass Alliance Rus Trading OOO	Russia	47.54	46.07
Automotive Glass Alliance Rus AO	Russia	47.54	46.07
CJSC Brewery Pivdenna	Ukraine	52.21	51.14
Camiş Ambalaj San. A.Ş.	Turkey	67.57	66.34
Çayırova Cam San. A.Ş.	Turkey	61.93	60.63
Denizli Cam San. A.Ş.	Turkey	34.28	28.63
Glasscorp S.A.	Romania	47.54	46.07
JSC Mina	Georgia	52.21	51.14
Merefa Glass Company Ltd.	Ukraine	52.21	51.14
Nude Design Investment B.V.	Netherlands	67.22	56.13
Nude Glass Investment B.V.	Netherlands	67.22	56.13
OOO Posuda	Russia	67.22	56.13
OOO Ruscam Glass Packaging Holding	Russia	52.21	51.14
OOO Ruscam Management Company	Russia	52.21	51.14
OOO Energosystems	Russia	52.21	51.14
Paşabahçe Bulgaria EAD	Bulgaria	67.22	56.13
Paşabahçe Cam San. ve Tic. A.Ş.	Turkey	67.22	56.13
Paşabahçe Egypt Glass Manufacturing S.A.E.	Egypt	67.22	56.13
Paşabahçe Glass Gmbh	Germany	67.22	56.13
Paşabahçe Investment B.V.	Netherlands	67.22	56.13
Paşabahçe Mağazaları A.Ş.	Turkey	67.22	56.13
Paşabahçe Spain SL	Spain	67.22	56.13
Paşabahçe SRL	Italy	67.22	56.13
Paşabahçe USA Inc	USA	67.22	56.13
Paşabahçe (Shangai) Trading Co. Ltd.	China	67.22	56.13
Richard Fritz Holding GmbH	Germany	47.54	46.07
Richard Fritz Kft	Hungary	47.54	46.07
Richard Fritz Prototype+Spare Parts GmbH	Germany	47.54	46.07
Richard Fritz Spol S.R.O	Slovakia	47.54	46.07
Şişecam Automotive Bulgaria EAD	Bulgaria	47.54	46.07
Şişecam Flat Glass Holding B.V.	Netherlands	47.54	46.07
Şişecam Flat Glass India Private Limited (1)	India	47.54	46.07
Şişecam Flat Glass Italy S.R.L	Italy	47.54	46.07
Şişecam Flat Glass South Italy SRL	Italy	47.54	46.07
Şişecam Glass Packaging B.V.(2)	Netherlands	52.21	51.14
Şişecam Otomotiv A.Ş.	Turkey	47.54	46.07
Şişecam Trade Co. Ltd. (3)	China	41.91	40.25
Trakya Cam Sanayii A.Ş.	Turkey	47.54	46.07
Trakya Glass Bulgaria EAD	Bulgaria	47.54	46.07
Trakya Glass Rus AO	Russia	33.28	32.25
Trakya Glass Rus Trading OOO	Russia	33.28	32.25
Trakya Investment B.V.	Netherlands	47.54	46.07
Trakya Polatlı Cam Sanayii A.Ş.(4)	Turkey	--	49.11
Trakya Yenişehir Cam Sanayi A.Ş.(4)	Turkey	--	49.11
TRSG Glass Holding B.V.	Netherlands	33.28	32.25
Türkiye Şişe ve Cam Fab. A.Ş.	Turkey	67.57	66.34
Manufacturing (Other)			
Cam Elyaf San. A.Ş.	Turkey	65.33	64.07
Camiş Egypt Mining Co.	Egypt	67.37	66.14
Camiş Elektrik Üretim A.Ş.	Turkey	56.67	55.40
Camiş Limited(5)	England	--	63.28
Camiş Madencilik A.Ş.	Turkey	67.57	66.34
Cromital S.p.A.	Italy	41.91	40.52
Istanbul Investment B.V.	Netherlands	67.22	56.13
Madencilik San. ve Tic. A.Ş.	Turkey	67.57	66.34

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

Subsidiaries		Effective Ownership Rate %	
	Country of Incorporation	31 December 2019	31 December 2018
Manufacturing (Other)			
Oxyvit Kimya Sanayii ve Tic. A.Ş.	Turkey	41.91	40.25
Ortopro	Turkey	31.95	31.93
SC Glass Trading B.V.	Netherlands	67.57	66.34
Soda San. A.Ş.	Turkey	41.91	40.25
Şişecam Bulgaria Ltd.	Bulgaria	41.91	40.39
Şişecam Chem Investment B.V.	Netherlands	41.91	40.39
Sisecam Chemicals USA Inc.(6)	USA	41.91	--
Şişecam Elyaf Sanayii A.Ş.	Turkey	41.91	40.25
Şişecam Enerji A.Ş.	Turkey	67.57	66.34
Şişecam Soda Lukavac DOO	Bosnia Herzegovina	41.91	40.39
Toksöz Spor	Turkey	31.12	31.09
Holding			
Trakya Yatırım Holding A.Ş.	Turkey	100.00	100.00
Service			
Bayek	Turkey	99.80	99.77
Erişim	Turkey	99.68	99.68
İş Merkezleri Yön. ve İşl. A.Ş.	Turkey	99.50	99.50
İş Net	Turkey	98.20	98.19
Kültür	Turkey	99.59	99.59
Maxi Digital Gmbh(7)		100.00	--
Maxitech	USA	100.00	100.00
Nevotek	Turkey	33.62	32.92
Num Num	Turkey	29.46	29.44
Softtech	Turkey	100.00	100.00
Softtech (Shanghai) Technology Co. Ltd.(8)	China	100.00	--
Şişecam Çevre Sistemleri A.Ş	Turkey	60.81	59.70
Şişecam Dış Ticaret A.Ş.	Turkey	67.57	66.34
Banking			
JSC İşbank	Russia	100.00	100.00
JSC Isbank Georgia	Georgia	100.00	100.00
İşbank AG	Germany	100.00	100.00
TSKB	Turkey	49.81	49.80
Reinsurance			
Milli Reasürans	Turkey	77.06	76.74
Insurance			
Anadolu Hayat	Turkey	73.00	72.96
Anadolu Sigorta	Turkey	51.16	50.99
Şişecam Sigorta Aracılık Hizmetleri A.Ş.	Turkey	67.57	66.34
Leasing			
İş Finansal Kiralama A.Ş.	Turkey	43.45	43.45
Factoring			
İş Faktoring	Turkey	44.83	44.83
Other financial			
Efes Varlık	Turkey	65.78	65.78
İş Girişim	Turkey	35.25	35.22
İş GYO	Turkey	58.96	58.48
İş Menkul	Turkey	67.97	67.97
İş Portföy	Turkey	67.14	67.13
İş Yatırım Ortaklığı A.Ş.	Turkey	24.83	24.83
Maxis Girişim	Turkey	67.97	67.97
Maxis Investments Ltd.	U.K.	67.97	67.97
TSKB GYO	Turkey	42.86	42.86
Yatırım Finansman	Turkey	48.26	48.26
Yatırım Varlık Kiralama A.Ş.(9)	Turkey	48.26	--

(1) The title of Şişecam Flat Glass India Limited was changed to Şişecam Flat Glass India Private Limited in current year.
(2) The title of Balsand BV. was changed to Şişecam Glass Packaging B.V in current year.
(3) The title of Şişecam (Shangai) Trade Co. Ltd. was changed to Şişecam Trade Co. Ltd in current year.
(4) Trakya Yenişehir Cam Sanayii A.Ş. and Trakya Polatlı Cam Sanayii A.Ş. are fully merged within Trakya Cam Sanayii A.Ş. on September 2019.
(5) The company has been liquidated in June 2019.
(6) The company was founded by "Soda San. A.Ş." in USA, in 2019
(7) The company was founded by "Softtech" in Germany, in 2019
(8) The company included in consolidation starting from current period, where as it has been accounted as financial assets at fair value through other comprehensive income in previous year. The company was established in December 2018.
(9) The company was founded in September 2019.

Structured entity	Country of Incorporation
TIB Diversified Payment Rights Finance Company	Cayman Islands

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

The following investments in associates and joint ventures which the Group has significant influences have been accounted for using the equity method:

Investment in associates	**Country of Incorporation**	**31 December 2019 Ownership %**	**31 December 2018 Ownership %**
Adana Otel Projesi Adi Ortaklığı(*)	Turkey	--	50.00
Anavarza Otelcilik A.Ş.(*)	Turkey	50.00	50.00
Arap Türk Bankası A.Ş.	Turkey	20.58	20.58
Bankalararası Kart Merkezi	Turkey	9.98	9.98
İş Altınhas İnşaat Taahhüt ve Ticaret A.Ş.	Turkey	50.00	50.00
Kanyon Yönetim ve İşl. Paz. A.Ş.	Turkey	50.00	50.00
Kredi Kayıt Bürosu	Turkey	9.09	9.09
Tatil Budur	Turkey	20.00	20.00
Pacific Soda LLC (**)	USA	50.00	--
Radore Veri Merkezi Hizmetleri A.Ş.	Turkey	25.50	25.50
Rudnika Krecnjaka Vijenac D.O.O.	Bosnia Herzegovina	50.00	50.00
Saint Gobain Glass Egypt S.A.E.	Egypt	30.00	30.00
Solvay Şişecam Holding AG ("Solvay Şişecam")	Austria	25.00	25.00

(*) "Bilici Yatırım TSKB GYO Adana Otel Projesi Adi Ortaklığı" was transferred to Yarsuvat Turizm A.Ş. as a whole with all of the assets and liabilities. After the transformation, Yarsuvat Turizm A.Ş. was merged to Anavarza Otelcilik A.Ş. with all of its assets and liabilities on 20 December 2019.
(**) On 24 October 2019, all processes have been completed with respect to the Şişecam Group's natural soda investment in USA. As of this date, Sisecam Chemicals USA Inc (fully owned by Soda San. A.Ş.).is incorporated and became 50% partner of Pacific Soda LLC.

3.2 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are included in profit or loss for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to TL at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to TL at exchange rates approximating to the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

Foreign exchange gains and losses arising from a monetary item receivable from or payables to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

As at 31 December 2019 and 31 December 2018 foreign currency assets and liabilities of the Group are mainly in US Dollar ("USD"), EURO and GBP. The TL/USD, TL/EURO and TL/GBP exchange rates as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019		**31 December 2018**	
	Period end	**Average**	**Period end**	**Average**
USD	5.8900	5.7882	5.240	4.741
EURO	6.6100	6.4339	5.999	5.573
GBP	7.7749	7.1212	6.655	6.294

3.3 Interest income and expense

Interest income and expense is calculated by using the effective interest rate method (the rate that equals the future cash flows of a financial asset or liability to its present net book value) to gross carrying amount of financial asset in conformity with "IFRS 9 Financial Instruments" except for the financial asset that is not a purchased or originated credit-impaired financial asset but subsequently has become credit-impaired.

Under the scope of IFRS 9 application, the Group does not reverse the interest accruals and rediscounts of non-performing loans and other recievables and monitors the said amounts in interest income and calculates expected credit loss provisions on these amounts according to the related methodology.

All related realised and unrealised fair value gains and losses are included in net trading income. Interest earned or paid whilst holding financial assets or liabilities at fair value through profit or loss is reported as interest income or expense.

3.4 Fees and commissions

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Wages and commissions that are not an integral part of the effective interest rate of the financial instruments measured at amortised cost are accounted for in accordance with "IFRS 15 Revenue from Customer Contracts".

Other fees and commission income, including account maintenance fees, investment management fees, sales commission, placement fees and syndication fees, commissions for insurance business (see also accounting policy Note 3.23) are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

3.5 Dividends

Dividend income is recognised when the right to receive the income is established.

3.6 Manufacturing and other operations revenue

Revenues are recognised on an accrual basis at the fair values incurred or to be incurred when the goods are delivered, the risks and rewards of ownership of the goods are transferred, when the amount of revenue can be reliably measured and it is probable that the future economic benefits associated with the transaction will flow to the entity. Net sales represent the fair value of goods shipped less sales discounts and returns. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised in the period on an accrual basis as financial income.

Sales of the goods

Income obtained from the sales of the goods is accounted after the below conditions are executed:

- The Group's transferring all the important risks and gains related to the property to the buyer,
- The Group not having any control on the continued administrative participation associated with property and on the sold properties,
- Measuring the amount of income reliably,
- Possibility of a flow of the economic benefits related to the act to the Group, and
- Measuring the costs resulting from the act reliably.

Services provided

Contract revenue and costs related to the projects are recognised when the amount of revenue can be reliably measured and the increase in the revenue due to change in the scope of the contract related with the project is highly probable. Contract revenue is measured at the fair value of the consideration received or receivable. Projects are fixed price contracts and revenue is recognised in accordance with the percentage of completion method. The portion of the total contract revenue corresponding to the completion rate is recognised as contract revenue in the relevant period.

Rent income from investment properties

Rent income generated during the period from investment properties are recognised on an accrual basis. Revenue can only be realised if the amount is reliably measured and the inflow of the economic benefits related with the transaction to the Group is probable.

3.7 Financial assets and financial liabilities

Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

The Group derecognises financial liabilities when its contractual obligations are discharged, cancelled or expired.

Derivative financial instruments and hedge accounting

Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency and interest rate swaps, interest rate futures, currency and interest rate options (both written and purchased), credit default swaps and other derivative financial instruments are initially recognised on the statement of financial position at fair value and subsequently are re-measured at their fair value. Derivatives are presented in assets when favourable to the Group and in liabilities when unfavourable to the Group. Financial assets or liabilities at fair value through profit or loss are initially recognised and subsequently re-measured at fair value. All related realised and unrealised fair value gains and losses are included in net trading income. Interest earned or paid whilst holding financial assets or liabilities at fair value through profit or loss is reported as interest income or expense.

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative are recognised in other comprehensive income and accumulated in hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects the income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in other comprehensive income is recognised immediately in income.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and OCI as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Hedge effectiveness testing

To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective test), and demonstrate actual effectiveness (retrospective test) on an ongoing basis.

The documentation of each hedging relationship sets out how the hedge effectiveness is assessed. The method the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

Hedge ineffectiveness is recognised in the statement of profit or loss.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Bank and its affiliates account for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivatives are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with the host contract.

Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Amortised cost measurement

Amortised cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Identification and measurement of impairment

In accordance with "IFRS 9 Financial Instruments", in the current period, the Group recognises allowance for expected credit losses on financial assets at fair value through other comprehensive income, financial assets measured at amortised cost, impaired credit commitments and financial guarantee contracts.

Under IFRS 9, the expected credit loss is calculated according to the "three-stage" impairment model based on the change in credit quality of financial assets after the initial recognition, which is detailed in the following headings:

Stage 1:

An important determinant for calculating the allowance for expected credit losses in accordance with IFRS 9 is to assess whether there is a significant increase in credit risk of the financial asset. Financial assets that have not experienced a significant increase in credit risk since the initial recognition are monitored in the first stage. Impairment allowance for these financial assets is equal to the 12-month expected credit losses.

Stage 2:

Financial assets that experienced a significant increase in the credit risk since initial recognition, are transferred to Stage 2. The expected credit loss of these financial assets are measured at an amount equal to the instrument's lifetime expected credit lossIn order to classify a financial asset in Stage 2, the following criteria is considered:

- Overdue between 30-90 days
- Restructuring of the loan
- Significant deterioration in probability of default

In the event of a significant deterioration in the probability of default, the credit risk is considered to be increased significantly and the financial asset is classified as stage 2. The absolute and gradual thresholds used to increase the probability of default are differentiated on the basis of portfolio and product group. In this manner, for the commercial portfolio, definition of increase in the probability of default is the comparison between the probability of default on loan's opening date, obtained from the integrated rating/score based on internal rating and probability of default of the same loan on reporting date, obtained from the integrated rating/score based on internal rating. For the individual portfolio, it is accepted that the probability of default is worsened in cases where the behavioral score falls below the thresholds determined on the basis of the product and the probability of default exceeds the thresholds determined on the basis of the product.

Stage 3:

Financial assets with sufficient and fair information for impairment at the reporting date are classified in the third stage. An allowance for impairment that is equal to the life-time expected credit loss is applied for the mentioned assets. The expected credit loss of financial assets is measured at an amount equal to the lifetime expected credit loss. The following basic criterion are considered for the classification of a financial asset in the third stage.

- More than 90 days past due

- Whether the credit rating is weakened, has suffered a significant weakness or can not be collected or there is a firm opinion on this matter

While estimating the expected credit loss, statistical models, methods and tools are used in accordance with the relevant legislation and accounting standards. Expected credit loss is measured using reasonable and supportable information by taking into account current and forecasts of future economic information, including macroeconomic factors. Three scenarios, base scenario, optimistic scenario and the worst scenario, are used in forecasting studies made by macroeconomic models. The macroeconomic variables used in these estimates are Industrial Production Index, and fundamental financial indicators. The validity of the risk parameter estimates used in the calculation of expected credit losses is reviewed and evaluated at least annually within the framework of model validation processes. Macroeconomic forecasts and risk delinquency data used in risk parameter models are re-evaluated every quarter to reflect the changes in economic conjuncture and are updated if needed. In the expected credit loss calculations carried out for year-end, macroeconomic information is taken into account under multiple scenarios.

Except for demand or revolving loans, the maximum period for which expected credit losses are to be determined is the contractual life of the financial asset. For demand or revolving loans, maturity is determined by taking into account the future risk mitigation processes such as behavioral maturity analyses performed by the Bank and cancellation/revision of the Bank's credit limit.

While calculating the expected credit loss, aside from assessment of whether there is a significant increase in credit risk or not, basic parameters expressed as probability of default, loss given default and exposure at default are used.

Probability of Default: Represents the probability of default of the credit over a specified time period. In this context, the Bank has developed models to calculate 12-month and life-time default probabilities by using internal rating based credit rating models. As for the Group Companies, historical probability of default data has been observed.

Loss Given Default (LGD): Defined as ratio of the loss arising from the default of the borrower to the total balance at the time of default. The LGD estimates are determined in terms of credit risk groups which are created according to depth provided by Group's data resources and system facilities. The model used for the estimation of the LGD was established based on the historical data of the Group's collection by considering direct cost items during the collection process as well. Cash flows are discounted at effective interest rates by the model.

Exposure at Default: For cash loans, the cash balance at the date of report, for non-cash loans the balance calculated using the credit conversion ratio is represented by Exposure at Default.

Significant increase in credit risk: The Bank makes qualitative and quantitative assessments regarding assessment of significant increase in credit risk of financial assets in order to determine whether an instrument or a portfolio of instruments is subject to 12-month expected credit losses or lifetime expected losses. Within the scope of quantitative assessment, the quantitative reason explaining the significant increase in the credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date. If there is a significant deterioration in PD, it is considered that there is a significant increase in credit risk and the financial asset is classified as stage 2.

Credit Conversion Factor: Calculated for non-cash loans (undrawn limit for revolving loans, commitments, non-cash loans etc). For revolving loans of the Group Companies, historical limit usage data are analysed and the limit amount that can be used until the moment of default is estimated. For non-cash loans, the cash conversion ratio of the loan amount is estimated by analyzing the product type and the past indemnification data of the Group Companies.

Provisions set for and reversal of excess provisions regarding expected credit losses are reflected in the income statement.

Credit risks, which require qualitative assessments due to their characteristics and differ by grouping in this manner, are considered as individual within the internal policies. Calculations are made by the method of discounted cash flows with the effective interest rate expected from the relevant financial instrument. Discounted cash flows are estimated for three different scenarios in which parameters are differentiated, and individual expected credit loss is calculated by taking into consideration the cash deficit amounts weighted according to probabilities.

3.8 Financial Assets

As of 1 January 2018, within the scope of "IFRS 9 Financial Instruments", the Group classifies and accounts for its financial assets as "Financial Assets at Fair Value Through Profit or Loss", "Financial Assets at Fair Value Through Other Comprehensive Income" or "Financial Assets at Measured at Amortised Cost" by considering their business model and contractual cash flow characteristics. Financial assets are recognised or derecognised according to "Recognition and Derecognition in Statement of Financial Position" requirements of IFRS 9. The Group recognises a financial asset in its statement of financial position when it becomes party to the contractual provisions of the instrument. Financial assets are measured at their fair values on initial recognition in the financial statements.

The Group has three different business models for classification of financial assets;

- Business model aimed at holding financial assets in order to collect contractual cash flows: Financial assets held under the mentioned business model are managed to collect contractual cash flows over the life of these assets. The Group manages its assets held under this portfolio in order to collect certain contractual cash flows.

- Business model aimed at collecting contracted cash flows of financial assets and selling these assets: In this business model, the Group intends both to collect contractual cash flows of financial assets and to sell these assets.

- Other business models: A business model in which financial assets are not held within the scope of a business model aimed at collection of contractual cash flows and within the scope of a business model aimed at collecting contractual cash flows of financial assets and selling these assets, and are measured by reflecting changes in fair value in profit or loss.

The Group is able to reclassify all affected financial assets in case it changes the business model that is used for the management of financial asset.

In the event of the termination of the rights related to the cash flows from a financial asset, the transfer of all risks and rewards of the financial asset to a significant extent or has no longer control of the financial assets, the Group derecognises the financial asset.

Financial Assets at Fair Value Through Profit or Loss

Financial assets other than financial assets that are measured at amortised cost or at fair value through other comprehensive income, are measured at fair value through profit or loss. Financial assets at fair value through profit or loss are financial assets held for the purpose of generating profit from short-term fluctuations in price or similar factors in the market or being part of a portfolio for profitability in the short term, regardless of the acquisition reason or financial assets that are not held in a business model that aims at collecting and/or selling contractual cash flows of financial assets.

Financial assets at fair value through profit or loss are initially measured at fair value on the balance sheet and are subsequently re-measured at fair value. Gains or losses arising from the valuation are related to profit and loss accounts.

In some cases, restructuring, alteration or counterparty changes of contractual cash flows of loans may lead to derecognition of related loans in accordance with IFRS 9. When the change in the financial asset results from derecognising the existing financial asset from the financial statements and the revised financial asset is recognised in the financial statements, the revised financial asset is considered as a new financial asset in accordance with IFRS 9. When the Group determines that there are significant changes between the first conditions in the new conditions of the revised financial asset, the Group evaluates the new financial asset according to the current business models. When it is determined that the contractual conditions do not only result in cash flows that include principal and interest payments at certain dates, the financial asset is recognised at fair value and is subject to valuation. The differences arising from the valuation are reflected in the nominal accounts.

The Group recognises loans at fair value through profit or loss, if the contractual terms of the loan, do not result in cash flow including the principal payments and interest payments generated from principal amounts at certain dates.These loans are valued at their fair values after their recognition and the losses or gains arising from the valuation are included in the profit and loss accounts.

Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at fair value through other comprehensive income are financial assets that are held under a business model that aims both to collect contractual cash flows and to sell financial assets, whose contractual terms lead to cash flows that are solely payments of principal and interest on the principle amount outstanding at specific dates.

Financial assets at fair value through other comprehensive income are initially recognised at their fair values including their transaction costs on the financial statements.

The initial recognition and subsequent valuation of such financial assets, including the transaction costs, are carried out on a fair value basis. For borrowing instruments, the difference between the value calculated by using the effective interest method and cost is recognised in profit or loss.

Dividend income arising from investments in equity intruments that are classified as at fair value through other comprehensive income is also recognised in profit or loss accounts.

Gains and losses, except impairment gain or loss and foreign exchange gain or loss, arising from changes in the fair value of financial assets at fair value through other comprehensive income are reflected to other comprehensive income until the financial asset is derecognised or reclassified. When the value of the financial asset is collected or when financial asset is disposed of, the related fair value differences accumulated in the shareholders' equity are transferred to the income statement.

During the initial recognition in financial statements, it is permitted to make an irrevocable election regarding the changes in fair value of an investment in an equity instrument within the framework of IFRS 9, that is not held for trading purposes or is not a contingent consideration which is included in financial statements of an acquiring entity regarding a business combination performed under "IFRS 3 Business Combinations" requirements, to be presented in other comprehensive income. In this case dividends collected from mentioned investment will be recognised in profit or loss.

Financial Assets at Measured at Amortised Cost

Financial assets measured at amortised cost are those financial assets that are held within the framework of a business model aimed at collecting contractual cash flows over the life of the asset and which result in cash flows that include principal and interest on the principal amount outstanding at specific dates. Financial assets measured at amortised cost with the initial recognition at fair value including transaction costs are subject to valuation with their amortised cost value by using the effective interest rate method, net of any provision for impairment. Interest income from financial assets measured at amortised cost are recognised in statement of income as an "interest income".

The The Group evaluates its loans within the framework of current business models and can be classified as Financial Assets measured at Amortised Cost.

3.9 Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised on the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognised on an accruals basis over the period of the transaction and are included in "interest income" or "interest expense".

3.10 Trade receivables

Trade receivables that are created by way of providing goods or services directly to a debtor are carried at amortised cost. Trade receivables, net of unearned financial income, are measured at amortised cost, using the effective interest rate method, less the unearned financial income. Short duration receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant.

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

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is recognised in profit or loss.

3.11 Inventories

Inventories are valued at the lower of cost or net realisable value. In manufacturing industries, cost elements included in inventories are materials, labor and an appropriate amount for factory overheads. The cost of borrowings is not included in the costs of inventories. The cost of inventories is determined on the weighted average basis for each purchase. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Inventories consist of raw material, semi finished goods, finished goods, commercial goods and other stocks.

On the other hand, inventories of Group's real estate firms comprise of construction costs of housing units (completed and in-progress) and the costs of land used for these housing projects. Cost elements included in inventories are purchase costs, conversion costs and other costs necessary to prepare the asset for its intended use.

3.12 Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment except for land and buildings are measured at cost less accumulated depreciation and any accumulated impairment losses. Beginning from the third quarter of 2015, the Group has changed its accounting policy for subsequent measurement of real estate land and building properties from cost method to revaluation method. The positive difference between the net book values of real estate property and the renewed expertise values which are determined by the licenced valuation companies in 2018 are recorded under shareholders' equity.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and are recognised net within the other operating income or other operating expense in profit or loss.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset's fair value less costs to sell and value in use. Impairment losses are recognised in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property, plant or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings 2 – 50 years
- Fixtures and fittings 2 – 50 years
- Machinery and equipment 1 – 30 years
- Leasehold improvements 5 – 15 years
- Motor vehicles 3 – 15 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

3.13 Investment property

Properties held for long term rental yields or value increase or both, rather than in the production of supply of goods and services or administrative purposes or for the sale in the ordinary course of business are classified as "Investment property". Beginning from the third quarter of 2015, accounting policy has changed to fair value method in accordance with "IAS 40 Investment Property". In subsequent periods, profit or loss due to the revaluation of fair value of investment property are accounted for under current period's profit or loss.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of an item) is recognised in profit or loss. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3.14 Intangible assets

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Acquisitions of non-controlling interests

Acquisition of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

Intangible assets acquired

Intangible assets acquired separately are carried at cost, less accumulated amortisation and any accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. Estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis. The related costs are amortised at between 1 and 15 years based on their economic lives.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Software is amortised on a straight line basis in profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software for the current and comparative periods is one to five years.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits, are recognised as intangible assets. Costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding five years).

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they meet the definition of an intangible asset and their fair value can be measured reliably. Cost of such intangible assets is the fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets acquired separately.

Development costs

Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development expenditures previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis in five years.

3.15 Non-current assets held for sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

3.16 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment or more often if there are indications of impairment.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.17 Leases

The Group as the lessee

<u>Operating leases</u>

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

<u>Finance leases</u>

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Capitalised leased assets are depreciated over the estimated useful life of the asset.

The Group as the lessor

<u>Operating leases</u>

Assets leased out under operating leases are included in property, plant and equipment in the consolidated financial statements. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognised in the consolidated statement of income on a straight-line basis over the lease term.

<u>Finance leases</u>

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

3.18 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities are classified as either equity instruments or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

Borrowings, deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as an obligation under repurchase agreement, and the underlying asset continues to be recognised in the Group's financial statements.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.19 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

3.20 Employee benefits

Pension and other post-retirement obligations

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his / her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Pension fund transferable to Social Security Institution

Employees of the Bank are members of Türkiye İş Bankası A.Ş. Mensupları Emekli Sandığı Vakfı, employees of Milli Reasürans are members of "Milli Reasürans Türk Anonim Şirketi Emekli ve Sağlık Sandığı Vakfı, employees of TSKB are members of "Türkiye Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı" and employees of Anadolu Sigorta are members of "Anadolu Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı" (collectively "the Funds"), which are established in accordance with the temporary Article 20 of the Social Security Act No. 506 and are separate legal entities and foundations recognised by an official decree, providing all qualified employees with pension and post-retirement benefits.

As explained in Note 30, the Bank expects to transfer the obligation of the Funds to Social Security Institution. This transfer will be a settlement of the Funds' obligation. Final legislation establishing the terms for such transfer was enacted on 8 May 2008 with "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees". Although the settlement will not be recognised until the transfer is made, the Group believes that it is more appropriate to measure the obligation at year ends as the value of the payment that would need to be made to Social Security Institution to settle the obligation at the date of the statement of financial position in accordance with the new legislation. The pension disclosures set out in Note 30, therefore reflect the actuarial assumptions and mortality tables specified in the new legislation, including a discount rate of 9.8%. The pension benefits transferable to Social Security Institution are calculated annually by an independent actuary, who is registered with the Undersecretariat of the Treasury.

Retirement pay liability

In accordance with the existing labour law in Turkey, the Group entities operating in Turkey are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days' pay (subject to a maximum of pay ceiling announced by the Government) per year of employment. Reserve for retirement pay is computed and reflected in the consolidated financial statements on a current basis. The management of the Group used some assumptions (detailed in Note 30) in the calculation of the retirement pay provision.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.21 Trade and other payables

Trade payables are payments to be made arising from the purchase of goods and services from suppliers within the ordinary course of business. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.22 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. According to a change in Corporate Tax Law in Turkey, that is published in the Official Gazette dated 5 December 2017 and numbered 30261, corporate tax rate is increased to 22% from 20% to be applied to the profits of taxation periods 2018, 2019 and 2020. Within this context deferred tax is calculated using the related rates considering the periods when deferred tax assets and liabilities are realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

3.23 Insurance and reinsurance businesses

Through its insurance and reinsurance subsidiaries, the Group enters into contracts that contain insurance risk. An insurance contract is a contract under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk covers all risks except for financial risks. Reinsurance risk is defined as a possibility of financial loss due to inappropriate and insufficient application of reinsurance techniques in the activities of taking insurance contract responsibility partially or completely.

Investment contracts are those contracts which transfer financial risk without significant insurance risk. Financial risk is the risk of a possible future change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, that it is not specific to a party to the contract, in the case of a non-financial variable.

Insurance and investment contracts issued/signed by the insurance and reinsurance subsidiaries are accounted for as follows:

Earned premiums: For short-term insurance contracts, premiums are recognised as revenue, net of premiums ceded to reinsurance firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is recognised as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions given or received and deferred acquisitions costs, and are gross of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognised as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under income from insurance operations in the accompanying consolidated statement of income.

Premium received for an investment contract is not recognised as revenue. Premiums for such contracts are recognised directly as liabilities.

Reserve for unearned premiums: The reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the reporting date, without deductions of commission or any other expense. Reserve for unearned premiums is calculated for all contracts except for the insurance contracts for which the Group provides actuarial provisions. The reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long-term insurance contracts. The reserve for unearned premiums is presented under insurance contract liabilities in the accompanying consolidated statement of financial position.

Long term insurance contracts: Long term insurance contracts are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions.

Long term insurance contracts are calculated as the difference between the net present values of premiums written in return of the risk covered by the Group and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Undersecretariat of Treasury, which are applicable for all Turkish insurance companies.

Long term insurance contracts are presented under insurance contract liabilities in the accompanying consolidated financial statements.

Investment contracts without Discretionary Participation Feature (DPF): In the context of the saving life products, if the investment return, obtained from the savings of the policyholders which is invested by the Group results a lower yield rate than the technical interest rate, the Company compensates the difference; if investment return results higher yield than the guaranteed technical interest rate, the difference is distributed to the policyholders as profit sharing bonus. Due to contractual and competitive constraints in practice, the Group has classified these contracts as investment contracts without DPF.

For such products, investment income obtained from assets backing liabilities is recorded within income statement or equity in accordance with the accounting policies mentioned above; and whole contract is presented as a liability under life mathematical provisions.

As at the reporting period, the Group does not have any insurance or investment contracts that contain a DPF (investment contracts with DPF).

Deferred acquisition cost and deferred commission income: Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalised as deferred acquisition cost. Deferred acquisition costs are amortised on a straight-line basis over the life of the contracts. Deferred acquisition costs are presented under other assets in the accompanying consolidated financial statements.

Commission income obtained against premiums ceded to reinsurance firms are also deferred and amortised on a straight-line basis over the life of the contracts. Deferred commission income is presented under other liabilities in the accompanying consolidated financial statements.

Liability adequacy test: At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses are taken into consideration. Any deficiency is immediately charged to the consolidated statement of income. If the result of the test is that a loss is required to be recognised, the first step is to reduce any intangible item arising from business combinations related to insurance. If there is still a loss remaining, then the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

Reserve for outstanding claims: The reserve for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims IBNR is also established as described below. In the accompanying consolidated financial statements, reserve for outstanding claims is presented gross of amounts recoverable from reinsurers. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

In addition to that, the Group also reassesses its notified claims provision at each reporting date on each claim file basis. General insurance claims provisions are not discounted for the time value of money. The reserve for outstanding claims is not discounted for the time value of money. The reserve for outstanding claims is presented under insurance contract liabilities in the accompanying consolidated statement of financial position.

3.24 Income generated from pension business

Revenue arising from asset management and other related services offered by the insurance affiliate of the Bank are recognised in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

Claims are recorded in the year in which they occur, based on reported claims or on the basis of estimates when not reported. Provision for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. Incurred but not reported ("IBNR") claims are also provided. Claims incurred before the accounting periods but reported subsequent to those dates are considered as IBNR claims.

3.25 Government grants

Grants from the government are recognised at fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the required conditions.

Government grants related to costs are accounted as income on a consistent basis over the related periods with the matching costs.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of income on a straight-line basis over the expected lives of the related assets.

3.26 Items held in trust

Assets, other than cash deposits, held by the Group in fiduciary or agency capacities for their customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not the assets of the Group.

3.27 Earnings per share

Earnings per share from continuing operations disclosed in the accompanying consolidated statement of income is determined by dividing the net profit for the year attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the year. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

3.28 Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

3.29 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.30 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2019 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2019.

The new standards, amendments and interpretations which are effective as at 1 January 2019 are as follows:

IFRS 16 Leases

The IASB has published a new standard, "IFRS 16 Leases". The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes "IAS 17 Leases" and related interpretations and is effective for periods beginning on or after 1 January 2019.

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognises an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The effects of the new standard to financial statements is explained in Note 2.1.

Amendments to IAS 28 Investments in Associates and Joint Ventures (Amendments)

In October 2017, the IASB issued amendments to "IAS 28 Investments in Associates and Joint Ventures". In this amendment the IASB clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

"IFRS 9 Financial Instruments" excludes interests in associates and joint ventures accounted for in accordance with "IAS 28 Investments in Associates and Joint Ventures". In this amendment the IASB clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

The amendments did not have a significant impact on the financial position or performance of the Group.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in "IAS 12 Income Taxes" when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:
(a) whether an entity considers uncertain tax treatments separately;
(b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;

(c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
(d) how an entity considers changes in facts and circumstances.

The interpretations did not have a significant impact on the financial position or performance of the Group.

Annual Improvements – 2015–2017 Cycle

In December 2017, the IASB announced Annual Improvements to IFRS Standards 2015–2017 Cycle, containing the following amendments to IFRSs:

- "IFRS 3 Business Combinations" and "IFRS 11 Joint Arrangements" — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- "IAS 12 Income Taxes" — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- "IAS 23 Borrowing Costs" — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments did not have a significant impact on the financial position or performance of the Group.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

On 7 February 2018, the IASB published Amendments to "IAS 19 Plan Amendment, Curtailment or Settlement" to harmonise accounting practices and to provide more relevant information for decision-making. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs.

The amendments did not have a significant impact on the financial position or performance of the Group.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

In October 2017, the IASB issued minor amendments to "IFRS 9 Financial Instruments" to enable companies to measure some prepayable financial assets at amortised cost.

Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation.

The amendments did not have a significant impact on the financial position or performance of the Group.

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective. The Group considers that new standards, interpretations and amendments would not have a significant impact on Group's financial position. The Group is in the process of assessing the impact of that new standards, interpretations and amendments on financial position or performance of the Group.

IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. Certain changes in the estimates of future cash flows and the risk adjustment are also recognised over the period that services are provided. Entities will have an option to present the effect of changes in discount rates either in profit and loss or in OCI. The standard includes specific guidance on measurement and presentation for insurance contracts with participation features. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023; early application is permitted. The Group continues adoption process regarding IFRS 17.

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued amendments to the definition of a business in "IFRS 3 Business Combinations". The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:
- clarify the minimum requirements for a business;
- remove the assessment of whether market participants are capable of replacing any missing elements;
- add guidance to help entities assess whether an acquired process is substantive;
- narrow the definitions of a business and of outputs; and
- introduce an optional fair value concentration test.

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted.

Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB issued amendments to "IAS 1 Presentation of Financial Statements" and "IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform

The amendments issued to IFRS 9 and IAS 39 which are effective for periods beginning on or after 1 January 2020 provide certain reliefs for four fundamental matters in connection with interest rate benchmark reform. These reliefs are related to hedge accounting as follows:

- Highly probable requirement
- Prospective assessments

- Retrospective assessments
- Separately identifiable risk components

Reliefs used as a result of amendments in IFRS 9 and IAS 39 is aimed to be disclosed in financial statements based on the amendments made in IFRS 7.

Amendments to IAS 1- Classification of Liabilities as Current and Non-Current Liabilities

In January 2020, the IASB issued amendments to "IAS 1 Presentation of Financial Statements". The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2022, clarify the criteria for the classification of a liability as either current or non-current. Amendments must be applied retrospectively in accordance with "IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors". Early application is permitted.

4. Financial risk management

4.1 Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risks,
- operational risks.

This note presents information about the Group's exposure to each of the risks below, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the Audit Committee. Consequently, the Risk Management Division of the Bank, which carries out the risk management activities and works independently from executive activities, report to the Board of Directors.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively. At the same time, studies for compliance with the international banking applications are carried out.

Subsidiaries within the Bank's consolidated risk policy, in terms of their own business lines, measure, evaluate and monitor risks, establish risk limits. Risk limits are approved by their own Board of Directors. Risk levels are reported to the Bank's Risk Committee within the periods set by the Bank, to monitor risk levels on consolidated basis. The Bank's Risk Committee, assesses the risk levels and report the results to the Board of the Directors of the Bank.

Audit Committee: The Audit Committee consists of two members of the Board of Directors who do not have any executive functions. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- The supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Group, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- The preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- The maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

The Group's strategy for the use of financial instruments

The Group's liabilities are composed of short-term deposits and other middle and long-term resources. The liquidity risk, which may be caused by this status, can easily be controlled through deposit sustainability, as well as widespread network of correspondent banks, market maker status (the Bank is one of the market maker banks) and by the use of liquidity facilities of the Central Bank of Turkey. In this regard, the liquidity of the Group is constantly monitored. On the other hand, demand for foreign currency liquidity is met by money market operations and money swaps.

TRY denominated CPI bonds and floating rate notes in the Group's securities portfolio have sufficient quality and capacity to reduce the risk which may be caused by the fluctuations in the interest rates. Funds collected are, to a great extent, fixed-interest rated. Sectoral developments are closely monitored and both fixed and floating rated placements are made according to the yields of alternative investment instruments. Some part of the funds is transferred to the Treasury guaranteed projects. In terms of placements, security principle has always been the priority of the Bank and the placements are oriented to high yielding and low risk assets by considering their maturity structure. Accordingly, a pricing policy that aims high return is implemented in long-term placements.Placements to loans and marketable securities are the fields with higher yields than the average return calculated for the Group's field of activities.

The Group determines its lending strategy by taking into consideration the international and national economic data and expectations, market conditions, current and potential credit customers' expectations and tendencies, and the risks like interest rate, liquidity, currency and credit risks. Furthermore, parallel to this strategy, the Group acts within the legal limits in terms of asset-liability management.

Main growth targets for different asset classes are set by long-term plans, which are shaped along with budgeting; and the bank takes necessary position in accordance with the said plans and the course of the market conditions against the short-term currency, interest rates and price movements.

Foreign currency, interest rate and price movements are monitored instantaneously. When taking position, the Group's own transaction and control limits are also effectively monitored in addition to the legal limits and limit overrides are avoided. Besides the Bank's asset-liability management is executed by the Asset-Liability Management Committee, within the risk limits determined by the Risk Committee, in order to keep the liquidity risk (within the boundaries of the equity), interest rate risk, currency risk and credit risk within certain limits and to maximise profitability.

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

4.2 Credit Risk

Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth, covering the counterparty risks arising not only from loans and debt securities but also credit risks originating from the transactions defined as loans in the Banking Law.

For risk management reporting purposes the Group considers and consolidates all elements of credit risk exposure.

Management of credit risk

For credit risk management purposes the Risk Management Division is involved in

- the determination of credit risk policies in coordination with the Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, and risk groups,
- the formation and validation of rating and scoring systems,
- submitting to the Board of Directors and the senior management not only credit risk management reports about the credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration, but also scenario analysis reports, stress tests and other analyses, and
- studies regarding the formation of advanced credit risk measurement approaches.

Exposure to credit risk

2019	Loans and advances to customers	Trade receivables	Other assets expose to credit risk(*)
Risk exposure			
Non performing financial assets	**9,811,020**	**--**	**--**
Gross amount	21,102,729	141,121	389,526
Expected credit loss for Stage 3	(11,291,709)	(141,121)	(389,526)
Performing financial assets	**308,613,726**	**5,847,878**	**459,186,488**
Gross amount	314,418,080	5,847,878	459,624,589
Expected credit loss for Stage 1 and 2	(5,804,354)	--	(438,101)
Carrying amount	**318,424,746**	**5,847,878**	**459,186,488**

(*) Loans and advances to banks, trading and investment securities, insurance receivables, non-cash loans, commitments and derivative transactions are also included.

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

2018	Loans and advances to customers	Trade receivables	Other assets expose to credit risk(*)
Risk exposure			
Non performing financial assets	**5,431,197**	**--**	**--**
Gross amount	12,492,038	150,130	322,246
Expected credit loss for Stage 3	(7,060,841)	(150,130)	(322,246)
Performing financal assets	**297,021,169**	**4,377,708**	**441,941,259**
Gross amount	302,189,900	4,377,708	442,294,234
Expected credit loss for Stage 1 and 2	(5,168,731)	--	(352,975)
Carrying amount	**302,452,366**	**4,377,708**	**441,941,259**

(*) Loans and advances to banks, trading and investment securities, insurance receivables, non-cash loans, commitments and derivative transactions are also included.

As at 31 December 2019 and 31 December 2018, the Group has no allowance for loans and advances to banks.

The disclosures set out in the tables below include financial assets and financial liabilities that:

• are offset in the Group's statement of financial position; or

• are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

Restructuring in performing loans are made by extending the maturity of the loan with changing conditions of contract aiming to enhance solvency of customer or customer's demand. Restructuring in non-performing loans are generally made by establishing a new redemption plan within the context of a protocol aiming the collection of those receivables whose redemption plan are not valid because of delinquency previously.

As of 31 December 2019 and 31 December 2018, details of restructured loans under Stage 2 are as follows:

Restructured Loans under Stage 2	2019		2018	
	Loans with revised contract terms	Refinanced	Loans with revised contract terms	Refinanced
Corporate and commercial loans	6,122,835	5,635,911	4,589,727	2,318,046
Export loans	148,264	152,391	262,180	87,633
Consumer loans	201	1,044,840	197	177,289
Credit cards	473,727	--	394,813	--
Other receivables	3,202,623	4,512,159	1,361,314	1,320,291
Total restructured loans under Stage 2	**9,947,650**	**11,345,301**	**6,608,231**	**3,903,259**

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

The aging analysis of the loans and advances past due but not impaired is as follows:

	2019	2018
31- 60 days	665,166	1,047,863
61-90 days	780,365	869,194
91 days and above	--	--
	1,445,531	**1,917,057**

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

Past due but not impaired loans

Loans and receivables where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider.

Allowances for impairment

The amount of the allowance for impairment of losses is based upon IFRS 9 principles as described in Note 3.7.

Applying this methodology requires management to make estimates regarding the amount and timing of the cash flows, which are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently reviewed.

In assessing the need for expected credit loss allowances, management considers factors such as time value of money, past events, current conditions and future economic conditions as of the reporting date. In order to estimate the required allowance, assumptions are made both to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances and provisions depends on the model assumptions and parameters used in determining loss allowances. In addition, a certain portion of commercial and corporate loans is assessed individually in accordance with the internal policies in the calculation of the expected credit losses based on IFRS 9. While this necessarily involves judgment, management believes that the allowances and provisions are reasonable and supportable.

The amount of the allowance for impairment of loans and advances to customers, finance lease receivables and factoring receivables are described in Note 3.7.

Write-off policy

The Group writes off a loan/security balance (and any related allowances for impairment losses) when it is concluded that the loans/securities are uncollectible after all the necessary legal procedures has been completed, and the final loss has been determined. This conclusion is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

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

Sectoral distribution of the performing loans and advances to customers

	2019	2018
Manufacturing	95,463,502	97,613,609
Consumer loans	49,155,917	45,131,217
Mortgage loans	17,515,612	20,453,545
Auto loans	529,045	771,528
Overdraft checking accounts	1,279,092	1,128,667
Other consumer loans	29,832,168	22,777,477
Wholesale and retail trade	34,045,044	38,056,185
Construction	21,852,258	26,775,447
Transportation and telecommunication	27,939,775	27,276,568
Credit cards	19,897,023	17,127,521
Financial institutions	10,827,090	7,989,702
Hotel, food and beverage services	9,500,578	9,328,892
Health and social services	6,376,346	6,290,007
Agriculture and stockbreeding	3,303,964	3,153,070
Others	36,056,583	23,447,682
Total performing loans and advances to customers	**314,418,080**	**302,189,900**

Sectoral distribution of the non-cash loans (Note 46)

	2019	2018
Manufacturing	46,136,057	43,372,150
Wholesale and retail trade	18,830,705	18,618,150
Construction	14,337,057	14,290,312
Financial institutions	5,824,856	6,951,778
Transportation and telecommunication	6,167,439	4,574,136
Real estate and rental services	1,941,468	2,704,117
Self-employed services	565,723	571,145
Health and social services	661,499	681,799
Hotel, food and beverage services	1,081,138	840,064
Agriculture and stockbreeding	243,948	206,384
Others	803,442	743,445
Total	**96,593,332**	**93,553,480**

Factoring receivables based on types of factoring transactions

	2019	2018
Domestic irrevocable	1,977,267	1,543,100
Domestic revocable	919,905	817,689
Foreign revocable	135,800	118,471
Foreign irrevocable	130,767	223,994
Factoring receivables	**3,163,739**	**2,703,254**

Collateral policy

The Group give utmost importance to ensure that loans are furnished with collaterals. Most of the loans extended are collateralised by establishing pledge over real estate, movable or commercial enterprise, holding promissory notes and other liquid assets as collateral, or by acceptance of letters of guarantee and individual or corporate guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2019 and 31 December 2018.

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

An estimate of the fair value of collateral and other security enhancements held against closely monitored loans and advances to customers (stage 2) as follows:

	2019	2018
Secured closely monitored loans:	35,393,843	31,576,770
Secured by mortgages(*)	*10,079,700*	*9,973,567*
Pledges on wages and vehicles	*1,600,125*	*1,060,219*
Cheques & Notes	*460*	*2,521*
Secured by cash collateral	*216,844*	*216,460*
Other (surety, commercial enterprise under pledge etc.)	*23,496,714*	*20,324,003*
Unsecured closely monitored loans	5,124,516	4,246,411
Total closely monitored loans and advances to customers	**40,518,359**	**35,823,181**

(*) The mortgage and/or pledge amounts on which third parties have priorities are deducted from the fair value of the real estate provided in expertise reports. This net value is compared to loan balance and mortgage amount, and lowest of the three values is presented here as collateral's fair value.

As at 31 December 2019 and 31 December 2018, the Group has no closely monitored loans and advances to banks, investment securities, trade receivables or other assets.

An estimate of the fair value of collateral held against non-performing loans and advances to customers (stage 3) is as follows:

	2019	2018
Secured non-performing loans	13,717,851	5,723,481
Secured by cash collateral	*1,680*	*3,259*
Secured by mortgages(*)	*6,266,997*	*4,083,888*
Vehicle pledge	*350,072*	*466,913*
Other (surety, commercial enterprise under pledge etc.)	*7,099,102*	*1,169,421*
Unsecured non-performing loans	7,384,878	6,768,557
Total non-performing loans and advances to customers	**21,102,729**	**12,492,038**

(*) The mortgage and/or pledge amounts on which third parties have priorities are deducted from the fair value of the real estate provided in expertise reports. This net value is compared to loan balance and mortgage amount, and lowest of the three values is presented here as collateral's fair value.

Guarantees received from the customers for trade receivables are as follows:

	2019	2018
Notes and bills	1,237,680	448,695
Direct debit system	214,319	223,473
Letters of guarantee	388,940	601,560
Mortgages	39,246	43,184
Cash	72,573	35,144
Total	**1,952,758**	**1,352,056**

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

As of 31 December 2019, TL 413,598 (31 December 2018: TL 426,921) of trade receivable amount was past due but not impaired. This relate to a various number of independent customers with no recent history of default. The aging analysis of trade receivable amounts is as follows:

	2019	2018
Up to 1 month	256,412	255,587
1-3 months	60,603	57,581
3-12 months	43,263	83,328
1-5 years	53,320	30,425
	413,598	**426,921**

Rating system

Credit risk limits of customers are determined depending on the financial situation and loan requirements of the borrowers, in strict compliance with the relevant banking legislation, within the framework of loan authorisation limits of Branches, Regional Offices, Loan Divisions, and the Deputy Chief Executives responsible for loans, the CEO, the Credit Committee and the Board of Directors. These limits may be changed as may be deemed necessary by the Bank. Moreover, all commercial credit limits are revised periodically, provided that each period does not exceed a year. Furthermore, the borrowers and borrower groups forming a large proportion of the overall loan portfolio are subject to risk limits in order to provide further minimisation of potential risk.

The rating/scoring results related to the cash commercial and corporate loans portfolio are classified as "Strong", "Standard" and "Below Standard" by considering their default features. The loans whose borrowers' capacity to fulfill their obligations is very good, are defined as "Strong", whose borrowers' capacity to fulfill its obligations in due time is reasonable, are defined as "Standard" and whose borrowers' capacity to fulfill their obligations is poor, are defined as "Below Standard". The percentage of the portfolio according to the rating/scoring results is as follows:

	2019 (%)	2018 (%)
Strong	43.92	40.93
Standard	47.42	52.77
Below standard	8.66	6.30

4.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

Liquidity risk may arise as a result of funding long-term assets with short-term liabilities. Utmost care is taken to maintain the consistency between the maturities of assets and liabilities; strategies are used to acquire funds over longer terms.

The Bank's main source of funding is deposits. While the average maturity of deposits is shorter than the average maturity of assets as a result of the market conditions, the Bank's wide network of branches and stable core deposit base are its most important safeguards of funding. The Bank also borrows medium and long-term funds from institutions abroad.

In order to meet the liquidity requirements that may arise due to market fluctuations, the Group analyses TL and FC cash flows projections to preserve liquid assets. The term structure of TL and FC deposits, their costs and movements in the total amounts are monitored on a daily basis, also accounting for developments in former periods and expectations for the future. Based on cash flow projections, prices are differentiated for different maturities and thereby measures are taken to meet liquidity requirements; moreover liquidity that may be required for extraordinary circumstances is estimated and alternative liquidity sources are determined for possible utilisation.

Evaluated within the framework of the Bank's asset-liability management risk policy, the limits determined related to the liquidity risk management are monitored by the Risk Committee and to avoid extraordinary situations where a quick action should be taken due to the unfavourable market conditions, emergency measures and funding plans related to liquidity risk are put into effect.

In addition to the internal limits used by the Bank as per the Communiqué on "Measurement of the Liquidity Coverage Ratio of Banks", the foreign currency-only and total liquidity coverage ratios should not be less than 80% and 100%, respectively. However, according to the BRSA Decision for the year 2016, liquidity ratios were applied as 50% and 70%, respectively, and those ratios will be increased in increments of ten percentage points for each year from 1 January 2016 until 1 January 2019.

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

Maturity analysis of financial assets and liabilities according to their remaining maturities:

2019	**Demand**	**Less than one month**	**1-3 months**	**3-12 months**	**1-5 Years**	**Over 5 years**	**Carrying amount**
Cash on hand	5,528,713	--	--	--	--	--	5,528,713
Balances with central bank(*)	23,955,075	24,420,618	--	--	--	--	48,375,693
Loans and advances to banks(*)	7,424,472	10,373,868	3,303,265	981,790	--	--	22,083,395
Financial assets at fair value through profit or loss	2,039,329	1,568,760	1,475,442	2,003,881	565,020	57,113	7,709,545
Loans and advances to customers(**)	15,094,132	32,155,509	24,141,341	80,174,684	128,937,024	33,915,390	314,418,080
Trade receivables	31,382	3,664,881	1,842,732	289,277	19,606	--	5,847,878
Insurance receivables	2,785,175	239,390	667,552	1,120,027	196,034	--	5,008,178
Financial assets at fair value through other comprehensive income	1,827,999	617,642	1,797,788	3,396,042	29,742,875	23,641,200	61,023,546
Financial assets measured at amortised cost(*)	--	993,241	1,389,846	2,170,348	25,118,341	5,979,006	35,650,782
Other assets(*)	4,855,106	3,803,805	296,396	903,563	809,507	--	10,668,377
Total assets	**63,541,383**	**77,837,714**	**34,914,362**	**91,039,612**	**185,388,407**	**63,592,709**	**516,314,187**
Deposits	85,941,672	160,352,017	30,914,470	14,003,842	3,088,708	346,641	294,647,350
Obligations under repurchase agreements	--	2,846,159	7,648	10,075	--	--	2,863,882
Funds borrowed	74,929	3,075,820	4,660,516	31,486,083	28,178,323	11,819,489	79,295,160
Debt securities issued	--	2,940,384	2,378,367	11,581,256	22,966,530	4,400,208	44,266,745
Payables to money market	--	166,453	--	--	--	--	166,453
Trade payables	128,403	5,717,582	445,065	52,643	--	--	6,343,693
Taxes and dues payable	--	818,303	1,459	--	--	--	819,762
Insurance contract liabilities	9,485,694	217,126	434,252	730,653	1,577,149	743,137	13,188,011
Subordinated liabilities	--	--	--	--	10,143,695	5,221,531	15,365,226
Other liabilities	1,847,316	11,535,428	1,408,693	72,216	453,334	77,625	15,394,612
Total liabilities	**97,478,014**	**187,669,272**	**40,250,470**	**57,936,768**	**66,407,739**	**22,608,631**	**472,350,894**
Net	**(33,936,631)**	**(109,831,558)**	**(5,336,108)**	**33,102,844**	**118,980,668**	**40,984,078**	**43,963,293**

(*) Expected credit losses are not included.
(**) Non-performing loans and expected credit losses are not included.

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

Maturity analysis of financial assets and liabilities according to their remaining maturities

2018	Demand	Less than one month	1-3 months	3-12 months	1-5 Years	Over 5 years	Carrying amount
Cash on hand	4,860,517	--	--	--	--	--	4,860,517
Balances with central bank(*)	18,442,861	17,547,594	--	--	--	--	35,990,455
Loans and advances to banks(*)	4,224,328	6,183,732	3,288,375	1,956,887	306	--	15,653,628
Financial assets at fair value through profit or loss	425,263	1,748,841	1,092,112	2,717,864	1,274,684	166,512	7,425,276
Loans and advances to customers(**)	19,284,273	29,624,725	21,848,694	74,469,542	121,119,010	35,843,656	302,189,900
Trade receivables	2,839,593	1,247,133	82,976	130,982	77,024	--	4,377,708
Insurance receivables	2,321,747	250,903	540,794	1,065,372	7,835	--	4,186,651
Financial assets at fair value through other comprehensive income	736,394	15,714	1,252,150	3,105,466	20,684,766	22,065,336	47,859,826
Financial assets measured at amortised cost(*)	--	211,162	2,101,861	3,822,656	17,395,443	7,248,989	30,780,111
Other assets(*)	3,906,574	6,238,909	52,119	830,409	520,263	--	11,548,274
Total assets	**57,041,550**	**63,068,713**	**30,259,081**	**88,099,178**	**161,079,331**	**65,324,493**	**464,872,346**
Deposits	61,571,643	128,475,477	37,487,762	15,682,555	2,734,465	171,055	246,122,957
Obligations under repurchase agreements	--	7,179,764	723,891	1,585,581	--	--	9,489,236
Funds borrowed	45,948	2,245,806	6,045,037	27,959,136	27,854,663	13,628,430	77,779,020
Debt securities issued	--	3,442,508	3,060,873	6,478,103	21,726,951	7,654,415	42,362,850
Payables to money market	--	2,491,351	--	--	--	--	2,491,351
Trade payables	3,065	2,356,062	1,675,301	49,307	--	--	4,083,735
Taxes and dues payable	603,676	19,713	161,985	--	--	--	785,374
Insurance contract liabilities	7,817,956	225,630	451,261	607,567	1,772,944	--	10,875,358
Subordinated liabilities	--	--	1,136,214	--	8,951,860	2,620,501	12,708,575
Other liabilities	416,843	13,108,903	1,149,163	299,821	121,243	--	15,095,973
Total liabilities	**70,459,131**	**159,545,214**	**51,891,487**	**52,662,070**	**63,162,126**	**24,074,401**	**421,794,429**
Net	**(13,417,581)**	**(96,476,501)**	**(21,632,406)**	**35,437,108**	**97,917,205**	**41,250,092**	**43,077,917**

(*) Expected credit losses are not included.
(**) Non-performing loans and expected credit losses are not included.

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

Residual contractual maturities of the financial liabilities

2019	Carrying amount	Gross nominal (inflow) / outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities								
Deposits	294,647,350	295,609,301	85,941,669	160,687,641	31,167,989	14,213,840	3,198,763	399,399
Obligations under repurchase agreements	2,863,882	2,866,161	--	2,810,331	45,681	10,149	--	--
Lease payables	1,245,427	1,906,889	--	33,896	81,120	329,888	941,436	520,549
Funds borrowed	79,295,160	86,489,942	--	3,086,901	6,870,254	31,479,216	32,024,188	13,029,383
Debt securities issued	44,266,745	51,330,652	--	2,904,052	3,252,159	13,284,221	26,879,705	5,010,515
Payables to money market	166,453	166,453	--	166,453	--	--	--	--
Trade payables	6,343,693	6,354,989	--	4,168,920	2,108,809	77,260	--	--
Subordinated liabilities	15,365,226	21,963,600	--	--	150,866	1,061,748	13,634,510	7,116,476
Total	**444,193,936**	**466,687,987**	**85,941,669**	**173,858,194**	**43,676,878**	**60,456,322**	**76,678,602**	**26,076,322**
Derivatives								
Inflow	(5,369,818)	(179,351,614)	(962,593)	(43,993,437)	(24,170,288)	(28,756,327)	(37,655,859)	(43,813,110)
Outflow	3,013,852	177,347,090	963,907	43,986,205	24,539,692	27,215,426	36,981,992	43,659,868
Total	**(2,355,966)**	**(2,004,524)**	**1,314**	**(7,232)**	**369,404**	**(1,540,901)**	**(673,867)**	**(153,242)**

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

Residual contractual maturities of the financial liabilities

2018	**Carrying amount**	**Gross nominal (inflow) / outflow**	**Demand**	**Less than one month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
Non-derivative liabilities								
Deposits	246,122,957	248,156,704	61,571,643	129,033,547	38,379,909	16,140,289	2,822,524	208,792
Obligations under repurchase agreements	9,489,236	9,556,232	--	7,196,676	728,442	1,631,114	--	--
Lease payables	--	--	--	--	--	--	--	--
Funds borrowed	77,779,020	85,440,868	--	2,367,990	6,267,000	29,943,306	31,692,942	15,169,630
Debt securities issued	42,362,850	47,861,010	--	3,506,340	4,355,383	8,199,093	25,151,591	6,648,603
Payables to money market	2,491,351	2,502,550	--	2,480,461	22,089	--	--	--
Trade payables	4,083,735	4,102,514	497	2,394,663	1,658,047	49,307	--	--
Subordinated liabilities	12,708,575	18,949,858	--	--	119,293	902,753	12,474,088	5,453,724
Total	**395,037,724**	**416,569,736**	**61,572,140**	**146,979,677**	**51,530,163**	**56,865,862**	**72,141,145**	**27,480,749**
Derivatives								
Inflow	(6,337,975)	(158,787,844)	(507,307)	(46,493,448)	(22,399,307)	(22,090,753)	(34,751,903)	(32,545,126)
Outflow	4,558,566	160,040,774	507,445	47,775,950	24,609,784	21,418,558	33,332,929	32,396,108
Total	**(1,779,409)**	**1,252,930**	**138**	**1,282,502**	**2,210,477**	**(672,195)**	**(1,418,974)**	**(149,018)**

The above table shows the undiscounted cash flows of the Group's financial liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments may vary significantly from this analysis.

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

Residual maturities of non-cash loans

	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2019							
Letters of credit	9,463,410	655,786	744,157	4,321,570	1,131,911	--	16,316,834
Letters of guarantee(*)	44,430,047	900,365	2,911,806	11,396,726	8,847,838	3,060,557	71,547,339
Acceptance	341,439	517,170	2,074,015	2,996,168	66,539	45,001	6,040,332
Other	487,767	9,480	--	14,959	495,245	1,681,376	2,688,827
Total	**54,722,663**	**2,082,801**	**5,729,978**	**18,729,423**	**10,541,533**	**4,786,934**	**96,593,332**
2018							
Letters of credit	5,125,787	1,361,001	2,534,884	6,956,546	225,678	3,049	16,206,945
Letters of guarantee(*)	45,964,678	1,265,242	2,741,961	10,016,265	7,796,371	3,573,393	71,357,910
Acceptance	424,260	306,231	597,907	2,244,117	50,067	--	3,622,582
Other	311,972	--	166,141	718	505,751	1,381,461	2,366,043
Total	**51,826,697**	**2,932,474**	**6,040,893**	**19,217,646**	**8,577,867**	**4,957,903**	**93,553,480**

(*) Undiscounted maturities of letter of guarantees represent the contractual maturities whereas such balances have demand nature due to their callable status until maturity.

4.4 Market risk

Market risk is defined as the risk that may reduce the market value of the trading portfolio due to the changes in the risk factors named interest rate, exchange rates, equities and the price of commodities and options. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Division, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Exposure to market risk – trading portfolios

The market risk carried by the Group is measured by two separate methods known respectively as the Standard Method and the Value at Risk (VAR) Method in accordance with the local regulations adopted from internationally accepted practices. In this context, currency risk emerges as the most important component of the market risk. The consolidated market risk measurements are carried out on a monthly basis, using the Standard Method. The results are accounted in the legal reporting and evaluated with the top management.

The VAR Method is another alternative for the Standard Method in measuring and monitoring market risk carried by the Bank. This model is used to measure the market risk on a daily basis in terms of interest rate risk, currency risk and equity share risk and is a part of the Bank's daily internal reporting. Further retrospective testing (back-testing) is carried out on a daily basis to determine the reliability of the daily risk calculation by the VAR model, which is used to estimate the maximum possible loss for the following day.

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

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

2019	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
Cash on hand	--	--	--	--	--	5,528,713	5,528,713
Balances with central bank(*)	805,105	--	--	--	--	47,570,588	48,375,693
Loans and advances to banks(*)	2,910,794	11,671,782	981,790	--	--	6,519,029	22,083,395
Loans and advances to customers(**)	63,209,864	32,679,856	79,616,825	113,186,794	25,353,457	371,284	314,418,080
Trade receivables	3,664,881	1,843,406	288,603	19,606	--	31,382	5,847,878
Insurance receivables	239,390	667,552	1,120,027	196,034	--	2,785,175	5,008,178
Financial assets at fair value through other comprehensive income	13,801,531	7,406,549	10,366,064	13,600,354	14,021,049	1,827,999	61,023,546
Financial assets measured at amortised cost(*)	6,297,548	6,658,670	10,214,310	10,606,128	1,874,126	--	35,650,782
Other assets(*)	2,019,767	250,167	839,697	596,752	--	6,961,994	10,668,377
Total assets	**92,948,880**	**61,177,982**	**103,427,316**	**138,205,668**	**41,248,632**	**71,596,164**	**508,604,642**
Deposits	160,353,110	30,914,745	14,009,488	3,081,695	346,641	85,941,671	294,647,350
Obligations under repurchase agreements	2,846,159	7,648	10,075	--	--	--	2,863,882
Funds borrowed	8,693,591	29,164,656	22,528,224	7,452,221	11,361,152	95,316	79,295,160
Debt securities issued	2,841,315	2,823,730	9,203,540	24,997,954	4,400,206	--	44,266,745
Payables to money market	166,453	--	--	--	--	--	166,453
Trade payables	4,026,336	1,750,100	423,294	15,560	--	128,403	6,343,693
Taxes and dues payable	183,887	1,459	--	--	--	634,416	819,762
Insurance contract liabilities	--	--	--	--	--	13,188,011	13,188,011
Subordinated liabilities	--	2,281,084	--	10,143,695	2,940,447	--	15,365,226
Other liabilities	2,227,902	418,342	315,459	165,392	78,696	12,188,821	15,394,612
Total liabilities	**181,338,753**	**67,361,764**	**46,490,080**	**45,856,517**	**19,127,142**	**112,176,638**	**472,350,894**
Net	**(88,389,873)**	**(6,183,782)**	**56,937,236**	**92,349,151**	**22,121,490**	**(40,580,474)**	**36,253,748**

(*) Expected credit losses are not included.
(**) Non-performing loans and expected credit losses are not included.

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

Exposure to interest rate risk – non-trading portfolios

2018	**Less than one month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Carrying amount**
Cash on hand	3,005	--	--	--	--	4,857,512	4,860,517
Balances with central bank(*)	20,424,342	--	--	--	--	15,566,113	35,990,455
Loans and advances to banks(*)	6,163,276	2,915,810	3,564,829	306	--	3,009,407	15,653,628
Loans and advances to customers(**)	65,174,137	35,874,480	81,159,873	97,921,838	22,029,551	30,021	302,189,900
Trade receivables	3,828,241	280,098	118,414	113,794	30,374	6,787	4,377,708
Insurance receivables	250,903	540,794	1,065,372	7,835	--	2,321,747	4,186,651
Financial assets at fair value through other comprehensive income	10,150,843	6,484,009	8,558,347	9,820,260	12,109,972	736,395	47,859,826
Financial assets measured at amortised cost(*)	3,641,791	4,837,502	10,507,929	8,073,101	3,719,788	--	30,780,111
Other assets(*)	3,347,122	14,511	109,000	613,679	216,613	7,247,349	11,548,274
Total assets	**112,983,660**	**50,947,204**	**105,083,764**	**116,550,813**	**38,106,298**	**33,775,331**	**457,447,070**
Deposits	128,475,936	37,490,825	15,686,675	2,726,823	171,055	61,571,643	246,122,957
Obligations under repurchase agreements	7,179,764	723,891	1,585,581	--	--	--	9,489,236
Funds borrowed	12,310,953	30,985,492	20,492,912	8,774,891	5,146,653	68,119	77,779,020
Debt securities issued	3,451,365	4,196,865	6,357,959	19,308,320	9,048,341	--	42,362,850
Payables to money market	2,491,351	--	--	--	--	--	2,491,351
Trade payables	--	1,676,738	49,307	--	--	2,357,690	4,083,735
Taxes and dues payable	13,439	6,274	161,985	--	--	603,676	785,374
Insurance contract liabilities	--	--	--	--	--	10,875,358	10,875,358
Subordinated liabilities	--	1,136,214	--	8,951,860	2,620,501	--	12,708,575
Other liabilities	3,044,525	1,218,420	1,451,872	772,641	--	8,608,515	15,095,973
Total liabilities	**156,967,333**	**77,434,719**	**45,786,291**	**40,534,535**	**16,986,550**	**84,085,001**	**421,794,429**
Net	**(43,983,673)**	**(26,487,515)**	**59,297,473**	**76,016,278**	**21,119,748**	**(50,309,670)**	**35,652,641**

(*) Expected credit losses are not included.
(**) Non-performing loans and expected credit losses are not included.

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

Interest rate risk

The following table indicates the average effective interest rates applied to monetary financial instruments by major currencies for the year ended 31 December 2019 and 31 December 2018:

2019	**USD %**	**EURO %**	**TL %**
Loans and advances to banks	1.03	0.34	9.84
Loans and advances to customers			
Loans	7.01	4.64	16.31
Finance lease receivables	7.61	5.27	20.44
Factoring receivables	6.26	2.76	15.03
Investment securities			
Financial assets at fair value through profit or loss	9.42	1.56	9.48
Financial assets at fair value through other comprehensive income	5.12	2.40	14.12
Financial assets measured at amortised cost	4.43	1.92	14.26
Deposits			
Deposits from banks	2.58	0.30	11.21
Deposits from customers	1.17	0.19	7.99
Obligations under repurchase agreements	2.46	0.03	10.18
Debt securities issued	5.87	--	14.22
Funds borrowed	3.69	1.57	12.25

2018	**USD %**	**EURO %**	**TL %**
Loans and advances to banks	1.95	2.12	22.91
Loans and advances to customers			
Loans	7.60	4.78	20.18
Finance lease receivables	6.83	5.01	17.08
Factoring receivables	14.24	5.83	34.75
Investment securities			
Financial assets at fair value through profit or loss	6.28	3.93	17.46
Financial assets at fair value through other comprehensive income	4.94	3.00	17.66
Financial assets measured at amortised cost	4.18	0.44	15.67
Deposeits			
Deposits from banks	2.72	0.54	23.71
Deposits from customers	2.44	0.85	17.17
Obligations under repurchase agreements	4.01	0.61	23.88
Debt securities issued	5.83	--	22.28
Funds borrowed	4.16	1.39	17.70

Interest rate sensitivity

During the measurement of the Group’s interest rate sensitivity, the profit/loss on the asset and liability items that are evaluated with market value are determined by adding to/deducting from the difference between the expectancy value of the portfolio after one year in case there is no change in interest rates and the value of the portfolio one year later, which is measured after the interest shock, the interest income to be additionally earned/to be deprived of during the one year period due to the renewal or repricing of the related portfolio at the interest rates formed after the interest shock.

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

On the other hand, in the profit/loss calculation of assets and liabilities that are not evaluated by the current market prices, it is assumed that assets and liabilities with fixed interest rates will be renewed at maturity date and the assets and liabilities having variable interest rates will be renewed at the end of repricing period with the market interest rates generated after the interest shock.

As of 31 December 2019 and 31 December 2018, the analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2019		**2018**	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Profit or loss	186,000	(123,742)	(90,961)	129,977
Equity	(1,095,881)	1,217,926	(888,207)	991,863

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

4.5 Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

Management of currency risk

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

2019(*)	**USD**	**EURO**	**Other currencies**	**Total**
Cash on hand	1,572,194	1,447,283	386,770	3,406,247
Balances with central bank(**)	18,316,573	18,788,421	8,099,193	45,204,187
Loans and advances to banks	9,043,306	5,466,882	2,480,568	16,990,756
Financial assets at fair value through profit or loss	2,309,565	649,917	--	2,959,482
Derivative assets held for hedge accounting	67,884	--	--	67,884
Loans and advances to customers	78,400,158	69,175,827	1,592,387	149,168,372
Trade receivables	1,000,341	512,736	42,995	1,556,072
Insurance receivables	519,136	162,320	291,072	972,528
Financial assets at fair value through other comprehensive income	16,372,634	2,896,080	3,932	19,272,646
Financial assets measured at amortised cost	3,647,709	1,377,164	178,496	5,203,369
Other assets	3,358,606	1,393,979	246,701	4,999,286
Total foreign currency denominated monetary assets	**134,608,106**	**101,870,609**	**13,322,114**	**249,800,829**
Deposits(***)	83,149,623	57,250,975	17,822,640	158,223,238
Obligations under repurchase agreements	1,273,078	128,954	--	1,402,032
Funds borrowed	39,379,752	29,999,737	15,273	69,394,762
Derivative liabilities held for hedge accounting	16,545	--	--	16,545
Debt securities issued	35,089,463	--	63,071	35,152,534
Trade payables	814,903	405,194	6,217	1,226,314
Insurance contract liabilities	1,557,369	452,460	254,946	2,264,775
Subordinated liabilities	13,084,142	--	--	13,084,142
Other liabilities	1,475,093	1,151,283	124,312	2,750,688
Total foreign currency denominated monetary liabilities	**175,839,968**	**89,388,603**	**18,286,459**	**283,515,030**
Net statement of financial position	**(41,231,862)**	**12,482,006**	**(4,964,345)**	**(33,714,201)**
Net off balance sheet position	**48,515,546**	**(13,471,556)**	**5,583,108**	**40,627,098**
Net long/(short) position	**7,283,684**	**(989,550)**	**618,763**	**6,912,897**

(*) Assets and liabilities of foreign subsidiaries denominated in their own functional currencies are not included in the table above.

(**) Reserve deposits in terms of precious metals amounting to TL 8,271,399 are included.

(***) Precious metal deposit accounts amounting to TL 10,432,383 are included.

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

2018(*)	USD	EURO	Other currencies	Total
Cash on hand	1,730,503	703,575	137,895	2,571,973
Balances with central bank(**)	16,253,461	9,492,743	6,073,317	31,819,521
Loans and advances to banks	6,762,473	4,496,979	577,837	11,837,289
Financial assets at fair value through profit or loss	3,310,758	395,143	--	3,705,901
Derivative assets held for hedge accounting	--	--	--	--
Loans and advances to customers	84,539,828	64,085,016	2,344,747	150,969,591
Trade receivables	619,901	369,761	38,222	1,027,884
Insurance receivables	422,087	167,482	192,192	781,761
Financial assets at fair value through other comprehensive income	13,894,870	1,080,769	2,452	14,978,091
Financial assets measured at amortised cost	3,848,536	23,879	316,469	4,188,884
Other assets	2,923,562	2,648,750	138,007	5,710,319
Total foreign currency denominated monetary assets	**134,305,979**	**83,464,097**	**9,821,138**	**227,591,214**
Deposits(***)	73,766,196	42,122,990	11,547,056	127,436,242
Obligations under repurchase agreements	4,025,188	89,326	--	4,114,514
Funds borrowed	41,445,820	27,883,177	11,789	69,340,786
Derivative liabilities held for hedge accounting	172,258	--	--	172,258
Debt securities issued	34,197,356	--	76,739	34,274,095
Trade payables	173,025	189,767	12,064	374,856
Insurance contract liabilities	1,086,835	377,514	176,264	1,640,613
Subordinated liabilities	10,022,587	--	--	10,022,587
Other liabilities	1,947,434	1,933,886	165,453	4,046,773
Total foreign currency denominated monetary liabilities	**166,836,699**	**72,596,660**	**11,989,365**	**251,422,724**
Net statement of financial position	**(32,530,720)**	**10,867,437**	**(2,168,227)**	**(23,831,510)**
Net off balance sheet position	**32,814,562**	**(10,216,147)**	**3,051,383**	**25,649,798**
Net long/(short) position	**283,842**	**651,290**	**883,156**	**1,818,288**

(*) Assets and liabilities of foreign subsidiaries denominated in their own functional currencies are not included in the table above.
(**) Reserve deposits in terms of precious metals amounting to TL 6,147,767 are included.
(***) Precious metal deposit accounts amounting to TL 6,172,052 are included.

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related foreign currencies.

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

Exposure to currency risk

10 percent devaluation of the TL against the following currencies as at and for the years ended 31 December 2019 and 31 December 2018 would affect consolidated profit or loss and equity (without tax effects) by the amounts shown below.

	2019		2018	
	Profit or loss	**Equity(*)**	**Profit or loss**	**Equity(*)**
US Dollar	529,474	489,702	57,150	(95,597)
Euro	69,030	69,433	32,710	30,268
Other currencies	150,696	150,697	37,964	37,955
Total, net	**749,200**	**709,832**	**127,824**	**(27,374)**

(*) Includes profit/loss effect.

10 percent revaluation of the TL against the following currencies as at and for the year ended 31 December 2019 and 31 December 2018 would affect consolidated profit or loss and equity (without tax effects) by the amounts shown below.

	2019		2018	
	Profit or loss	**Equity(*)**	**Profit or loss**	**Equity(*)**
US Dollar	(529,474)	(489,702)	(57,150)	95,597
Euro	(69,030)	(69,433)	(32,710)	(30,268)
Other currencies	(150,696)	(150,697)	(37,964)	(37,955)
Total, net	**(749,200)**	**(709,832)**	**(127,824)**	**27,374**

(*) Includes profit/loss effect.

This analysis assumes that all other variables, in particular interest rates, remain constant.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of the changes in the levels of equity indices and the value of individual stocks.

The Group is exposed to the equity share risk arising from its investments in companies, which are traded on the stock exchange. Equity shares portfolio in trading portfolio is immaterial and therefore the Group's sensitivity to the share price risks is limited.

Unless the equity share investments that are classified as Financial Assets at Fair Value Through Other Comprehensive Income are disposed of or impaired, the net profit/loss will not be affected.

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

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Group, and where it exists, appropriate valuation methodologies. However, judgment is necessary to interpret market data to determine the estimated fair value. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities recorded at amortised cost are not materially different than their recorded values except for those of loans and advances to customers and investment securities. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Classification of fair value measurement

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Fair value information of assets and liabilities is presented below.

2019	**Carrying amount**	**Fair value**
Financial assets		
Loans and advances to customers	314,418,080	314,909,338
- *Measured at fair value through profit or loss*	*2,149,813*	*2,149,813*
- *Measured at amortised cost*	*312,268,267*	*312,759,525*
Investment securities - Financial assets measured at amortised cost	35,601,976	35,777,334
Financial liabilities		
Deposits from banks	5,905,168	5,832,104
Deposits from customers	288,742,182	288,702,900
Funds borrowed	79,295,160	77,529,630
Debt securities issued	44,266,745	43,952,123
Subordinated liabilities	15,365,226	15,598,485

2018	**Carrying amount**	**Fair value**
Financial assets		
Loans and advances to customers	302,189,900	284,635,227
- *Measured at fair value through profit or loss*	*2,417,587*	*2,417,587*
- *Measured at amortised cost*	*299,772,313*	*282,217,640*
Investment securities - Financial assets measured at amortised cost	30,726,394	28,545,157
Financial liabilities		
Deposits from banks	5,547,929	5,459,412
Deposits from customers	240,575,028	240,658,178
Funds borrowed	77,779,020	76,018,404
Debt securities issued	42,362,850	40,082,495
Subordinated liabilities	12,708,575	11,671,431

Loans at fair value through profit or loss

All creditors including the Group reached an agreement on restructuring the loans granted to the company in the previous period. As previously stated, loans of the company had been planning to be restructured based on required permits and necessary approvals within a new structured entity which was already incorporated or will be incorporated in the Republic of Turkey and owned by the creditors either directly or indirectly through takeover of the shares, that have been pledged by the company as a guarantee for the credit risk. Above mentioned process was completed in 2018 and, in this context the Bank owns 11.5972% and Türkiye Sınai Kalkınma Bankası A.Ş, a group company owns 1.6172% of the newly formed structured entity.

At the Ordinary Meeting of the General Assembly of 2018 held in the current period, it has been decided to increase the share capital of the mentioned company by TL 3,982,230, all to be covered by common receivables. Whereas the Bank's and Türkiye Sınai Kalkınma Bankası A.Ş.' ownership ratio in the company has not changed, the nominal value of the shares owned increased from TL 6 to TL 461,833 and from TL 1 to TL 64,403 respectively. These amounts are recognised under Assets Held for Sale and Discontinued Operations account.

The remaining loan amount after the capital increase of the mentioned company amounting to TL 2,149,813 (31.12.2018: TL 2,417,587) is accounted under "Loans at fair value through profit or loss". The amount of impairment recognised for the total asset converted into loan and capital is TL 286,360 and is classified under the specified item.

Assets, which are converted into loan and capital, amounted TL 2,676,049 are measured at fair value in scope of "IFRS 9 Financial Instruments" and "IFRS 5 Assets Held for Sale and Discontinued Operations". The mentioned loan's fair value is determined by an independent valuation company, considering the various valuation method such as discounted cash flows, similar market multipliers, similar transaction multipliers in the same sector, market value and analyst reports. The potential changes in the fundamental estimations and assumptions in the valuation work may affect the carrying fair value of the asset. Balance of related asset is followed in financial statements as Level 3 within the scope of "IFRS 13 Fair Value Measurement" standard.

If the case that the growth rate and risk-free return rate on investment used in the discounted cash flow method in the valuation report are increased or decreased by 0.25%, provided that all other variables are constant, the total value of assets recognised in the financial statements and profit before tax will increase by about 63 million (full amount) or decrease 56 million TL (full amount).

Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value.

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

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments.

		Fair value			
2019	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Investment securities - Financial assets at fair value through profit or loss	2,666,162	710,703	1,948,363	7,096	2,666,162
Derivative financial instruments	5,043,383	--	5,043,383	--	5,043,383
Derivatives used for hedging purposes	326,435	--	326,435	--	326,435
Investment securities - Financial assets at fair value through other comprehensive income (*)	61,023,546	43,505,967	16,846,186	614,677	60,966,830
Loans - Financial assets at fair value through profit or loss	2,149,813	--		2,149,813	2,149,813
Financial liabilities measured at fair value					
Derivative financial instruments	2,715,280	--	2,715,280	--	2,715,280
Derivative liabilities held for hedge accounting	298,572	--	298,572	--	298,572

(*) As of 31 December 2019, equity shares that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 56,716 have been measured at cost.

		Fair value			
2018	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Investment securities - Financial assets at fair value through profit or loss	1,087,301	829,968	257,272	61	1,087,301
Derivative financial instruments	6,337,975	--	6,337,975	--	6,337,975
Derivatives used for hedging purposes	--	--	--	--	--
Investment securities - Financial assets at fair value through other comprehensive income (*)	47,859,826	34,115,171	13,521,803	177,500	47,814,474
Loans - Financial assets at fair value through profit or loss	2,417,587	--	--	2,417,587	2,417,587
Financial liabilities measured at fair value					
Derivative financial instruments	4,386,028	--	4,386,028	--	4,386,028
Derivative liabilities held for hedge accounting	172,538	--	172,538	--	172,538

(*) As of 31 December 2018, equity shares that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 45,352 have been measured at cost.

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

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at and for the year ended 31 December 2019 and 31 December 2018 are as follows:

	2019	**2018**
Balance at the beginning of the year	2,595,148	245,659
Purchases	476,387	106,912
Redemption or sales	(51,633)	(67,307)
Valuation difference	277,913	2,148
Transfer	(526,229)	2,307,736
Balance at the end of the year	**2,771,586**	**2,595,148**

Level 3 of the fair value hierarchy includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Properties that are recorded under "Property plant and equipment" at fair value by the Bank and consolidated companies are classified in 3rd level, whereas investment properties are clasiffied both in the 2nd and 3rd level.

The loans measured at fair value through profit and loss under Level 3 consists of loan granted to the structured entity which is disclosed above. The mentioned loan's fair value is determined by the various valuation methods. The potential changes in the fundamental estimations and assumptions in the valuation work can affect the carrying fair value of the loan.

4.6 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering as a whole processes, products and divisions. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this framework, an appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

Qualitative and quantitative methods are used in the measurement and evaluation of operational risk. In this process, information is obtained from "Risk Control Self Assessment Analysis", "Loss Event Data Analysis", "Key Risk Indicators" methods At minimum, methods prescribed by legal regulations are applied in determining the capital requirement level for the operating risk.

All the operational risks that are exposed during the operations, the risk levels of the operations and/or new products/services, together with the losses of the Bank arising from operational risks are regularly monitored by the Risk Management Division of the Bank, and if deemed necessary, the risk levels are updated and periodically reported to the Risk Committee and the Board of Directors.

The operational risk capital requirement is calculated according to "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" article number 24, using the Basic Indicator Approach once a year in parallel with domestic regulations. The amount, calculated as TL 2,850,957 as at 31 December 2019 (31 December 2018: TL 2,374,880) represents the operational risk that Bank and it's financial subsidiaries may be exposed to and the amount of minimum capital requirement to eliminate this risk. Value of operational risk amounted to TL 35,636,968 (31 December 2018: TL 29,686,001) and is calculated as 12.5 times the operational risk.

4.7 Capital management – regulatory capital

BRSA, the regulatory body of the banking industry sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets, a minimum 6% of Tier 1 capital to total risk-weighted assets and a minimum 4.5 % of common equity Tier 1 capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based both the bank-only financial statements and on the consolidated financial statements of the Bank and its financial subsidiaries.

The Group's regulatory capital consists of the sum of the following elements:

- Tier 1 capital, which includes share capital, share premium, legal reserves, retained earnings, other comprehensive income, translation reserve and non-controlling interests after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities and certain provisions for loan losses that are presently unidentified on an individual basis.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. As at 31 December 2019 and 31 December 2018 capital requirements for operational risk is calculated using the Basic Indicator Approach and capital requirements for market risk is calculated using Standard Method.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year and the previous year.

The Bank's and its financial subsidiaries' regulatory capital position on a consolidated basis as at 31 December 2019 and 31 December 2018 is as follows:

	2019	**2018**
Common equity Tier 1 capital	59,266,092	50,282,048
Tier 1 capital	60,581,141	51,413,549
Tier 2 capital	14,475,451	12,781,229
Deductions from capital	(973)	(4,958)
Total regulatory capital	**75,055,619**	**64,189,820**
Value at credit risk	414,204,411	382,645,195
Value at market risk	8,563,275	6,431,838
Operational risk	35,636,968	29,686,001
Capital ratios		
Total regulatory capital expressed as a percentage of value at credit risk, value at market risk and operational risk	16.37	15.33
Total Tier 1 capital expressed as a percentage of value at credit risk, value at market risk and operational risk	13.22	12.28
Total common equity Tier I capital expressed as a percentage of value at credit risk, value at market risk and operational risk	12.93	12.01

5. Management of insurance risk

Insurance risk is defined as coverage for exposures that exhibit a possibility of financial loss due to applying inappropriate and insufficient insurance techniques. Main reasons of insurance risk exposure result from the risk selection and inaccurate calculation of insurance coverage, policy terms and fee or inaccurate calculation of coverage portion kept within the company and coverage portion transfers to policyholders and transfer conditions.

Objective of managing risks arising from insurance contracts and policies used to minimise such risks

Potential risks that may be exposed in transactions are managed based on the requirements set out in the Group's "Risk Management Policies" issued by the approval of the Board of Directors. The main objective of risk management policies is to determine the risk measurement, assessment, and control procedures and maintain consistency between the Group's asset quality and limitations allowed by the insurance standards together with the Group's risk tolerance of the accepted risk level assumed in return for a specific consideration. In this respect, instruments that are related to risk transfer, such as; insurance risk selection, risk quality follow-up by providing accurate and complete information, effective monitoring of level of claims by using risk portfolio claim frequency, treaties, facultative reinsurance contracts and coinsurance agreements, and risk management instruments, such as; risk limitations, are used in achieving the related objective.

Risk tolerance is determined by the Group's Board of Directors by considering the Group's long-term strategies, equity resources, potential returns and economical expectations, and it is presented by risk limitations. Authorisation limitations during policy issuing include authorisations for risk acceptances granted based on geographical regions in relation to unacceptable special risks or pre-approved acceptable special risks, insurance coverage to agencies, district offices, technical offices, assistant general managers and top management in the policy issuance period and authorisations for claim payment granted to district offices, claim management administration, automobile claims administration and Claim Committee established by the managing director and assistant managing director in the claim payment period.

Whatsoever, risk acceptance is based on technical income expectations under the precautionary principle. In determining insurance coverage, policy terms and fee, these expectations are based accordingly.

It is essential that all the authorised personnel in charge of executing policy issuance transactions, which is the initial phase of insurance process, should ensure to gather or provide all the accurate and complete information to issue policies in order to obtain evidence on the acceptable risks that the Group can tolerate from the related insurance transactions. On the other hand, decision to be made on risk acceptance will be possible by transferring the coverage to the reinsurers and/or coinsurers and considering the terms of the insurance policy.

In order to avoid destructive losses over company's financial structure, company transfers the exceeding portion of risks assumed over the Group's risk tolerance and equity resources through treaties, facultative reinsurance contracts and coinsurance agreements to reinsurance and coinsurance companies. Insurance coverage and policy terms of reinsurance are determined by assessing the nature of each insurance branch.

Reinsurance risk is defined as a possibility of financial loss due to inappropriate and insufficient application of reinsurance techniques in the activities of taking insurance contract responsibility partially or completely.

Reinsurance risk is measured by quantitative methods and kept under pre-specified limits based on the "Limit over Acceptable Reinsurance Risk and Maximum Custody Share Limit" updated and approved annually by the Board of Directors.

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

Reinsurance risk is monitored regularly according to criteria described in the "Limit over Acceptable Reinsurance Risk and Maximum Custody Share Limit" policy and results are analysed by the Risk Committee and reported to the Board of Directors. Action plan is determined by the Board of Directors in the case of having exposure higher than acceptable level of risk and probability.

Sensitivity to insurance and reinsurance risk

Insurance risks do not generally have significant unrecoverable losses in the course of ordinary transactions, except for risks associated with earthquake and other catastrophic risks. Therefore, there is a high sensitivity to earthquake and catastrophic risks.

The case of potential claims' arising from earthquake and other catastrophic risks exceeding the maximum limit of the excess of loss agreements, such risks are treated as the primary insurance risks and are managed based on the precautionary principle. Maximum limit of excess of loss agreements is determined based on the worst case scenario on the possibility of an earthquake that Istanbul might be exposed to in terms of its severity and any potential losses incurred in accordance with the generally accepted international earthquake models.

Insurance risk concentrations

The Group's gross and net insurance risk concentrations (after reinsurance) in terms of insurance branches are summarised as below:

	2019		
Branches(*)	**Gross total claims liability**	**Reinsurance share of total claims liability**	**Net total claims liability**
Life insurance	2,235,601	(3,803)	2,231,798
Motor vehicles liability (MTPL)	2,757,990	(630,933)	2,127,057
General liability	1,194,449	(379,887)	814,562
Fire and natural disasters	547,396	(230,577)	316,819
Motor vehicles	164,116	(894)	163,222
Health	127,543	(7,477)	120,066
General losses	242,195	(129,902)	112,293
Water vehicles	99,681	(54,894)	44,787
Accident	50,168	(14,250)	35,918
Transportation	63,250	(34,849)	28,401
Air crafts liability	35,593	(16,138)	19,455
Air crafts	37,612	(22,723)	14,889
Financial losses	48,673	(43,167)	5,506
Breach of trust	3,675	(357)	3,318
Credit	4,731	(2,610)	2,121
Legal protection	675	--	675
Total	**7,613,348**	**(1,572,461)**	**6,040,887**

(*)Total claims liability includes outstanding claims reserve, life mathematical provisions and incurred but not reported claims.

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

	2018		
Branches(*)	**Gross total claims liability**	**Reinsurance share of total claims liability**	**Net total claims liability**
Motor vehicles liability (MTPL)	2,189,031	(335,576)	1,853,455
Life insurance	1,743,375	(3,094)	1,740,281
General liability	761,906	(203,521)	558,385
Fire and natural disasters	586,744	(334,011)	252,733
Motor vehicles	151,783	(1,056)	150,727
Health	105,720	(4,606)	101,114
General losses	248,785	(154,231)	94,554
Accident	52,349	(13,017)	39,332
Water vehicles	60,885	(25,804)	35,081
Transportation	45,846	(23,003)	22,843
Air crafts liability	29,704	(14,053)	15,651
Air crafts	112,371	(98,661)	13,710
Financial losses	83,513	(76,495)	7,018
Credit	4,207	(2,236)	1,971
Breach of trust	766	(37)	729
Legal protection	366	--	366
Total	**6,177,351**	**(1,289,401)**	**4,887,950**

(*)Total claims liability includes outstanding claims reserve, life mathematical provisions and incurred but not reported claims.

Re-insurance risk concentrations

The Group's gross and net re-insurance risk concentrations (after reinsurance) in terms of insurance branches are summarised as below:

	2019		
Branches(*)	**Gross total claims liability**	**Reinsurance share of total claims liability**	**Net total claims liability**
Fire and natural disasters	652,217	(70,090)	582,127
General losses	351,608	(4,602)	347,006
General responsibility	178,084	(2,757)	175,327
Motor vehicles liability (MTPL)	112,282	52	112,334
Water vehicles	57,618	(3,766)	53,852
Transportation	35,990	(3,619)	32,371
Accident	17,412	(955)	16,457
Motor vehicles	12,329	(206)	12,123
Financial losses	9,433	(63)	9,370
Life insurance	13,231	(4,496)	8,735
Health	7,857	--	7,857
Breach of trust	6,522	(43)	6,479
Air crafts	877	--	877
Credit	185	--	185
Water vehicles liability	2	--	2
Legal protection	1	--	1
Total	**1,455,648**	**(90,545)**	**1,365,103**

(*) Total claims liability includes outstanding claims reserve, life mathematical provisions and incurred but not reported claims.

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

	2018		
Branches(*)	**Gross total claims liability**	**Reinsurance share of total claims liability**	**Net total claims liability**
Fire and natural disasters	480,727	(30,895)	449,832
General losses	318,674	(4,407)	314,267
General responsibility	165,562	(1,956)	163,606
Motor vehicles liability (MTPL)	115,859	(24)	115,835
Water vehicles	43,804	(3,480)	40,324
Transportation	29,665	(2,434)	27,231
Accident	20,823	(781)	20,042
Life insurance	12,579	(3,924)	8,655
Motor vehicles	8,114	(972)	7,142
Breach of trust	5,859	(43)	5,816
Financial losses	2,963	(27)	2,936
Health	1,671	--	1,671
Air crafts	814	--	814
Water vehicles liability	664	--	664
Credit	316	--	316
Legal protection	6	(1)	5
Total	**1,208,100**	**(48,944)**	**1,159,156**

(*) Total claims liability includes outstanding claims reserve, life mathematical provisions and incurred but not reported claims.

6. Business combinations

There is no business combination within the scope of "IFRS 3 Business Combinations" between 1 January and 31 December 2019.

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

7. Cash and cash equivalents

At 31 December 2019 and 31 December 2018, cash on hand comprised the following:

	2019	2018
Cash on hand	5,520,466	4,857,908
- Turkish lira	*2,091,924*	*2,256,894*
- Foreign currency	*3,428,542*	*2,601,014*
Other liquid assets	8,247	2,609
Total cash on hand	**5,528,713**	**4,860,517**

There is no blockage or restriction on the cash and cash equivalents presented above as at 31 December 2019 and 31 December 2018.

	2019	2018
Cash on hand	5,528,713	4,860,517
Loans and advances to banks (with original maturity of less than 3 months)	17,268,944	10,774,748
Unrestricted balances with the central banks	23,964,113	18,221,671
Money market placements	1,166,865	753,146
Cash and cash equivalents in the statement of cash flows	**47,928,635**	**34,610,082**

8. Balances with central bank

	2019	2018
Unrestricted balances with central bank		
Demand deposits – Turkish Lira	3,171,506	4,170,937
Demand deposits – Foreign currency	20,792,607	14,050,734
	23,964,113	**18,221,671**
Restricted balances with central bank		
Restricted time deposit – Foreign currency	--	--
Reserve deposits – Foreign currency(*)	24,411,580	17,768,784
	24,411,580	**17,768,784**
Expected credit loss	(6,016)	(4,558)
Total balances with central bank	**48,369,677**	**35,985,897**

(*) Reserve deposits in terms of precious metals amounting to TL 8,271,399 is included (31 December 2018: TL 6,147,767).

As per the Communiqué no. 2013/15 "Reserve Deposits" of the Central Bank of the Republic of Turkey ("CBRT"), banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. The reserve deposit rates vary according to their maturity compositions; the reserve deposit rates are realised between 1% - 7% for TL deposits and other liabilities, between 15% - 19% for FC deposits and between 5% - 21% for other FC liabilities. Reserves are calculated and set aside every two weeks on Friday for 14-day periods. In accordance with the related communiqué, CBRT pays interests to TL and USD reserves.

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

9. Loans and advances to banks

	2019	2018
Domestic banks		
Demand deposits – Turkish Lira	69,054	32,024
Demand deposits – Foreign currency	762,887	144,513
Time deposits – Turkish Lira	1,154,833	1,663,146
Time deposits – Foreign currency	5,948,780	3,934,365
	7,935,554	**5,774,048**
Foreign banks		
Demand deposits – Turkish Lira	151,248	284,412
Demand deposits – Foreign currency	6,945,167	3,735,800
Time deposits – Turkish Lira	69,746	--
Time deposits – Foreign currency	5,802,232	5,101,180
	12,968,393	**9,121,392**
Money market placements (*)	1,179,448	758,188
Expected credit loss	(56,174)	(34,184)
Total loans and advances to banks	**22,027,221**	**15,619,444**

(*) Money market placements include interest income accrual amounting to TL 254 (31 December 2018: TL 26).

For cash flow purposes, the bank balances having original maturity of less than 3 months and not restricted were classified as cash and cash equivalents. These balances amounting to TL 17,268,944 as at 31 December 2019 (31 December 2018: TL 10,774,748).

As at 31 December 2019, the balances with banks include TL 1,284,254 restricted account regarding the covenants of the borrowings and insurance activities (31 December 2018: TL 1,354,524).

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

10. Securities portfolio

At 31 December 2019 and 31 December 2018, financial assets at fair value through profit or loss comprised the following items:

	2019	2018
Treasury bills and government bonds	272,749	440,449
Debt securities issued by corporations	277,227	216,826
Mutual funds	1,949,010	309,561
Equity shares	156,052	115,703
Other	11,124	4,762
Total of financial assets at fair value through profit or loss	**2,666,162**	**1,087,301**

Financial assets at fair value through profit and loss, which are subject to repurchase agreements as at 31 December 2019 are amounting to TL 91,705 (31 December 2018: TL 202,590).

TL 35,524 of the financial assets at fair value through profit and loss comprise marketable securities of Anadolu Hayat, reserved in the name of life insurance policy holders (31 December 2018: TL 28,880).

TL 1,061,158 of the mutual funds consists of Quasar İstanbul Konut Gayrimenkul and Quasar İstanbul Ticari Gayrimenkul which were founded by İş Portföy Yönetimi A.Ş.

At 31 December 2019 and 31 December 2018, financial assets at fair value through other comprehensive income comprised the following:

	2019	2018
Treasury bills and government bonds	57,167,827	45,636,170
Debt securities issued by corporations	2,052,288	1,511,828
Mutual funds	1,235,662	319,024
Equity shares	601,448	426,483
Allowance for impairment on securities	(33,679)	(33,679)
Total of financial assets at fair value through other comprehensive income	**61,023,546**	**47,859,826**

Financial assets at fair value through other comprehensive income which are subject to repurchase agreements are amounting to TL 2,423,549 as at 31 December 2019 (31 December 2018: TL 6,653,057).

TL 1,674,215 of the financial assets at fair value through other comprehensive income comprise marketable securities of Anadolu Hayat, reserved in the name of life insurance policy holders. (31 December 2018: TL 1,396,131).

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

At 31 December 2019 and 31 December 2018, the equity shares in financial assets at fair value through other comprehensive income are detailed as follows:

	2019	2018
VISA Inc.	363,807	227,267
İMKB Takas ve Saklama Bankası A.Ş.	96,741	6,620
Borsa İstanbul A.Ş.	18,766	18,765
Other	122,134	103,831
Allowance for impairment	(9,110)	(9,110)
Total equity shares in financial assets at fair value through other comprehensive income	**592,338**	**417,373**

At 31 December 2019 and 31 December 2018, the details of allowance for impairment in financial assets at fair value through other comprehensive income is as follows:

	2019	2018
Debt securities by corporations	24,569	24,569
Terme Metal San. ve Tic. A.Ş.	3,250	3,250
Bakırsan Bakır Sanayi Mamülleri Tic. A.Ş.	2,107	2,107
Other	3,753	3,753
Allowance for impairment on securities	**33,679**	**33,679**

At 31 December 2019 and 31 December 2018, financial assets measured at amortised cost comprised the following items:

	2019	2018
Treasury bills and government bonds	32,736,600	28,917,160
Bonds issued by financial institutions	2,914,182	1,862,951
Expected credit loss (-)	(48,806)	(53,717)
Total of financial assets measured at amortised cost	**35,601,976**	**30,726,394**

There are financial assets measured at amortised cost subject to a repurchase agreement amounting to TL 465,212 as at 31 December 2019 (31 December 2018: TL 4,380,775)

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

The following table summarise securities that were deposited as collaterals with respect to various transactions for 31 December 2019 and 31 December 2018:

	2019	**2018**
Guarantee given for fund borrowed	3,506,536	2,957,804
Guarantee given for Export Finance Int. Loan ("EFIL")	3,416,532	4,976,089
Central Bank of Turkey	1,449,204	1,202,420
Turkish Treasury	1,709,738	1,425,010
Central Banks of other countries	41,754	445,114
Stock Exchange (Borsa İstanbul A.Ş.)	--	88,897
Clearing House	858,733	245,418
International Foreign Banks	1,433,256	830,533
Interbank money market	10,314	--
Security firm	1,168	131,392
Securities deposited as collaterals	**12,427,235**	**12,302,677**

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

11. Loans and advances to customers

	2019	2018
Consumer loans	49,154,589	45,235,515
Credit cards	19,897,023	17,136,826
Financial institutions	9,726,272	7,601,518
Corporate loans	227,385,386	224,062,631
Finance lease receivables	5,110,064	5,445,059
Factoring receivables	3,144,746	2,708,351
Total performing loans and advances to customers	**314,418,080**	**302,189,900**
Non-performing loans and advances to customers		
Non-performing loans	20,504,279	12,194,630
Non-performing leasing receivables	370,909	266,392
Non-performing factoring receivables	227,541	31,016
Total non-performing loans and advances to customers	**21,102,729**	**12,492,038**
Expected credit loss		
Expected credit loss on loans (-)		
Stage 1 & 2 (-)	(5,706,792)	(5,130,461)
Stage 3 (-)	(10,920,768)	(6,900,407)
Expected credit loss on leasing receivables (-)		
Stage 1 & 2 (-)	(69,402)	(25,983)
Stage 3 (-)	(190,553)	(136,608)
Expected credit loss on factoring receivables (-)		
Stage 1 & 2 (-)	(28,160)	(12,287)
Stage 3 (-)	(180,388)	(23,826)
Total expected credit loss (-)	**(17,096,063)**	**(12,229,572)**
Loans and advances to customers, net	**318,424,746**	**302,452,366**

The movement of non-performing loans for the year ended 31 December 2019 and 31 December 2018 are as follows:

Stage 3	**2019**	**2018**
Balances at 1 January 2019	**12,194,630**	**5,532,457**
Additions	13,397,896	13,862,811
Collections	(3,631,415)	(6,215,121)
Write offs	(891,926)	(1,102,546)
NPL sale	(668,405)	--
Effects of movements in exchange rates	103,499	117,029
Balance as at 31 December	**20,504,279**	**12,194,630**

The part of the receivables constitute non-performing loans amounting to TL 246,108 are transferred to Gelecek Varlık Yönetimi A.Ş. in May 2019 by collecting TL 23,600 of sales amount in cash and part of the receivables constitute non-performing loans amounting to TL 422,297 are transferred to Hayat Varlık Yönetimi A.Ş., Birikim Varlık Yönetim A.Ş. and Doğru Varlık Yönetimi A.Ş. in September 2019 by collecting TL 29,700 of sales amount in cash. Remaining balance regarding non-performance loans receivables transferred to Efes Varlık Yönetim A.Ş, subsidiary of the Group, is classified as "write-offs".

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

The movement in the expected credit loss on loans for the year ended 31 December 2019 and 31 December 2018 are as follows:

2019	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January 2019	**2,033,222**	**3,097,239**	**6,900,407**
Provision for the year	1,218,592	3,163,846	5,444,564
Recoveries and reversals	(1,377,524)	(1,566,402)	(971,656)
Write offs	--	--	(1,451,475)
Transfer to stage 1	119,588	(113,179)	(6,409)
Transfer to stage 2	(337,319)	341,882	(4,563)
Transfer to stage 3	(45,547)	(925,267)	970,814
Effects of movements in exchange rates	45,138	52,523	39,086
Balance as at 31 December	**1,656,150**	**4,050,642**	**10,920,768**

2018	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January 2018	**2,214,293**	**1,368,344**	**4,095,554**
Provision for the year	633,297	2,867,604	2,827,806
Recoveries and reversals	(771,300)	(149,719)	(401,494)
Write offs	--	(1,513)	(1,080,975)
Transfer to stage 1	58,522	(50,381)	(8,141)
Transfer to stage 2	(325,239)	330,048	(4,809)
Transfer to stage 3	(84,310)	(1,350,804)	1,435,114
Effects of movements in exchange rates	307,959	83,660	37,352
Balance as at 31 December	**2,033,222**	**3,097,239**	**6,900,407**

Regarding the previous year, the Bank has reclassified the loan amounting to TL 3,102,293 from Stage 2 to Stage 3 and wrote-off TL 945,297, which was granted to a company performing in telecommunication sector, within the framework of syndication together with the participation of other financial institutions. Besides the Bank, Türkiye Sınai Kalkınma Bankası A.Ş., one of the creditors and Group companies, also has reclassified the part of loan amounting to TL 146,730 from Stage 2 to Stage 3 and wrote it off.

As at 31 December 2019 and 31 December 2018 , details of finance lease receivables are as follows:

2019	**Short term**	**Long term**	**Total**
Finance lease receivables	2,433,582	3,409,831	5,843,413
Unearned interest income (-)	(362,416)	(370,933)	(733,349)
Expected credit loss – Stage 1	(1,641)	(19,285)	(20,926)
Expected credit loss – Stage 2	(4,141)	(44,335)	(48,476)
Total performing finance lease receivables	**2,065,384**	**2,975,278**	**5,040,662**
Non-performing leasing receivables	346,671	24,238	370,909
Expected credit loss – Stage 3	(181,811)	(8,742)	(190,553)
Finance lease receivables, net	**2,230,244**	**2,990,774**	**5,221,018**

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

2018	**Short term**	**Long term**	**Total**
Finance lease receivables	2,532,454	3,560,323	6,092,777
Unearned interest income (-)	(369,536)	(391,493)	(761,029)
Ongoing leasing contracts	--	50,086	50,086
Advances given for lease transactions	--	52,262	52,262
Other receivables from finance leases	10,963	--	10,963
Expected credit loss – Stage 1	(2,943)	(7,724)	(10,667)
Expected credit loss – Stage 2	(3,861)	(11,455)	(15,316)
Total performing finance lease receivables	**2,167,077**	**3,251,999**	**5,419,076**
Non-performing leasing receivables	250,803	15,589	266,392
Expected credit loss – Stage 3	(128,614)	(7,994)	(136,608)
Finance lease receivables, net	**2,289,266**	**3,259,594**	**5,548,860**

The movement of non-performing leasing receivables for the year ended 31 December 2019 and 31 December 2018 are as follows:

Stage 3	**2019**	**2018**
Balances at 1 January 2019	**266,392**	**224,315**
Additions	193,350	183,089
Collections	(88,833)	(104,292)
Write offs	--	(36,720)
Debt sale	--	--
Effects of movements in exchange rates	--	--
Balance as at 31 December	**370,909**	**266,392**

The movement in the expected credit losses on finance lease receivables for the year ended 31 December 2019 and 31 December 2018 are as follows:

2019	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January 2019	**10,667**	**15,316**	**136,608**
Provision for the year	10,933	38,781	66,987
Recoveries and reversals	(505)	--	(18,083)
Write offs	--	--	(749)
Transfer to stage 1	1,592	(1,421)	(171)
Transfer to stage 2	(171)	1,592	(1,421)
Transfer to stage 3	(1,590)	(5,792)	7,382
Effects of movements in exchange rates			
Balance as at 31 December	**20,926**	**48,476**	**190,553**

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

2018	Stage 1	Stage 2	Stage 3
Balances at 1 January 2018	**9,146**	**11,017**	**127,855**
Provision for the year	3,347	6,487	44,703
Recoveries and reversals	(1,826)	(2,188)	(988)
Write offs	--	--	(34,962)
Transfer to stage 1	--	--	--
Transfer to stage 2	--	--	--
Transfer to stage 3	--	--	--
Effects of movements in exchange rates	--	--	--
Balance as at 31 December	**10,667**	**15,316**	**136,608**

As at 31 December 2019 and 31 December 2018, finance lease receivables according to their maturities are as follows:

2019	2020(*)	2021	2022	2023	2024	2025 +	Total
Finance lease receivables (Gross)	2,526,998	1,696,941	951,487	497,577	207,933	73,431	5,954,367
Unearned interest income (-)	(362,417)	(206,634)	(95,105)	(54,386)	(11,631)	(3,176)	(733,349)
Finance lease receivables (Net)	**2,164,581**	**1,490,307**	**856,382**	**443,191**	**196,302**	**70,255**	**5,221,018**

(*) Includes non-performing lease receivables.

2018	2019(*)	2020	2021	2022	2023	2024 +	Total
Finance lease receivables (Gross) (*)	2,639,625	1,708,357	981,141	486,110	269,329	122,979	6,207,541
Unearned interest income (-)	(369,537)	(207,551)	(104,399)	(40,871)	(32,997)	(5,674)	(761,029)
Finance lease receivables (Net)	**2,270,088**	**1,500,806**	**876,742**	**445,239**	**236,332**	**117,305**	**5,446,512**

(*) Includes non-performing lease receivables.

As at 31 December 2019 and 31 December 2018, details of factoring receivables are as follows:

	2019	2018
Factoring receivables	3,158,682	2,717,267
Unearned interest income	(13,936)	(8,916)
Expected credit loss on Stage 1 factoring receivables (-)	(23,486)	(9,412)
Expected credit loss on Stage 2 factoring receivables (-)	(4,674)	(2,875)
Total performing factoring receivables	**3,116,586**	**2,696,064**
Non-performing factoring receivables	227,541	31,016
Expected credit loss on Stage 3 factoring receivables (-)	(180,388)	(23,826)
Factoring receivables, net	**3,163,739**	**2,703,254**

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

Except for its non-performing receivables for which allowance is provided, the Group has factoring receivables of TL 16 that are overdue less than 90 days (31 December 2018: TL 20,395). As at the reporting date, the Group does not have restructured factoring receivables (31 December 2018: None).

The movement of non-performing factoring receivables for the year ended 31 December 2019 and 31 December 2018 are as follows:

Stage 3	**2019**	**2018**
Balances at 1 January 2019	**31,016**	**42,099**
Additions	221,212	24,305
Collections	(12,768)	(8,293)
Write offs	(11,919)	(27,095)
Debt sale	--	--
Effects of movements in exchange rates	--	--
Balance as at 31 December	**227,541**	**31,016**

The movement in the expected credit loss on factoring receivables for the year ended 31 December 2019 and 31 December 2018 are as follows:

2019	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January 2019	**9,412**	**2,875**	**23,826**
Provision for the year	26,991	94,945	80,352
Recoveries and reversals	(10,719)	(1,158)	(6,951)
Write offs	--	--	(11,025)
Transfer to stage 1	687	(687)	--
Transfer to stage 2	(2,885)	2,885	--
Transfer to stage 3	--	(94,186)	94,186
Effects of movements in exchange rates	--	--	--
Balance as at 31 December	**23,486**	**4,674**	**180,388**

2018	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January 2018	**40,349**	**205**	**39,288**
Provision for the year	8,942	2,477	23,784
Recoveries and reversals	(38,234)	(1,392)	(12,211)
Write offs	--	--	(27,095)
Transfer to stage 1	--	--	--
Transfer to stage 2	(1,645)	1,645	--
Transfer to stage 3	--	(60)	60
Effects of movements in exchange rates	--	--	--
Balance as at 31 December	**9,412**	**2,875**	**23,826**

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

12. Expected Credit Loss

The Group allocates provision for expected credit loss on financial assets and loans measured at amortised cost, financial assets measured at fair value through other comprehensive income and non-cash loans based on IFRS 9.

At 31 December 2019 and 31 December 2018, the details of expected credit loss which on-balance sheet financial assets and non-cash loans in scope of expected credit loss requirements is as follows:

2019	**Carrying amount**			**Expected credit loss**		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Cash and cash equivalents (*)	53,904,406	--	--	6,016	--	--
Financial assets (**)	121,423,885	--	--	104,980	--	--
Loans	271,680,817	40,587,450	21,102,729	1,700,562	4,103,792	11,291,709
Trade receivables	5,847,878	--	141,121	--	--	141,121
Other assets	10,722,777	--	--	54,400	--	--
Non-cash loans	156,909,161	4,566,226	1,025,680	168,284	91,200	538,085

(*) Consists of cash and cash equivalents and balances with central bank.
(**) Consists of loans and advances to banks and securities.

2018	**Carrying amount**			**Expected credit loss**		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Cash and cash equivalents (*)	40,850,972	--	--	4,558	--	--
Financial assets (**)	95,380,866	--	--	87,901	--	--
Loans	263,949,132	35,823,181	12,492,038	2,053,301	3,115,430	7,060,841
Trade receivables	4,377,708	--	150,130	--	--	150,130
Other assets	11,615,896	--	--	67,622	--	--
Non-cash loans	145,034,309	3,983,561	548,072	164,527	62,513	366,677

(*) Consists of cash and cash equivalents and balances with central bank.
(**) Consists of loans and advances to banks and securities.

The loan amount, that has been granted to a structured entity, with a share pledge collateral and classified under loans measured at fair value through profit or loss within the scope of IFRS 9 is not included in the table above.

As of 31 December 2019 and 31 December 2018, the breakdown of individually and collectively assessed expected credit losses for loans, factoring and financial lease receivables and non-cash loans is as follows:

2019	**Stage 1**		**Stage 2**		**Stage 3**	
	Individual	**Collective**	**Individual**	**Collective**	**Individual**	**Collective**
Cash loans	293,052	1,407,510	2,624,697	1,479,095	2,564,004	8,727,705
Non-cash loans	20,359	147,925	39,060	52,140	115,051	423,034
Total	**313,411**	**1,555,435**	**2,663,757**	**1,531,235**	**2,679,055**	**9,150,739**

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

2018	Stage 1		Stage 2		Stage 3	
	Individual	Collective	Individual	Collective	Individual	Collective
Cash loans	272,958	1,780,343	1,374,069	1,741,361	641,301	6,419,540
Non-cash loans	8,838	155,689	28,803	33,710	1,054	365,623
Total	**281,796**	**1,936,032**	**1,402,872**	**1,775,071**	**642,355**	**6,785,163**

13. Trade receivables

As at 31 December 2019 and 31 December 2018, trade receivables comprised the following:

	2019	2018
Trade receivables in manufacturing companies	3,523,617	3,141,699
Customer receivables of brokerage firms	1,734,639	834,330
Other trade receivables	589,622	401,679
Stage 3 receivables	141,121	150,130
Total trade receivables	**5,988,999**	**4,527,838**
Expected credit losses (-)	(141,121)	(150,130)
Trade receivables, net	**5,847,878**	**4,377,708**

The movement in the expected credit losses in respect of trade receivables for the year ended 31 December is as follows:

	2019	2018
Balance as at 1 January	**150,130**	**127,351**
Impairment loss recognised	28,240	23,884
Changes in accounting policies	--	38,659
Acquisition of subsidiary	--	--
Effects of exchange rates in movements	5,377	9,406
Collection during the year	(42,626)	(49,170)
Balance as at 31 December	**141,121**	**150,130**

Terms for the Group's manufacturing companies' domestic sales based on the main product lines are as follows:

A portion of domestic sales of basic glasses is made on cash. The average term for basic glasses sales is 90 days (31 December 2018: 90 days). A portion of export sales is made on cash and rest of export sales' term is 45 days. 3% overdue interest rate is applied for the payments made after the due date (31 December 2018: 4%).The average sales term for auto glass and processed glass items is 45 days (31 December 2018: 45 days).

The average sales term for automatic glass items is 75 days (31 December 2018: 75 days) and a monthly overdue interest rate of 1.75% is applied for the payments made after the due date. (31 December 2018: 2.75%).

Glass packaging products have been sold on cash terms since 1 November 2009. For customers not paying in cash, a monthly interest of 1.75% for payment terms up to 121 days, and a monthly interest rate of 2.625% is applied for payments exceeding 121 days. The average sales term for domestic sales of glass packaging products is 65 days. (31 December 2018: 62 days). The average sales term for foreign sales of glass packaging products is 76 days (31 December 2018: 68 days).

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

Inter-group sales terms of soda products are 60 days (31 December 2018: 60 days). The applied average term of domestic external sales related to soda products is 63 days (31 December 2018: 60 days). Monthly 1.08 % overdue interest for TRY is applied for the payments made after due dates (31 December 2018: 2.50 %). Monthly 0.33% overdue interest rate for USD is applied for the payments made after due dates (31 December 2018: 0.75%).

The average sales term for domestic sales of chromium products in foreign currency is 2 days (31 December 2018: 2 days). A monthly overdue interest rate of 1.08% for TRY (31 December 2018: 2.50 %). and 0.33% for USD (31 December 2018: 0.75%) is applied for the payments made after the due date. Average sales term for export sales is 68 days (31 December 2018: 66 days).

The Group has recognised provision for doubtful receivables. Allowance for doubtful receivables is determined by referring to past default experience. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted to the reporting date.

The Group has no significant concentration risk since the Group has been working with the spread over a large number of counterparties and customers. Accordingly, the management believes that no further credit provision is required in excess of the allowance for doubtful receivables.

14. Inventories

As at 31 December 2019 and 31 December 2018, inventories comprised the following:

	2019	2018
Finished goods	2,127,011	1,553,016
Trading properties	223,565	172,157
Raw materials	1,135,849	941,974
Trading goods	267,843	251,410
Work in progress	463,598	511,702
Others	225,683	188,170
Total inventories	**4,443,549**	**3,618,429**
Allowance for impairment (-)	(128,242)	(109,472)
Inventories, net	**4,315,307**	**3,508,957**

The movement in the allowance for impairment in respect of inventories for the year ended 31 December is as follows:

	2019	2018
Balance as at 1 January	**109,472**	**55,146**
Impairment loss recognised	28,695	68,427
Effects of exchange rates in movements	3,876	3,330
Provision released	(13,801)	(17,431)
Balance as at 31 December	**128,242**	**109,472**

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

15. Insurance receivables and insurance contract liabilities

Insurance receivables

At 31 December 2019 and 31 December 2018, insurance receivables comprised the following:

	2019	2018
Receivables from reinsurance and insurance companies	3,129,284	2,593,805
Receivables from agencies, brokers and intermediaries	1,227,805	1,113,379
Doubtful receivables from insurance operations	389,525	322,246
Cash deposited to insurance and reinsurance companies	293,628	188,736
Receivables from policyholders	59,002	58,541
Salvage and subrogation receivables	61,848	60,020
Capital advances given to pension mutual funds	37,983	29,088
Premium receivables from insurance activities	198,628	143,082
Total insurance receivables	**5,397,703**	**4,508,897**
Allowance for non-performing insurance receivables (-)	(389,525)	(322,246)
Insurance receivables, net	**5,008,178**	**4,186,651**

The details of guarantees for the Group's insurance receivables are presented below:

	2019	2018
Letters of guarantees	132,437	124,080
Mortgage notes	84,685	80,597
Other guarantees	87,373	85,507
	304,495	**290,184**

The movement in the allowance for impairment in respect of insurance receivables for the year ended 31 December is as follows:

	2019	2018
Balance at 1 January	**322,246**	**244,317**
Impairment loss recognised	64,357	71,428
Collections during the year	(253)	(597)
Effects of exchange rates in movements	3,175	7,098
Balance as at 31 December	**389,525**	**322,246**

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

Insurance contract liabilities

Insurance contract liabilities at 31 December 2019 and 31 December 2018 are detailed in the tables below:

2019	Gross	Ceded	Net
Provision for outstanding claims	6,833,356	(1,659,203)	5,174,153
Reserve for unearned premiums	4,026,071	(1,031,435)	2,994,636
Life mathematical provisions	2,235,640	(3,803)	2,231,837
Reserve for unexpired risks	92,187	(18,477)	73,710
Provision for bonus and discounts	757	(366)	391
Total insurance contract liabilities	**13,188,011**	**(2,713,284)**	**10,474,727**

2018	Gross	Ceded	Net
Provision for outstanding claims	5,641,999	(1,335,249)	4,306,750
Reserve for unearned premiums	3,383,196	(879,732)	2,503,464
Life mathematical provisions	1,743,449	(3,094)	1,740,355
Reserve for unexpired risks	105,371	(41,857)	63,514
Provision for bonus and discounts	1,343	(933)	410
Total insurance contract liabilities	**10,875,358**	**(2,260,865)**	**8,614,493**

The movement of the reserve for unearned premiums for the year ended 31 December is as follows:

2019	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the year	3,383,196	(879,732)	2,503,464
Premiums written during the year	9,495,757	(2,311,138)	7,184,619
Premiums earned during the year	(8,852,882)	2,159,435	(6,693,447)
Reserve for unearned premiums at the end of the year	**4,026,071**	**(1,031,435)**	**2,994,636**

2018	Gross	Ceded	Net
Reserve for unearned premiums at the beginning of the year	2,857,892	(678,788)	2,179,104
Premiums written during the year	7,661,729	(2,065,848)	5,595,881
Premiums earned during the year	(7,136,425)	1,864,904	(5,271,521)
Reserve for unearned premiums at the end of the year	**3,383,196**	**(879,732)**	**2,503,464**

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

The movement of the provision for outstanding claims for the year ended 31 December is as follows:

2019	**Gross**	**Ceded**	**Net**
Provision for outstanding claims at the beginning of the year	5,641,999	(1,335,249)	4,306,750
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the year	6,599,963	(1,356,530)	5,243,433
Claims paid during the year	(5,408,606)	1,032,576	(4,376,030)
Provision for outstanding claims at the end of the year	**6,833,356**	**(1,659,203)**	**5,174,153**

2018	**Gross**	**Ceded**	**Net**
Provision for outstanding claims at the beginning of the year	4,314,580	(691,961)	3,622,619
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the year	6,057,108	(1,406,711)	4,650,397
Claims paid during the year	(4,729,689)	763,423	(3,966,266)
Provision for outstanding claims at the end of the year	**5,641,999**	**(1,335,249)**	**4,306,750**

16. Equity accounted investees

Carrying amount of equity accounted investees is summarised below:

	2019	**2018**
Solvay Şişecam	436,762	413,441
Arap Türk	220,768	181,741
Saint Gobain Glass Egypt S.A.E.	204,230	172,701
Rudnik Krecnjaka Vijenac D.O.O.	46,254	40,753
Pacific Soda LLC.	23,332	--
KKB	20,362	18,577
Radore	9,616	10,277
İş Altınhas	5,143	8,263
BKM	9,329	6,457
Other	5,253	7,408
Equity accounted investees	**981,049**	**859,618**

The Group's share of income in its equity accounted investees for the year ended 31 December 2019 is TL 129,527 (31 December 2018: TL 152,122 income).

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

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group is as follows:

2019	Ownership (%)	Total assets	Total liabilities	Profit / (loss) for the year
Arap Türk	20.58	5,249,643	4,176,696	164,509
Solvay Şişecam	25.00	2,132,775	341,015	356,683
Saint Gobain Glass Egypt SAE	30.00	944,531	263,763	73,178
Tatil Budur	20.00	394,200	440,070	(27,280)
Kredi Kayıt Bürosu	9.09	348,965	124,957	26,579
Bankalararası Kart Merkezi	9.98	147,868	54,400	28,503
Pacific Soda LLC.	50.00	343,206	296,541	(32,010)
Rudnik Krecnjaka Vijenac D.O.O.	50.00	97,018	4,511	2,464
İş Altınhas	50.00	32,682	22,396	(6,239)
Radore	25.50	36,452	37,380	(2,767)
Other		37,871	28,373	4,109

2018	Ownership (%)	Total assets	Total liabilities	Profit / (loss) for the year
Arap Türk	20.58	6,329,604	5,446,333	103,243
Solvay Şişecam	25.00	2,019,999	366,233	362,831
Saint Gobain Glass Egypt SAE	30.00	776,914	201,246	122,499
Tatil Budur	20.00	385,228	411,041	(17,674)
Kredi Kayıt Bürosu	9.09	310,511	106,136	34,818
Bankalararası Kart Merkezi	9.98	102,191	37,494	15,603
Rudnik Krecnjaka Vijenac D.O.O.	50.00	88,494	6,987	2,691
İş Altınhas	50.00	36,208	19,683	(5,569)
Radore	25.50	28,198	26,041	(4,560)
Other		39,413	43,170	1,764

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

17. Property, plant and equipment

Property, plant and equipment are carried at cost except for land and buildings which have been revalued in December 2018. Appraisal reports on these properties have been prepared by the authorised real estate appraisal companies. Summary of movements in property, plant and equipment are as follows:

	Right of Use Assets	Land & Buildings	Land improvements	Vehicles	Construction in progress	Other fixed assets	Total
Prior period							
Cost	--	11,661,680	592,006	149,034	1,518,983	17,971,172	31,892,875
Accumulated depreciation	--	(96,473)	(339,560)	(104,006)	--	(11,686,564)	(12,226,603)
Net carrying amounts at 31 December 2018	**--**	**11,565,207**	**252,446**	**45,028**	**1,518,983**	**6,284,608**	**19,666,272**
Current period							
Net carrying amounts at 1 January 2019	--	11,565,207	252,446	45,028	1,518,983	6,284,608	19,666,272
Change during the period (Net) (*)	1,730,159	287,635	63,902	32,765	(20,554)	2,398,207	4,492,114
Depreciation charge for the year	(537,591)	(178,626)	(35,438)	(16,641)	--	(1,352,099)	(2,120,395)
Currency translation differences (**)	(494)	430,806	26,366	4,115	59,953	613,536	1,134,282
Cost at period end	1,963,499	12,386,650	712,688	187,600	1,558,382	20,759,659	37,568,478
Accumulated depreciation at period end	(771,425)	(281,628)	(405,412)	(122,333)	--	(12,815,407)	(14,396,205)
Net carrying amounts at 31 December 2019	**1,192,074**	**12,105,022**	**307,276**	**65,267**	**1,558,382**	**7,944,252**	**23,172,273**

(*) The balance includes the following: Additions, disposals, reclassifications, transfers and revaluations.
(**) The balance includes the foreign exchange differences in cost and accumulated depreciation items.

18. Intangible assets and goodwill

The movement of rights, softwares and other intangibles, excluding goodwill, are as follows:

	Total
Prior period end:	
Cost	3,643,678
Accumulated amortisation	(2,327,434)
Net carrying amounts at 31 December 2018	**1,316,244**
Current period end:	
Net carrying amount at 1 January 2019	**1,316,244**
Change during the period (Net) (*)	632,072
Amortisation charge for the year	(419,772)
Currency translation differences (**)	16,069
Cost at period end	4,184,481
Accumulated amortisation at period end	(2,639,868)
Net carrying amounts at 31 December 2019	**1,544,613**

(*) The balance includes the following: Additions, disposals, reclassifications, transfers.
(**) The balance includes the foreign exchange differences in cost and accumulated amortisation items.

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

Goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the investment is usually determined based on independent valuation report. For the valuation, estimates of discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the investments are taken into account.

An analysis of goodwill as at 31 December 2019 and 31 December 2018 is as follows:

	2019	2018
Balance as at 1 January	**272,479**	**130,954**
Change during the period (Net)	103,558	141,525
Balance as at 31 December	**376,037**	**272,479**

19. Investment properties

	2019	2018
Balance at 1 January	**4,281,513**	**3,884,152**
Change during the period (Net)	(261,007)	188,851
Change in fair value	294,236	208,510
Balance at 31 December	**4,314,742**	**4,281,513**

Appraisal reports on these properties have been prepared by the authorised real estate appraisal companies. There are no pledges on these properties.

20. Non-current assets held for sale

	2019	2018
Balance at 1 January	**283,339**	**187,903**
Transfers	1,008,197	170,100
Additions	114,439	23,269
Disposals (-)	(195,463)	(96,209)
Depreciation expense	(119)	(80)
Translation difference	8,022	2,307
Allowance for impairment (-)	(139)	(3,951)
Balance as at 31 December	**1,218,276**	**283,339**

Investment in a structured entity whose details are given in Note 4 is classified within the scope of "IFRS 5 Assets Held for Sale and Discontinued Operations" since prior period. As stated in the same footnote, the Bank's and Türkiye Sınai Kalkınma Bankası A.Ş.'s shares' nominal values in company share increased from TL 6 to TL 461,833 and TL 1 to TL 64,403 respectively and this amount is located in the line of transfers. On the other hand, an international investment bank is authorised as a sales advisor in the current period for the sale of the relevant company or the shares owned by the company and in this context, necessary works related to the sale and negotiations with potential investors will be initiated.

The other assets classified as "non current assets held for sale" primarily comprise real estates acquired by the Group against its impaired receivables. The related real estates subject to sale are announced on the Group's website. Announcements are made by using newspaper ads and similar media. Impairment losses provided on real estates held for sale were determined based on the appraisals of independent appraisal firms. The change balance in the current period includes TL 330,000 of real estate acquired due to a receivable classified as non current assets held for sale during the period while being monitored under other assets.

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

21. Other assets

At 31 December 2019 and 31 December 2018, other assets comprised the following:

	2019	2018
Credit card receivables	764,535	1,324,785
Deposits and guarantees given	2,077,705	2,126,535
Receivables from clearing house	3,296,260	3,542,846
Prepaid expenses	631,998	712,070
Deferred acquisition costs for insurance contracts	585,231	486,116
Precious metal (Gold)	172,206	74,359
Advances given	212,132	309,372
VAT deductible and carried forward	368,218	352,665
Receivables from banking services	73,481	64,536
Advances given for tangible and intangible assets	329,386	176,589
Other	2,211,625	2,446,023
Expected credit loss (-)	(54,400)	(67,622)
Total	**10,668,377**	**11,548,274**

Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalised as deferred acquisition cost. For the year ended 31 December 2019 and 31 December 2018, movement of deferred acquisition cost is as follows:

	2019	2018
Deferred acquisition cost at the beginning of the year	486,116	408,766
Commissions accrued during the year	1,579,863	1,228,002
Commissions expensed during the year	(1,480,748)	(1,150,652)
Deferred acquisition cost at the end of the year	**585,231**	**486,116**

22. Deposits

At 31 December 2019 and 31 December 2018, deposits from banks comprised the following:

	2019	2018
Payable on demand	531,001	652,517
Term deposits	5,374,167	4,895,412
Deposits from banks	**5,905,168**	**5,547,929**

As at 31 December 2019, deposits from banks include TL accounts amounting to TL 2,334,120 (31 December 2018: TL 2,126,073) and foreign currency accounts amounting to TL 3,571,048 (31 December 2018: TL 3,421,856) in total.

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

At 31 December 2019 and 31 December 2018, deposits from customers comprised the following:

	2019			2018		
	Demand	**Time**	**Total**	**Demand**	**Time**	**Total**
Foreign currency deposits	46,400,965	105,995,696	152,396,661	33,972,256	91,377,082	125,349,338
Saving deposits	17,391,846	64,170,862	81,562,708	12,472,415	58,309,944	70,782,359
Commercial deposits	11,775,942	25,164,562	36,940,504	8,278,002	18,379,198	26,657,200
Public institutions and other deposits	9,841,915	8,000,394	17,842,309	6,196,452	11,589,679	17,786,131
Deposits from customers	**85,410,668**	**203,331,514**	**288,742,182**	**60,919,125**	**179,655,903**	**240,575,028**

23. Obligations under repurchase agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The securities sold under repurchase agreements and corresponding obligations are as follows:

	2019	2018
Obligations under repurchase agreements	2,863,882	9,489,236
	2,863,882	**9,489,236**

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 31 December 2019, the maturities of the obligations varied from two days to six months (31 December 2018: three days to five years). The underlying securities for obligations under repurchase agreements are given in Note 10.

24. Funds borrowed

As at 31 December 2019 and 31 December 2018, funds borrowed comprised the following:

	2019			2018		
	Short term	**Long term**	**Total**	**Short term**	**Long term**	**Total**
Funds borrowed from domestic banks and institutions	4,102,372	7,516,705	11,619,077	5,894,431	5,197,984	11,092,415
Funds borrowed from foreign banks and institutions	5,276,609	62,399,474	67,676,083	4,064,772	62,621,833	66,686,605
Funds borrowed	**9,378,981**	**69,916,179**	**79,295,160**	**9,959,203**	**67,819,817**	**77,779,020**

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

Borrowings from foreign banks and institutions include syndicated loans, securitisation transactions and other borrowings. Details of syndicated loans and securitisation transactions as at 31 December 2019 are as follows:

Remaining principal	Maturity
EURO 24 Million (1)	August 2024
EURO 36 Million (1)	August 2024
EURO 30 Million (2)	November 2025
USD 180 Million (3)	November 2028
USD 27 Million (4)	February 2022
USD 15 Million (4)	February 2030
USD 5 Million (4)	February 2020
USD 17 Million (4)	February 2020
USD 6 Million (4)	February 2020
USD 13 Million (4)	February 2020
USD 159 Million (5)	August 2025
USD 37 Million (6)	November 2021
USD 48 Million (6)	November 2028
USD 46 Million (6)	November 2021
USD 31 Million (6)	November 2021
USD 42 Million (7)	November 2026
USD 111 Million (7)	November 2029
USD 55 Million (8)	November 2024
USD 75 Million (8)	November 2022
USD 60 Million (8)	November 2022
USD 25 Million (8)	November 2022
USD 50 Million (8)	November 2022
EURO 75 Million (8)	November 2022
EURO 50 Million (8)	November 2022
USD 105 Million (8)	February 2027
USD 20 Million (8)	February 2027
USD 68 Million (9)	July 2020
EURO 98 Million (9)	July 2020
USD 324 Million (10)	June 2020
EURO 645 Million (10)	June 2020
EURO 75 Million (11)	April 2020
USD 215 Million (12)	November 2020
EURO 545 Million (12)	November 2020

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

Details of syndicated loans and securitisation transactions as at 31 December 2018 are as follows:

Remaining principal	Maturity
EURO 29 Million (1)	August 2024
EURO 43 Million (1)	August 2024
EURO 35 Million (2)	November 2025
USD 200 Million (3)	November 2028
USD 10 Million (3)	November 2019
USD 39 Million (4)	February 2022
USD 15 Million (4)	February 2030
USD 23 Million (4)	February 2020
USD 83 Million (4)	February 2020
USD 31 Million (4)	February 2020
USD 63 Million (4)	February 2020
USD 187 Million (5)	August 2025
USD 55 Million (6)	November 2021
USD 54 Million (6)	November 2028
USD 69 Million (6)	November 2021
USD 46 Million (6)	November 2021
USD 48 Million (7)	November 2026
USD 111 Million (7)	November 2029
USD 55 Million (8)	November 2024
USD 75 Million (8)	November 2022
USD 60 Million (8)	November 2022
USD 25 Million (8)	November 2022
USD 50 Million (8)	November 2022
EURO 75 Million (8)	November 2022
EURO 50 Million (8)	November 2022
USD 105 Million (8)	February 2027
USD 20 Million (8)	February 2027
USD 25 Million (9)	July 2019
EURO 169 Million (9)	July 2019
USD 5 Million (11)	March 2019
EURO 96 Million (11)	March 2019
USD 447 Million (13)	May 2019
EURO 868 Million (13)	May 2019
USD 276 Million (14)	October 2019
EURO 605 Million (14)	October 2019

(1) In June 2012, the Bank utilised the DPR program for the additional issuance of USD 225 million and EURO 125 million by TIB Diversified Payment Rights Finance Company (EURO 50 million Series 2012-A Notes, EURO 75 million Series 2012-B Notes, USD 175 million Series 2012-C Notes, USD 50 million Series 2012-D Notes). Series 2012-C and Series 2012-D Notes have been fully repaid in August 2017.

(2) In December 2013, the Bank utilised the DPR program for the additional issuance of EURO 185 million and USD 50 million by TIB Diversified Payment Rights Finance Company (USD 50 million Series 2013-A Notes, EURO 60 million Series 2013-B Notes, EURO 75 million Series 2013-C Notes, EURO 50 million Series 2013-D Notes). Series 2013-A Notes, Series 2013-B Notes and Series 2013-C Notes have been fully repaid in November 2018.

(3) In December 2014, the Bank utilised the DPR program for the additional issuance of USD 250 million by TIB Diversified Payment Rights Finance Company (USD 220 million Series 2014-B Notes and USD 30 million Series 2014-C Notes). Series 2014-C Notes have been fully repaid in November 2019.

(4) In March 2015, the Bank utilised the DPR program for the additional issuance of USD 555 million by TIB Diversified Payment Rights Finance Company (USD 60 million Series 2015-A Notes, USD 15 million Series 2015-B Notes, USD 55 million Series 2015-C Notes, USD 200 million Series 2015-D Notes, USD 75 million Series 2015-E Notes, USD 150 million Series 2015-F Notes).

(5) In October 2015, the Bank utilised the DPR program for the additional issuance of USD 221 million Series 2015-G Notes by TIB Diversified Payment Rights Finance Company.

(6) In October 2016, the Bank utilised the DPR program for the additional issuance of USD 240 million by TIB Diversified Payment Rights Finance Company (USD 60 million Series 2016-A Notes, USD 55 million Series 2016-B Notes, USD 75 million Series 2016-C Notes, USD 50 million Series 2016-D Notes).

(7) In December 2016, the Bank utilised the DPR program for the additional issuance of USD 159 million by TIB Diversified Payment Rights Finance Company (USD 48 million Series 2016-E Notes, USD 111 million Series 2016-F Notes).

(8) In December 2017, the Bank utilised the DPR program for the additional issuance of EURO 125 million and USD 390 million by TIB Diversified Payment Rights Finance Company (USD 55 million Series 2017-A Notes, USD 75 million Series 2017-B Notes, USD 60 million Series 2017-C Notes, USD 25 million Series 2017-D Notes, USD 50 million Series 2017-E Notes, EURO 75 million Series 2017-F Notes, EURO 50 million Series 2017-G Notes, USD 105 million Series 2017-H Notes, USD 20 million Series 2017-I Notes).

(9) In July 2019, TSKB has signed a syndicated loan agreement with one-year maturity in two tranches amounting to USD 68 million and EURO 98 million, under the coordination of Commerzbank Aktiengesellschaft. The syndicated loan with one-year maturity in two tranches amounting to USD 25 million and EURO 169 million has been fully repaid in July 2019.

(10) In May 2019, the Bank signed a syndicated loan agreement with one-year maturity in two tranches amounting to USD 324 million and EURO 645 million.

(11) In March 2018, İşbank AG signed a syndicated loan agreement with one-year maturity in two tranches amounting to EURO 96 million and USD 5 million. The loan has been fully repaid in March 2019. In April 2019, İşbank AG signed a syndicated loan agreement with one-year maturity amounting to EURO 75 million.

(12) In November 2019, the Bank signed a syndicated loan agreement with one-year maturity in two tranches amounting to USD 215 million and EURO 545 million.

(13) In May 2018, the Bank signed a syndicated loan agreement with one-year maturity in two tranches amounting to USD 447 million and EURO 868 million. The loan has been fully repaid in May 2019.

(14) In October 2018, the Bank signed a syndicated loan agreement with one-year maturity in two tranches amounting to USD 276 million and EURO 605 million. The loan has been fully repaid in October 2019.

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

25. Debt securities issued

Currency	Maturity	Interest rate (%)	2019	2018
TL	January 2020 – March 2024	3.48 – 24.09	9,114,209	9,638,528
USD	April 2020 – December 2029	4.25 – 8.20	35,089,465	32,647,583
Other currencies	September 2022	5.43	63,071	76,739
			44,266,745	**42,362,850**

As of 31 December 2019, debt securities with fixed interest rate is amounting to TL 42,590,134 and variable interest rates is amounting to TL 1,676,611 (31 December 2018: TL 41,990,128 fixed interest rate, TL 372,722 variable interest rate).

The Group do not have any defaults of principal, interest or other breaches with respect to its debt securities during the years ended 31 December 2019 and 31 December 2018.

The movement of debt securities issued and subordinated liabilities between 1 January 2019 – 31 December 2019 is as follows;

	Beginning Balance	Proceeds	Repayment	Effects of exchange rates in movements	Accruals (Net)	Ending Balance
Debt securities issued and subordinated liabilities	55,071,425	34,222,398	(36,099,746)	5,856,910	580,984	59,631,971

The movement of debt securities issued and subordinated liabilities between 1 January 2018 – 31 December 2018 is as follows;

	Beginning Balance	Proceeds	Repayment	Effects of exchange rates in movements	Accruals (Net)	Ending Balance
Debt securities issued and subordinated liabilities	43,673,113	20,725,818	(24,137,825)	14,041,754	768,565	55,071,425

26. Payables to money market

	2019	2018
Interbank money market transactions	--	--
Istanbul Stock Exchange money market transactions	166,453	2,491,351
	166,453	**2,491,351**

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

As at 31 December 2019 and 31 December 2018, interest rates and maturities of Istanbul Stock Exchange money market transactions are as follows:

2019				
Description	**Currency type**	**Interest rate (%)**	**Maturity**	**Amount**
Principal	TL	10.80-11.20	2 January – 17 January 2020	166,343
Interest accruals	TL			110
				166,453

2018				
Description	**Currency type**	**Interest rate (%)**	**Maturity**	**Amount**
Principal	TL	23.25-25.00	1 January – 30 January 2019	2,464,723
Interest accruals	TL			26,628
				2,491,351

27. Trade payables

At 31 December 2019 and 31 December 2018, trade payables comprised the following:

	2019	**2018**
Customer payables of brokerage firms	2,527,258	1,139,167
Trade payables in manufacturing companies	2,087,090	1,652,673
Other trade payables	1,729,345	1,291,895
	6,343,693	**4,083,735**

28. Taxation

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax in Turkey is 22% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 31 December 2019 (31 December 2018: 22%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the period.

With the changes made in Corporate Tax Law in Turkey, published in the Official Gazette dated 5 December 2017 and numbered 30261, corporate tax rate is increased to 22% from 20% to be applied to the profits of taxation periods 2018, 2019 and 2020.

According to the Corporate Tax Law, 50% of the capital gains arising from the sale of tangible assets and 75% of the capital gains arising from the sale of equity investments, owned for at least two years, are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale.

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

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2019 is 22% (31 December 2018: 22%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

There is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from 24 April 2003. This rate was changed to 15% in accordance with Article 15 of the Law No. 5520 commencing 23 July 2006.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions No.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette No.27130 dated 3 February 2009, certain duty rates included in the articles No.15 and 30 of the new Corporate Tax Law No.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the nonresident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, is 15%. In applying the withholding tax rates on dividend payments to the nonresident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

Transfer pricing

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

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

Tax applications for foreign branches and foreign operations

The principal tax rates (%) of the tax authorities in each country used to calculate deferred taxes as of 31 December 2019 is as follows:

Country	Tax rate
Bosnia Herzegovina	10.0
Bulgaria	10.0
China (*)	25.0
Egypt	22.5
Georgia	15.0
Germany (**)	31.4
India	39.9
Italy (**)	27.9
Kosovo	10.0
Netherlands (***)	20.0-25.0
Northern Cyprus	10.0
Romania	16.0
Russia (****)	2.0-20.0
The Republic of Iraq	15.0
Ukraine	18.0
United Kingdom	19.0

(*) 15% of tax rate for the profit up to Chinese Yuan 300,000 and 25% of tax rate for the exceeding portion are applied in China.
(**) Progressive tax rate is applied.
(***) 20% of tax rate for the profit up to EURO 200,000 and 25% of tax rate for the exceeding portion are applied in Netherlands.
(****) The general tax rate in Russia is 20%, of which 18% is allocated to the "Regional Budget" and 2% to the "General Budget". Since our subsidiaries in Russia's Tatarstan region have been located in Special Economic Zone, they pay 2% tax for the profits from their main operations and pay 20% tax for the profits from the non-core operating income.

Deferred taxes

Taxes on income for the period also comprise deferred taxes. Deferred income tax is provided, using the balance sheet method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability and asset are recognised when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Currently enacted or substantively enacted tax rates are used to determine deferred taxes on income. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

According to a change in Corporate Tax Law in Turkey, that is published in the Official Gazette dated 5 December 2017 and numbered 30261, corporate tax rate is increased to 22% from 20% to be applied to the profits of taxation periods 2018, 2019 and 2020. Aforementioned change is considered in deferred tax calculations as of 31 December 2017.

Individual consolidated subsidiaries offset deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority. Subsidiaries that have deferred tax assets position are not netted off against subsidiaries that have deferred tax liabilities position and disclosed separately.

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At 31 December 2019 and 31 December 2018, tax items in the statement of financial position are as follows:

	2019	2018
Corporate tax provision	2,722,194	2,249,001
Corporate tax paid in advance	(1,769,552)	(1,258,223)
Corporate tax liability and prepaid tax(*)	**952,642**	**990,778**
Other taxes and dues payable	**819,762**	**785,374**
Deferred tax assets	(3,075,980)	(2,352,038)
Deferred tax liabilities	287,030	328,773
Deferred tax assets, net	**(2,788,950)**	**(2,023,265)**

(*) Corporate tax provision amount of some subsidiaries for the year ended 31 December 2019 is less than the prepaid tax payments made within the period. Therefore, TL 90,429 is not offset and is recorded as current tax assets after deducting the corporate tax provision of those subsidiaries as at 31 December 2019 (31 December 2018: TL 205,884). Net tax amount is presented in the above table.

Deferred tax assets and liabilities are attributable to the following:

	2019	2018
Provision for the pension funds	(779,329)	(641,514)
Investment incentives	(1,147,775)	(802,931)
Reserve for employee severance indemnity	(367,024)	(310,946)
Carried forward tax losses	(286,622)	(245,363)
Valuation difference on financial assets and liabilities	178,655	303,171
Property, plant and equipment	1,155,601	991,777
Other(*)	(1,542,456)	(1,317,459)
Deferred tax assets, net	**(2,788,950)**	**(2,023,265)**

(*) Includes deferred tax effect of insurance technical provisions, provisions for credit card bonuses, expected credit losses for Stage 1 and Stage 2 loans and other provisions.

Movement of net deferred tax assets can be presented as follows:

	2019	2018
Deferred tax assets, net at 1 January	**(2,023,265)**	**(950,854)**
Deferred income tax recognised in other comprehensive income	680,189	(289,044)
Deferred tax recognised in the income statement	(1,439,709)	(563,346)
Effects of exchange rates in movements	(6,165)	(34,368)
Other(*)	--	(185,653)
Deferred tax assets, net at the end of the year	**(2,788,950)**	**(2,023,265)**

(*) Prior year consists of the opening effect of IFRS 9 and IFRS 15, and the deferred tax amount which are both recognised under retained earnings.

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An analysis of the Group's income tax expense for the year ended 31 December is as follows:

	2019	2018
Current tax expense		
Current period	(2,771,004)	(2,180,543)
Deferred tax expense		
Origination and reversal of temporary differences	1,439,709	563,346
Total income tax expense	**(1,331,295)**	**(1,617,197)**

Reconciliation of effective tax rate

The reported taxation charge for the year ended 31 December is different than the amounts computed by applying statutory tax rate to profit before tax as shown in the following reconciliation:

	2019		2018	
	Amount	**%**	**Amount**	**%**
Profit before income tax	**9,573,349**		**11,032,334**	
Income tax using the Bank's domestic tax rate	2,106,136	22.00	2,427,113	22.00
Effect of tax rates in foreign jurisdictions	(21,955)	(0.23)	(32,953)	(0.30)
Share of profit/(loss) of equity accounted investees	(29,115)	(0.30)	(33,467)	(0.30)
Investment incentives	(4,462)	(0.05)	(4,471)	(0.04)
Dividend and other tax exempt income	(652,996)	(6.82)	(411,054)	(3.73)
Non-deductible expenses	255,189	2.67	203,649	1.85
Other (*)	(321,502)	(3.36)	(531,620)	(4.82)
	1,331,295	**13.91**	**1,617,197**	**14.66**

(*) The effect of current year unutilised tax losses and consolidation adjustments are also included.

Expiration schedule of carry forward tax losses

As at 31 December 2019, the Group has deductable tax losses amounting TL 2,407,502 (31 December 2018: TL 1,878,319). The Group has recognised deferred tax assets on tax losses amounting TL 1,679,639 because it is probable that future taxable profit will be available in accordance with the Group's projections (31 December 2018: TL 1,360,938). Expiration schedule of carry forward tax losses which are considered in deferred tax calculation is as follows:

	2019	2018
Up to 1 year	39,366	13,448
Up to 2 years	52,780	43,668
Up to 3 years	57,198	62,816
Up to 4 years	99,968	63,477
5 years and above	1,430,327	1,177,529
	1,679,639	**1,360,938**

The Group has not recognised deferred tax assets on tax losses amounting TL 727,863 because it is not probable that future taxable profit will be available against which the Group companies can utilise the benefits thereafter (31 December 2018: TL 517,381).

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29. Provisions

At 31 December 2019 and 31 December 2018, provisions comprised primarily provision for general banking risks, provision for non-cash loans, credit card bonus provision and other provisions. The movement of the provisions during the year ended 31 December is as follows:

	Provision for general banking risks(*)	Credit card bonus provision	Other provisions	Total
Balance as at 1 January 2019	**1,055,000**	**85,672**	**127,673**	**1,268,345**
Provision set during the year	--	9,270	916,643	925,913
Payments and reversals	(75,000)	(5,880)	(921,007)	(1,001,887)
Balance as at 31 December 2019	**980,000**	**89,062**	**123,309**	**1,192,371**

(*) Provision for general banking risks amounting to TL 980,000 is provided by the Group management considering the potential circumstances which may arise from any changes in the economy or market conditions. (31 December 2018: TL 1,055,000)

	Provision for general banking risks(*)	Credit card bonus provision	Other provisions	Total
Balance as at 1 January 2018	**1,595,000**	**78,420**	**105,163**	**1,778,583**
Provision set during the year	--	9,586	65,983	75,569
Payments and reversals	(540,000)	(2,334)	(43,473)	(585,807)
Balance as at 31 December 2018	**1,055,000**	**85,672**	**127,673**	**1,268,345**

(*) Provision for general banking risks amounting to TL 1,055,000 is provided by the Group management considering the potential circumstances which may arise from any changes in the economy or market conditions.

Expected credit loss from non-cash loans

Movement in expected credit losses from non-cash loans as of 31 December 2019 and 31 December 2018 are as follows:

2019	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 1 January 2019	164,527	62,513	366,677
Provision for the year	109,123	68,734	305,607
Recoveries and reversals	(112,525)	(59,042)	(120,033)
Write offs	--	--	--
Transfer to stage 1	9,318	(3,531)	(5,787)
Transfer to stage 2	(5,314)	40,530	(35,216)
Transfer to stage 3	(371)	(20,263)	20,634
Effects of movements in exchange rates	3,526	2,259	6,203
Balance as at 31 December	**168,284**	**91,200**	**538,085**

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2018	Stage 1	Stage 2	Stage 3
Balances at 1 January 2018	177,543	12,005	422,643
Provision for the year	69,520	60,597	106,282
Recoveries and reversals	(93,190)	(13,512)	(181,199)
Write offs	--	--	--
Transfer to stage 1	8,367	(3,397)	(4,970)
Transfer to stage 2	(5,373)	5,772	(399)
Transfer to stage 3	(559)	(982)	1,541
Effects of movements in exchange rates	8,219	2,030	22,779
Balance as at 31 December	**164,527**	**62,513**	**366,677**

Developments about tax audit

As announced by material event disclosures dated 31 December 2012 and 19 December 2013, an inspection was conducted by Tax Audit Committee Inspectors regarding payments (conrtibutions) made by the Bank to "Türkiye İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı" (İşbank Supplementary Pension Fund), which is founded according to Turkish Commercial Law and Civil Law, for fulfilling Bank's obligations within the framework of the Foundation Share and relevant legislations.

As a result of this investigation, tax audit reports were prepared for 2007, 2008, 2009, 2010 and 2011 claiming that the aforementioned contributions should be taxed in terms of wage base. According to these reports, the total amount of tax and penalties notified to Bank was TL 74,353 for 2007 and 2008; and as of reporting date TL 151,899 for 2009, 2010 and 2011. Bank applied to tax courts to cancel these tax notifications; some of the court decisions were in favour of the Bank and some others were against the Bank.

In this context, for the finalised decisions of Regional Administrative Courts related to 2007 and 2008 against the Bank, the Bank applied to the Constitutional Court. According to decisions made by the Constitutional Court up to the reporting date, there is no predictable legal basis for taxing the Bank's contributions to the İşbank Supplementary Pension Fund by considering them as wage and it was accepted that property right of the Bank has been violated according to the 35th article of Constitution. The Court decided that the amount of tax, penalties and default interest which was paid by the Bank should be paid back to the Bank as for compensation with its legal interest.

Besides the Bank, inspections were conducted by Tax Audit Committee Inspectors for the period 2007-2011 regarding the contributions of TSKB, Milli Reasürans and Anadolu Sigorta to their supplementary pension funds which are founded according to Turkish Commercial Law and Civil Law. As a result of the issued reports, aforementioned companies were notified a total of TL 33 million (full amount) tax penalty notices. The companies assessed their practice regarding the contributions and concluded that their practice is in conformity with the legislation and the tax penalty notices lack legal basis. They filed lawsuits at various tax courts against the tax penalties. A number of cases concluded in favour of these companies, another part of lawsuits concluded against them.

According to the decisions of the Constitutional Court mentioned above, it is expected that the cases related to the periods 2007, 2008, 2009, 2010 and 2011 will conclude in favour of the Group. In this context, the provisions amounting to TL 217,265 which had been allocated for the mentioned periods, have been reversed in 2015. Within the scope of the legal process, lawsuits amounted TL 61,060 regarding 20 periods in 2012 and 2013 resulted against the Group and related legal procedures are in progress. In addition, at a case file, which was one of the lawsuits regarding the repayment of income tax stoppage and stamp tax that has been paid by reservation statement beginning from December 2013, where court decision was rendered in favour of the Bank, has been reversed by the majority of the votes of the Assembly after it was submitted to the General Assembly of Tax Courts. Regarding the mentioned issue, the legal process is ongoing.

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Group companies are liaising with the Bank, and considering developments on the issue the Group has recognised a provision expense of TL 74,017 as at 31 December 2019 (31 December 2018: TL 63,337).

Other provisions

In 1993, Dışbank A.Ş. shares which were owned by the Bank were sold to Lapis Holding A.Ş. In 2008, by arguing that USD 52,6 million of the upfront payment which was paid within the context of the sale agreement by the buyer had been provided from the funds of the insolvent TYT Bank A.Ş., payment of USD 52,6 million together with its interest to the Savings Deposit Insurance Fund (SDIF) was claimed.

The administrative actions initiated by the SDIF in 2008 were revoked by Council of State Administrative Law Chambers 13th upon the application of the Bank. The decisions which were in favour of the Bank were reversed by Plenary Session of the Law Chamber upon the appeal of the SDIF. Council of State Administrative Law Chambers 13th decided to reject the applications of the Bank in January 2016 due to their obligation to obey the decisions of reversal.

After the aforementioned juridical decisions, despite the legal process still in progress, the collection procedures were carried out within the context of Law No. 6183 and TL 298,466 including the default interest was collected from the Bank by the SDIF in 2016. As a result, a provision has been set for the whole amount in previous years.

As a part of the legal process, individual application to the Constitutional Court of Republic of Turkey has been made by the Bank was not concluded positively. On the other hand the legal process is continued within the framework of the ongoing lawsuits and other available legal options.

30. Employee benefits

	2019	2018
Provision for defined benefit plans	3,547,243	2,920,042
Reserve for employee severance indemnity and vacation pay liability	1,908,583	1,587,925
Total employee benefits	**5,455,826**	**4,507,967**

Provision for defined benefit plans

Employees of the Bank are members of "Türkiye İş Bankası A.Ş. Mensupları Emekli Sandığı Vakfı", employees of Milli Reasürans are members of "Milli Reasürans Türk Anonim Şirketi Emekli ve Sağlık Sandığı Vakfı", employees of TSKB are member of "Türkiye Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı" and employees of Anadolu Sigorta are members of "Anadolu Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı Vakfı" (collectively "the Funds"), which are established in accordance with the temporary Article 20 of the Social Security Act No. 506 and separate legal entities and foundations recognised by an official decree, providing all qualified employees with pension and post-retirement benefits.

As per the provisional Article No. 23 of the Banking Law No. 5411, pension funds which were established within the framework of Social Security Institution Law, should be transferred to the Social Security Institution within three years after the publication of the prevailing Banking Law enacted on 1 November 2005. Methods and principles related to the transfer have been determined as per the Cabinet decision No. 2006/11345 published on 30 November 2006. However, the said article of the Banking Law has been vetoed by the President on 2 November 2005 and the execution of the article was ceased based on the Supreme Court's decision numbered E.2005/39, K.2007/33 and the decision has been cancelled from the date of publication.

Following annulment of the temporary Article 23 of the Banking Law, the new law "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees" was published in the Official Gazette dated 8 May 2008 and came into force.

The new law decrees that the contributors of the Bank pension funds, the ones who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the Social Security Institution and will be subject to this law within 3 years after the release date of the related article, without any need for further operation. Three-year transfer period can be prolonged for maximum 2 years by the Cabinet decision.

However related transfer period has been prolonged for 2 years by the Cabinet decision dated 14 March 2011, which was published on the Official Gazette dated 9 April 2011 and numbered 27900. In addition, by the Law "Emendating Social Security and General Health Insurance Act", which was published on the Official Gazette dated 8 March 2012 and numbered 28227, limit for prolonging the transfer period is raised to 4 years. The transfer period has been prolonged for one more year by the Cabinet decision dated 8 April 2013, which was published on the Official Gazette dated 3 May 2013 and numbered 28636, and one more year by the Cabinet decision dated 24 February 2014, which was published on the Official Gazette dated 30 April 2014 and numbered 28987. The Cabinet has been lastly authorised to determine the transfer date in accordance with the amendment of the 20th provisional article of Law No. 5510 which is implemented by the Law No. 6645 "Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws" published in the Official Gazette dated 23 April 2015 and numbered 29335.

On the other hand, the application made on 19 June 2008 by the Republican People's Party to the Constitutional Court for the annulment and motion for stay of some articles, including the first paragraph of the provisional article 20 of the Law, which covers provisions on transfers, was rejected in accordance with the decision taken at the meeting of the aforementioned court on 30 March 2011.

The above mentioned law also states that;

- Through a commission constituted by the attendance of one representative separately from the Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organisation, Banking Regulation and Supervision Agency, Savings Deposit Insurance Fund, one from each pension fund, and one representative from the organisation employing pension fund contributors, related to the transferred persons, the present value of the liabilities of the pension fund as of the transfer date will be calculated by considering their income and expenses in terms of the lines of insurance within the context of the related Law, and technical interest rate of 9.8% will be used in the actuarial calculation of the present value.

- Following the transfer of pension fund contributors, the ones who receive salaries and/or income from these funds and their rightful beneficiaries to the Social Security Institution, uncovered social rights and payments of these persons' that were included in the fund indenture they were subject to before the transfer, will be continued to be covered by the pension funds and the employers of pension fund contributors.

In line with the new law, the Bank had an actuarial valuation as of 31 December 2019. A provision equal to the actuarial and technical deficit measured according to aforementioned report is reflected in the year-end financial statements. Besides the Bank, Anadolu Sigorta, Milli Reasürans and TSKB also had actuarial audits as of 31 December 2019 for their pension funds. A provision for the actuarial and technical deficit amount according to actuarial valuation for Milli Reasürans is also present in the consolidated financial statements. According to actuarial reports of Anadolu Anonim Sigorta and TSKB, an actuarial or technical deficit amount necessiating a provision is not identified.

As stated above, actuarial audits have been made by registered actuaries to determine the amount to be paid to the Social Security Institution by the Group in accordance with the new law as of 31 December 2019. The CSO 1980 mortality table, technical deficit interest rate of 9.8% and premium rate of 34.5%

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are taken into account for the calculation of the technical deficit. Those assumptions are specified in the law and are the same in comparative period.

At 31 December 2019 and 31 December 2018, technical deficit from pension funds comprised the following:

2019	**The Bank**	**Milli Reasürans**	**Total**
Net present value of total liabilities other than health	(11,295,446)	(154,413)	(11,449,859)
Net present value of insurance premiums	4,695,781	36,399	4,732,180
Net present value of total liabilities other than health	**(6,599,665)**	**(118,014)**	**(6,717,679)**
Net present value of health liabilities	(1,347,791)	(18,531)	(1,366,322)
Net present value of health premiums	3,404,441	19,954	3,424,395
Net present value of health liabilities	**2,056,650**	**1,423**	**2,058,073**
Pension fund assets	**1,048,989**	**63,374**	**1,112,363**
Amount of actuarial and technical deficit	**(3,494,026)**	**(53,217)**	**(3,547,243)**

2018	**The Bank**	**Milli Reasürans**	**Total**
Net present value of total liabilities other than health	(9,329,382)	(133,664)	(9,463,046)
Net present value of insurance premiums	3,952,714	29,451	3,982,165
Net present value of total liabilities other than health	**(5,376,668)**	**(104,213)**	**(5,480,881)**
Net present value of health liabilities	(1,211,775)	(16,741)	(1,228,516)
Net present value of health premiums	2,865,717	16,332	2,882,049
Net present value of health liabilities	**1,653,942**	**(409)**	**1,653,533**
Pension fund assets	**847,421**	**59,885**	**907,306**
Amount of actuarial and technical deficit	**(2,875,305)**	**(44,737)**	**(2,920,042)**

Plan assets as at 31 December 2019 and 31 December 2018 comprised the following items:

2019	**The Bank**	**Milli Reasürans**	**Total**
Cash and cash equivalents	301,165	51,229	352,394
Securities portfolio	696,788	10,649	707,437
Other	51,036	1,496	52,532
Total plan assets	**1,048,989**	**63,374**	**1,112,363**

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2018	The Bank	Milli Reasürans	Total
Cash and cash equivalents	538,880	48,841	587,721
Securities portfolio	207,462	9,683	217,145
Other	101,079	1,361	102,440
Total plan assets	**847,421**	**59,885**	**907,306**

After the transfer of benefit plans, the currently paid health benefits will be determined within the framework of the Social Security Institution legislation and other regulations.

Türkiye İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik Yardımlaşma Sandığı Vakfı, which has been founded by the Bank employees in accordance with the provisions of the Commercial Code and Civil Code, is a supplementary pension fund established to provide additional social aid and retirement benefits to its beneficiaries. The same is valid for the supplementary pension funds of TSKB, Milli Reasürans and Anadolu Sigorta, which are among the other financial institutions of the Group.

Reserve for employee severance indemnity

Under the Turkish Labour Law, the Bank and its Turkish subsidiaries are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires.

Such payments are calculated on the basis of 30 days' pay (subject to pay ceiling announced by the Government) per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay liability is computed and reflected in the consolidated financial statements on a current basis. The pay ceiling announced by the Government as of 31 December 2019 is TL 6,379.86 (full amount) (TL 5,434.42 as at 31 December 2018).

The following actuarial assumptions are used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying consolidated financial statements as at 31 December 2019, the provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. The provision at 31 December 2019 has been calculated assuming an annual inflation rate between 7.20% – 8.20% and a discount rate between 11.70% – 14.69% resulting in a real discount rate between 4.20% - 6.00% (31 December 2018: annual inflation rate between 9.30% – 11.30% and a discount rate between 15.20% – 16.00% resulting in a real discount rate between 4.22% – 5.40%). Retirement date for an employee is accepted as the earliest possible retirement date for that employee.

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The amount of the reserve for employee severance indemnity during the year ended 31 December is as follows:

	2019	**2018**
Balance at 1 January	**1,470,625**	**1,209,353**
Change in scope of consolidation	--	4,071
Service cost	139,550	151,799
Interest cost	221,253	135,129
Effects of change in foreign exchange rate	2,228	3,496
Actuarial difference	70,904	71,342
Payments made during the year	(139,095)	(105,441)
Profit or loss due to payment/reduced benefits or dismissal	823	857
Prior year service cost	5	19
Balance as at 31 December	**1,766,293**	**1,470,625**
Vacation pay liability	142,290	117,300
Total	**1,908,583**	**1,587,925**

31. Other liabilities

	2019	**2018**
Credit card payables to affiliated merchants	8,075,915	7,745,114
Unclaimed wages and payables	1,312,627	1,094,623
Payable to personnel	420,471	583,107
Deposits and advances taken for imports	242,522	131,327
Payables to clearing accounts	529,903	1,889,958
Expense accruals	183,027	147,141
Payment orders	596,842	521,008
Unearned revenue	562,853	426,861
Blocked money	241,533	186,099
Payables to funds	140,829	108,487
Cash guarantees	144,304	103,483
Other	2,943,786	2,158,765
Other liabilities	**15,394,612**	**15,095,973**

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

32. Subordinated liabilities

	Interest Rate	Years of maturity	2019	2018
USD 1,000 million coupon fixed interest rate	6.00%	October 2022	5,949,640	5,297,101
USD 500 million coupon fixed interest rate	7.00%	June 2028	2,940,447	2,620,501
USD 400 million coupon fixed interest rate	7.85%	December 2023	2,364,010	2,104,985
TL 1,100 million variable interest rate	15.88%	July 2027	1,126,680	1,136,214
TL 800 million variable interest rate	13.07%	June 2029	803,683	--
TL 350 million variable interest rate	15.28%	September 2029	350,721	--
USD 300 million coupon fixed interest rate	7.63%	March 2027	1,830,045	1,549,774
Subordinated liabilities			**15,365,226**	**12,708,575**

On 24 October 2012, the Bank issued 10-year-term bond with a nominal value of USD 1,000 million, as a subordinated liability. The bond is issued for the individual and legal persons who are resident abroad, with maturity of 24 October 2022 and 6.00% interest rate.

On 29 June 2017, the Bank, issued 11-year-term bond with a nominal value of USD 500 million, as a subordinated liability. The bond is issued for individual and legal persons who are resident abroad, with maturity of 29 June 2028 and 7.00% interest rate.

On 10 December 2013, the Bank issued 10-year-term bond with a nominal value of USD 400 million, as a subordinated liability. The bond is issued for the individual and legal persons who are resident abroad, with maturity of 10 December 2023 and 7.85% interest rate.

On 8 August 2017, the Bank, issued 10-year-term bond with a nominal value of TL 1,100 million (full amount), as a subordinated liability. The bond is issued for qualified domestic investors, with maturity of 27 July 2027 and 15.88% interest rate.

On 19 June 2019, the Bank issued 10-year-term bond with a nominal value of TL 800 million (full amount), as a subordinated liability. The bond is issued for the qualified domestic investors, with maturity of 19 June 2029 and 13.07% interest rate.

On 26 September 2019, the Bank issued 10-year-term bond with a nominal value of TL 350 million (full amount), as a subordinated liability. The bond is issued for the qualified domestic investors, with maturity of 26 September 2029 and 15.28% interest rate.

On 28 March 2017, TSKB, a subsidiary of the Group, issued 10-year-term bond with a nominal value of USD 300 million, as a subordinated liability. The bond is issued for the individual and legal persons who are resident abroad, with maturity of 29 March 2027 and 7.63% interest rate.

The above liabilities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities.

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

33. Capital and reserves

The Bank's share capital is divided into Group A, Group B and Group C shares.

With nominal values of full 0.01 TL (full amount) Group A shares have the privileges:

- to obtain 20 times share at the distribution of bonus shares issued from conversion of extraordinary reserves and revaluation funds generated in accordance with the relevant laws (Article 18 of the Articles of Incorporation)

- to exercise 20 times of pre-emption rights (Article 19 of the Articles of Incorporation)

- for 20 voting rights (Article 49 of the Articles of Incorporation)

Despite having a lower nominal value, Group (B) shares, each with a nominal value of 0.01 TL (full amount), have the same rights with the Group (C) shares having a nominal value of 0.04 TL (full amount) each. Furthermore, Group (A) and (B) shares, each with a nominal value of 0.01 TL (full amount), are granted privileges in distribution of profits pursuant to Article 58 of the Articles of Incorporation.

The Bank has accepted the registered capital system set out in accordance with the Law No. 6362 of the Capital Markets Board. The registered capital of the Bank is TL 10,000,000.

Authorised and nominal paid in capital can be analysed as follows:

		31 December 2019		31 December 2018	
Group	**Par Value Full TL**	**Authorised**	**Paid-in**	**Authorised**	**Paid-in**
A	0.0100	1	1	1	1
B	0.0100	29	29	29	29
C	0.0400	4,499,970	4,499,970	4,499,970	4,499,970
		4,500,000	**4,500,000**	**4,500,000**	**4,500,000**

The shareholders' structure of the Bank is presented below:

	31 December 2019		31 December 2018	
	Paid-up capital	**(%)**	**Paid-up capital**	**(%)**
Supplementary Pension Fund of İşbank Members	2,391,336	39.10	2,474,983	40.47
Republican People's Party ("CHP")	1,718,092	28.09	1,718,092	28.09
Publicly traded	2,006,510	32.81	1,922,863	31.44
	6,115,938	**100.00**	**6,115,938**	**100.00**

Share premium

Excess amount of selling price and nominal value for each share was recorded as share premium in equity.

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

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

As at 31 December 2019, the Group has legal reserves amounting to TL 5,631,247 (31 December 2018: TL 5,131,840).

Fair value reserves
The fair value reserves include the cumulative net change in the fair value of financial assets at fair value through other comprehensive income, excluding impairment losses, until the investment is derecognised.

Hedging reserves

The hedging reserves comprise the effective portion of the cumulative net change in the fair value of the hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

Translation reserves

The translation reserves comprise all foreign currency differences arising from the translation of the financial statements of foreign operations.

Revaluation reserves

The revaluation reserves relate to the revaluation of real estate properties which are held for Group's own use.

Other reserves

Other reserves comprise actuarial gains and losses related to employee benefits.

Non-controlling interests

Majority of non-controlling interest balance comes from Şişecam Group, TSKB and İş GYO. Financial information regarding these subsidiaries are presented below.

2019	Total Assets	Total Equity	Current Year Profit	Previous Year Profit
Şişecam Group	38,750,838	19,133,385	2,700,319	3,365,897
TSKB	42,252,389	5,278,367	736,141	662,049
İş GYO	5,716,357	3,860,227	297,390	341,611

2018	Total Assets	Total Equity	Current Year Profit	Previous Year Profit
Şişecam Group	27,767,556	16,726,774	3,373,676	1,736,956
TSKB	38,268,818	4,283,457	662,049	583,435
İş GYO	5,222,333	3,556,939	341,611	179,957

Dividends

Regarding the profit for the year 2019, at the Ordinary General Assembly of the Bank held on 31 March 2020, it was decided not to distribute any cash dividend, to allocate TL 347,647 to legal and special reserves and TL 6,071,460 to be set as extraordinary reserves from retained earnings.

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

34. Net fee and commission income

An analysis of the Group's net fee and commission income for the year ended 31 December is as follows:

	2019	2018
Fee and commission income		
Credit card fees and commission	3,466,915	2,692,261
Non-cash loan commission	1,089,019	885,403
Money transfer charges	667,940	560,631
Commission income from insurance/reinsurance transactions	367,146	304,973
Commission income from payment/collection and other banking transactions	248,247	375,058
Commission income from agency and brokerage	640,909	566,248
Mutual funds portfolio management commission	52,603	41,324
Customer investigation charges	228,387	172,562
Other	312,444	32,129
Total fee and commission income	**7,073,610**	**5,630,589**
Fee and commission expense		
Deferred acquisition costs	(1,009,772)	(801,632)
Commissions given for credit cards	(1,160,129)	(783,117)
Brokerage and other commission	(257,453)	(244,771)
Stock exchange operations commission	(33,492)	(31,513)
Total fee and commission expense	**(2,460,846)**	**(1,861,033)**
Net fee and commission income	**4,612,764**	**3,769,556**

35. Income from manufacturing operations

An analysis of the Group's income from manufacturing operations for the year ended 31 December is as follows:

	2019	2018
Foreign sales	11,279,760	9,530,221
Domestic sales	8,043,210	6,935,805
Other income from manufacturing operations	6,554	4,660
Sales discounts	(871,746)	(718,171)
Sales returns	(86,203)	(65,408)
Other discounts	(339,925)	(137,930)
Total income from manufacturing operations	**18,031,650**	**15,549,177**

36. Income from insurance operations

	2019	2018
Premiums earned	6,693,447	5,271,521
- Premiums earned, gross	*8,852,882*	*7,136,425*
- Premiums earned, ceded	*(2,159,435)*	*(1,864,904)*
Pension business technical income	338,883	290,321
Other technical income	58,306	135,634
Income from insurance operations	**7,090,636**	**5,697,476**

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

37. Other operating income

An analysis of the Group's other operating income for the year ended 31 December is as follows:

	2019	2018
Gain on sale of assets	442,444	191,716
Fair value changes of investment properties	247,182	161,382
Reversal of excess provisions(*)	649,154	510,947
Other	476,870	166,297
Total other operating income	**1,815,650**	**1,030,342**

(*) The balance includes reversal of provision for general banking risks amounting to TL 375,000 in current year and TL 350,000 in previous year.

38. Cost of manufacturing operations

An analysis of the Group's cost of manufacturing operations for the year ended 31 December is as follows:

	2019	2018
Direct materials	5,724,233	4,781,186
Production overheads	3,293,667	2,619,103
Cost of merchandises sold	1,415,366	1,339,529
Depreciation and amortisation expenses	1,116,165	903,178
Direct labour	924,208	831,240
Cost of construction	61,032	65,704
Cost of services given	248,819	190,664
Change in work-in-progress inventories	(37,374)	(19,411)
Change in finished goods inventories	(571,331)	(321,693)
Total manufacturing operations cost	**12,174,785**	**10,389,500**

39. Cost of insurance operations

	2019	2018
Claims paid	4,376,030	3,966,266
-Claims paid, gross	5,408,606	4,729,689
-Claims paid, ceded	(1,032,576)	(763,423)
Change in provisions for outstanding claims	700,185	548,911
Change in other technical provisions	245,322	169,121
Change in life mathematical provisions	335,860	155,250
-Change in life mathematical provisions, gross	336,569	155,914
-Change in life mathematical provisions, ceded	(709)	(664)
Cost of insurance operations	**5,657,397**	**4,839,548**

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

40. Other operating expenses

An analysis of the Group's other operating expenses for the year ended 31 December is as follows:

	2019	2018
General administrative expenses	10,220,191	8,746,562
Marketing, selling and distribution expenses	3,184,828	2,654,655
Provision expenses, net	1,071,053	504,113
Deposit insurance premium expense	535,095	367,682
Research and development expenses	99,523	121,783
Total of other operating expenses	**15,110,690**	**12,394,795**

An analysis of the Group's general administrative expenses for the year ended 31 December is as follows:

General administrative expenses	2019	2018
Salaries and employee benefits	5,633,584	4,857,960
Depreciation and amortisation expenses	1,089,240	700,295
Administration expenses	972,378	508,755
Leasing expenses related to exceptions to IFRS 16(*)	99,907	513,352
Taxation expense other than income	410,028	313,484
Maintenance expense	262,397	203,082
Communication expense	212,821	121,719
Judiciary expenses	193,765	145,047
Outsourcing services	432,750	377,820
Other	913,321	1,005,048
Total general administrative expenses	**10,220,191**	**8,746,562**

(*) "IFRS 16 Leases" standard has been started to be applied as of 1 Januay 2019 and no adjustment has been made in the previous year.

41. Income and cost from other operations

An analysis of the Group's income and cost from other operations for the year ended 31 December is as follows:

	2019	2018
Income from other operations		
Income from sales of property equipment of real estate firms	229,181	789,387
Income from medical services	163,044	112,194
Rent income from investment property of real estate firms	88,321	91,735
Other services rendered	589,249	669,651
Total income from other operations	**1,069,795**	**1,662,967**
Cost of other operations		
Cost from medical services	(281,638)	(210,831)
Cost from sales of property equipment of real estate firms	(203,991)	(701,341)
Depreciation and amortisation expenses	(36,763)	(10,794)
Cost of rent from investment property of real estate firms	(11,315)	(9,118)
Other services rendered	(987,147)	(883,615)
Total cost of investment and other operations	**(1,520,854)**	**(1,815,699)**

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

42. Impairment losses on financial assets, net

An analysis of the Group's provision for impairment on loans for the year ended 31 December is as follows:

	2019	**2018**
Impairment losses on loans (net of collections/recoveries)	(6,121,928)	(5,476,775)
Impairment losses on factoring receivables (net of collections/recoveries)	(202,286)	15,030
Impairment losses on finance lease receivables (net of collections/recoveries)	(116,714)	(54,653)
Impairment losses on non-cash loans (net of collections/recoveries)	(200,799)	33,220
Impairment losses on financial assets (net of collections/recoveries)	(46,321)	(37,724)
Impairment losses on loans and advances	**(6,688,048)**	**(5,520,902)**

43. Operating segments

The Group is organised in two main business segments as described below, which are the Group's strategic business units: Banking and non-banking. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a semi-annually basis.

Banking segment includes corporate, commercial, retail and private banking, as well as treasury. Non-banking operations are followed according to insurance, 'investment and finance' and 'manufacturing, trading and service' segments.

The following summary describes the operations in each of the Group's reportable segments:

Banking business

The Group provides services to the large corporations, SMEs and other trading companies (excluding real trading persons) within the course of its corporate and commercial operations through various financial media. Services such as project financing, operating and investment loans, deposit and cash management, credit cards, cheques and bills, foreign trade transactions and financing, letter of guarantee, letter of credit, forfeiting, foreign currency trading, bill collections, payrolls, investment accounts, tax collections and other banking services are being provided for the aforementioned customer segments.

Services are being provided to individuals, real trading persons and non-trading corporations and institutions within the context of "Retail Banking". This customer segment's requirements are met by banking services such as deposits, consumer loans, overdraft accounts, credit cards, bill collections, remittances, foreign currency trading, safe-deposit boxes, insurance, tax collections, investment accounts and by other banking services. As for the private banking category, any kind of financial and cash management services are provided for individuals in the high-income group.

Within the context of treasury transactions, medium and long term funding is being fulfilled by tools such as security trading, money market transactions, spot and installment based TL and foreign currency trading, and derivative transactions such as forward, swap, futures and options, as well as syndication and securitisation.

All other banking segments include combined information about operating segments that do not meet the quantitative thresholds.

Non-banking business

Insurance segment includes the Group's insurance and reinsurance activities.

Investment and finance operations include the Group's leasing, factoring, brokerage, corporate finance, investment advisory, private portfolio management and real estate investment activities.

Core business of the manufacturing, trading and service segment is mainly glass production. In addition, complementary industrial and commercial operations related to glass production are included into manufacturing and trading segment as well as food production operations.

Information regarding the results of each reportable segment is included below. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes.

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

	Banking business				Non-banking business				
	Corporate / Commercial	Retail / Private	Treasury / Investment	All other banking segments	Insurance	Investment and finance	Manufacturing, trading and service	Reconciliation	Total
At 31 December 2019									
Total assets	254,462,017	57,143,269	134,953,010	74,737,956	20,092,407	23,096,007	58,838,425	(63,698,093)	559,624,998
Total liabilities and equity	152,172,406	167,353,047	99,082,542	102,688,257	20,092,407	23,096,007	58,838,425	(63,698,093)	559,624,998
At 31 December 2018									
Total assets	240,003,236	51,082,961	110,104,517	62,434,629	16,498,166	21,800,456	46,016,728	(50,151,996)	497,788,697
Total liabilities and equity	125,997,831	137,473,006	108,996,940	91,157,566	16,498,166	21,800,456	46,016,728	(50,151,996)	497,788,697

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

	Banking business				Non-banking business					
1 January – 31 December 2019 **Income statement**	**Corporate / Commercial**	**Retail/ Private**	**Treasury / Investment**	**All other banking segments**	**Insurance**	**Investment and finance**	**Manufacturing trading and service**	**Combined**	**Adjustments**	**Total**
Interest income	27,869,986	7,793,667	11,018,473	117,476	900,421	1,349,682	1,269,713	50,319,418	(1,536,928)	48,782,490
Interest expense	(6,762,021)	(9,286,642)	(6,844,756)	(1,769,080)	(42,149)	(1,695,068)	(1,367,460)	(27,767,176)	1,652,645	(26,114,531)
Net interest income	**21,107,965**	**(1,492,975)**	**4,173,717**	**(1,651,604)**	**858,272**	**(345,386)**	**(97,747)**	**22,552,242**	**115,717**	**22,667,959**
Net fee and commission income	4,987,467	1,914,896	1,467	(1,247,003)	(1,238,893)	286,517	(4,138)	4,700,313	(87,549)	4,612,764
Securities trading income, net	--	--	205,334	--	67,042	272,630	579	545,585	(9,953)	535,632
Derivative trading income / (expense), net	--	--	(6,464,948)	--	466,851	742,131	(60,629)	(5,316,595)	175,328	(5,141,267)
Income from manufacturing operations	--	--	--	--	--	--	27,064,472	27,064,472	(9,032,822)	18,031,650
Income from insurance operations	--	--	--	--	7,184,253	--	--	7,184,253	(93,617)	7,090,636
Cost of manufacturing operations	--	--	--	--	--	--	(20,523,101)	(20,523,101)	8,348,316	(12,174,785)
Cost of insurance operations	--	--	--	--	(5,657,839)	--	--	(5,657,839)	442	(5,657,397)
Other operating income	--	--	--	1,043,271	142,336	1,269,608	2,045,145	4,500,360	(1,614,915)	2,885,445
Other operating expense	(1,862,428)	(3,920,797)	(9,203)	(4,779,359)	(1,041,471)	(1,231,251)	(5,928,424)	(18,772,933)	2,141,389	(16,631,544)
Foreign exchange gains / (losses), net	--	--	--	(588,752)	362,403	106,711	6,021	(113,617)	6,777	(106,840)
Impairment losses on loans and advances, net	--	--	--	(6,356,887)	(6,155)	(335,951)	--	(6,698,993)	10,945	(6,688,048)
Dividend income	--	--	--	16,221	92,294	42,193	1,117,121	1,267,829	(1,248,212)	19,617
Share of losses of equity accounted investees	--	--	--	2,806,196	--	(2,815)	--	2,803,381	(2,673,854)	129,527
Profit / (loss) before taxation	**24,233,004**	**(3,498,876)**	**(2,093,633)**	**(10,757,917)**	**1,229,093**	**804,387**	**3,619,299**	**13,535,357**	**(3,962,008)**	**9,573,349**
Income tax expense	--	--	**(1,007,045)**	--	**(269,931)**	**(145,167)**	**90,527**	**(1,331,616)**	**321**	**(1,331,295)**
Net profit / (loss)	**24,233,004**	**(3,498,876)**	**(3,100,678)**	**(10,757,917)**	**959,162**	**659,220**	**3,709,826**	**12,203,741**	**(3,961,687)**	**8,242,054**

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

	Banking business				Non-banking business					
1 January – 31 December 2018 **Income statement**	**Corporate / Commercial**	**Retail/ Private**	**Treasury / Investment**	**All other banking segments**	**Insurance**	**Investment and finance**	**Manufacturing trading and service**	**Combined**	**Adjustments**	**Total**
Interest income	25,949,318	6,956,376	9,092,506	301,771	801,382	1,388,816	1,571,165	46,061,334	(1,076,744)	44,984,590
Interest expense	(5,476,206)	(7,730,885)	(8,972,510)	(1,006,613)	(8,968)	(1,734,337)	(778,947)	(25,708,466)	1,078,468	(24,629,998)
Net interest income	**20,473,112**	**(774,509)**	**119,996**	**(704,842)**	**792,414**	**(345,521)**	**792,218**	**20,352,868**	**1,724**	**20,354,592**
Net fee and commission income	3,900,303	1,500,598	(2,290)	(922,840)	(923,482)	260,138	(2,480)	3,809,947	(40,391)	3,769,556
Securities trading income, net	--	--	97,289	--	77,938	90,615	198	266,040	(68,645)	197,395
Derivative trading income / (expense), net	--	--	(3,811,701)	--	231,280	612,932	14,824	(2,952,665)	364,651	(2,588,014)
Income from manufacturing operations	--	--	--	--	--	--	22,547,846	22,547,846	(6,998,669)	15,549,177
Income from insurance operations	--	--	--	--	5,756,070	--	--	5,756,070	(58,594)	5,697,476
Cost of manufacturing operations	--	--	--	--	--	--	(16,919,828)	(16,919,828)	6,530,328	(10,389,500)
Cost of insurance operations	--	--	--	--	(4,839,548)	--	--	(4,839,548)	--	(4,839,548)
Other operating income	--	--	--	736,172	99,504	1,627,297	1,581,489	4,044,462	(1,351,153)	2,693,309
Other operating expense	(1,466,081)	(3,078,791)	--	(3,913,526)	(894,039)	(1,649,509)	(4,916,775)	(15,918,721)	1,708,227	(14,210,494)
Foreign exchange gains / (losses), net	--	--	--	(666,511)	560,536	115,664	30,413	40,102	74,403	114,505
Impairment losses on loans and advances, net	--	--	--	(5,476,926)	(5,675)	(41,749)	--	(5,524,350)	3,448	(5,520,902)
Dividend income	--	--	--	10,436	90,631	45,222	692,998	839,287	(786,627)	52,660
Share of losses of equity accounted investees	--	--	--	2,808,736	--	(3,816)	--	2,804,920	(2,652,798)	152,122
Profit / (loss) before taxation	**22,907,334**	**(2,352,702)**	**(3,596,706)**	**(8,129,301)**	**945,629**	**711,273**	**3,820,903**	**14,306,430**	**(3,274,096)**	**11,032,334**
Income tax expense	**--**	**--**	**(1,170,280)**	**--**	**(203,935)**	**(142,224)**	**(106,240)**	**(1,622,679)**	**5,482**	**(1,617,197)**
Net profit / (loss)	**22,907,334**	**(2,352,702)**	**(4,766,986)**	**(8,129,301)**	**741,694**	**569,049**	**3,714,663**	**12,683,751**	**(3,268,614)**	**9,415,137**

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

Geographic information

Financial position	Turkey	Europe	Russia, Ukraine & Georgia	Other	Reconciliation	Consolidated
At 31 December 2019						
Assets	**588,701,421**	**26,841,936**	**6,668,849**	**1,110,885**	**(63,698,093)**	**559,624,998**
Liabilities	491,972,720	15,031,282	3,712,754	540,714	(25,871,430)	485,386,040
Total equity	96,728,701	11,810,654	2,956,095	570,171	(37,826,663)	74,238,958
Total liabilities and equity	**588,701,421**	**26,841,936**	**6,668,849**	**1,110,885**	**(63,698,093)**	**559,624,998**

Financial position	Turkey	Europe	Russia, Ukraine & Georgia	Other	Reconciliation	Consolidated
At 31 December 2018						
Assets	**518,266,581**	**24,327,783**	**5,082,196**	**264,133**	**(50,151,996)**	**497,788,697**
Liabilities	434,872,916	13,376,158	3,002,371	244,665	(17,247,651)	434,248,459
Total equity	83,393,665	10,951,625	2,079,825	19,468	(32,904,345)	63,540,238
Total liabilities and equity	**518,266,581**	**24,327,783**	**5,082,196**	**264,133**	**(50,151,996)**	**497,788,697**

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

44. Earnings per share

Basic earnings per share ("EPS") are calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

There is no dilution of shares as at 31 December 2019 and 31 December 2018.

The following reflects the comprehensive income and share data used in the basic earnings per share computations:

	2019	2018
Profit available to shareholders	5,906,086	6,738,532
Weighted average number of shares during the year (thousand)	112,502	112,502
Basic earnings per share (full TL per share)	**0.0525**	**0.0599**

45. Related parties

In the course of conducting its banking business, the Group conducted various business transactions with related parties. These include loans, customer accounts, funds borrowed and non-cash transactions. These are all commercial transactions and realised on an arms-length basis. The volumes of related party transactions, outstanding balances at the period end and relating expense and income for the periods are as follows:

Direct and indirect shareholders	**2019**	**2018**
Deposits	8,896	178,624
Interest expense	10,004	38,950

Others	**2019**	**2018**
Loans and advances		
-Measured at amortised cost	53,914	65,162
-Measured at fair value through profit or loss(*)	2,149,813	2,417,587
Non-cash loans	14,171	16,889
Deposits	37,132	6,930
Trade receivables	9,122	1,328
Trade payables	287,172	69,066
Interest income	10,275	6,419
Interest expense	3,156	2,399
Fee and commission income	259	216
Other operating income	27,510	17,111
Other operating expense	370,264	324,906

(*) The balance consist of loans that has been granted to a structured entity owned by the Group considered as related party.

Compensation of key management personnel of the Group

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 184,596 (31 December 2018: TL 161,741) comprising salaries and other short-term benefits.

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

46. Commitment and contingencies

	2019	2018
Letters of guarantee	71,547,339	71,357,910
Commitments for credit card expenditure limits	31,090,963	27,477,673
Letters of credit	16,316,834	16,206,945
Loan granting commitments	19,621,757	16,111,209
Commitments for check payments	2,673,042	2,600,948
Acceptance loans	6,040,332	3,622,582
Endorsements and other guarantees	2,688,827	2,366,043
Other commitments	9,888,081	13,540,928
	159,867,175	**153,284,238**

Derivative financial instruments held for trading

The Group has forward, swap, option and future transactions as of the reporting date. The Group's derivative transactions predominantly consist of currency swaps, forward foreign currency trading, credit default swaps, currency options and option contracts on securities. The Group has no derivative products that are detached from the host contract. Derivative financial instruments are carried at their fair value at the contract date and re-measured by their prevailing fair value in the following reporting periods. Even though some derivative transactions economically provide risk hedging, since all necessary conditions to be defined as items suitable for financial risk hedging accounting are not met, they are recognised as "held for trading purposes" and the profit and loss resulting from such instruments are associated with the income statement.

		2019		2018
	Buy	**Sell**	**Buy**	**Sell**
Currency swaps	81,693,751	79,949,538	75,766,732	74,841,435
Interest rate swaps	62,810,769	62,810,769	48,597,250	48,597,250
Forward foreign exchange contracts	16,532,814	16,579,043	15,200,951	15,047,416
Currency options	5,892,583	5,681,564	9,436,312	9,472,142
Interest rate options	3,190,743	3,190,743	982,489	982,489
Marketable security and index options	24,499	36,255	21,440	42,801
Other	1,866,022	1,913,533	2,326,716	4,529,054
	172,011,181	**170,161,445**	**152,331,890**	**153,512,587**

		2019		2018
	Asset	**Liability**	**Asset**	**Liability**
Interest rate swaps	1,296,251	(1,365,263)	996,382	(569,012)
Currency swaps	3,275,692	(933,016)	4,383,317	(2,888,694)
Currency options	22,262	(57,878)	190,194	(259,631)
Forward foreign exchange contracts	415,538	(359,122)	724,648	(665,042)
Interest rate options	33,640	(1)	43,434	(95)
Other	--	--	--	(3,554)
Fair value of derivatives	**5,043,383**	**(2,715,280)**	**6,337,975**	**(4,386,028)**

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

Derivative assets and liabilities designed as cash flow hedges

Şişecam Group has signed cross currency swap agreements amounting to USD 575 million, approximately 82% of the bonds issued in the period at the amount of USD 700 million, in order to protect from cash flow risks.

	2019		2018	
	Asset	**Liability**	**Asset**	**Liability**
Interest rate swaps	258,551	(282,027)	--	(280)
Total derivative assets /(liabilities) held for hedge accounting	**258,551**	**(282,027)**	**--**	**(280)**

Derivative assets and liabilities designed as fair value hedges

Fixed rate Eurobonds issued by TSKB and a portion of fixed rate borrowings of TSKB are subject to fair value hedge accounting. TSKB entered into interest rate swap agreements in order to hedge the change in fair value of its fixed rate financial liabilities.

IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting in accordance with IAS 39 as a policy choice. Accordingly, the Group continues to apply hedge accounting in accordance with IAS 39 in this context.

The fair values of derivatives designed as fair value hedges are as follows.

	2019		2018	
	Asset	**Liability**	**Asset**	**Liability**
Interest rate swaps	67,884	(16,545)	**--**	(172,258)
Total derivative assets/(liabilities) held for hedge accounting	**67,884**	**(16,545)**	--	**(172,258)**

Fiduciary activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in the accompanying consolidated financial statements. 30 mutual funds which are founded by the Anadolu Hayat Emeklilik A.Ş. are managed by İş Portföy Yönetimi A.Ş.

Litigations

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

Option agreements

Put/call option agreements were signed between Şişecam Group and European Bank for Reconstruction and Development ("EBRD") in 2014. Accordingly, the Group has call option for Paşabahçe Cam San. ve Tic. A.Ş. while the agreement granted a put option to EBRD. Since Paşabahçe did not go public and fulfill the requirements until 24 October 2019, the put/call options have expired. Shares of Paşabahçe are taken over in 2019 after the option is closed in exchange for EURO 152,6 million payment. In order to finance the option, Şişecam Group received a loan of EURO 100 million from EBRD. Conditions of the loan are as follows: The group will not make any principal payments for the first two years, thereafter, principal payment will be made in 5 equal instalments once every six months; interest rate of the loan is Euribor+ 2.40%.

As a result, Paşabahçe shares that was in the EBRD’s portfolio in 2018 are taken over by the Group; therefore the transactions with regards to non-controlling interests are accounted for under funds borrowed. Difference in the valuation for the transactions is accounted for under the equity.

Other commitments

According to the agreements made among Şişecam Group, Türkiye Petrolleri Anonim Ortaklığı A.Ş., Shell Enerji A.Ş., Mersin Organize Sanayi Bölgesi, Aygaz Doğal Gaz Toptan Satış A.Ş., Boru Hatları ve Petrol Taşıma A.Ş. (BOTAŞ)., Eskişehir Organize Sanayii Bölge Müdürlüğü., Palgaz Doğalgaz A.Ş., Enerya Denizli Gaz Dağıtım A.Ş., Akfel Petrol and Doğalgaz Mühendislik A.Ş., the Group has a purchase commitment of 1.570.528.000 sm3 of natural gas between 1 January 2020 and 31 December 2020 (1 January- 31 December 2019: 1.279.444.517 sm3).

Government grants

In line with the Law on the Support of R & D Activities No. 5746 on the basis of new technology and research and development activities in search of information, 100% of the expenditures made in the R & D centers within the scope of the enterprises are considered as R & D discounts in determining the corporate income until 31 December 2023. On the basis of the provisions of the law no 5746, the amount of R & D reduction that cannot be deducted in the relevant accounting period due to insufficient earnings is transferred to the next accounting period. Amounts transferred shall be taken into consideration by increasing the revaluation rate determined every year according to Tax Procedure Law No: 213 without any time limit in the following years.

In addition, according to the Law No. 5746, withholding tax incentive and insurance premium support is provided for personnel working in the R & D center. According to this law, among the design and support personnel working in R & D and design centers; 95% for those who have at least a master's degree in one of the basic sciences, 90% for those who have a bachelor's degree in one of the basic sciences, others 80% are excluded from income tax. Among design and support personnel working in R & D and design centers; half of the employer's share of the insurance premium calculated on the wages they have obtained in return for these works shall be met from the appropriation to be made to the Ministry of Finance for each employee. R & D incentives mentioned in our group are also utilised.

Exporting activities and other foreign currency generating operations, within the scope of the standards determined by the Ministry of Finance and Undersecretariat of Foreign Trade, are exempt from stamp tax and fees. Government grants are paid to support participating in international fairs in accordance with the decision No: 2004/11 of the Money Credit and Coordination Committee issued at 16 December 2004.

A memorandum for government incentive was signed between Trakya Glass Bulgaria EAD and Ministry of Economy and Energy of Republic of Bulgaria under “Regulation of Investment Incentive and Implementation” of Bulgaria and “Government Incentive Legislation” of European Union.

Glasscorp S.A. and the Ministry of Finance of the Republic of Romania signed a Memorandum on Government Grants within the framework of the European Union's "Government Grant Regulations" with "Investment Incentive Law and Implementation Regulation". In this context; As of 31 December 2019, Glasscorp S.A. has an obligation to reimburse the government incentive amounting to RON 77,766 thousand and the government incentives collected in cash and deferred income in accordance with the related legislation. As of 31 December 2019, the amount of non-repayable incentive is RON 27,016 thousand Glasscorp S.A. continues to negotiate with the relevant institutions to extend the reimbursement period for the relevant incentive.

47. Ratings

As at and for the year ended 31 December 2019, the Bank's, TSKB's and İş Finansal Kiralama A.Ş.'s ratings assigned by international rating agencies are as follows;

Türkiye İş Bankası A.Ş.

MOODY'S – 18 June 2019	Rating	Outlook(*)
Long-term Foreign Currency Deposit	B3	Negative
Long-term Local Currency Deposit	B3	Negative
Long-term Foreign Currency Senior Debt	B3	Negative
Short-term Foreign Currency Deposit	Not-Prime	--
Short-term Local Currency Deposit	Not-Prime	--

FITCH RATINGS – 12 November 2019	Rating	Outlook(*)
Long-term Foreign Currency Issuer Default Rating	B+	Negative
Long-term Local Currency Issuer Default Rating	B+	Stable
Short-term Foreign Currency Issuer Default Rating	B	--
Short-term Local Currency Issuer Default Rating	B	--
National Long-term Rating	A+ (tur)	Stable
Viability Rating	b+	--
Support Rating	4	--

STANDARD & POOR'S – 17 August 2018	Rating	Outlook(*)
Long-term Counterparty Credit Rating	B+	Negative
Short-term Counterparty Credit Rating	B	--
Long-term National Scale Rating	trA+	--
Short-term National Scale Rating	trA-1	--

TSKB

MOODY'S – 18 June 2019	Rating	Outlook (*)
Baseline Credit Assessment Rating	caa1	--
Long-term Foreign Currency Issuer Rating	B3	Negative
Short-term Foreign Currency Issuer Rating	Not-Prime	--
Long-term Local Currency Issuer Rating	B3	Negative
Short-term Local Currency Issuer Rating	Not-Prime	--
Long-term Foreign Currency Senior Debt	B3	Negative
Senior Unsecured MTN Program Rating	(P)B3	--

FITCH RATINGS – 12 November 2019	Rating	Outlook (*)
Long-term Foreign Currency Issuer Default Rating	B+	Stable
Long-term Local Currency Issuer Default Rating	BB-	Stable
Short-term Foreign Currency Issuer Default Rating	B	--
Short-term Local Currency Issuer Default Rating	B	--
National Rating	AA	Stable
Support Rating	4	--
Support Rating Floor	B+	--
Subordinated Debt Rating	B	--
Viability Rating	b+	--

İş Finansal Kiralama A.Ş.

FITCH RATINGS – 12 November 2019	Rating	Outlook (*)
Long-term Foreign Currency Issuer Default Rating	B	Negative
Long-term Local Currency Issuer Default Rating	B+	Negative
Short-term Foreign Currency Issuer Default Rating	B	--
Short-term Local Currency Issuer Default Rating	B	--
National Long-term Rating	A+ (tur)	Stable
Support Rating	4	--

(*) "Stable" indicates that the current rating will not be changed in the short term; "positive" indicates that the current rating is very likely to be upgraded and "negative" indicates that the current rating is very likely to be downgraded.

48. Events after the reporting period

Explanations regarding issuance of bills and bonds and other borrowings

Between 31 December 2019 and the reporting date, Bank carried out several issues of bills and bonds that are denominated in TL and USD. Within the scope of Bank's Board of Directors decision, dated 17 September 2019 regarding issuance of securities, the Bank has issued bills and bonds with a nominal value of TL 6,795.4 million (full amount) and within the scope of Bank's Board of Directors decision, dated 25 December 2019 regarding issuance of securities, the Bank has issued bonds with a nominal value of USD 765 million to abroad, which includes a subordinated liability with 10 years maturity, recall option on 5th year, nominal value of USD 750 million and 7.75% interest rate on 22 January 2020.

Türkiye Sınai Kalkınma Bankası A.Ş. which is one of the Group companies, has issued a eurobond with nominal value of USD 400 million to abroad. The redemption date of the fixed rate, 5 years maturity eurobond which was sold on 23 January 2020 is 23 January 2025 and it has 6% coupon rate.

Other disclosures

Within the scope of the decision of Şişecam's Board of Directors, dated 27 April 2020, it is decided that Türkiye Şişecam ve Fabrikaları A.Ş. to acquire the assets and liabilities of its subsidiaries Trakya Cam Sanayii A.Ş., Paşabahçe Cam Sanayii ve Tic. A.Ş., Denizli Cam Sanayii Tic. A.Ş., Anadolu Cam Sanayii A.Ş. and Soda Sanayii A.Ş. as a whole. In this context, "Merger Report and Merger Agreement" based on the determinations of the expert report, has been signed and the Company applied to Capital Markets Board on 27 April 2020.

The Bank's Ordinary General Meeting held on 31 March 2020 in İstanbul.

The recent outbreak of Coronavirus, a virus causing potentially deadly respiratory tract infections originating in China and spreading in various jurisdictions, may negatively affect economic conditions regionally as well as globally, disrupt operations situated in countries particularly exposed to the contagion. The ultimate severity of the Coronavirus outbreak is uncertain at this time and therefore the Bank cannot reasonably estimate the impact on Bank's operations.