

# **Türkiye Finans Katılım Bankası Anonim Şirketi**

**Financial statements as at and for the year  
ended December 31, 2019 with independent  
auditors' report thereon**

## **Türkiye Finans Katılım Bankası Anonim Şirketi**

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## **Report on the Audit of the Consolidated Financial Statements**

To the Shareholders of Türkiye Finans Katılım Bankası A.Ş.

### **Opinion**

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

In our opinion, 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 opinion**

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 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 audit opinion on the accompanying consolidated financial statements.



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| Key Audit Matter   | How the matter is addressed in our audit   |
|--|--|
| <p><b><i>Financial impact of IFRS 9 “Financial Instruments” standard and recognition of impairment on financial assets and related important disclosures</i></b></p>   |  |
| <p>We considered the impact of IFRS 9 to the financial Statements which outlines the expected credit loss calculations of financial assets as a key audit matter due to:</p> <ul style="list-style-type: none"> <li>- Amount of on and off-balance sheet items that are subject to expected credit loss calculation is material to the financial statements.</li> <li>- There are complex and comprehensive requirements of IFRS 9.</li> <li>- Policies implemented by the Group management include compliance risk to the regulations and other practices.</li> <li>- New or re-structured processes of IFRS 9 are advanced and complex.</li> <li>- Judgements and estimates used in expected credit loss calculation are new, complex and comprehensive</li> <li>- Disclosure requirements of IFRS 9 are comprehensive and complex.</li> </ul> | <p>Our audit procedures included among others include:</p> <ul style="list-style-type: none"> <li>- Evaluating the appropriateness of accounting policies as to the requirements of IFRS 9, Group's past experience, local and global practices.</li> <li>- Reviewing and testing of new or re-structured processes and systems which are used for the calculation of expected credit losses by involving our IT and Process audit specialists.</li> <li>- Evaluating the reasonableness of management's key judgements, estimates and data sources used in expected credit loss calculations considering the standard requirements, sectorial, local and global practices.</li> <li>- Involving financial risk management specialists to assess 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 and evaluating the alignment of those forward looking parameters to Group's internal processes.</li> <li>- Assessing the completeness and the accuracy of the data used for expected credit loss calculation.</li> <li>- Testing the mathematical accuracy of expected credit loss calculation on sampling basis.</li> <li>- Evaluating the judgments and estimates used for the individually assessed financial assets.</li> <li>- Evaluating the accuracy and the necessity of post-model adjustments.</li> </ul> |



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

Group 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.
- 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.



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- 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 Emre Çelik.

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

**Emre Çelik, SMMM**  
Associate Partner

**İstanbul, Türkiye**  
March 18, 2020

**Türkiye Finans Katılım Bankası Anonim Şirketi****Consolidated statement of financial position****as at December 31, 2019****(Currency - In thousands of Turkish Lira unless otherwise stated)**

|  |              | <b>December 31,<br/>2019<br/>(audited)</b> | <b>December 31,<br/>2018<br/>(audited)</b> |
|--|--------------|--|--|
|  | <b>Notes</b> |  |  |
| <b>Assets</b>  |              |  |  |
| Cash and balances with Central Bank  | 17           | 2,293,976                                  | 4,745,546                                  |
| Loans and advances to banks  | 19           | 3,602,037                                  | 1,432,658                                  |
| Loans, lease receivables and advances to customers                           | 20           | 31,722,075                                 | 30,088,212                                 |
| Derivative financial assets valued at fair value through profit or loss      | 21           | 15,274                                     | 24,018                                     |
| Financial Assets at Fair Value through Profit or Loss (Net)                  | 22           | 1,262,919                                  | -  |
| Financial assets valued at fair value through other comprehensive income     | 22           | 4,661,253                                  | 2,391,912                                  |
| Financial assets valued at amortised cost                                    | 22           | -  | 208,244                                    |
| Derivative financial assets for hedging purposes                             | 21           | -  | 272,745                                    |
| Property and equipment   | 23           | 1,231,097                                  | 916,044                                    |
| Intangible assets  | 23           | 106,139                                    | 88,372                                     |
| Deferred tax assets  | 15           | 82,153                                     | 140,812                                    |
| Reserve Deposit  | 18           | 5,690,629                                  | 3,768,126                                  |
| Other assets   | 24           | 1,527,352                                  | 2,536,682                                  |
| <b>Total assets</b>  |              | <b>52,194,904</b>                          | <b>46,613,371</b>                          |
| <b>Liabilities</b>   |              |  |  |
| Funds collected from banks   | 25           | 52,058                                     | 48,311                                     |
| Funds collected from customers   | 26           | 39,941,527                                 | 26,832,171                                 |
| Funds borrowed   | 27           | 1,908,063                                  | 5,423,227                                  |
| Subordinated liabilities   | 28           | 1,497,558                                  | 1,326,515                                  |
| Debt securities issued   | 27           | 1,614,134                                  | 6,161,838                                  |
| Derivative financial liabilities valued at fair value through profit or loss | 21           | 58,591                                     | 63,350                                     |
| Derivative financial liabilities for hedging purposes                        | 21           | 76,768                                     | 363,665                                    |
| Provisions   | 29           | 310,932                                    | 234,855                                    |
| Current tax liabilities  | 15           | 74,254                                     | 10,717                                     |
| Other liabilities  | 30           | 1,823,951                                  | 1,833,780                                  |
| <b>Total liabilities</b>   |              | <b>47,357,836</b>                          | <b>42,298,429</b>                          |
| <b>Equity</b>  |              |  |  |
| Share capital  | 31           | 2,600,000                                  | 2,600,000                                  |
| Reserves   |              | 338,077                                    | 164,757                                    |
| Retained earnings  |              | 1,898,991                                  | 1,550,185                                  |
| <b>Total shareholders' equity</b>  |              | <b>4,837,068</b>                           | <b>4,314,942</b>                           |
| <b>Total liabilities and shareholders' equity</b>                            |              | <b>52,194,904</b>                          | <b>46,613,371</b>                          |

The notes on pages 9 to 88 are an integral part of these consolidated financial statements.

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Consolidated statement of profit or loss and other comprehensive income  
for the year ended December 31, 2019  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

|   | Notes | January 1 –<br>December 31, 2019<br>(audited) | January 1 –<br>December 31, 2018<br>(audited) |
|---|-------|---|---|
| <b>Profit share income:</b>   |       |   |   |
| <i>Income on loans</i>  | 7     | 3,973,993                                     | 3,388,184                                     |
| <i>Income on investment securities</i>  | 7     | 260,898                                       | 297,570                                       |
| <i>Income on funds collected at banks</i>   | 7     | 39,227  | 4,366   |
| <i>Income on financial leases</i>   | 7     | 111,176                                       | 131,101                                       |
| <i>Other</i>  | 7     | 94,434  | 80,686  |
|   |       | <b>4,479,728</b>                              | <b>3,901,907</b>                              |
| <b>Profit share expense:</b>  |       |   |   |
| <i>Expense on funds collected</i>   | 8     | (1,618,698)                                   | (1,246,020)                                   |
| <i>Expense on borrowings</i>  | 8     | (249,631)                                     | (391,223)                                     |
| <i>Expense on securities issued</i>   | 8     | (511,701)                                     | (429,437)                                     |
| <i>Other</i>  | 8     | (176,942)                                     | (101,774)                                     |
|   |       | <b>(2,556,972)</b>                            | <b>(2,168,454)</b>                            |
| <b>Net profit share income</b>  |       | <b>1,922,756</b>                              | <b>1,733,453</b>                              |
| <b>Fee and commission income</b>  |       |   |   |
| Fee and commission income   | 9     | 327,668                                       | 315,163                                       |
| Fee and commission expense  | 9     | (185,945)                                     | (188,371)                                     |
| <b>Net fee and commission income</b>  |       | <b>141,723</b>                                | <b>126,792</b>                                |
| <b>Net trading income/(loss)</b>  |       |   |   |
| Net trading income/(loss)   | 10    | 314,413                                       | 406,074                                       |
| Foreign exchange gain/(loss), net   | 10    | (123,324)                                     | (322,166)                                     |
| Other operating income  | 11    | 98,536  | 88,795  |
| <b>Other operating income</b>   |       | <b>289,625</b>                                | <b>172,703</b>                                |
| <b>Total operating income</b>   |       | <b>2,354,104</b>                              | <b>2,032,948</b>                              |
| <b>Total operating expenses</b>   |       |   |   |
| Personnel expenses  | 12    | (564,963)                                     | (482,521)                                     |
| Administrative expenses   | 13    | (188,553)                                     | (255,655)                                     |
| Net impairment loss on financial assets   | 16    | (741,592)                                     | (488,091)                                     |
| Depreciation and amortisation   | 13    | (165,414)                                     | (88,179)                                      |
| Taxes and duties other than on income   | 13    | (68,756)                                      | (50,009)                                      |
| Other operating expenses  | 14    | (148,416)                                     | (98,432)                                      |
| <b>Total operating expenses</b>   |       | <b>(1,877,694)</b>                            | <b>(1,462,887)</b>                            |
| <b>Profit before tax</b>  |       | <b>476,410</b>                                | <b>570,061</b>                                |
| <b>Income tax expense</b>   |       |   |   |
| Corporate tax expense   | 15    | (74,303)                                      | (127,936)                                     |
| Deferred tax income   | 15    | (24,678)                                      | 3,235   |
| <b>Net Profit</b>   |       | <b>377,429</b>                                | <b>445,360</b>                                |
| <b>Other comprehensive income</b>   |       |   |   |
| <b>Cash flow hedges:</b>  |       |   |   |
| Effective portion of changes in fair value  |       | (7,161)                                       | 17,286  |
| Net change in fair values of financial assets measured at fair value through other comprehensive income |       | 176,708                                       | (96,150)                                      |
| Net amount transferred to profit or loss  |       | -   | -   |
| Other   |       | -   | -   |
| <b>Items that will never be reclassified to profit or loss</b>  |       |   |   |
| Changes in the re-measurements of defined benefit liability   |       | (7,254)                                       | (10,185)                                      |
| Change in revaluation of tangible assets  |       | 16,654  | -   |
| Related tax   | 15    | (33,981)                                      | 17,454  |
| <b>Other comprehensive income for the period, net of tax</b>  |       | <b>144,966</b>                                | <b>(71,595)</b>                               |
| <b>Total comprehensive income</b>   |       | <b>522,395</b>                                | <b>373,765</b>                                |

The notes on pages 9 to 88 are an integral part of these consolidated financial statements.

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Consolidated statement of changes in equity  
for the year ended December 31, 2019  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

|  | Notes | Share capital    | Fair value reserve | Revaluation reserve | Other reserves | Hedging reserves | Retained earnings | Total            |
|--|-------|------------------|--------------------|---------------------|----------------|------------------|-------------------|------------------|
| <b>Balances at December 31, 2017 (audited)</b>   |       | <b>2,600,000</b> | <b>(35,425)</b>    | <b>121,823</b>      | <b>130,964</b> | <b>(9,604)</b>   | <b>1,252,371</b>  | <b>4,060,129</b> |
| Balances at January 1, 2018  |       | 2,600,000        | (35,425)           | 121,823             | 130,964        | (9,604)          | 1,252,371         | 4,060,129        |
| Correction made as per IAS 8(*)  |       | -                | -                  | -                   | -              | -                | (119,596)         | (119,596)        |
| Balances at January 1, 2018  |       | 2,600,000        | (35,425)           | 121,823             | 130,964        | (9,604)          | 1,132,775         | 3,940,533        |
| Total comprehensive income for the period  |       | -                | -                  | -                   | -              | -                | -                 | -                |
| Net profit of the period   |       | -                | -                  | -                   | -              | -                | 445,360           | 445,360          |
| Net change in fair value of financial assets measured at fair value through other comprehensive income, net of tax |       | -                | (76,930)           | -                   | -              | -                | -                 | (76,930)         |
| Net change in actuarial gain/(loss) related to employee benefits, net of tax                                       |       | -                | -                  | -                   | -              | -                | (8,148)           | (8,148)          |
| Effective portion of changes in fair value   |       | -                | -                  | -                   | -              | 13,483           | -                 | 13,483           |
| Net amount transferred to profit or loss   |       | -                | -                  | -                   | -              | -                | -                 | -                |
| <b>Total other comprehensive income</b>  |       | <b>-</b>         | <b>(76,930)</b>    | <b>-</b>            | <b>-</b>       | <b>13,483</b>    | <b>(8,148)</b>    | <b>373,765</b>   |
| Other  |       | -                | 590                | -                   | 54             | -                | -                 | 644              |
| <b>Total equity</b>  |       | <b>2,600,000</b> | <b>(111,765)</b>   | <b>121,823</b>      | <b>131,018</b> | <b>3,879</b>     | <b>1,569,987</b>  | <b>4,314,942</b> |
| <b>Transactions with the owners, recorded directly in equity</b>   |       |                  |                    |                     |                |                  |                   |                  |
| Transfers to other reserves  |       | -                | -                  | -                   | 19,802         | -                | (19,802)          | -                |
| <b>Balances at December 31, 2018 (audited)</b>   |       | <b>2,600,000</b> | <b>(111,765)</b>   | <b>121,823</b>      | <b>150,820</b> | <b>3,879</b>     | <b>1,550,185</b>  | <b>4,314,942</b> |
| <b>Balances at December 31, 2018 (audited)</b>   |       | <b>2,600,000</b> | <b>(111,765)</b>   | <b>121,823</b>      | <b>150,820</b> | <b>3,879</b>     | <b>1,550,185</b>  | <b>4,314,942</b> |
| Total comprehensive income for the period  |       | -                | -                  | -                   | -              | -                | -                 | -                |
| Net profit of the period   |       | -                | -                  | -                   | -              | -                | 377,429           | 377,429          |
| Net change in fair value of financial assets measured at fair value through other comprehensive income, net of tax |       | -                | 141,366            | -                   | -              | -                | -                 | 141,366          |
| Net change in actuarial gain/(loss) related to employee benefits, net of tax                                       |       | -                | -                  | -                   | -              | -                | (5,803)           | (5,803)          |
| Effective portion of changes in fair value   |       | -                | -                  | -                   | -              | (5,585)          | -                 | (5,585)          |
| Net amount transferred to profit or loss   |       | -                | -                  | -                   | -              | -                | -                 | -                |
| Net change in revaluation of tangible assets, net of tax   |       | -                | -                  | 14,988              | -              | -                | -                 | 14,988           |
| <b>Total other comprehensive income</b>  |       | <b>-</b>         | <b>141,366</b>     | <b>14,988</b>       | <b>-</b>       | <b>(5,585)</b>   | <b>371,626</b>    | <b>522,395</b>   |
| Other  |       | -                | 475                | -                   | -              | -                | (744)             | (269)            |
| <b>Total equity</b>  |       | <b>2,600,000</b> | <b>30,076</b>      | <b>136,811</b>      | <b>150,820</b> | <b>(1,706)</b>   | <b>1,921,067</b>  | <b>4,837,068</b> |
| <b>Transactions with the owners, recorded directly in equity</b>   |       |                  |                    |                     |                |                  |                   |                  |
| Transfers to other reserves  |       | -                | -                  | -                   | 22,076         | -                | (22,076)          | -                |
| <b>Balances at December 31, 2019 (audited)</b>   |       | <b>2,600,000</b> | <b>30,076</b>      | <b>136,811</b>      | <b>172,896</b> | <b>(1,706)</b>   | <b>1,898,991</b>  | <b>4,837,068</b> |

The notes on pages 9 to 88 are an integral part of these consolidated financial statements.

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Consolidated statement of cash flows  
for the year ended December 31, 2019  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

|   | Notes     | December 31, 2019<br>(audited) | December 31, 2018<br>(audited) |
|---|-----------|--------------------------------|--------------------------------|
| <b>Cash flows from operating activities:</b>  |           |                                |                                |
| Profit for the period   |           | 377,429                        | 445,360                        |
| <b>Adjustments for:</b>   |           |                                |                                |
| Depreciation and amortisation   |           | 166,652                        | 87,826                         |
| Net impairment loss on financial assets   | 16, 29    | 729,885                        | 475,236                        |
| Net change in fair value of derivative instruments held for trading                     | 21        | (290,207)                      | (735,258)                      |
| Provision for employee benefits   | 29        | 38,692                         | 31,914                         |
| Provision for litigation and claims   | 29        | 26,158                         | 21,079                         |
| Other non-cash items  | 29        | (1,079,558)                    | 15,267                         |
| Net profit share accrual income/expense   |           | (274,629)                      | (90,353)                       |
| Income tax expense  | 15        | 98,981                         | 124,701                        |
|   |           | <b>(206,597)</b>               | <b>375,772</b>                 |
| Change in loans, leasing receivables and advances to customers                          |           | (1,842,051)                    | (3,884,798)                    |
| Change in other assets  |           | (2,184,793)                    | (1,771,892)                    |
| Change in funds collected from banks  |           | 4,012                          | (164,841)                      |
| Change in funds collected from customers  |           | 13,139,111                     | 4,952,117                      |
| Change in other liabilities   |           | (262,572)                      | 131,077                        |
|   |           | <b>8,647,110</b>               | <b>(362,565)</b>               |
| Income tax paid   | 15        | (69,761)                       | (182,246)                      |
| <b>Net cash used in operating activities</b>  |           | <b>8,577,349</b>               | <b>(544,811)</b>               |
| <b>Cash flows from investing activities:</b>  |           |                                |                                |
| Acquisition of financial assets valued at fair value through other comprehensive income |           | (2,180,770)                    | (403,686)                      |
| Acquisition of financial assets valued at amortised cost                                |           | -                              | -                              |
| Proceeds from financial assets valued at fair value through other comprehensive income  |           | 403,563                        | 2,104,203                      |
| Proceeds from of financial assets valued at amortised cost                              |           | 200,000                        | 450,000                        |
| Acquisition of property and equipment   | 23        | (73,199)                       | (141,489)                      |
| Proceeds from the sale of property and equipment  |           | 5,645                          | 10,421                         |
| Acquisition of intangible assets  | 23        | (72,316)                       | (60,230)                       |
| <b>Net cash provided from / (used) in investing activities</b>                          |           | <b>(1,717,077)</b>             | <b>1,959,219</b>               |
| <b>Cash flows from financing activities:</b>  |           |                                |                                |
| Proceeds from funds borrowed  |           | 40,156,523                     | 11,505,529                     |
| Repayment of funds borrowed   |           | (43,792,685)                   | (10,942,160)                   |
| Re-payment of debt securities   |           | (12,987,140)                   | (4,885,033)                    |
| Proceeds from issue of debt securities  |           | 8,440,000                      | 4,278,100                      |
| Payment of leasing  |           | (110,239)                      | -                              |
| Other   |           | 385                            | 55                             |
| <b>Net cash provided from financing activities</b>                                      |           | <b>(8,293,156)</b>             | <b>(43,509)</b>                |
| <b>Net (decrease) / increase in cash and cash equivalents</b>                           |           | <b>(1,432,884)</b>             | <b>1,370,899</b>               |
| Cash and cash equivalents at 1 January  | 17        | 6,148,791                      | 2,606,712                      |
| Effect of exchange rate fluctuations on cash held                                       |           | 1,181,950                      | 2,171,180                      |
| <b>Cash and cash equivalents at December 31,</b>  | <b>14</b> | <b>5,897,857</b>               | <b>6,148,791</b>               |

The notes on pages 9 to 88 are an integral part of these consolidated financial statements.

## **Türkiye Finans Katılım Bankası Anonim Şirketi**

### **Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (Currency - In thousands of Turkish Lira unless otherwise stated)**

#### **1. Activities of the Participation Bank**

Türkiye Finans Katılım Bankası AŞ (the "Participation Bank") was established in accordance with the Provision on Establishment of Participation Banks of Decree No. 83/7506 dated December 16, 1983. The Participation Bank (formerly; Anadolu Finans Kurumu AŞ) obtained permission from the Central Bank of Turkey on October 24, 1991 and commenced operations on November 4, 1991.

In accordance with the resolution in the board meeting of Anadolu Finans Kurumu AŞ numbered 1047, on May 31, 2005 a merger between the Participation Bank and Family Finans Kurumu AŞ was decided.

All the assets, liabilities and also off-balance sheet liabilities of Family Finans Kurumu AŞ were transferred to Anadolu Finans Kurumu AŞ during the merger. With the resolution dated October 20, 2005 and numbered 1726 by Banking Regulation and Supervision Agency ("BRSA"), the transfer agreement, signed by the boards of directors' of Anadolu Finans Kurumu AŞ and Family Finans Kurumu AŞ and modified draft of main contract of Anadolu Finans Kurumu AŞ were approved. The registry on the decision regarding the merger which was concluded in the general assemblies of both participation banks on December 23, 2005 was approved by BRSA's resolution dated December 28, 2005, and numbered 1764.

In accordance with BRSA's resolution dated November 30, 2005, and numbered 1747 related to the merger of both participation banks, the title was changed into Türkiye Finans Katılım Bankası AŞ providing that required permission be given by the Council of Ministers within the framework of the 48th article of the Turkish Commercial Law. The new title was registered by the Turkish Trade Registry of Istanbul on December 30, 2005 in compliance with the Turkish Commercial Law numbered 6762.

The Participation Bank operates in accordance with the principles of interest-free banking and Islamic rules as a participation bank, by collecting funds through current accounts and profit-sharing accounts and lending such funds through 310 branches with 3,461 employees as at December 31, 2019.

TF Varlık Kiralama AŞ, which was established on February 11, 2013 and the subsidiary of the Parent Participation Bank with 100% ownership is fully consolidated in the consolidated financial statements of the Participation Bank starting from June 30, 2013.

TFKB Varlık Kiralama AŞ, which was established on July 8, 2014 and the subsidiary of the Parent Participation Bank with 100% ownership is fully consolidated in the consolidated financial statements of the Participation Bank from December 31, 2014

The Participation Bank's head office is located at Saray Mahallesi, Sokullu Caddesi No:6 17. Ümraniye-İstanbul

With the authorization of BRSA, numbered 2489 and dated February 28, 2008, 60% of the Parent Participation Bank was acquired by the National Commercial Bank. The Parent Participation Bank increased its capital from TL 292,047 to TL 800,000 with the capital increase in 2008 and from TL 800,000 to TL 1,775,000 with the capital increase in 2012. As per decision has taken by the Extraordinary General Assembly on August 29, 2014, the Parent Participation Bank's share capital increased by TL 825,000 from TL 1,775,000 to 2,600,000. The part of this increase amounting to TL 600,000 was transferred from general reserve and the remaining part amounting to TL 225,000 was paid in cash. Cash commitment amounting to TL 100,000 recorded into capital accounts on October 24, 2014, and remaining part amounting to TL 125,000 recorded into capital accounts on November 19, 2014 with the approval of Banking Regulation and Supervision Agency.

## **Türkiye Finans Katılım Bankası Anonim Şirketi**

### **Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)**

#### **1. Activities of the Participation Bank (continued)**

As of December 31, 2019, the Parent Participation Bank's paid-in-capital consists of 2,600,000,000 shares of TL 1 nominal each. Ultimate parent of the Bank is National Commercial Bank.

As of December 31, 2019, the shares are held as follows; the National Commercial Bank 67.03%, Other 22.4%, Gözde Girişim Sermayesi Yatırım Ortaklığı 10.57% as parent shares. The Participation Bank is controlled by the National Commercial Bank.

All financial statements of Group and the Participation Bank as at and for end of the period December 31, 2019 are available at [www.turkiyefinans.com.tr](http://www.turkiyefinans.com.tr).

The financial statements of the Bank were authorized for issue by the management on March 18, 2020. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

#### **2. Basis of presentation of financial statements**

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS"). The principal accounting policies adopted in the preparation of these financial statements are set out below.

The Bank maintains its books of account and prepares its financial statements in Turkish Lira, which is the currency of the primary economic environment in which the Bank operates, in accordance with the Banking Act, based on accounting principles regulated by the "BRSA", which refers to "Turkish Accounting Standards" ("TAS") and "Turkish Financial Reporting Standards ("TFRS") issued by the Public Oversight Accounting and Auditing Standards Authority and other decrees, notes and explanations related to the accounting and financial reporting principles published by the BRSA, and the other relevant rules and regulations regulated by the Turkish Commercial Code and Turkish Tax Legislation.

The accompanying financial statements are based on the statutory records which are maintained under the historical cost convention, except for derivative assets and liabilities held for trading and financial assets valued at fair value through other comprehensive income which are measured at fair value of fair presentation in accordance with IFRS. These financial statements are presented in Turkish Lira since that is the currency in which the majority of the Bank's transactions are denominated.

##### **2.1. Accounting in hyperinflationary countries**

Financial statements of the entities located in Turkey have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 – Financial Reporting in Hyperinflationary Economies as at December 31, 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at December 31, 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute. This, together with the sustained positive trend in quantitative factors, such as the stabilisation in capital and money markets, decrease in profit share rates and the appreciation of TL against the US Dollar and other hard currencies have been taken into consideration to categorise Turkey as a non-hyperinflationary economy under IAS 29 effective from January 1, 2006.

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**2. Basis of preparation (continued)**

**2.2. Use of estimates and judgments**

In preparing these consolidated financial statements, the Bank management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

**Assumptions and estimation uncertainties**

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is set out below.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment as at December 31, 2019 is set out below in relation to the impairment of financial instruments and in the following notes:

- Note 5– determining fair values of financial instruments and hedge accounting
- Note 12– recognition of deferred tax assets
- Note 16- loans, lease receivables and advances to customers (IFRS 9 Impairment)
- Note 25– recognition and measurement of provisions
- Note 25 – measurement of defined benefit obligations: key actuarial assumptions

***Impairment of financial instruments***

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

**2.4. Changes in accounting policies**

The accounting policies adopted in the preparation of the consolidated financial statement as at December 31, 2019 are consistent with those followed in the preparation of the consolidated financial statement of the prior year, except for the new standards and amendments to standards, including any consequential amendments to other standards summarized in related notes.

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

##### 3.1. Basis of consolidation

###### (i) Subsidiaries

“Subsidiaries” are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases. The subsidiaries are presented in Note 30.

###### (ii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI 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.

###### (iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

##### 3.2. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency, TL, of the Participation Bank at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognised in profit or loss and other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The official TL exchange rates used by the Participation Bank for foreign currency translation are as follows:

|                   | EUR / TL | USD / TL |
|-------------------|----------|----------|
| December 31, 2019 | 6.6506   | 5.9402   |
| December 31, 2018 | 6.0280   | 5.2609   |

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**3. Significant accounting policies (continued)**

**3.3. Profit share**

Profit share income and expense are recognised in profit or loss using the effective rate method. The effective rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective rate, the Participation Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

Profit share income and expense presented in the profit or loss includes:

- profit share on financial assets and liabilities at amortised cost on an effective rate basis,
- profit share on financial assets valued at fair value through other comprehensive income on an effective rate basis.

**3.4. Fees and commission**

Fees and commission income and expenses that are integral to the effective rate on a financial asset or liability are included in the measurement of the effective rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

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

**3.5. Net trading income**

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes, except for the unrealised gains of financial assets valued at fair value through othe comprehensive income.

**3.6. Dividend income**

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

**3.7. Lease payments made**

Payments made under operating leases are recognised in profit or loss. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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 profit share on the remaining balance of the liability.

## **Türkiye Finans Katılım Bankası Anonim Şirketi**

### **Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)**

#### **3. Significant accounting policies (continued)**

##### **3.8. Income and Deferred tax expense**

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

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted on the balance sheet date, and any adjustment to tax payable in respect of prior years.

The corporate tax rate in Turkey is 20%. However, in accordance with the provisional article 10 added to the Corporate Tax Law, the corporate tax rate of 20% corresponds to the corporate earnings of the corporation's taxation periods of 2018, 2019 and 2020 (accounting periods for the institutions for which special account turnover has been set) 22%.

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. 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. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax 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.

##### **3.9. Financial assets and liabilities**

###### *Recognition*

The Participation Bank initially recognises loans, lease receivables and advances, funds collected, funds borrowed, and subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date on which the Participation Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value profit or loss) are initially recognised on the trade date at which the Participation Bank becomes a party to the contractual provisions of the instrument.

###### *Classification*

See accounting policies 3.10, 3.11, 3.12, 3.13, 3.14, 3.15 and 3.21.

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**3. Significant accounting policies (continued)**

*Derecognition*

The Participation Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Participation Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any profit share in transferred financial assets that is created or retained by the Participation Bank is recognised as a separate asset or liability. On derecognition of a financial asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including the new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Participation Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets valued at fair value through other comprehensive income and financial assets at fair value through profit or loss that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as at the date the Participation Bank commits to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

*Offsetting*

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Participation Bank has a legal right to set off the recognised amounts and it 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 Participation Bank's trading activity.

*Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

*Fair value measurement*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Participation Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**3. Significant accounting policies (continued)**

If a market for a financial instrument is not active, the Participation Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same and discounted cash flow analyses. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Participation Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Participation Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

*Initial recognition of financial instruments*

The Parent Participation Bank shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted at the settlement date.

*Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. Except for the assets in the scope of IFRS 15 Revenue from contracts with customers, at initial recognition, The Parent Participation Bank measures financial asset or financial liabilities at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit/loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

*Classification of financial instruments*

On which category a financial instruments shall be classified at initial recognition depends on both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

*Assessment of business model*

As per IFRS 9, the business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Parent Participation Bank's business models consist of three categories.

*Business model aimed to hold assets in order to collect contractual cash flows:*

This is a model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount outstanding. Reserve deposit, loans and advances to banks, financial assets valued at amortized cost, loans, leasing receivables and advances to customers and other receivables are assessed within this business model.

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**3. Significant accounting policies (continued)**

*Business model aimed to collect contractual cash flows and sell financial assets:*

This is a model whose objective is achieved by both collecting contractual cash flows and selling financial assets: the Parent Participation Bank may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount outstanding. Financial Assets Measured at Fair Value through Other Comprehensive Income are assessed in this business model.

*Other business models:*

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial assets measured at fair value through profit/loss and derivative financial assets are assessed in this business model.

*Measurement categories of financial assets and liabilities*

In accordance with IFRS 9 of the Parent Participation Bank, financial assets are as follows on three main classes:

- Financial assets measured at fair value through profit/loss,
- Financial assets measured at fair value through other comprehensive income and
- Financial assets measured at amortized cost.

*Financial assets at the fair value through profit or loss:*

Financial assets at fair value through profit/loss" are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and profit share at certain date; that are either acquired for generating a profit from short term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

*Financial assets measured at fair value through other comprehensive income:*

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

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**3. Significant accounting policies (continued)**

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

For the first time on an entity's financial statements, an entity may choose a non-reversible option to present subsequent amendments to fair value of an investment in an equity instrument that are not held for trading purposes in other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

*Financial Assets Measured at Amortized Cost:*

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

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

*Explanations on Expected Credit Losses*

As of January 1, 2018, the Group recognises a loss allowance for expected credit losses on financial assets and loans measured at amortised cost, financial assets measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts not measured at fair value through profit/loss based on IFRS 9 and the regulation published in the Official Gazette no. 29750 dated June 22, 2016 in connection with "Procedures and Principals regarding Classification of Loans and Allowances Allocated for Such Loans" effective from January 1, 2018. At each reporting date, the Group shall assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group considers the changes in the default risk of financial instrument.

The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions. These financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

*Stage 1:*

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses. Calculation is made for each for Loss Given Default (LGD) and twelve LGD is detected, LGD amount to be used at this stage is determined by taking average of them. The twelve-month expected credit loss is calculated on the basis of a default estimate of twelve months following the reporting date. These expected twelve-month Probability of Defaults (PD) are applied to an estimated amount of default. This expected twelve-month default is discounted to the present day with the original effective interest rate of the loan multiplied by the LGD.

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**3. Significant accounting policies (continued)**

*Stage 2:*

As of the reporting date of the financial asset, in the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument's lifetime expected credit losses. There is no difference for products with a remaining one year or less as in Stage 1. The calculation method is similar to Stage 1, but Probability of Default (PD) and Loss Given Default (LGD) rates estimated throughout the life of the instrument. Loss Given Default is calculated monthly and a single LGD is determined for each year by taking averages. Loss Given Default (LGD) rates are determined as the number of months remaining for the loans with the remaining maturities less than 1 year and the amount of LGD is determined by taking averages of them.

The following criteria are used in the determination of loans as Stage 2,

- Loans with a delay of 30 and over 30 days,
- Restructured Loans,
- Loans followed closely and internally by the Bank,
- Loans resulting in a significant decline in rating as a result of the model are classified as model 2.

*Stage 3:*

Financial assets considered as impaired at the reporting date are classified as stage 3. The probability of default is taken into account as 100% in the calculation of impairment provision and the Parent Participation Bank accounts lifetime expected credit losses.

For the customers whose total risk amount is higher than the threshold value, the provision is calculated based on the collection estimates of the relevant expert team. In this direction, it is calculated by discounted the related cash flows under two scenarios. The first scenario is the continuation of the activities of the company and the second scenario is the discounting of the cash flows to be obtained as a result of the sale of the assets. They are calculated according to Loss Given Default (LGD) for the customers who are below the threshold value. The expected loss rates in the calculation reach 100% according to the result of the model.

Group considers the following criteria in determining the impairment:

- Delay of over 90 days,
- Impairment of credit ratings,
- Collateral and / or equity of debtor is inadequate to cover the payment of receivables regarding on its maturity,
- To be convinced that the receivables will be delayed more than 90 days due to macroeconomic, sector specific or customer specific reasons.

*Calculation of expected credit losses*

Group measured expected credit losses with the reasonable, objective and supportable informations based on a probability-weighted including estimations about time value of money, past events, current conditions and future economic conditions as of the reporting date, without undue cost or effort. The calculation of expected credit losses consists of three main parameters: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD). The PD and LGD parameters used in calculating the expected credit loss are calculated as point in time PD (PIT), including both current and expected cycle changes. Certain portion of the loans followed by the Remedial Department is evaluated individually according to internal policies for calculation of Expected Credit Loss (ECL). This calculation is made by discounting the expected cash flows of the loans with their current profit share rate.

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**3. Significant accounting policies (continued)**

*Probability of Default (PD)*

The PD represents the likelihood of a default over a specified time period. When calculating the expected credit loss in accordance with IFRS 9, two different PD values are used:

- 12-month Probability of Default (PD): Estimation of the probability of default within 12 months after the reporting date.
- Lifetime Probability of Default (PD): Estimation of probability to occur during the expected life of the borrower.

The lifetime PD calculation is based on a series of 12-month instant (PIT) PDs that are derived from TTC PDs and scenario forecasts.

Commercial portfolio customers with ratings produced by internal rating systems are grouped at different risk levels by taking into account rating notes in order to determine the Probability of Default (PD). Internal ratings models used in the commercial portfolio-party customers contains several elements such as behavior of the incorporated registration information in the Parent Participation Bank and Central Bank of the Republic of Turkey (CBRT), financial information, qualitative characteristics and industry. The retail portfolio has been decomposed on the basis of product group and the Probability of Default (PD) calculations for both the commercial and retail portfolio have been realized by taking into consideration the default data in the past, current conditions and prospective macroeconomic expectations.

Future macroeconomic information is included in the credit risk parameters in the expected credit loss calculation. Specification and estimation of econometric models that reveal the past relationships between credit risk parameters and macroeconomic variables are made in order to produce predictions based on macroeconomic reflections. Various macroeconomic indicators such as the GDP, unemployment rate, inflation, exchange rate, bond profit share rates and the effect of legal changes are used in the context of these forecasts. Macroeconomic models have been established by identifying the variables that best explain the PDs of the Parent Participation Bank customers.

While creating macroeconomic expectations, the scenarios used within the scope of Internal Capital Adequacy Assessment Process (ISEDES) are taken into consideration. In this context, three scenarios are used (Bank base scenario, Bank bad scenario, BRSA base scenario) and the scenarios are weighted with the determined probability and the final expectations.

*Loss Given Default (LGD)*

The LGD represents an estimate of the loss at the time of a potential default occurring during the life of a financial instrument. The LGD is calculated taking into account expected future cash flows from collateral and other credit enhancements by considering time value of money.

LGD calculation has been performed according to the segments that are consisted of segregated risk parameters by using the past data that reflects best the current conditions. In LGD modelling, all the non-performing loan procedures/cases which are resulted according to the period that loans are granted are taken into consideration.

LGD takes into account all cash flows from customers after default. It includes all the relevant costs and collections incurred during the collection cycle including collections provided with collaterals and also includes "time value of the money" that calculated with reducing the cost and additional losses from the current value of the collections.

**Notes to the consolidated financial statements  
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**3. Significant accounting policies (continued)**

*Exposure at Default (EAD)*

The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial instrument. It represents the cash flows outstanding at the time of default, considering expected repayments, profit share payments and accruals, discounted at the effective interest rate. Future drawdowns on facilities are considered through a credit conversion factor (CCF) that is reflective of historical drawdown and default patterns and the characteristics of the respective portfolios.

*Calculating the Expected Loss Period*

Lifetime ECL is calculated by taking into account maturity extensions, repayment options and the period during which the Parent Participation Bank will be exposed to credit risk. The time in financial guarantees and other irrevocable commitments represents the credit maturity for which the liabilities of the Group. Behavioral maturity analysis has been performed on credit cards and overdraft funds collected.

*Significant increase in credit risk*

The Group makes qualitative and quantitative assessments regarding assessment of significant increase in credit risk of financial assets to be classified as stage 2 (Significant Increase in Credit Risk).

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. In this context, the Group has calculated thresholds at which point the relative change is a significant deterioration. When determining the significant increase in bank credit risk, The Group also assessed the absolute change in the PD date on the transaction date and on the reporting date. If the absolute change in the PD ratio is above the threshold values, the related financial asset is classified as stage 2.

The Group classifies the financial asset as Stage 2 (Significant Increase in Credit Risk) where any of the following conditions are satisfied as a result of a qualitative assessment:

- Loans overdue more than 30 days as of the reporting date,
- Loans classified as watchlist,
- When there is a change in the payment plan due to restructuring.

**3.10. Cash and cash equivalents**

Cash and cash equivalents include cash on hand, cash at bank, cash on transit and loans and advances to banks. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

**3.11. Fair value through profit or loss**

The Group designates some financial assets at fair value, with fair value changes recognised immediately in profit or loss and other comprehensive income statement as described in accounting policy 3.9.

**3.12. Loans, lease receivables and advances**

Loans, lease receivables and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Participation Bank does not intend to sell immediately or in the near term.

**Notes to the consolidated financial statements  
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**3. Significant accounting policies (continued)**

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, lease receivables and advances.

Loans, lease receivables and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective rate method.

**3.13. Property and equipment**

*Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses except for buildings owned which are measured at fair value. Change in fair value is reflected into "revaluation reserve" account in other comprehensive income.

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

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

*Subsequent costs*

The cost of replacing a part of an item of property 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 Participation Bank 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 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 and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated

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

|  |            |
|--|------------|
| ▪ Buildings                                | 50 years   |
| ▪ Office equipment, furniture and fixtures | 3-10 years |
| ▪ Motor vehicles                           | 5 years    |
| ▪ Leased assets                            | 1-10 years |

Leasehold improvements are amortised over the shorter of periods of the respective leases and their useful lives, also on a straight-line basis.

Depreciation methods, useful lives and residual values are reassessed at the each financial period-ended and adjusted if appropriate.

**Notes to the consolidated financial statements  
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**3. Significant accounting policies (continued)**

**3.14. Derivative financial instruments and estimations**

Derivatives are initially recorded in off-balance sheet accounts at their contract values. Immediately after contract date, the derivative transactions are valued at their fair values and the changes in their fair values are recorded on balance sheet under “derivative financial assets” or “derivative financial liabilities”, whichever is relevant. Subsequent fair value changes for trading derivatives are recorded under profit or loss.

The Group hedges its fair value risk arising from leasing receivables by using cross currency swaps. Hedging gains and losses are posted to income statement to offset corresponding FV changes of derivative instrument and FV change calculated over hedge item is posted on hedge item as an adjustment.

The Group hedges its cash flow risk arising from foreign currency liabilities by using cross currency swap. The effective portion of the fair value changes of the hedging instruments are recorded in “Hedging funds” under shareholders’ equity. These funds are transferred to profit or loss from equity when the cash flows of the hedged items impact the income statement. In case the cash flow hedge accounting is discontinued due to the expiry, realization for sale of the hedging instrument, discontinuing or due to the results of the effectiveness test the amounts accounted under shareholders’ equity are transferred to the profit and loss accounts as these cash flows of the hedged item are realized.

When the hedging instrument expires, is executed or sold and when the hedge relationship becomes ineffective or is discontinued as a result of the hedge relationship being revoked; the hedging gains and losses that were previously recognized under equity are transferred to profit or loss when the cash flows of the hedged item are realized and adjustments made to the carrying amount of the hedged item are transferred to profit and loss with straight line method for portfolio hedges or with effective interest rate method for micro hedges.

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

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 will continue to apply hedge accounting in accordance with IAS 39 in this context.

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

**3.15. Intangible assets**

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three to five years.

Amortisation methods, useful lives and residual values are reassessed at each financial period-ended and adjusted if appropriate.

**Notes to the consolidated financial statements  
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**3. Significant accounting policies (continued)**

**3.16. Leased assets – lessee**

Assets acquired under finance lease agreements are capitalised at the inception of the lease at the “lower of the fair value of the leased asset or the present value of the amount of cash consideration given for the leased asset”. Leased assets are included in the property and equipment and depreciation is charged on a straight-line basis over the useful life of these assets. If there is any diminution in value of the leased asset, a “Provision for value decrease” is recognised. Liabilities arising from the leasing transactions are included in “Financial Lease Payables” on the balance sheet. Interest and foreign exchange expenses regarding lease transactions are charged to the income statement. The Bank can engage in financial lease transactions as the lessor. The Bank records the gross amount of minimum lease receivables comprising of principal and interest amounts as “financial lease receivables” under lease receivables account. The difference between the aggregate of lease receivables and the cost of the related leased assets, corresponding to interest, is recorded under “unearned income” item. The interest income is recognised in the income statement on an accrual basis. Effective January 1, 2019, The Bank adopted IFRS 16 Leases and started to present most leases on-balance sheet except its short-term leases and its low value assets. The Bank did not restate the financial information for the comparative year by choosing the modified approach.

**3.17. Assets Held for Sale**

Assets held for sale are not amortized or depreciated and presented in the financial statements separately. In order to classify a tangible fixed asset as held for sale, the asset should be available for an immediate sale in its present condition subject to the terms of any regular sales of such assets and the sale should be highly probable. For a highly probable sale, the appropriate level of management must be committed to a plan to sell the asset and an active programme to complete the plan should be initiated to locate a customer. Also, the asset should have an active market sale value, which is a reasonable value in relation to its current fair value.

**3.18. 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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. 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 units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. 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. An impairment loss in respect of other assets, impairment losses recognised in prior periods is 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.

**Notes to the consolidated financial statements  
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**3. Significant accounting policies (continued)**

**3.19. Funds Collected, debt securities issued, funds borrowed, and subordinated liabilities**

Funds collected are the Participation Bank's main source of debt funding. Funds collected of the Participation Bank comprised of the customers' current and profit-sharing accounts.

Customers' current and profit-sharing accounts are initially recognised at cost. Subsequent to the initial recognition, all profit share accounts are recognised considering the attribute profits or any losses incurred on the respective loan balances. In all cases, profit/loss sharing accounts receive a proportion of the profit or bear a share of loss based on the results of the respective loan balances.

Debt securities issued, funds borrowed, and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

**3.20. 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.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Participation Bank recognises any impairment loss on the assets associated with that contract.

**3.21. Employee benefits**

*Reserve for employee severance indemnity*

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Group arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. Employment termination benefit is not a funded liability and there is no requirement to fund it. Employment termination benefit is calculated based on the estimation of the present value of the employee's probable future liability arising from the retirement. IAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the bank's obligation under defined employee plans. IAS 19 ("Employee Benefits") has been revised effective from the annual period beginning after January 1, 2013. In accordance with the revised standard, actuarial gain / loss related to employee benefits shall be recognised in other comprehensive income.

## **Türkiye Finans Katılım Bankası Anonim Şirketi**

### **Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)**

#### **3. Significant accounting policies (continued)**

##### *Short-term employee benefits*

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

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Participation Bank 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.

The Group does not have any internally set defined contribution plan.

#### **3.22. Segment reporting**

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 Participation Bank's Management Committee (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. Segment results that are reported to the Board of Directors include items directly attributable to that segment as well as those that can be allocated on a reasonable basis.

#### **3.23. 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 financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

#### **3.24. The new standards, amendments and interpretations**

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 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 January 1, 2019. The effects of these standards and interpretations on the the Group's financial position and performance have been disclosed in the related paragraphs.

##### **i) The new standards, amendments and interpretations which are effective as at January 1,2019 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 January 1, 2019.

**Notes to the consolidated financial statements  
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**3. Significant accounting policies (continued)**

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 profit share 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 profit share 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 Group applies IFRS 16 with a simplified retrospective approach. As of the date of transition, the Group has benefited from the facilitation practices for leasing and low-value rentals that will be completed within 12 months or less.

Effects on the statement of financial position as of January 1, 2019 (increase / (decrease):

|   |         |
|---|---------|
| Assets                                  |         |
| Tangible fixed assets (existence right) | 254,861 |
| Prepaid expenses                        | (4,964) |
|   |         |
| Liabilities                             |         |
| Leasing liabilities                     | 249,897 |
| Deferred tax liabilities                | -       |
| Net effect on equity                    |         |

**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*. The amendments clarify that a company applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

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, 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. These amendments are applied for annual periods beginning on or after January 1, 2019. 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:

**Notes to the consolidated financial statements  
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**3. Significant accounting policies (continued)**

- (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 interpretation 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 issued Annual Improvements to IFRS Standards 2015–2017 Cycle, amending the following standards:

- 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 are effective from annual periods beginning on or after January 1, 2019. 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 February 7, 2018, the IASB published Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” 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. These amendments are applied for annual periods beginning on or after January 1, 2019. The amendments did not have a significant impact on the financial position or performance of the the Group.

**Prepayment Features with Negative Compensation (Amendments to IFRS 9)**

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.

These amendments are applied for annual periods beginning on or after January 1, 2019. The amendments did not have a significant impact on the financial position or performance of the Group.

**Notes to the consolidated financial statements  
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**3. Significant accounting policies (continued)**

**ii) 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.

**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. The Group will wait until the final amendment to assess the impacts of the changes.

The ISB 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. IFRS 17 will become effective for annual reporting periods beginning on or after January 1, 2021; early application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

**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 January 1, 2020 and apply prospectively. Earlier application is permitted.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

**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.

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**3. Significant accounting policies (continued)**

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after January 1, 2020. The amendments must be applied prospectively, and earlier application is permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

**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 January 1, 2020 provide certain reliefs for 4 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.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the the Group.

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

January 23, 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 January 1, 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.

The Group is in the process of assessing the impact of the amendments on financial position or performance of the the Group.

**4. Financial risk management**

**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 Participation Bank's exposure to each of the above risks, the Participation Bank's objectives, policies and processes for measuring and managing risk, and the Participation Bank's management of capital.

**Notes to the consolidated financial statements  
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**4. Financial risk management (continued)**

*Risk management framework*

The Board of Directors has overall responsibility for the establishment and oversight of the Participation Bank's risk management framework. The Board has established the Participation Bank's Asset and Liability ("ALCO") committee, Credit committee and Risk Management Department, which are responsible for monitoring the Participation Bank risk management policies in their specified areas.

All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Participation Bank's risk management policies are established to identify and analyse the risks faced by the Participation Bank, 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 Participation Bank, 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 Participation Bank's Audit Committee is responsible for monitoring compliance with the Participation Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Participation Bank's. The Participation Bank's Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Participation Bank's Audit Committee.

**Credit risk**

Credit risk is defined as the current or prospective threat to the Participation Bank's earnings and capital as a result of counterparty's failure to comply with a financial or other contractual obligation in respect of the institution, including the possibility of restrictions on or impediments to the transfer of payments from abroad and arises principally from the Participation Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Participation Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

*Management of credit risk*

For credit risk management purposes, the Risk Management Department is involved in

- the determination of credit risk policies in coordination with the Participation Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- contribution to the formation 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.

Regular audits of business units and Participation Bank's credit processes are undertaken by internal audit.

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 4. Financial risk management (continued)

The Bank's internal credit rating grades in the application of IFRS 9 is as follows:

| Internal rating Grade | Internal rating description | IFRS 9 12 month PD | Good Rating Agency's rating |
|-----------------------|-----------------------------|--------------------|-----------------------------|
| <b>Performing</b>     |                             |                    |                             |
| AAA to A-             | High Grade                  | 0.4%               | Very good                   |
| BBB+                  | High Grade                  | 0.4%               | Very good                   |
| BBB                   | High Grade                  | 1.0%               | Very good                   |
| BBB-                  | High Grade                  | 1.0%               | Very good                   |
| BB+                   | High Grade                  | 1.0%               | Very good                   |
| BB1                   | High Grade                  | 1.0%               | Very good                   |
| BB2                   | Standart                    | 1.6%               | Good                        |
| BB-                   | Standart                    | 2.1%               | Good                        |
| B+                    | Sub-Standart                | 3.5%               | Average                     |
| B1                    | Sub-Standart                | 5.8%               | Average                     |
| B2                    | Past due but not impaired   | 7.7%               | Bad                         |
| B-                    | Past due but not impaired   | 7.7%               | Bad                         |
| CCC+                  | Past due but not impaired   | 7.7%               | Bad                         |
| CCC                   | Past due but not impaired   | 7.7%               | Bad                         |
| CCC-                  | Past due but not impaired   | 7.7%               | Bad                         |
| CC to C               | Past due but not impaired   | 7.7%               | Bad                         |
| <b>Non-Performing</b> |                             |                    |                             |
|                       | Individually impaired       | 100.0%             | Very Bad                    |

## Türkiye Finans Katılım Bankası Anonim Şirketi

Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)

### 4. Financial risk management (continued)

Türkiye Finans Katılım Bankası A.Ş.

|                        |               |                         | 2019    | 2020    |
|------------------------|---------------|-------------------------|---------|---------|
| <b>REAL GDP GROWTH</b> |               | <b>Assigned Weights</b> |         |         |
|                        | TFKB Base     | 40%                     | 2,30%   | 3,50%   |
|                        | BDDK Base     | 20%                     | 2,30%   | 3,50%   |
|                        | TFKB Negative | 40%                     | (2,00%) | 0,00%   |
| <b>FX BASKET</b>       |               |                         |         |         |
|                        | TFKB Base     | 40%                     | 6,78    | 7,46    |
|                        | BDDK Base     | 20%                     | 6,58    | 7,05    |
|                        | TFKB Negative | 40%                     | 7,60    | 8,61    |
| <b>D (FX BASKET)</b>   |               |                         |         |         |
|                        | TFKB Base     | 40%                     | 1,12    | 0,68    |
|                        | BDDK Base     | 20%                     | 0,93    | 0,47    |
|                        | TFKB Negative | 40%                     | 1,94    | 1,01    |
| <b>ROE</b>             |               |                         |         |         |
|                        | TFKB Base     | 40%                     | 12,4%   | 14,4%   |
|                        | BDDK Base     | 20%                     | 11,2%   | 9,7%    |
|                        | TFKB Negative | 40%                     | 7,0%    | 8,1%    |
| <b>D(ROE)</b>          |               |                         |         |         |
|                        | TFKB Base     | 40%                     | 1,79%   | 2,01%   |
|                        | BDDK Base     | 20%                     | 0,63%   | (1,53%) |
|                        | TFKB Negative | 40%                     | (3,64%) | 1,13%   |
| <b>M PRICE</b>         |               |                         |         |         |
|                        | TFKB Base     | 40%                     | 183,8   | 193,0   |
|                        | BDDK Base     | 20%                     | 211,4   | 241,0   |
|                        | TFKB Negative | 40%                     | 174,6   | 174,6   |
| <b>LOG(M PRICE)</b>    |               |                         |         |         |
|                        | TFKB Base     | 40%                     | 5,21    | 5,26    |
|                        | BDDK Base     | 20%                     | 5,35    | 5,48    |
|                        | TFKB Negative | 40%                     | 5,16    | 5,16    |

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**4. Financial risk management (continued)**

*Exposure to credit risk*

|                                 | Due from banks<br>December 31,<br>2019 | Loans and advances<br>to customers<br>December 31,<br>2019 |
|---------------------------------|--|--|
| <b>Carrying amount (net)</b>    | <b>3,602,037</b>                       | <b>31,722,075</b>  |
| Performing financial assets     | 3,603,961                              | 30,706,903   |
| Non-performing financial assets | -                                      | 2,666,352  |
| <b>Gross amount</b>             | <b>-</b>                               | <b>2,666,352</b>   |
| <b>Total ECL</b>                | <b>(1,924)</b>                         | <b>(1,651,180)</b>   |
| ECL provision for Stage 3       |  | (1,446,437)  |
| ECL provision for Stage 2       |  | (123,954)  |
| ECL provision for Stage 1       | (1,924)                                | (80,789)   |
| <b>Gross amount before ECL</b>  | <b>3,603,961</b>                       | <b>33,373,255</b>  |

|                                 | Due from banks<br>December 31,<br>2018 | Loans and advances<br>to customers<br>December 31,<br>2018 |
|---------------------------------|--|--|
| <b>Carrying amount(net)</b>     | <b>1,432,658</b>                       | <b>30,088,212</b>  |
| Performing financial assets     | 1,435,300                              | 29,922,286   |
| Non-performing financial assets | -                                      | 1,732,682  |
| <b>Gross amount</b>             | <b>-</b>                               | <b>1,732,682</b>   |
| <b>Total ECL</b>                | <b>(2,642)</b>                         | <b>(1,566,756)</b>   |
| ECL provision for Stage 3       | -                                      | (1,220,037)  |
| ECL provision for Stage 2       | -                                      | (235,014)  |
| ECL provision for Stage 1       | (2,642)                                | (111,705)  |
| <b>Gross amount before ECL</b>  | <b>1,435,300</b>                       | <b>31,654,968</b>  |

*Credit risk by risk groups*

|   | Individual       | Corporate         | Total             |
|---|------------------|-------------------|-------------------|
| <b>December 31, 2019</b>                    |                  |                   |                   |
| Performing loans                            | 4,735,898        | 21,664,863        | 26,400,761        |
| Loans under close monitoring                | 240,214          | 4,065,928         | 4,306,142         |
| Non-performing loans                        | 254,611          | 2,411,741         | 2,666,352         |
| <b>Gross</b>                                | <b>5,230,723</b> | <b>28,142,532</b> | <b>33,373,255</b> |
| Specific provisions for Stage 3             | 157,442          | 1,288,995         | 1,446,437         |
| Generic provisions for Stage 1 and Stage 2  | 20,306           | 184,437           | 204,743           |
| <b>Total</b>                                | <b>5,052,975</b> | <b>26,669,100</b> | <b>31,722,075</b> |
| <b>December 31, 2018</b>                    |                  |                   |                   |
| Performing loans                            | 4,401,932        | 21,625,616        | 26,027,548        |
| Loans under close monitoring                | 303,012          | 3,591,726         | 3,894,738         |
| Non-performing loans                        | 292,552          | 1,440,130         | 1,732,682         |
| <b>Gross</b>                                | <b>4,997,496</b> | <b>26,657,472</b> | <b>31,654,968</b> |
| Generic provision for possible loan losses  | 193,757          | 1,026,280         | 1,220,037         |
| Specific provision for possible loan losses | 19,778           | 326,941           | 346,719           |
| <b>Total</b>                                | <b>4,783,961</b> | <b>25,304,251</b> | <b>30,088,212</b> |

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**4. Financial risk management (continued)**

Required management environment for credit risk, establishment of credit risk strategies and policies, determination of acceptable risk level and risk limits, avoidance of risk concentration, establishment of review processes related to credit risk in new product and service presentations, arrangement of delegation of authorization, ensuring of accountability are ensured through determination of qualifications requested for the personnel which shall be assigned.

Credit policies are determined in-written, approved by Board of Directors and updated in the framework of financial position of the Bank, market conditions and trends and equity level, if required.

Principles applied in evaluation, allocation and monitoring phases of credits are determined through credit policies and it is aimed to meet requirements of clients both in a precautionary and also competitive approach in line with policies. One of the main targets is the controlled growth of credit portfolio and risks taken during the credit relation with customers are determined through specific standards. Credit policies reveal main review criteria and risk parameters taking renewal of current credits or enhancing new credits in line with established standards.

Credit proposals are evaluated considering financial power and morality of the debtor and finally approved accordingly in credit management. It is evaluated whether debtors have repayment capacity or not through taking estimated cash flow of debtor, debt service level (repayment capacity) and expected return-risk relation into consideration as well as financial data. If it is difficult to obtain comprehensive financial data, credit review is made through analysis performed with available data receiving further information about purpose of the credit used.

Credit risk is measured through:

Customer Pre-selection Criteria

Risk grading systems (Rating and Scoring Models)

NBSM Decision Support System at banks.

Credit risk measurement in SME, Commercial and Corporate segments is performed through "Customer Preselection Criteria" policies and "Rating Models". The customer pre-selection criteria is determined by taking into account the Bank's risk appetite and best practices and other performance variables in the sector and applied in the credit approval process. In the determination of the criteria, the analysis is used for the probable customers who are likely to become problematic or problematic in the bank's loan portfolio.

In the rating models, the current portfolio data of the relevant segment is modeled by taking into account the expert opinions with statistical methods. The model assumptions and limitations used to measure risks the basic assumptions used, the adequacy and appropriateness of data sources and application procedures will be coordinated. Rating grade is a risk indicator summarizing cash flow, profitability and indebtedness, industry and activity history, management capability and other information of the credit debtor. The rating models are passed through the validation process annually unless otherwise requested. Depending on the results of the validation, the model can continue to be used as it is, updates can be made in the current model, or a new model can be created. These rating models are kept up-to-date to reflect changing market conditions. Rating grade and Default Rate value of a customer demonstrates possibility of default in 1 year period and used in order to determine creditability of the related customer.

Business, Entrepreneur, Credit Cards, Individual Loans and Micro Segment Scoring Models are models produced by using statistical methods and data mining / modeling tools for related segments and products over the customer data of the Bank's portfolio. At the time of application, they measure the risk grades of the customers and generate a risk score and a TO value. Model development work is carried out in coordination with the relevant business units. Scoring models are passed through the validation process annually unless otherwise requested.

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**4. Financial risk management (continued)**

In this process, the predictive power of the model is evaluated by comparing the actual performance with the predicted performance over the customer data that has passed the application scoring model in the past and the performance of a certain period has occurred. Updates can be made in the model or a new model can be created if necessary at the end of the validation.

The cut-off for customers is determined by Rating and Scoring Models, in-bank procedures.

Maximum risk amount which can be accepted by the Bank in a certain jurisdiction is determined by limits of related jurisdiction. This limit covers all risks of credit, market, counterparty and exchange risks undertaken by the Bank. Principles regarding country risk and limits are determined through related intra-bank procedures.

Limits regarding credit risk are determined within the risk appetite structure in order to manage credit risk in an effective and proactive manner at the Bank.

Main purpose of Credit Risk Committee is to monitor credit portfolio, activities having credit risk and related processes end to end. It also makes evaluations on determination/recommendation and follow-up of improvement and risk mitigation actions in scope of its authorization depending upon the decision of the Committee. In addition, Credit Committee, holding meetings at Board of Directors level, evaluates risk appetite reports (with respect to credit risk and related aspects of risk concentration) and internal performance indicator levels, policies, regulations, processes of credits, collections and provisions and course of credit activities and makes decisions, if required.

Except for the reporting made in line with Basel principles, Risk Management Center Directorate shares results of analysis and evaluation results performed in scope of credit risk management with senior management of the Bank on a monthly basis. Detailed analysis related to key risk indicators related to credit portfolio, evaluation results based on product related to commercial and individual credits, evaluation results related to concentration risk and collections through the performed study. In addition, results of analysis and evaluation results related to credit portfolio are presented to Audit Committee, Credit Committee and Credit Risk Committee. Results of risk appetite monitoring and action plans regarding overflows are shared.

In scope of credit risk, Supervisory Board Directorate and Internal Control Directorate carry out audits/controls towards whether appropriate transactions are made or not regarding credits provided in line with legal and bank legislation. Branch audits/controls are performed in the framework of annual audit/control program established based on risk

*Write-off policy*

The Group writes off a loan balance (and any related allowances for impairment losses) when it is concluded that the loans are uncollectible after all the necessary legal procedures have 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.

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 4. Financial risk management (continued)

##### *Collateral policy*

The Group holds collateral against loans, lease receivables and advances to customers in the form of mortgage profit shares over property, other registered securities over assets, and 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 and financial assets valued at fair value through other comprehensive income, and no such collateral was held at December 31, 2019 and 2018.

The breakdown of performing loans, lease receivables and advances to customers by type of collateral are as follows:

| <b>Loans, lease receivables and advances to customers</b>                                       | <b>December 31, 2019</b> | <b>December 31, 2018</b> |
|---|--------------------------|--------------------------|
| Secured loans:  |                          |                          |
| Secured by mortgages  | 8,238,462                | 11,372,504               |
| Secured by promissory notes   | 5,604,814                | 5,240,735                |
| Secured by pledge on assets   | 2,309,644                | 1,741,488                |
| Secured by cash collateral  | 1,827,578                | 3,675,165                |
| Other collateral  | 165,097                  | 2,557                    |
| Unsecured loans   | 12,561,308               | 7,889,837                |
| <b>Total performing and close monitoring loans, lease receivables and advances to customers</b> | <b>30,706,903</b>        | <b>29,922,286</b>        |

##### *Collaterals received for close monitoring loans:*

|   | <b>Current Period</b> | <b>Prior Period</b> |
|---|-----------------------|---------------------|
| Loans Collateralized by Cash              | 382,356               | 357,490             |
| Loans Collateralized by Mortgages         | 2,213,738             | 2,135,330           |
| Loans Collateralized by Pledged Assets    | 431,721               | 182,470             |
| Loans Collateralized by Cheques and Notes | 550,799               | 747,571             |
| Loans Collateralized by Collaterals       | 12,892                | 6,874               |
| Unsecured Loans                           | 714,553               | 465,003             |
| <b>Total</b>                              | <b>4,306,059</b>      | <b>3,894,738</b>    |

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**4. Financial risk management (continued)**

**Breakdown of receivables by geographical area, sector and outstanding maturity**

| <b>Current Period</b>        | <b>Non-performing<br/>Loans</b> | <b>Specific<br/>Provisions</b> | <b>Write-Offs</b> |
|------------------------------|---------------------------------|--------------------------------|-------------------|
| Domestic                     | 2,660,206                       | 1,444,895                      | 589,962           |
| European Union(EU) Countries | 1,555                           | 376                            | 94                |
| OECD Countries               | 244                             | 244                            | -                 |
| Off-Shore Banking Regions    | -                               | -                              | -                 |
| USA, Canada                  | -                               | -                              | -                 |
| Other Countries              | 4,347                           | 922                            | -                 |
| <b>Total</b>                 | <b>2,666,352</b>                | <b>1,446,437</b>               | <b>590,056</b>    |

| <b>Prior Period</b>          | <b>Non-performing<br/>Loans</b> | <b>Specific<br/>Provisions</b> | <b>Write-Offs</b> |
|------------------------------|---------------------------------|--------------------------------|-------------------|
| Domestic                     | 1,727,727                       | 1,218,382                      | 292,336           |
| European Union(EU) Countries | 4,482                           | 1,182                          | 268               |
| OECD Countries               | 237                             | 237                            | -                 |
| Off-Shore Banking Regions    | -                               | -                              | -                 |
| USA, Canada                  | -                               | -                              | -                 |
| Other Countries              | 236                             | 236                            | 15,470            |
| <b>Total</b>                 | <b>1,732,682</b>                | <b>1,220,037</b>               | <b>308,074</b>    |

| <b>Current Period</b>                | <b>Non-performing<br/>Loans</b> | <b>Specific<br/>Provisions</b> | <b>Write-Offs</b> |
|--------------------------------------|---------------------------------|--------------------------------|-------------------|
| <b>Agricultural</b>                  | <b>51,941</b>                   | <b>33,326</b>                  | <b>12,456</b>     |
| Farming and raising livestock        | 51,941                          | 33,326                         | 12,456            |
| Forestry                             | -                               | -                              | -                 |
| Fishing                              | -                               | -                              | -                 |
| <b>Manufacturing</b>                 | <b>618,112</b>                  | <b>405,560</b>                 | <b>207,788</b>    |
| Mining                               | 43,444                          | 39,084                         | 1,689             |
| Production                           | 546,994                         | 342,962                        | 203,817           |
| Electricity, Gas, Water              | 27,674                          | 23,514                         | 2,282             |
| <b>Construction</b>                  | <b>875,811</b>                  | <b>360,335</b>                 | <b>63,744</b>     |
| <b>Services</b>                      | <b>1,037,192</b>                | <b>599,664</b>                 | <b>269,872</b>    |
| Wholesale and Retail Trade           | 714,866                         | 406,450                        | 230,633           |
| Hotel,Food,Beverage Services         | 70,506                          | 36,104                         | 1,235             |
| Transportation and Telecommunication | 119,594                         | 68,200                         | 9,477             |
| Financial Institutions               | 113                             | 92                             | 13                |
| Real Estate and Lending Services     | 70,783                          | 47,314                         | 20,121            |
| Self employment Service              | -                               | -                              | -                 |
| Education Service                    | 52,183                          | 35,646                         | 2,241             |
| Health and social Services           | 9,147                           | 5,858                          | 6,152             |
| <b>Other</b>                         | <b>83,296</b>                   | <b>47,552</b>                  | <b>36,196</b>     |
| <b>Total</b>                         | <b>2,666,352</b>                | <b>1,446,437</b>               | <b>590,056</b>    |

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**4. Financial risk management (continued)**

| <b>Prior Period</b>                  | <b>Non-performing<br/>Loans</b> | <b>Specific<br/>Provisions</b> | <b>Write-Offs</b> |
|--------------------------------------|---------------------------------|--------------------------------|-------------------|
| <b>Agricultural</b>                  | <b>32,799</b>                   | <b>22,615</b>                  | <b>7,276</b>      |
| Farming and raising livestock        | 32,799                          | 22,615                         | 7,276             |
| Forestry                             | -                               | -                              | -                 |
| Fishing                              | -                               | -                              | -                 |
| <b>Manufacturing</b>                 | <b>484,862</b>                  | <b>379,500</b>                 | <b>93,580</b>     |
| Mining                               | 46,277                          | 38,717                         | 494               |
| Production                           | 426,893                         | 331,373                        | 93,045            |
| Electricity, Gas, Water              | 11,692                          | 9,410                          | 41                |
| <b>Construction</b>                  | <b>268,742</b>                  | <b>163,517</b>                 | <b>43,500</b>     |
| <b>Services</b>                      | <b>855,544</b>                  | <b>596,914</b>                 | <b>146,398</b>    |
| Wholesale and Retail Trade           | 611,900                         | 424,242                        | 101,242           |
| Hotel, Food, Beverage Services       | 44,382                          | 20,699                         | 1,447             |
| Transportation and Telecommunication | 59,299                          | 47,782                         | 22,324            |
| Financial Institutions               | 248                             | 134                            | 75                |
| Real Estate and Lending Services     | 76,595                          | 53,807                         | 20,579            |
| Self employment Service              | -                               | -                              | -                 |
| Education Service                    | 52,202                          | 41,100                         | 116               |
| Health and social Services           | 10,918                          | 9,150                          | 615               |
| <b>Other</b>                         | <b>90,735</b>                   | <b>57,491</b>                  | <b>17,320</b>     |
| <b>Total</b>                         | <b>1,732,682</b>                | <b>1,220,037</b>               | <b>308,074</b>    |

| <b>December 31, 2019</b>   | <b>Maximum<br/>exposure to<br/>credit risk</b> | <b>Cash</b>      | <b>Mortgages</b> | <b>Promissory<br/>notes</b> | <b>Pledge on<br/>assets</b> | <b>Other</b>   | <b>Total<br/>Collateral</b> | <b>Net<br/>Exposure</b> |
|--|--|------------------|------------------|-----------------------------|-----------------------------|----------------|-----------------------------|-------------------------|
| <b>Financial Assets</b>  |  |                  |                  |                             |                             |                |                             |                         |
| Cash and balances with central banks                                     | 2,293,976                                      | -                | -                | -                           | -                           | -              | -                           | 2,293,976               |
| Loans and advances to banks  | 3,602,037                                      | -                | -                | -                           | -                           | -              | -                           | 3,602,037               |
| Derivative financial instruments   | 15,274   | -                | -                | -                           | -                           | -              | -                           | 15,274                  |
| Loans, lease receivables and advances to customers                       | 31,722,075                                     | 1,827,578        | 8,238,462        | 5,604,814                   | 2,309,644                   | 165,097        | 18,145,595                  | 13,576,480              |
| Financial assets valued at fair value through other comprehensive income | 4,661,253                                      | -                | -                | -                           | -                           | -              | -                           | 4,661,253               |
| Financial Assets at Fair Value through Profit or Loss (Net)              | 1,262,919                                      | -                | -                | -                           | -                           | -              | -                           | 1,262,919               |
| Financial assets valued at amortised cost                                | -  | -                | -                | -                           | -                           | -              | -                           | -                       |
| Reserve deposit  | 5,690,629                                      | -                | -                | -                           | -                           | -              | -                           | 5,690,629               |
| <b>Total</b>   | <b>49,248,163</b>                              | <b>1,827,578</b> | <b>8,238,462</b> | <b>5,604,814</b>            | <b>2,309,644</b>            | <b>165,097</b> | <b>18,145,595</b>           | <b>29,839,649</b>       |

| <b>December 31, 2018</b>   | <b>Maximum<br/>exposure to<br/>credit risk</b> | <b>Cash</b>      | <b>Mortgages</b>  | <b>Promissory<br/>notes</b> | <b>Pledge on<br/>assets</b> | <b>Other</b> | <b>Total<br/>Collateral</b> | <b>Net<br/>Exposure</b> |
|--|--|------------------|-------------------|-----------------------------|-----------------------------|--------------|-----------------------------|-------------------------|
| <b>Financial Assets</b>  |  |                  |                   |                             |                             |              |                             |                         |
| Cash and balances with central banks                                     | 4,745,546                                      | -                | -                 | -                           | -                           | -            | -                           | 4,745,546               |
| Loans and advances to banks  | 1,432,658                                      | -                | -                 | -                           | -                           | -            | -                           | 1,432,658               |
| Derivative financial instruments   | 296,763  | -                | -                 | -                           | -                           | -            | -                           | 296,763                 |
| Loans, lease receivables and advances to customers                       | 30,088,212                                     | 3,675,165        | 11,372,504        | 5,240,735                   | 1,741,488                   | 2,557        | 22,032,449                  | 8,055,763               |
| Financial assets valued at fair value through other comprehensive income | 2,391,912                                      | -                | -                 | -                           | -                           | -            | -                           | 2,391,912               |
| Financial assets valued at amortised cost                                | 208,244  | -                | -                 | -                           | -                           | -            | -                           | 208,244                 |
| Reserve deposit  | 3,768,126                                      | -                | -                 | -                           | -                           | -            | -                           | 3,768,126               |
| <b>Total</b>   | <b>42,931,461</b>                              | <b>3,675,165</b> | <b>11,372,504</b> | <b>5,240,735</b>            | <b>1,741,488</b>            | <b>2,557</b> | <b>22,032,449</b>           | <b>20,899,012</b>       |

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 4. Financial risk management (continued)

##### Sectorial analysis

The Participation Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of loan risk at the reporting date is shown below:

| Sector                                      | December 31, 2019 |            | December 31, 2018 |            |
|---|-------------------|------------|-------------------|------------|
|   | Carrying amount   | %          | Carrying amount   | %          |
| Trade and commerce                          | 7,056,504         | 22         | 7,572,650         | 25         |
| Manufacturing                               | 9,073,829         | 29         | 9,444,502         | 31         |
| Retail                                      | 3,785,465         | 12         | 3,152,560         | 10         |
| Construction                                | 3,247,549         | 10         | 3,142,485         | 10         |
| Services                                    | 4,208,252         | 13         | 2,669,738         | 9          |
| Electricity, water, gas and health services | 2,028,872         | 6          | 1,646,555         | 6          |
| Transportation and communication            | 1,548,234         | 5          | 1,469,842         | 5          |
| Financial institutions                      | 217,313           | 1          | 461,549           | 2          |
| Agriculture and fishing                     | 483,718           | 2          | 456,257           | 2          |
| Other                                       | 72,339            | -          | 72,074            | -          |
| <b>Total</b>                                | <b>31,722,075</b> | <b>100</b> | <b>30,088,212</b> | <b>100</b> |

| Geographical concentration  | Note          | December 31, 2019 | December 31, 2018 |
|---|---------------|-------------------|-------------------|
| Turkey  |               | 30,609,070        | 30,043,791        |
| European Union countries  |               | 1,213,383         | 492,383           |
| OECD countries  |               | 28,779            | 154,646           |
| Off-shore banking regions   |               | 4,167             | 1,961             |
| USA, Canada   |               | 2,192,637         | 320,440           |
| Other countries   |               | 260,904           | 341,723           |
| <b>Total performing and close monitoring loans, lease receivables and advances to banks and customers (*)</b> | <b>14, 15</b> | <b>34,308,940</b> | <b>31,354,944</b> |

(\*) Does not include stage 3 group

#### Offsetting financial assets and financial liabilities

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.

The similar agreements include derivative clearing agreements. Similar financial instruments include derivatives. Financial instruments such as loans and funds collected are not disclosed in the tables below unless they are offset in the statement of financial position.

Such collateral is subject to each agreement terms. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 4. Financial risk management (continued)

The Group receives and gives collateral in the form of cash in respect of the derivative transactions.

#### Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

|                           |                              | Related amounts not offset in the statement of financial position |   |  |   |                          |            |
|---------------------------|------------------------------|---|---|--|---|--------------------------|------------|
| Types of financial assets |                              | Gross amounts of recognised financial assets                      | Gross amounts of recognised financial liabilities offset in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Financial instruments (including non-cash collateral) | Cash collateral received | Net amount |
| December 31, 2019         | Derivatives - trading assets | 15,274  | -   | 15,274   | -   | 15,274                   | -          |
| December 31, 2018         | Derivatives - trading assets | 24,018  | -   | 24,018   | -   | 24,018                   | -          |

|                                |                                   | Related amounts not offset in the statement of financial position |   |  |   |                          |            |
|--------------------------------|-----------------------------------|---|---|--|---|--------------------------|------------|
| Types of financial liabilities |                                   | Gross amounts of recognised financial assets                      | Gross amounts of recognised financial liabilities offset in the statement of financial position | Net amounts of financial assets presented in the statement of financial position | Financial instruments (including non-cash collateral) | Cash collateral received | Net amount |
| December 31, 2019              | Derivatives - trading liabilities | (58,591)  | -   | (58,591)   | -   | (58,591)                 | -          |
| December 31, 2018              | Derivatives - trading liabilities | (63,350)  | -   | (63,350)   | -   | (63,350)                 | -          |

#### Liquidity risk

Liquidity risk is the possibility of failing of partly or completely covers to participation bank's liquid liabilities with liquid assets and receivables. Liquidity risk is one of the main risk which is undertaken by Participation Bank to fulfill its primary banking services. To manage the mentioned risk in a conservative manner, indicators related to liquidity risk are determined in structure of Participation Bank's risk appetite. Existing risk appetite structure includes Benchmark Funds Collected Rate and Total Liquidity Coverage Ratio. Participation Bank's risk appetite is approved by Board of Directors, monitored by Risk Management Division and reported to senior management. In case of overdraft of limits, the mentioned matters are informed to Audit Committee.

In addition, on monthly basis, measurement and assessment is performed related to target and stimulant indicator has been determined by Asset Liability Management Committee. Target, alert, and trigger levels related to indicators of liquidity is determined in order to limit liquidity risk are determined and monitored by Asset Liability Management Committee.

Participation Bank implements strategies aimed at diversification of fund sources, procuring of fund sources with longer maturities, and conformance on maturity between assets and liability in order to avoid liquidity risk.

All balance sheet items which have an impact on liquidity, are decomposed on the basis of maturity and analyzed the liquidity situation. "The Liquidity Coverage Ratio" and "Net Stable Funding Ratio" reports are prepared according to Basel III principles. The liquidity coverage ratio report is presented to BRSA according to the regulations, and Net Stable Funding Ratio report is prepared at present for information purposes.

**4. Financial risk management (continued)**

In the case of liquidity squeeze which is sourced by Participation Bank or Market, the actions to be implemented with order of priority and where the precautions to be taken is formed as Liquidity Risk Management-Emergency Action Plan; the roles and responsibilities are established according to this action plan. The liquidity contingency funding plan which is a part of Participation Bank's Liquidity Risk Management Policy is approved by Board of Directors and in the case of liquidity problem, BOD identify the precaution and actions to be taken.

Participation Bank apply stress testing within the scope of liquidity risk, as well as the other significant risk types. In stress testings related to liquidity risk, power of resistance to determined scenarios is tested with regard to liquidity structure.

To measure the capital requirement to cover imposed or possible risk and sustain its activities with adequate capital, Participation Bank's Risk Management Group prepare ICAAP report at least once a year by analysing Participation Bank's current and future capital requirements along with strategical goals and macroeconomic variables and the report is transmitted to BRSA.

Under the ICAAP report, Participation Bank's possible losses and the capital adequacy level which will cover the losses are estimated with the help of stress test and scenario analysis which identify possible changes in market conditions and possible events that can affect negatively the Participation Bank.

Other than scenario analysis and stress tests realized by ICAAP additional stress tests are performed in monthly and quarterly periods. Market and counterparty credit risk and the Participation Bank's total liquidity risk are performed monthly within the "Framework of Internal Systems of Banks and Internal Capital Adequacy Assessment Processes.

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**4. Financial risk management (continued)**

The liquidity coverage ratios of the year 2019 are as follows:

| Current Period                       |   | Total Unweighted Value<br>(average) (*) |                   | Total Weighted Value<br>(average) (*) |                   |
|--------------------------------------|---|---|-------------------|---------------------------------------|-------------------|
|                                      |   | TL+FC                                   | FC                | TL+FC                                 | FC                |
| <b>HIGH QUALITY LIQUIDITY ASSETS</b> |   |   |                   |                                       |                   |
| 1                                    | <b>High Quality Liquidity Assets</b>  |   |                   | <b>12,234,663</b>                     | <b>10,933,802</b> |
| <b>CASH OUTFLOWS</b>                 |   |   |                   |                                       |                   |
| 2                                    | <b>Retail and Small Business Customers' Funds Collected</b>                               | <b>30,984,607</b>                       | <b>19,612,140</b> | <b>3,063,280</b>                      | <b>2,048,120</b>  |
| 3                                    | Stable Funds Collected  | 4,765,876                               | -                 | 238,294                               | -                 |
| 4                                    | Less Stable Funds Collected   | 26,218,731                              | 19,612,140        | 2,824,986                             | 2,048,120         |
| 5                                    | <b>Unsecured fundings besides retail and small business customers' funds collected</b>    | <b>10,047,016</b>                       | <b>6,483,821</b>  | <b>4,628,961</b>                      | <b>2,863,280</b>  |
| 6                                    | Operational Funds Collected   | -                                       | -                 | -                                     | -                 |
| 7                                    | Non-Operational Funds Collected   | 7,528,278                               | 5,597,236         | 3,278,253                             | 2,370,458         |
| 8                                    | Other unsecured fundings  | 2,518,738                               | 886,585           | 1,350,708                             | 492,822           |
| 9                                    | <b>Secured Fundings</b>   |   |                   |                                       |                   |
| 10                                   | <b>Other Cash Outflows</b>  | <b>7,914,167</b>                        | <b>6,326,849</b>  | <b>7,144,898</b>                      | <b>6,183,093</b>  |
| 11                                   | Derivatives cash outflows and collateral outflows   | 6,668,367                               | 6,121,057         | 6,668,367                             | 6,121,057         |
| 12                                   | Obligation related to structured financial products                                       | -                                       | -                 | -                                     | -                 |
| 13                                   | Commitments related to debts to financial markets and other off-balance sheet obligations | 1,245,800                               | 205,792           | 476,531                               | 62,036            |
| 14                                   | <b>Other revocable off-balance sheet commitments and contractual obligations</b>          |   |                   |                                       |                   |
| 15                                   | <b>Other irrevocable or conditionally revocable off-balance sheet obligations</b>         | <b>5,510,999</b>                        | <b>1,437,169</b>  | <b>513,251</b>                        | <b>167,339</b>    |
| 16                                   | <b>TOTAL CASH OUTFLOWS</b>  |   |                   | <b>15,350,390</b>                     | <b>11,261,832</b> |
| <b>CASH INFLOWS</b>                  |   |   |                   |                                       |                   |
| 17                                   | <b>Secured Lending</b>  |   |                   |                                       |                   |
| 18                                   | <b>Unsecured Lending</b>  | <b>5,480,904</b>                        | <b>4,342,682</b>  | <b>5,480,904</b>                      | <b>4,342,682</b>  |
| 19                                   | <b>Other Cash Inflows</b>   | <b>6,696,642</b>                        | <b>4,953,294</b>  | <b>6,696,642</b>                      | <b>4,953,294</b>  |
| 20                                   | <b>TOTAL CASH INFLOWS</b>   | <b>12,177,546</b>                       | <b>9,295,976</b>  | <b>12,177,546</b>                     | <b>9,295,976</b>  |
| 21                                   | <b>TOTAL HQLA STOCK</b>   |   |                   | <b>12,234,663</b>                     | <b>10,933,802</b> |
| 22                                   | <b>TOTAL NET CASH OUTFLOW</b>   |   |                   | <b>3,889,932</b>                      | <b>2,815,458</b>  |
| 23                                   | <b>LIQUIDITY COVERAGE RATIO (%)</b>   |   |                   | <b>314.52</b>                         | <b>388.35</b>     |

(\*) The average of consolidated liquidity coverage ratio calculated by monthly simple arithmetic average. The average of three months is the average of the last three months' averages, separately.

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 4. Financial risk management (continued)

The liquidity coverage ratios of the year 2018 are as follows:

| Prior Period                         |   | Total Unweighted Value<br>(average) (*) |                  | Total Weighted Value<br>(average) (*) |                  |
|--------------------------------------|---|---|------------------|---------------------------------------|------------------|
|                                      |   | TL+FC                                   | FC               | TL+FC                                 | FC               |
| <b>HIGH QUALITY LIQUIDITY ASSETS</b> |   |   |                  |                                       |                  |
| 1                                    | High Quality Liquidity Assets   |   |                  | 8,856,007                             | 7,585,847        |
| <b>CASH OUTFLOWS</b>                 |   |   |                  |                                       |                  |
| 2                                    | Retail and Small Business Customers' Funds Collected                                      | 21,196,416                              | 12,688,483       | 2,136,396                             | 1,271,178        |
| 3                                    | Stable Funds Collected  | 2,750,036                               | 1,093,407        | 137,502                               | 54,670           |
| 4                                    | Less Stable Funds Collected   | 18,446,380                              | 11,595,076       | 1,998,894                             | 1,216,508        |
| 5                                    | Unsecured fundings besides retail and small business customers' funds collected           | 8,644,960                               | 4,075,866        | 4,391,262                             | 2,097,831        |
| 6                                    | Operational Funds Collected   | -                                       | -                | -                                     | -                |
| 7                                    | Non-Operational Funds Collected   | 6,045,530                               | 3,031,970        | 2,905,293                             | 1,343,124        |
| 8                                    | Other unsecured fundings  | 2,599,430                               | 1,043,896        | 1,485,969                             | 754,707          |
| 9                                    | Secured Fundings  |   |                  | -                                     | -                |
| 10                                   | Other Cash Outflows   | 5,898,610                               | 3,517,828        | 5,176,286                             | 3,286,927        |
| 11                                   | Derivatives cash outflows and collateral outflows   | 4,752,287                               | 3,187,564        | 4,752,287                             | 3,187,564        |
| 12                                   | Obligation related to structured financial products                                       | -                                       | -                | -                                     | -                |
| 13                                   | Commitments related to debts to financial markets and other off-balance sheet obligations | 1,146,323                               | 330,264          | 423,999                               | 99,363           |
| 14                                   | Other revocable off-balance sheet commitments and contractual obligations                 | -                                       | -                | -                                     | -                |
| 15                                   | Other irrevocable or conditionally revocable off-balance sheet obligations                | 6,444,406                               | 1,895,965        | 599,793                               | 214,902          |
| 16                                   | <b>TOTAL CASH OUTFLOWS</b>  |   |                  | <b>12,303,737</b>                     | <b>6,870,838</b> |
| <b>CASH INFLOWS</b>                  |   |   |                  |                                       |                  |
| 17                                   | Secured Lending   | -                                       | -                | -                                     | -                |
| 18                                   | Unsecured Lending   | 5,000,840                               | 3,401,234        | 5,000,840                             | 3,401,234        |
| 19                                   | Other Cash Inflows  | 4,775,512                               | 4,342,976        | 4,775,512                             | 4,342,974        |
| 20                                   | <b>TOTAL CASH INFLOWS</b>   | <b>9,776,352</b>                        | <b>7,744,210</b> | <b>9,776,352</b>                      | <b>7,744,208</b> |
|                                      |   |   |                  | Total Adjusted Value                  |                  |
| 21                                   | <b>TOTAL HQLA STOCK</b>   |   |                  | <b>8,856,007</b>                      | <b>7,585,847</b> |
| 22                                   | <b>TOTAL NET CASH OUTFLOW</b>   |   |                  | <b>3,140,831</b>                      | <b>1,723,904</b> |
| 23                                   | <b>LIQUIDITY COVERAGE RATIO (%)</b>   |   |                  | <b>281.96</b>                         | <b>440.04</b>    |

#### Profit Share Sensitivity

Participation banks distribute profit share to participation accounts' owners based on the profit share income that the bank receives from its Loan portfolio issued from Participation accounts. That is why participation banks profit share sensitivity depend on lending rates rather than funds collected profit share rates in the market. Conventional banks might react rapidly to interest rate changes in the market, however, Participation banks, as they do not guarantee any profit share rate at the opening date to the depositors they could not react very rapidly to profit share rate changes in the market.

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
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**4. Financial risk management (continued)**

Core funds collected calculation based on TL, USD and EUR currencies is made for demand funds collected on a monthly basis. Calculation is made through using Monte-Carlo Simulation and based on daily current funds collected changes. The lowest value of current funds collected on 99% trust level for the following month using historical daily change date during simulation phase. Core funds collected rates are calculated through dividing calculated amount to funds collected amount realized at the end of the month and aforementioned rates are used in the calculation of profit share rate risk sourcing from banking accounts.

| Current Period |                                    |   |                  |   |
|----------------|------------------------------------|---|------------------|---|
|                | Currency                           | Applied Shock<br>(+/- x basis<br>points)* | Gains<br>/Losses | Gains / Shareholders'<br>Equity - Losses/<br>Shareholders' Equity |
| 1              | TRY                                | 500                                       | (430,185)        | (6,82%)   |
| 2              | TRY                                | (400)                                     | 386,014          | (6,12%)   |
| 3              | EURO                               | 200                                       | (193,779)        | (3,07%)   |
| 4              | EURO                               | (200)                                     | 214,557          | 3,40%   |
| 5              | USD                                | 200                                       | 155,693          | 2,47%   |
| 6              | USD                                | (200)                                     | (172,212)        | (2,73%)   |
| -              | <b>Total (for negative shocks)</b> |   | <b>428,360</b>   | <b>6,79%</b>  |
| -              | <b>Total (for positive shocks)</b> |   | <b>(468,272)</b> | <b>(7,42%)</b>  |

| Prior Period |                                    |   |                  |   |
|--------------|------------------------------------|---|------------------|---|
|              | Currency                           | Applied Shock<br>(+/- x basis<br>points)* | Gains<br>/Losses | Gains / Shareholders'<br>Equity - Losses/<br>Shareholders' Equity |
| 1            | TRY                                | 500                                       | (392,755)        | (6,82%)   |
| 2            | TRY                                | (400)                                     | 352,359          | 6,12%   |
| 3            | EURO                               | 200                                       | (134,701)        | (2,34%)   |
| 4            | EURO                               | (200)                                     | 146,547          | 2,54%   |
| 5            | USD                                | 200                                       | 94,944           | 1,65%   |
| 6            | USD                                | (200)                                     | (104,711)        | (1,82%)   |
| -            | <b>Total (for negative shocks)</b> |   | <b>394,196</b>   | <b>6,84%</b>  |
| -            | <b>Total (for positive shocks)</b> |   | <b>(432,511)</b> | <b>(7,51%)</b>  |

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 4. Financial risk management (continued)

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

| December 31, 2019  | Demand             | Less than one month | 1-3 months       | 3-12 months       | 1-5 years         | Over 5 years     | Unallocated      | Total             |
|--|--------------------|---------------------|------------------|-------------------|-------------------|------------------|------------------|-------------------|
| Cash and balances with Central Bank                                      | 2,293,976          | -                   | -                | -                 | -                 | -                | -                | 2,293,976         |
| Loans and advances to banks  | 3,602,037          | -                   | -                | -                 | -                 | -                | -                | 3,602,037         |
| Loans, lease receivables and advances to customers                       | -                  | 3,643,270           | 4,411,154        | 12,584,535        | 9,392,234         | 675,710          | 1,015,172        | 31,722,075        |
| Financial Assets at Fair Value through Profit or Loss                    | -                  | 1,941               | 1,722            | 997,173           | 262,083           | -                | -                | 1,262,919         |
| Financial assets valued at fair value through other comprehensive income | 5,532              | 10,805              | 278,882          | 1,112,029         | 3,254,005         | -                | -                | 4,661,253         |
| Financial assets valued at amortised cost                                | -                  | -                   | -                | -                 | -                 | -                | -                | -                 |
| Other assets <sup>(1)</sup>  | 6,777,212          | 318,668             | -                | -                 | -                 | -                | 122,101          | 7,217,981         |
| <b>Total assets(*)</b>   | <b>12,678,757</b>  | <b>3,974,684</b>    | <b>4,691,758</b> | <b>14,693,737</b> | <b>12,908,322</b> | <b>675,710</b>   | <b>1,137,273</b> | <b>50,760,241</b> |
| Funds collected from banks   | 7,540              | 4,529               | 39,989           | -                 | -                 | -                | -                | 52,058            |
| Funds collected from customers   | 15,005,439         | 20,593,033          | 3,637,844        | 698,737           | 6,474             | -                | -                | 39,941,527        |
| Funds borrowed   | -                  | 730,633             | 573,960          | 474,168           | 129,301           | -                | -                | 1,908,063         |
| Debt securities issued   | -                  | 547,139             | 737,795          | 329,200           | -                 | -                | -                | 1,614,134         |
| Subordinated liabilities   | -                  | -                   | -                | 12,508            | -                 | 1,485,050        | -                | 1,497,558         |
| Current tax liabilities  | -                  | -                   | -                | 74,254            | -                 | -                | -                | 74,254            |
| Other liabilities  | 1,259,303          | 269,383             | 86,865           | (26,051)          | 168,347           | 66,104           | -                | 1,823,951         |
| <b>Total liabilities (**)</b>  | <b>16,272,282</b>  | <b>22,144,717</b>   | <b>5,076,453</b> | <b>1,562,817</b>  | <b>304,122</b>    | <b>1,551,154</b> | <b>-</b>         | <b>46,911,545</b> |
| <b>Net</b>   | <b>(3,593,525)</b> | <b>(18,170,033)</b> | <b>(384,695)</b> | <b>13,130,920</b> | <b>12,604,200</b> | <b>(875,444)</b> | <b>1,137,273</b> | <b>3,848,696</b>  |

(\*) Total assets does not include derivative financial assets valued at fair value through profit or loss amounting TL 15,274; property and equipment for TL 1,231,097; intangible assets for TL 106,139 and deferred tax asset for TL 82,153.

(\*\*) Total liabilities does not include derivative financial liabilities for hedging purposes amounting TL 76,768; derivative financial liabilities valued at fair value through profit or loss amounting TL 58,591 and provisions amounting TL 310,932.

(1) Reserve deposits at Central Bank of Turkey amounting to TL 5,690,629 are presented under "Demand" column

| December 31, 2018  | Demand            | Less than one month | 1-3 months       | 3-12 months       | 1-5 years         | Over 5 years     | Unallocated    | Total             |
|--|-------------------|---------------------|------------------|-------------------|-------------------|------------------|----------------|-------------------|
| Cash and balances with Central Bank                                      | 4,745,546         | -                   | -                | -                 | -                 | -                | -              | 4,745,546         |
| Loans and advances to banks  | 1,372,180         | 60,478              | -                | -                 | -                 | -                | -              | 1,432,658         |
| Loans, lease receivables and advances to customers                       | -                 | 4,132,023           | 4,371,782        | 10,356,080        | 10,440,836        | 621,565          | 165,926        | 30,088,212        |
| Financial assets valued at fair value through other comprehensive income | 5,474             | 10,739              | 403,733          | 117,840           | 1,071,146         | 782,980          | -              | 2,391,912         |
| Financial assets valued at amortised cost                                | -                 | -                   | 208,244          | -                 | -                 | -                | -              | 208,244           |
| Other assets <sup>(1)</sup>  | 5,745,275         | 474,741             | -                | -                 | -                 | -                | 84,792         | 6,304,808         |
| <b>Total assets(*)</b>   | <b>11,868,475</b> | <b>4,677,971</b>    | <b>4,983,759</b> | <b>10,473,920</b> | <b>11,511,982</b> | <b>1,404,545</b> | <b>250,718</b> | <b>45,171,380</b> |
| Funds collected from banks   | 2,708             | 31,342              | 14,261           | -                 | -                 | -                | -              | 48,311            |
| Funds collected from customers   | 9,699,235         | 13,500,565          | 3,054,140        | 575,145           | 3,086             | -                | -              | 26,832,171        |
| Funds borrowed   | -                 | 2,212,276           | 244,456          | 2,761,466         | 205,029           | -                | -              | 5,423,227         |
| Debt securities issued   | -                 | 920,332             | 1,060,245        | 3,724,745         | 456,516           | -                | -              | 6,161,838         |
| Subordinated liabilities   | -                 | -                   | 9,951            | 1,339             | -                 | 1,315,225        | -              | 1,326,515         |
| Current tax liabilities  | -                 | -                   | -                | 10,717            | -                 | -                | -              | 10,717            |
| Other liabilities  | 1,513,194         | 320,586             | -                | -                 | -                 | -                | -              | 1,833,780         |
| <b>Total liabilities(**)</b>   | <b>11,215,137</b> | <b>16,985,101</b>   | <b>4,383,053</b> | <b>7,073,412</b>  | <b>664,631</b>    | <b>1,315,225</b> | <b>-</b>       | <b>41,636,559</b> |
| <b>Net</b>   | <b>653,338</b>    | <b>(12,307,130)</b> | <b>600,706</b>   | <b>3,400,508</b>  | <b>10,847,351</b> | <b>89,320</b>    | <b>250,718</b> | <b>3,534,821</b>  |

(\*) Total assets does not include derivative financial assets for hedging purposes amounting TL 272,745; derivative financial assets valued at fair value through profit or loss amounting TL 24,018; property and equipment for TL 916,044; intangible assets for TL 88,372 and deferred tax asset for TL 140,812.

(\*\*) Total liabilities does not include derivative financial liabilities for hedging purposes amounting 363,665; derivative financial liabilities valued at fair value through profit or loss amounting TL 63,350 and provisions amounting TL 234,855.

(1) Reserve deposits at Central Bank of Turkey amounting to TL 3,768,126 are presented under "Demand" column

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**4. Financial risk management (continued)**

*Maturity analysis of conditioned liabilities and commitments is as follows:*

| <b>December 31, 2019</b>   | <b>Demand</b>    | <b>Up to 1 Month</b> | <b>1-3 Months</b> | <b>3-12 Months</b> | <b>1-5 Years</b> | <b>5 Years and Over</b> | <b>Total</b>      |
|--|------------------|----------------------|-------------------|--------------------|------------------|-------------------------|-------------------|
| <b>Guarantees and Sureties</b>                                   | <b>2,681,902</b> | <b>367,977</b>       | <b>754,145</b>    | <b>2,202,059</b>   | <b>1,263,103</b> | <b>57,959</b>           | <b>7,327,145</b>  |
| <b>Irrevocable commitments</b>                                   | <b>1,657,209</b> | <b>2,470,917</b>     | <b>9,644</b>      | <b>14,425</b>      | <b>24,205</b>    | <b>307</b>              | <b>4,176,707</b>  |
| Forward asset purchase and sale commitments                      | -                | 2,464,399            | -                 | -                  | -                | -                       | 2,464,399         |
| Share capital commitments to associates and subsidiaries         | -                | 125                  | 40                | -                  | -                | -                       | 165               |
| Commitments for cheque payments                                  | 655,031          | -                    | -                 | -                  | -                | -                       | 655,031           |
| Tax and fund obligations on export commitments                   | -                | 1,406                | 433               | 14,055             | 6,352            | 307                     | 22,553            |
| Commitments for credit card limits                               | 999,273          | -                    | -                 | -                  | -                | -                       | 999,273           |
| Commitments for credit cards and banking services promotions     | 2,905            | -                    | -                 | -                  | -                | -                       | 2,905             |
| Other irrevocable commitments                                    | -                | 4,987                | 9,171             | 370                | 17,853           | -                       | 32,381            |
| <b>Revocable commitments</b>                                     | <b>-</b>         | <b>-</b>             | <b>-</b>          | <b>-</b>           | <b>-</b>         | <b>-</b>                | <b>-</b>          |
| Revocable loan granting commitments                              | -                | -                    | -                 | -                  | -                | -                       | -                 |
| <b>Derivative financial instruments held for risk management</b> | <b>-</b>         | <b>-</b>             | <b>-</b>          | <b>464,335</b>     | <b>655,529</b>   | <b>-</b>                | <b>1,119,864</b>  |
| Fair value hedges  | -                | -                    | -                 | -                  | -                | -                       | -                 |
| Cash flow hedges   | -                | -                    | -                 | 464,335            | 655,529          | -                       | 1,119,864         |
| <b>Forward foreign currency buy/sell transactions</b>            | <b>-</b>         | <b>12,509,133</b>    | <b>295,345</b>    | <b>1,095,840</b>   | <b>-</b>         | <b>-</b>                | <b>13,900,318</b> |
| Forward foreign currency transactions-buy                        | -                | 6,230,403            | 147,667           | 524,733            | -                | -                       | 6,902,803         |
| Forward foreign currency transactions-sell                       | -                | 6,239,897            | 147,678           | 571,107            | -                | -                       | 6,958,682         |
| Other forward buy/sell transactions                              | -                | 38,833               | -                 | -                  | -                | -                       | 38,833            |
| <b>Total</b>   | <b>4,339,111</b> | <b>15,348,027</b>    | <b>1,059,134</b>  | <b>3,776,659</b>   | <b>1,942,837</b> | <b>58,266</b>           | <b>26,524,034</b> |

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**4. Financial risk management (continued)**

| December 31, 2018  | Demand           | Up to 1 Month     | 1-3 Months       | 3-12 Months      | 1-5 Years        | 5 Years and Over | Total             |
|--|------------------|-------------------|------------------|------------------|------------------|------------------|-------------------|
| <b>Guarantees and Sureties</b>                                   | 3,033,954        | 364,912           | 669,720          | 2,118,563        | 1,300,631        | 71,228           | 7,559,008         |
| <b>Irrevocable commitments</b>                                   | 1,456,054        | 2,269,594         | 1,018            | 1,616            | 18,103           | 307              | 3,746,692         |
| Forward asset purchase and sale commitments                      | -                | 2,265,975         | -                | -                | -                | -                | 2,265,975         |
| Share capital commitments to associates and subsidiaries         | -                | 196               | 16               | 206              | -                | -                | 418               |
| Commitments for cheque payments                                  | 673,652          | -                 | -                | -                | -                | -                | 673,652           |
| Tax and fund obligations on export commitments                   | -                | 693               | 192              | 1,081            | 14,758           | 307              | 17,031            |
| Commitments for credit card limits                               | 780,704          | -                 | -                | -                | -                | -                | 780,704           |
| Commitments for credit cards and banking services promotions     | 1,698            | -                 | -                | -                | -                | -                | 1,698             |
| Other irrevocable commitments                                    | -                | 2,730             | 810              | 329              | 3,345            | -                | 7,214             |
| <b>Revocable commitments</b>                                     | -                | -                 | -                | -                | -                | -                | -                 |
| Revocable loan granting commitments                              | -                | -                 | -                | -                | -                | -                | -                 |
| <b>Derivative financial instruments held for risk management</b> | -                | -                 | -                | <b>2,547,325</b> | <b>1,420,347</b> | -                | <b>3,967,672</b>  |
| Fair value hedges  | -                | -                 | -                | 222,126          | 433,635          | -                | 655,761           |
| Cash flow hedges   | -                | -                 | -                | 2,325,199        | 986,712          | -                | 3,311,911         |
| <b>Forward foreign currency buy/sell transactions</b>            | -                | <b>8,416,728</b>  | <b>462,812</b>   | <b>122,690</b>   | -                | -                | <b>9,002,230</b>  |
| Forward foreign currency transactions-buy                        | -                | 3,850,888         | 235,864          | 64,693           | -                | -                | 4,151,445         |
| Forward foreign currency transactions-sell                       | -                | 4,234,543         | 226,948          | 57,997           | -                | -                | 4,519,488         |
| Other forward buy/sell transactions                              | -                | 331,297           | -                | -                | -                | -                | 331,297           |
| <b>Total</b>   | <b>4,490,008</b> | <b>11,051,234</b> | <b>1,133,550</b> | <b>4,790,194</b> | <b>2,739,081</b> | <b>71,535</b>    | <b>24,275,602</b> |

*Residual contractual maturities of the financial liabilities*

| December 31, 2019              | Carrying amount   | Gross nominal outflow | Demand            | Less than one month | 1-3 months       | 3-12 months      | 1-5 years        | Over 5 years     |
|--------------------------------|-------------------|-----------------------|-------------------|---------------------|------------------|------------------|------------------|------------------|
| Funds collected from banks     | 52,058            | 52,058                | 7,540             | 4,529               | 39,989           | -                | -                | -                |
| Funds collected from customers | 39,941,527        | 39,941,527            | 15,005,439        | 20,593,033          | 3,637,844        | 698,737          | 6,474            | -                |
| Fund borrowed                  | 1,908,063         | 1,925,378             | -                 | 730,767             | 577,442          | 487,868          | 129,301          | -                |
| Debt securities issued         | 1,614,134         | 1,643,555             | -                 | 552,665             | 747,409          | 343,481          | -                | -                |
| Subordinated liabilities       | 1,497,558         | 2,112,733             | -                 | -                   | -                | 114,141          | 456,206          | 1,542,386        |
| <b>Total</b>                   | <b>45,013,340</b> | <b>45,675,251</b>     | <b>15,012,979</b> | <b>21,880,994</b>   | <b>5,002,684</b> | <b>1,644,227</b> | <b>591,981</b>   | <b>1,542,386</b> |
| <b>Non-cash loans</b>          | <b>7,327,145</b>  | <b>7,327,145</b>      | <b>2,681,902</b>  | <b>367,978</b>      | <b>754,145</b>   | <b>2,202,059</b> | <b>1,263,103</b> | <b>57,958</b>    |
| December 31, 2018              | Carrying amount   | Gross nominal outflow | Demand            | Less than one month | 1-3 months       | 3-12 months      | 1-5 years        | Over 5 years     |
| Funds collected from banks     | 48,311            | 48,311                | 2,707             | 31,342              | 14,262           | -                | -                | -                |
| Funds collected from customers | 26,832,171        | 26,832,172            | 9,699,235         | 13,500,565          | 3,054,140        | 575,145          | 5,087            | -                |
| Fund borrowed                  | 5,423,227         | 5,453,801             | -                 | 2,213,602           | 260,426          | 2,773,369        | 206,404          | -                |
| Debt securities issued         | 6,161,838         | 6,347,971             | -                 | 938,143             | 1,119,566        | 3,820,576        | 469,686          | -                |
| Subordinated debt              | 1,326,515         | 1,972,151             | -                 | -                   | 19,229           | 81,794           | 403,930          | 1,467,198        |
| <b>Total</b>                   | <b>39,792,062</b> | <b>40,654,406</b>     | <b>9,701,942</b>  | <b>16,683,652</b>   | <b>4,467,623</b> | <b>7,250,884</b> | <b>1,083,107</b> | <b>1,467,198</b> |
| <b>Non-cash loans</b>          | <b>7,559,008</b>  | <b>7,559,008</b>      | <b>3,033,954</b>  | <b>364,912</b>      | <b>669,720</b>   | <b>2,118,563</b> | <b>1,300,631</b> | <b>71,228</b>    |

#### **4. Financial risk management (continued)**

##### **Profit rate risk**

Profit rate risk arises from the possibility that changes in the conventional profit share rate will affect the future profitability or the fair value of financial instruments. The Participation Bank is exposed to profit rate risk as a result of mismatches or gaps in the amount of assets and liabilities and off-balance sheet instruments that mature or re-price during a given period. The impact of possible changes in the profit rates is measured and the profit rate gaps are reviewed to initiate corrective action in the Participation Bank's funding profile to ensure that the overall profit rate risk remains within acceptable tolerances. The principal objective of the Participation Bank's management activities for profit share rate risk is to enhance profitability by limiting the effect of adverse profit share rate movements in the sector and increasing profit share income by managing profit share rate exposure. The Participation Bank's monitors profit share sensitivity by analysing the composition of its assets and liabilities and off-balance sheet financial instruments. The major portion of the customers' current and profit-sharing accounts are short term. Accordingly, profit share rates are in line with the prevailing profit share rates in the market. Therefore, the management believes that the fair value of such financing activities does not materially differ from their respective book values.

##### **Market risk**

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates and credit spreads will affect the Participation Bank's income or the value of its holdings of financial instruments. 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 Participation Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Treasury Department, and include positions arising from proprietary position taking, together with financial assets and liabilities that is managed on a fair value basis.

Overall authority for market risk is vested in Risk Management Department and ALCO.

##### *Exposure to market risk*

The market risk arising from the trading portfolio is monitored, measured and reported using Standardised Approach according to the legal legislation. The monthly market risk report prepared using Standardised Approach are reported to BRSA.

Value at Risk ("VaR") is also used to measure and control market risk exposure within the Participation Bank's trading and financial assets valued at fair value through other comprehensive income portfolios. The VaR of these portfolios is the estimated loss that will arise on the portfolios over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level).

Average, highest and lowest values of market risks as at December 31, 2019 and 2018 calculated and reported with using the Standardised Approach as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 29111 dated 6 September 2014 which is complaint to Basel II.

##### *Currency risk*

The Participation Bank is exposed to currency risk through transactions in foreign currencies.

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 4. Financial risk management (continued)

##### Management of currency risk

Risk policy of the Participation Bank is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Participation Bank has established a foreign currency risk management policy that enables the Participation Bank to take a position between lower and upper limits which are determined. The table below summarizes the Group's assets and liabilities at carrying amounts, categorized by currency. The off-balance sheet gap represents the difference between the notional amounts of purchased and sold foreign currency derivative financial instruments.

|  | Euro               | USD              | Other(*)         | Total              |
|--|--------------------|------------------|------------------|--------------------|
| <b>December 31, 2019</b>   |                    |                  |                  |                    |
| Cash and balances with Central Bank                                      | 1,122,369          | 413,718          | 282,790          | 1,818,877          |
| Loans and advances to banks  | 416,898            | 2,197,204        | 988,589          | 3,602,691          |
| Loans, lease receivables and advances to customers                       | 8,328,040          | 5,908,727        | -                | 14,236,767         |
| Financial assets valued at fair value through profit or loss(Net)        | -                  | -                | 1,255,694        | 1,255,694          |
| Financial assets valued at fair value through other comprehensive income | 1,673,532          | 1,841,812        | -                | 3,515,344          |
| Other assets   | 248,611            | 4,277,404        | 1,430,922        | 5,956,937          |
| Funds collected from banks   | (39,970)           | (215)            | (3)              | (40,188)           |
| Funds collected from customers   | (7,963,872)        | (12,805,885)     | (3,898,056)      | (24,667,813)       |
| Funds borrowed   | (911,345)          | (25,970)         | (528,217)        | (1,465,532)        |
| Subordinated liabilities   | -                  | (1,497,558)      | -                | (1,497,558)        |
| Debt securities issued   | -                  | (528,217)        | -                | (528,217)          |
| Other liabilities  | (158,756)          | (210,587)        | (14,445)         | (383,788)          |
| <b>Net on balance sheet position</b>                                     | <b>2,715,507</b>   | <b>(429,567)</b> | <b>(482,726)</b> | <b>1,803,214</b>   |
| <b>Net off balance sheet position (derivatives)</b>                      | <b>(2,723,293)</b> | <b>429,002</b>   | <b>481,821</b>   | <b>(1,812,470)</b> |
| <b>Net position</b>  | <b>(7,786)</b>     | <b>(565)</b>     | <b>(905)</b>     | <b>(9,256)</b>     |

(\*) Under "Other" column "Other Assets" include TL 122,101 and "Customer funds collected" included TL 3,687,148 precious metal funds collected accounts.

|  | Euro               | USD                | Other(*)           | Total            |
|--|--------------------|--------------------|--------------------|------------------|
| <b>December 31, 2018</b>   |                    |                    |                    |                  |
| Cash and balances with Central Bank                                      | 1,175,132          | 2,970,341          | 248,393            | 4,393,866        |
| Loans and advances to banks  | 298,476            | 702,292            | 433,366            | 1,434,134        |
| Loans, lease receivables and advances to customers                       | 6,696,167          | 5,783,970          | -                  | 12,480,137       |
| Financial assets valued at fair value through other comprehensive income | 562                | 1,102,955          | -                  | 1,103,517        |
| Other assets   | 68,651             | 4,033,647          | 852,986            | 4,955,284        |
| Funds collected from banks   | (806)              | (797)              | (86)               | (1,689)          |
| Funds collected from customers   | (4,617,797)        | (9,554,000)        | (1,786,019)        | (15,957,816)     |
| Funds borrowed   | (1,255,700)        | (619,092)          | (1,477,865)        | (3,352,657)      |
| Subordinated liabilities   | -                  | (1,326,515)        | -                  | (1,326,515)      |
| Debt securities issued   | -                  | (4,089,491)        | -                  | (4,089,491)      |
| Other liabilities  | (104,587)          | (164,941)          | (6,523)            | (276,051)        |
| <b>Net on balance sheet position</b>                                     | <b>2,260,098</b>   | <b>(1,161,631)</b> | <b>(1,735,748)</b> | <b>(637,281)</b> |
| <b>Net off balance sheet position (derivatives)</b>                      | <b>(2,259,851)</b> | <b>1,081,577</b>   | <b>1,730,800</b>   | <b>552,526</b>   |
| <b>Net position</b>  | <b>247</b>         | <b>(80,054)</b>    | <b>(4,948)</b>     | <b>(84,755)</b>  |

(\*) Under "Other" column "Other Assets" include TL 84,792 and "Customer funds collected" included TL 1,568,859 precious metal funds collected accounts.

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
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**4. Financial risk management (continued)**

*Exposure to currency risk*

A 10 percent devaluation of the TL against the following currencies as at December 31, 2019 and 2018 would change the profit or loss and other comprehensive income (without tax effects) by the amounts shown below.

| Time              | December 31, 2019 |                            | December 31, 2018 |                            |
|-------------------|-------------------|----------------------------|-------------------|----------------------------|
|                   | Profit or (loss)  | Total comprehensive income | Profit or (loss)  | Total comprehensive income |
| Usd               | (57)              | (1,647)                    | (8,005)           | (1,196)                    |
| Euro              | (779)             | (779)                      | 25                | 25                         |
| Other currencies  | (90)              | (90)                       | (495)             | (495)                      |
| <b>Total, net</b> | <b>(926)</b>      | <b>(2,516)</b>             | <b>(8,475)</b>    | <b>(1,666)</b>             |

This analysis assumes that all other variables remain constant.

**Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Participation 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 behaviour. Operational risks arise from all of the Participation Bank's operations and are faced by all business entities.

The data of operational losses may be exposed to during the Participation Bank's activities is collected and analysed regularly by Risk Management Department and reported to Board of Directors, Audit Committee and senior management.

The Participation Bank adopts a risk terminology which is in accordance with Basel II in order to create an international approach on Operational Risk Management. This common risk language provides a consistent view and communication about operational risk throughout the Participation Bank. Software is used in order to support the standard framework for the management of operational risk by creating the data house for risk losses and reporting of the mentioned data.

The Risk Control Evaluation ("RCE") is performed periodically in the Participation Bank as a basic principle of the Basel II Operational Risk implementations. It is aimed with RCE to restrict the operational risk effects by investigating the business processes subject to operational risk and performing controls by the process owners. In the departments where RCC study is implemented, 'Key Risk Indicators' and the threshold value for the mentioned risk points are determined.

Besides, within the Capital Adequacy Measurement and Reporting Project, the software solutions are started to be used since June 2012 in order to build a flexible parametric model to create a reporting system that is complaint with Basel II, to apply stress tests to the capital adequacy related risks and to be in compliance with the legal framework changes.

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
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**4. Financial risk management (continued)**

The Participation Bank calculated the value of operational risk in accordance with “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” published in Official Gazette no. 29111 dated 6 September 2014 which is compliant to Basel II, using the basic indicator approach with the data of last three years 2018, 2017 and 2016. The amount, calculated as TL 3,378,095 (December 31, 2018: TL 3,169,259) represents the operational risk that the Participation Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk.

**Capital management – regulatory capital**

The BRSA sets and monitors capital requirements for the Bank as a whole. The Bank is directly supervised by local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total value at credit, market and operational risks. The Bank regulatory capital is analysed into two tiers:

-Tier 1 capital, which includes paid-in 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 general provisions. The BRSA also requires the banks to maintain prescribed ratios of minimum 6% and 4.5% of Tier 1 and Tier 2 capital, respectively, to total value at credit, market and operational risks starting from January 1, 2014.

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. 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.

The Participation Bank’s regulatory capital position as at December 31, 2019 and 2018 was as follows:

|                                    | <b>December 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|------------------------------------|------------------------------|------------------------------|
| Tier 1 capital                     | 4,667,777                    | 4,121,531                    |
| Tier 2 capital                     | 1,651,928                    | 1,635,889                    |
| Deductions from capital            | -                            | -                            |
| <b>Total regulatory capital</b>    | <b>6,319,705</b>             | <b>5,757,420</b>             |
| Amount subject to credit risk      | 32,095,728                   | 30,251,728                   |
| Amount subject to market risk      | 811,525                      | 810,475                      |
| Amount subject to operational risk | 3,378,095                    | 3,169,259                    |
| <b>Capital adequacy ratios (%)</b> | <b>17.42</b>                 | <b>16.82</b>                 |

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**5. Use of estimates and judgements**

**Determining fair values of financial instruments**

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

***Valuation models***

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, lease receivables and advances to customers, funds borrowed and debt securities issued. These financial assets and liabilities include cash and balances with Central Bank, loans and advances to banks, funds collected 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.

For the financial assets and liabilities such as loan, lease receivables and advances to customers, funds borrowed, debt securities issued; valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include benchmark market rates used in estimating discount rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair values of the performing loans, leasing receivables and advances to customers are determined as Level 2 and calculated by using valuation techniques including net present value and discounted cash flow models.

Fair values of held-to-maturity investments are determined as Level 2 and derived from prices which are announced by CBRT.

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

The fair value of other financial assets is also considered to approximate their respective carrying values due to their nature.

Carrying value of the funds collected from banks and funds collected from customers equal to their fair values as they are revalued with the year-end unit value.

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 5. Use of estimates and judgements (continued)

The estimated fair values of financial assets and financial liabilities are as follows:

|   | Carrying Amount      |                      | Fair Value           |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | December 31,<br>2019 | December 31,<br>2018 | December 31,<br>2019 | December 31,<br>2018 |
| <b>Financial Assets</b>   |                      |                      |                      |                      |
| Cash and balances with Central Bank                                     | 2,293,976            | 4,745,546            | 2,293,976            | 4,745,546            |
| Loans, leasing receivables and advances to customers (Stage 1 & 2)      | 30,706,903           | 29,922,286           | 31,603,443           | 28,896,387           |
| Financial assets valued at amortised cost                               | -                    | 208,244              | -                    | 205,636              |
| Loans and advances to banks   | 3,602,037            | 1,432,658            | 3,602,037            | 1,432,658            |
| Derivative financial assets valued at fair value through profit or loss | 15,274               | 24,018               | 15,274               | 24,018               |
| Reserve deposits  | 5,690,629            | 3,768,126            | 5,690,629            | 3,768,126            |
| <b>Total</b>  | <b>42,308,819</b>    | <b>40,100,878</b>    | <b>43,205,359</b>    | <b>39,072,371</b>    |
| <b>Financial Liabilities</b>  |                      |                      |                      |                      |
| Funds collected from customers  | 39,941,527           | 26,832,171           | 39,941,527           | 26,832,171           |
| Funds borrowed  | 1,908,063            | 5,423,227            | 1,919,956            | 5,442,103            |
| Subordinated Loans  | 1,497,558            | 1,326,515            | 1,498,874            | 1,329,716            |
| Debt securities issued  | 1,614,134            | 6,161,838            | 1,659,639            | 6,414,861            |
| Funds collected from banks  | 52,058               | 48,311               | 52,058               | 48,311               |
| Derivative liabilities  | 58,591               | 63,350               | 58,591               | 63,350               |
| <b>Total</b>  | <b>45,071,931</b>    | <b>39,855,412</b>    | <b>45,130,645</b>    | <b>40,130,512</b>    |

#### Classification of fair value measurement

IFRS 7 – Financial Instruments: Disclosures requires the measurements of fair value of financial instruments to be classified in a hierarchy that reflects the significance of the valuation inputs used. This classification prioritises observable data, using market data obtained from independent sources, in preference to unobservable data that relies, for example on the use of predictions and assumptions about market prices by the Participation Bank. This sort of categorisation generally results in the classifications below:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measurements using 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: Fair value measurements using inputs for the assets or liability that are not based on observable market data (i.e. unobservable inputs).

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 5. Use of estimates and judgements (continued)

##### Valuation Principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market conditions, regardless of whether that price is directly observable or estimated using a valuation technique.

##### Valuation Governance

The Bank's fair value methodology and the governance over its models includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. All new product initiatives are subject to approvals by various functions of the Bank including risk and finance functions.

##### Valuation Techniques

##### Government debt securities & Debts securities issued by financial institutions

Government debt securities are financial instruments issued by sovereign governments. Debts securities issued by financial institutions include the rent certificates that are issued by TF Varlık Kiralama A.Ş. When market prices are not available, observable market prices such as the marketable security prices which are announced by CBRT and the prices obtained from foreign capital markets are used for fair value determination of financial assets and liabilities measured at fair value.

##### Performing loans, leasing receivables and advances to customers

In order to calculate the fair value of loans, current profit sharing rates are used as of the balance sheet date. Loan balance also includes finance lease receivables.

There are no transfers between Level 1 and Level 2 and Level 3.

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

| <b>December 31, 2019</b>  | <b>Level 1</b> | <b>Level 2</b>   | <b>Level 3</b> | <b>Total</b>     |
|---|----------------|------------------|----------------|------------------|
| Financial asset at fair value through profit or loss (Net)                              | -              | 1,262,919        | -              | 1,262,919        |
| Derivative financial assets valued at fair value through profit or loss                 | -              | 15,274           | -              | 15,274           |
| Financial assets valued at fair value through other comprehensive income <sup>(1)</sup> | -              | 4,655,721        | -              | 4,655,721        |
| <b>Financial assets at fair value</b>   | <b>-</b>       | <b>5,933,914</b> | <b>-</b>       | <b>5,933,914</b> |
| Derivative financial liabilities valued at fair value through profit or loss            | -              | 58,591           | -              | 58,591           |
| Derivative financial liabilities for hedging purposes                                   | -              | 76,768           | -              | 76,768           |
| <b>Financial liabilities at fair value</b>  | <b>-</b>       | <b>135,359</b>   | <b>-</b>       | <b>135,359</b>   |

<sup>(1)</sup> Not quoted share certificates amount to TL 5,532 are excluded from the table above

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 5. Use of estimates and judgements (continued)

| December 31, 2018   | Level 1 | Level 2          | Level 3 | Total            |
|---|---------|------------------|---------|------------------|
| Financial assets valued at fair value through other comprehensive income <sup>(1)</sup> | -       | 2,386,438        | -       | 2,386,438        |
| Derivative financial assets valued at fair value through profit or loss                 | -       | 24,018           | -       | 24,018           |
| <b>Financial assets at fair value</b>   | -       | <b>2,410,456</b> | -       | <b>2,410,456</b> |
| Derivative financial liabilities valued at fair value through profit or loss            | -       | 63,350           | -       | 63,350           |
| Derivative financial liabilities for hedging purposes                                   | -       | 363,665          | -       | 363,665          |
| <b>Financial liabilities at fair value</b>  | -       | <b>427,015</b>   | -       | <b>427,015</b>   |

(2) Not quoted share certificates amount to TL 5,474 are excluded from the table above

Observable market prices such as the marketable security prices which are announced by CBRT and the prices obtained from foreign capital markets are used for fair value determination of financial assets and liabilities measured at fair value except derivative assets and derivative liabilities held for trading. The similar ratios announced in the capital markets are used for discounting the contractual prices of derivative financial assets and derivative financial liabilities for fair value determination.

#### 6. Operating segments

The Participation Bank has three reportable segments, as described below, which are the Participation Bank's strategic business units. These strategic business units offer different products and services and are managed separately based on the Participation Bank's management and internal reporting structure. For each of the strategic business units, the Board of Directors, as the chief operating decision maker reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Participation Bank's reportable segments:

##### Consumer banking

This segment includes consumer lending, current accounts and consumer products which are in accordance with Islamic rules for individuals and small sized businesses.

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 6. Operating segments (continued)

##### Corporate banking

This segment provides banking services including all conventional credit-related products and financing products in compliance with Islamic rules for medium and large establishments and companies. It also includes international banking services.

##### Treasury

This segment provides a different range of treasury products and services, including money market and foreign exchange, to the Participation Bank's customers, in addition to carrying out investment and trading activities (local and international) and managing liquidity and market risk in compliance with Islamic rules.

##### Others

Others are comprised of head office accounts, particularly management of a portfolio of equity holdings, other real estate and the bank premises.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. 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. Inter-segment pricing is determined on an arm's length basis.

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes. Since a segment can use the funds collected of the other segment, there is a fund transfer between the segments. Those kinds of income and expenses generated from fund transfers are recalculated based on the average rates and average amounts.

| Current period                             | Consumer banking  | Corporate banking | Treasury          | Others           | Total             |
|--|-------------------|-------------------|-------------------|------------------|-------------------|
| <b>December 31, 2019</b>                   |                   |                   |                   |                  |                   |
| Operating income <sup>(1)</sup>            | 1,187,854         | 867,785           | 916,003           | (676,783)        | 2,294,859         |
| <b>Net profit of segment<sup>(2)</sup></b> | <b>440,922</b>    | <b>95,851</b>     | <b>703,984</b>    | <b>(764,347)</b> | <b>476,410</b>    |
| Profit before tax                          | 440,922           | 95,851            | 703,984           | (764,347)        | 476,410           |
| Tax provision                              | -                 | -                 | -                 | (98,981)         | (98,981)          |
| <b>Net period profit after tax</b>         | <b>440,922</b>    | <b>95,851</b>     | <b>703,984</b>    | <b>(863,328)</b> | <b>377,429</b>    |
| Assets of the segment                      | 5,008,089         | 25,493,346        | 15,818,523        | 5,874,946        | 52,194,904        |
| <b>Total assets</b>                        | <b>5,008,089</b>  | <b>25,493,346</b> | <b>15,818,523</b> | <b>5,874,946</b> | <b>52,194,904</b> |
| Liabilities of segment                     | 32,055,328        | 9,142,284         | 4,611,669         | 1,548,555        | 47,357,836        |
| Shareholders' equity                       | -                 | -                 | -                 | 4,837,068        | 4,837,068         |
| <b>Total liabilities and equity</b>        | <b>32,055,328</b> | <b>9,142,284</b>  | <b>4,611,669</b>  | <b>6,385,623</b> | <b>52,194,904</b> |

<sup>(1)</sup> Operating income includes net profit share income, net fee and commission income, net trading income and other operating income.

<sup>(2)</sup> Personnel and operational expenses are allocated based on the asset amount of the each segment.

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**6. Operating segments (continued)**

| Prior period                               | Consumer banking  | Corporate banking | Treasury          | Others           | Total             |
|--|-------------------|-------------------|-------------------|------------------|-------------------|
| <b>December 31, 2018</b>                   |                   |                   |                   |                  |                   |
| Operating income <sup>(1)</sup>            | 1,095,805         | 894,611           | 725,586           | (738,035)        | 1,977,967         |
| <b>Net profit of segment<sup>(2)</sup></b> | <b>449,145</b>    | <b>291,990</b>    | <b>593,666</b>    | <b>(764,740)</b> | <b>570,061</b>    |
| Profit before tax                          | 449,145           | 291,990           | 593,666           | (764,740)        | 570,061           |
| Tax provision                              | -                 | -                 | -                 | (124,701)        | (124,701)         |
| <b>Net period profit after tax</b>         | <b>449,145</b>    | <b>291,990</b>    | <b>593,666</b>    | <b>(889,441)</b> | <b>445,360</b>    |
| Assets of the segment                      | 4,694,537         | 24,332,995        | 13,388,697        | 4,197,142        | 46,613,371        |
| <b>Total assets</b>                        | <b>4,694,537</b>  | <b>24,332,995</b> | <b>13,388,697</b> | <b>4,197,142</b> | <b>46,613,371</b> |
| Liabilities of segment                     | 20,264,990        | 6,909,492         | 13,065,044        | 2,058,903        | 42,298,429        |
| Shareholders' equity                       | -                 | -                 | -                 | 4,314,942        | 4,314,942         |
| <b>Total liabilities and equity</b>        | <b>20,264,990</b> | <b>6,909,492</b>  | <b>13,065,044</b> | <b>6,373,845</b> | <b>46,613,371</b> |

(1) Operating income includes net profit share income, net fee and commission income, net trading income and other operating income.

(2) Personnel and operational expenses are allocated based on the asset amount of the each segment.

**7. Profit share income**

|                                    | January 1 –<br>December 31,<br>2019 | January 1 –<br>December 31,<br>2018 |
|------------------------------------|-------------------------------------|-------------------------------------|
| Income on loans                    | 3,973,993                           | 3,388,184                           |
| Income on investment securities    | 260,898                             | 297,570                             |
| Income on funds collected at banks | 39,227                              | 4,366                               |
| Income on financial leases         | 111,176                             | 131,101                             |
| Other                              | 94,434                              | 80,686                              |
| <b>Total</b>                       | <b>4,479,728</b>                    | <b>3,901,907</b>                    |

**8. Profit share expense**

|                              | January 1 –<br>December 31,<br>2019 | January 1 –<br>December 31,<br>2018 |
|------------------------------|-------------------------------------|-------------------------------------|
| Expense on funds collected   | 1,618,698                           | 1,246,020                           |
| Expense on borrowings        | 249,631                             | 391,223                             |
| Expense on securities issued | 511,701                             | 429,437                             |
| Other                        | 176,942                             | 101,774                             |
| <b>Total</b>                 | <b>2,556,972</b>                    | <b>2,168,454</b>                    |

**Türkiye Finans Katılım Bankası Anonim Şirketi****Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)****9. Net fee and commission income**

|   | January 1 –<br>December 31,<br>2019 | January 1 –<br>December 31,<br>2018 |
|---|-------------------------------------|-------------------------------------|
| <b>Fee and commission income</b>          |                                     |                                     |
| Commissions from non-cash loans           | 88,219                              | 101,488                             |
| Credit card fees and commissions          | 66,384                              | 51,348                              |
| POS commissions from members              | 62,522                              | 70,087                              |
| Insurance commissions                     | 24,590                              | 19,797                              |
| Intelligence fee                          | 14,630                              | 22,603                              |
| Commissions on remittance                 | 12,290                              | 12,266                              |
| Expert Fees                               | 8,284                               | 10,433                              |
| Others                                    | 50,749                              | 27,141                              |
| <b>Total fee and commission income</b>    | <b>327,668</b>                      | <b>315,163</b>                      |
| <b>Fee and commission expense</b>         |                                     |                                     |
| POS transactions commission expenses      | 94,751                              | 107,258                             |
| Credit card service and usage expenses    | 14,155                              | 13,366                              |
| Foreign correspondent fees                | 7,938                               | 5,595                               |
| Expert Fees                               | 7,936                               | 11,282                              |
| Capital market transactions fees          | 6,556                               | 2,942                               |
| Commissions and fees given for remittance | 5,379                               | 4,111                               |
| 7/24 Card domestic ATM commission given   | 1,524                               | 1,310                               |
| Mortgage expenses                         | 486                                 | 775                                 |
| Others                                    | 47,220                              | 41,732                              |
| <b>Total fee and commission expense</b>   | <b>185,945</b>                      | <b>188,371</b>                      |
| <b>Net fee and commission income</b>      | <b>141,723</b>                      | <b>126,792</b>                      |

Net fee and commission income above excludes amounts included in determining the profit share rate on financial assets and liabilities that are not at fair value through profit or loss.

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 10. Net trading gain/(loss) and Foreign exchange gain, net

|   | January 1 –<br>December 31,<br>2019 | January 1 –<br>December 31,<br>2018 |
|---|-------------------------------------|-------------------------------------|
| (Gain/Loss) from derivative financial instruments | 302,325                             | 398,665                             |
| Foreign exchange gain, net                        | (123,324)                           | (322,166)                           |
| Other   | 12,088                              | 7,409                               |
| <b>Total</b>                                      | <b>191,089</b>                      | <b>83,908</b>                       |

#### 11. Other operating income

|   | January 1 –<br>December 31,<br>2019 | January 1 –<br>December 31,<br>2018 |
|---|-------------------------------------|-------------------------------------|
| Gain on sale of assets held for resale and property and equipment | 44,528                              | 36,357                              |
| Income from cheque book   | 2,725                               | 3,801                               |
| Communication expenses charged to customers                       | 2,706                               | 4,041                               |
| Others(*)   | 48,577                              | 44,596                              |
| <b>Total</b>  | <b>98,536</b>                       | <b>88,795</b>                       |

(\*) Includes, banking transactions and services fees.

#### 12. Personnel expenses

|  | January 1 –<br>December 31,<br>2019 | January 1 –<br>December 31,<br>2018 |
|--|-------------------------------------|-------------------------------------|
| Wages and salaries                                 | 357,960                             | 305,595                             |
| Short-term employee benefits                       | 24,981                              | 27,199                              |
| Compulsory social security obligations             | 57,062                              | 48,007                              |
| Health expenses of personnel                       | 20,500                              | 17,367                              |
| Termination payments                               | 14,983                              | 14,815                              |
| Provision expense for employee severance indemnity | 18,100                              | 11,828                              |
| Social assistance payments                         | 10,049                              | 7,370                               |
| Others(*)  | 61,328                              | 50,340                              |
| <b>Total</b>                                       | <b>564,963</b>                      | <b>482,521</b>                      |

(\*) Includes overtime expenses, training expenses, travel allowances and disability payments.

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**13. Administrative expenses & Depreciation and amortisation & Taxes and duties other than on income**

|                                       | January 1 –<br>December 31,<br>2019 | January 1 –<br>December 31,<br>2018 |
|---------------------------------------|-------------------------------------|-------------------------------------|
| Administrative expenses               | 188,553                             | 255,655                             |
| Depreciation and amortisation         | 165,414                             | 88,179                              |
| Taxes and duties other than on income | 68,756                              | 50,009                              |
| <b>Total</b>                          | <b>422,723</b>                      | <b>393,843</b>                      |

**14. Other operating expenses**

|   | January 1 –<br>December 31,<br>2019 | January 1 –<br>December 31,<br>2018 |
|---|-------------------------------------|-------------------------------------|
| Premium expenses paid for saving deposit insurance fund | 81,000                              | 47,947                              |
| Audit and advisory expenses                             | 18,702                              | 15,405                              |
| Impairment loss on asset held for resale                | 2,453                               | -                                   |
| Provision expense for ongoing suits                     | 26,158                              | 21,079                              |
| Others (*)  | 20,103                              | 14,001                              |
| <b>Total</b>  | <b>148,416</b>                      | <b>98,432</b>                       |

(\*) Includes loss from sales of asset and movables.

**15. Income taxes**

Components of income tax expense in the statement of profit or loss and other comprehensive income are as follows:

|   | January 1 –<br>December 31,<br>2019 | January 1 –<br>December 31,<br>2018 |
|---|-------------------------------------|-------------------------------------|
| <b><i>Income tax recognised in profit for the period</i></b>      |                                     |                                     |
| Current income tax related to income from operations              | (74,303)                            | (127,936)                           |
| Deferred income tax related to income from operations             | (24,678)                            | 3,235                               |
|   | <b>(98,981)</b>                     | <b>(124,701)</b>                    |
| <b><i>Income tax recognised in other comprehensive income</i></b> |                                     |                                     |
| Deferred income tax recognised in other comprehensive income      | (33,981)                            | 17,454                              |
| <b>Total income tax</b>   | <b>(132,962)</b>                    | <b>(107,247)</b>                    |

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 15. Income taxes (continued)

The movement of current tax liabilities is as follows:

|                                | January 1 –<br>December 31,<br>2019 | January 1 –<br>December 31,<br>2018 |
|--------------------------------|-------------------------------------|-------------------------------------|
| At the beginning of the period | 10,717                              | 15,941                              |
| Current income tax charge      | 74,303                              | 127,936                             |
| Taxes paid during the period   | (10,766)                            | (133,160)                           |
| <b>Current tax liabilities</b> | <b>74,254</b>                       | <b>10,717</b>                       |

The income tax charge is composed of the sum of current tax and deferred tax.

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. 20% is used in the calculation of the corporation tax. In accordance with the Provisional Article 10 added to the Corporate Tax Act, 20% of the Corporate Tax will be applied as 22% for corporate earnings for the tax years 2018, 2019 and 2020.

Deferred tax is calculated over the tax rates that are valid for the period in which the assets are incurred or the liabilities are fulfilled or close to the date of enactment and recorded as income or expense in the income statement. However, deferred tax is recognized directly in equity if the tax asset relates directly to equity in the same or different period. The corporation tax which is taken over the corporation earnings by being changed in the Law No. 7061 of the Law No. 91 of the Law and the Law of the Corporation Tax which is published in the Official Gazette dated 5 December 2017 and numbered 30261 and is applied to the profits of the corporations for the taxation periods of 2018, 2019 and 2020 from 20% to 22%. The Participation Bank makes deferred tax calculation using the related rates, considering the periods when the deferred tax assets and liabilities will be realized. Current tax payable is netted off as it relates to prepaid tax amounts

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the Participation Bank's effective income tax rate as at and for the years ended December 31, 2019 and 2018 are as follows:

|  | 2019           | Tax rate<br>(%) | 2018           | Tax rate<br>(%) |
|--|----------------|-----------------|----------------|-----------------|
| <b>Profit from ordinary activities before income tax</b> | <b>476,410</b> |                 | <b>570,061</b> |                 |
| Taxes on income per statutory tax rate                   | 95,282         | 22.0            | 114,012        | 22.0            |
| Disallowable expenses                                    | 76,144         | 22.0            | 155,572        | 22.0            |
| Tax exempt income  | (72,445)       | 22.0            | (144,883)      | 22.0            |
| <b>Income tax expense</b>                                | <b>98,981</b>  | <b>22.0</b>     | <b>124,701</b> | <b>22.0</b>     |

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**15. Income taxes (continued)**

Deferred tax assets and liabilities as at December 31, 2019 and 2018 are attributable to the items below:

|  | December 31,<br>2019 | December 31,<br>2018 | 01.01.2019-<br>31.12.2019 | 01.01.2018-<br>31.12.2018 |
|--|----------------------|----------------------|---------------------------|---------------------------|
| Commission accruals  | 12,043               | 13,306               | (1,263)                   | (5,788)                   |
| Portfolio basis allowance for loans and leasing receivables and advances | 37,026               | 70,847               | (33,821)                  | (44,023)                  |
| Short-term employee benefits   | 4,143                | 3,179                | 964                       | 649                       |
| Reserve for employee severance indemnity                                 | 18,641               | 14,395               | 4,246                     | 2,980                     |
| Provision expense for law suits  | 11,763               | 7,744                | 4,019                     | 4,176                     |
| Credit card promotion provision  | 276                  | 251                  | 25                        | 5                         |
| Loan accrual differences   | 462                  | 632                  | (170)                     | 728                       |
| Fair value differences of derivative financial instruments               | 26,098               | 30,146               | (4,048)                   | 6,035                     |
| Revaluation surplus on tangible assets                                   | (8,925)              | (7,260)              | (1,665)                   | -                         |
| Specific provision of loans, leasing receivables and advances            | -                    | -                    | -                         | 15,438                    |
| Fixed asset depreciation difference                                      | (30,802)             | (25,978)             | (4,824)                   | (9,198)                   |
| Fair value valuation differences   | (161)                | (397)                | 236                       | (351)                     |
| Other  | 8,365                | 34,238               | (25,873)                  | 24,991                    |
| Hedging Funds  | 481                  | (1,094)              | 1,575                     | (3,803)                   |
| Valuation Differences of Precious Metals                                 | 2,743                | 803                  | 1,940                     | (873)                     |
| <b>Net deferred tax assets</b>   | <b>82,153</b>        | <b>140,812</b>       | <b>(58,659)</b>           | <b>61,813</b>             |

|   | December 31, 2019 | December 31, 2018 |
|---|-------------------|-------------------|
| Balance on January 1,                     | 140,812           | 78,999            |
| IFRS 9 Effect                             | -                 | 41,176            |
| Current Period Gain/Loss                  | (24,678)          | 3,235             |
| Currency differences                      | -                 | (52)              |
| Deferred Tax Asset Accounted Under Equity | (33,981)          | 17,454            |
| <b>Balance on December 31,</b>            | <b>82,153</b>     | <b>140,812</b>    |

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 16. Net Impairment Loss on Financial Assets

|                                 | January 1 –<br>December 31, 2019 | January 1 –<br>December 31, 2018 |
|---------------------------------|----------------------------------|----------------------------------|
| Specific Provision / (reversal) | 877,195                          | 522,358                          |
| Generic Provision / (reversal)  | (150,339)                        | (54,280)                         |
| Marketable Securities           | 3,934                            | 4,010                            |
| Other                           | 10,802                           | 16,003                           |
| <b>Total</b>                    | <b>741,592</b>                   | <b>488,091</b>                   |

#### 17. Cash and cash equivalents

As at December 31, 2019 and 2018, cash and cash equivalents as presented in the statement of financial position and cash flows are as follows:

|   | December<br>31, 2019 | December<br>31, 2018 |
|---|----------------------|----------------------|
| Cash on hand  | 393,639              | 549,880              |
| Balances with the Central Bank excluding reserve deposits             | 569,178              | 2,780,999            |
| Cash in transit   | 1,331,159            | 1,414,667            |
| <b>Cash and balances with Central Bank</b>                            | <b>2,293,976</b>     | <b>4,745,546</b>     |
| Loans and advances to banks   | 3,602,037            | 1,432,658            |
| ECL Allowance   | 1,924                | 2,642                |
| -Accrued income   | (80)                 | (32,055)             |
| <b>Total cash and cash equivalents in the statement of cash flows</b> | <b>5,897,857</b>     | <b>6,148,791</b>     |

#### 18. Reserve deposits

|                  | December 31,<br>2019 | December 31,<br>2018 |
|------------------|----------------------|----------------------|
| Reserve deposits | 5,692,474            | 3,768,126            |
| <b>Total</b>     | <b>5,692,474</b>     | <b>3,768,126</b>     |

As of December 31, 2019, Reserve Deposit amount is TL 5,692,474 (December 31, 2018: 3,768,126). Reserve deposits that are kept as blockage in CBTR for foreign currency liabilities. As per the Communiqué no.2005/1 "Reserve Deposits" of the Central Bank of Turkey. The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in TL and USD or EUR between the rates of 1% and 21% respectively according to the maturity of the liabilities and it has been taken into consideration as of the report date.

Türkiye Finans Katılım Bankası Anonim Şirketi

Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)

18. Reserve deposits (continued)

| ECL Movement-Reserve deposits   | December 31, 2019 |         |         |              |
|---------------------------------|-------------------|---------|---------|--------------|
|                                 | Stage 1           | Stage 2 | Stage 3 | Total        |
| <b>ECL at January 1, 2019</b>   | <b>1,902</b>      | -       | -       | <b>1,902</b> |
| Transfers to stage 1            | -                 | -       | -       | -            |
| Transfers to stage 2            | -                 | -       | -       | -            |
| Transfers to stage 3            | -                 | -       | -       | -            |
| Additions/(Disposals)           | (57)              | -       | -       | (57)         |
| <b>ECL at December 31, 2019</b> | <b>1,845</b>      | -       | -       | <b>1,845</b> |

| ECL Movement-Reserve deposits   | December 31, 2018 |         |         |              |
|---------------------------------|-------------------|---------|---------|--------------|
|                                 | Stage 1           | Stage 2 | Stage 3 | Total        |
| <b>ECL at January 1, 2018</b>   | <b>2,869</b>      | -       | -       | <b>2,869</b> |
| Transfers to stage 1            | -                 | -       | -       | -            |
| Transfers to stage 2            | -                 | -       | -       | -            |
| Transfers to stage 3            | -                 | -       | -       | -            |
| Additions/(Disposals)           | (967)             | -       | -       | (967)        |
| <b>ECL at December 31, 2018</b> | <b>1,902</b>      | -       | -       | <b>1,902</b> |

| Impairment allowance for Central Bank | December 31, 2019              |              |            |            |              |
|---------------------------------------|--------------------------------|--------------|------------|------------|--------------|
|                                       | 12 month Basel<br>III PD Range | Stage<br>1   | Stage<br>2 | Stage<br>3 | Total        |
| <b>Internal rating grade</b>          |                                |              |            |            |              |
| <b>Performing</b>                     |                                |              |            |            |              |
| High grade                            | -                              | -            | -          | -          | -            |
| Standard grade                        | 1.32%-4.35%                    | 1,845        | -          | -          | 1,845        |
| Sub-standard grade                    | -                              | -            | -          | -          | -            |
| Past due but not impaired             | -                              | -            | -          | -          | -            |
| Other                                 | -                              | -            | -          | -          | -            |
| <b>Non-performing</b>                 |                                |              |            |            |              |
| Individually impaired                 | -                              | -            | -          | -          | -            |
|                                       |                                | <b>1,845</b> | -          | -          | <b>1,845</b> |

| Impairment allowance for Central Bank | December 31, 2018              |              |            |            |              |
|---------------------------------------|--------------------------------|--------------|------------|------------|--------------|
|                                       | 12 month Basel<br>III PD Range | Stage<br>1   | Stage<br>2 | Stage<br>3 | Total        |
| <b>Internal rating grade</b>          |                                |              |            |            |              |
| <b>Performing</b>                     |                                |              |            |            |              |
| High grade                            | -                              | -            | -          | -          | -            |
| Standard grade                        | 1.32%-4.35%                    | 1,902        | -          | -          | 1,902        |
| Sub-standard grade                    | -                              | -            | -          | -          | -            |
| Past due but not impaired             | -                              | -            | -          | -          | -            |
| Other                                 | -                              | -            | -          | -          | -            |
| <b>Non-performing</b>                 |                                |              |            |            |              |
| Individually impaired                 | -                              | -            | -          | -          | -            |
|                                       |                                | <b>1,902</b> | -          | -          | <b>1,902</b> |

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**19. Loans and advances to banks**

As at December 31, 2019 and 2018, loans and advances to banks comprise the followings:

|  | December 31, 2019 |                  |                  | December 31, 2018 |                  |                  |
|--|-------------------|------------------|------------------|-------------------|------------------|------------------|
|  | TL                | FC               | Total            | TL                | FC               | Total            |
| <i>Loans and advances to banks – demand:</i> |                   |                  |                  |                   |                  |                  |
| Domestic banks                               | 1,221             | 175,558          | <b>176,779</b>   | 1,045             | 450,457          | <b>451,502</b>   |
| Foreign banks                                | 50                | 3,427,132        | <b>3,427,182</b> | 121               | 983,677          | <b>983,798</b>   |
| <b>Total loans and advances to banks</b>     | <b>1,271</b>      | <b>3,602,690</b> | <b>3,603,961</b> | <b>1,166</b>      | <b>1,434,134</b> | <b>1,435,300</b> |

| ECL Movement- Loans and advances to banks | December 31, 2019 |         |         |              |
|---|-------------------|---------|---------|--------------|
|   | Stage 1           | Stage 2 | Stage 3 | Total        |
| <b>ECL at January 1, 2019</b>             | <b>2,642</b>      | -       | -       | <b>2,642</b> |
| Transfers to stage 1                      | -                 | -       | -       | -            |
| Transfers to stage 2                      | -                 | -       | -       | -            |
| Transfers to stage 3                      | -                 | -       | -       | -            |
| Additions/(Disposals)                     | (718)             | -       | -       | (718)        |
| <b>ECL at December 31, 2019</b>           | <b>1,924</b>      | -       | -       | <b>1,924</b> |

| ECL Movement- Loans and advances to banks | December 31, 2018 |         |         |              |
|---|-------------------|---------|---------|--------------|
|   | Stage 1           | Stage 2 | Stage 3 | Total        |
| <b>ECL at January 1, 2018</b>             | <b>3,022</b>      | -       | -       | <b>3,022</b> |
| Transfers to stage 1                      | -                 | -       | -       | -            |
| Transfers to stage 2                      | -                 | -       | -       | -            |
| Transfers to stage 3                      | -                 | -       | -       | -            |
| Additions/(Disposals)                     | (380)             | -       | -       | (380)        |
| <b>ECL at December 31, 2018</b>           | <b>2,642</b>      | -       | -       | <b>2,642</b> |

| Impairment allowance for loans and advances to customers | December 31, 2019                 |              |            |            |              |
|--|-----------------------------------|--------------|------------|------------|--------------|
|  | 12 month<br>Basel III PD<br>Range | Stage<br>1   | Stage<br>2 | Stage<br>3 | Total        |
| <b>Internal rating grade</b>                             |                                   |              |            |            |              |
| <b>Performing</b>  |                                   |              |            |            |              |
| High grade   | 0.03%-0.32%                       | 884          | -          | -          | 884          |
| Standard grade   | 1.32%-4.35%                       | 1,040        | -          | -          | 1,040        |
| Sub-standard grade                                       | -                                 | -            | -          | -          | -            |
| Past due but not impaired                                | -                                 | -            | -          | -          | -            |
| Other  | -                                 | -            | -          | -          | -            |
| <b>Non-performing</b>                                    |                                   |              |            |            |              |
| Individually impaired                                    | -                                 | -            | -          | -          | -            |
|  |                                   | <b>1,924</b> | -          | -          | <b>1,924</b> |

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**19. Loans and advances to banks (continued)**

| Impairment allowance for loans and advances to customers | December 31, 2018                 |              |            |            |              |
|--|-----------------------------------|--------------|------------|------------|--------------|
|  | 12 month<br>Basel III PD<br>Range | Stage<br>1   | Stage<br>2 | Stage<br>3 | Total        |
| <b>Internal rating grade</b>                             |                                   |              |            |            |              |
| <b>Performing</b>  |                                   |              |            |            |              |
| High grade   | 0.03%-0.11%                       | 312          | -          | -          | 312          |
| Standard grade   | 0.32%-1.32%                       | 2,330        | -          | -          | 2,330        |
| Sub-standard grade                                       | -                                 | -            | -          | -          | -            |
| Past due but not impaired                                | -                                 | -            | -          | -          | -            |
| Other  | -                                 | -            | -          | -          | -            |
| <b>Non-performing</b>                                    |                                   |              |            |            |              |
| Individually impaired                                    | -                                 | -            | -          | -          | -            |
|  |                                   | <b>2,642</b> |            |            | <b>2,642</b> |

**20. Loans, lease receivables and advances to customers**

As at December 31, 2019 and 2018, all the loans, lease receivables and advances to customers are at amortised cost.

|  | December 31, 2019 | December 31, 2018 |
|--|-------------------|-------------------|
| Performing loans                           | 30,100,472        | 28,911,774        |
| Performing lease receivables               | 606,431           | 1,010,512         |
| Non-performing loans and lease receivables | 2,666,352         | 1,732,682         |
| <b>Gross amount</b>                        | <b>33,373,255</b> | <b>31,654,968</b> |
| ECL amount for stage 3 loans               | (1,446,437)       | (1,220,037)       |
| ECL amount for stage 1&2 loans             | (204,743)         | (346,719)         |
| <b>Carrying amount</b>                     | <b>31,722,075</b> | <b>30,088,212</b> |

**Lending structure of the Group for performing loans and lease receivables:**

|                                 | December 31, 2019 | December 31, 2018 |
|---------------------------------|-------------------|-------------------|
| Export loans                    | 2,969,625         | 3,266,347         |
| Business loans                  | 23,290,883        | 23,321,877        |
| Consumer loans                  | 3,227,961         | 2,759,548         |
| Credit cards                    | 473,836           | 395,500           |
| Loans given to financial sector | 708,928           | 120,633           |
| Other                           | 35,670            | 58,381            |
| <b>Total</b>                    | <b>30,706,903</b> | <b>29,922,286</b> |

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**20. Loans, lease receivables and advances to customers (continued)**

Provision movement of the Group as of December 31, 2019 and December 31, 2018:

|   | <b>December 31, 2019</b> |
|---|--------------------------|
| Balance on January 1, 2019                | 1,566,756                |
| Impairment loss for the year:             |                          |
| -Charge for the year                      | 1,055,475                |
| -Recoveries and reversals                 | (360,667)                |
| -Write-offs and loans sold <sup>(1)</sup> | (610,384)                |
| -Foreign exchange differences             | -                        |
| <b>Balance at end of the year</b>         | <b>1,651,180</b>         |

<sup>(1)</sup> The Group has sold a portion of its' non-performing loans amounting to TL 338,110 (December 31, 2018: TL 182,824) to asset management companies with TL 6,856 (December 31, 2018: TL 13,636). Rediscount amount is included.

|   | <b>December 31,<br/>2018</b> |
|---|------------------------------|
| Balance on December 31, 2017              | 1,274,548                    |
| IFRS 9 Impact                             | 129,080                      |
| Balance on January 1, 2018                | 1,403,628                    |
| Impairment loss for the year:             |                              |
| -Charge for the year                      | 713,658                      |
| -Recoveries and reversals                 | (219,036)                    |
| -Write-offs and loans sold <sup>(1)</sup> | (311,672)                    |
| -Foreign exchange differences             | (19,822)                     |
| <b>Balance at end of the year</b>         | <b>1,566,756</b>             |

<sup>(1)</sup> The Group has sold a portion of its' non-performing loans amounting to TL 182,824 (December 31, 2017: TL 241,458) to asset management companies with TL 13,636 (December 31, 2017: TL 39,757). Rediscount amount is included.

**Lending structure of the Group:**

Expected Credit Loss Measurement of On-Balance Sheet Financial Assets:

|   | <b>December 31, 2019</b> |                  |                  |                   |                      |                |                  |                  |
|---|--------------------------|------------------|------------------|-------------------|----------------------|----------------|------------------|------------------|
|   | <b>Gross Amount</b>      |                  |                  |                   | <b>ECL Allowance</b> |                |                  |                  |
|   | Stage 1                  | Stage 2          | Stage 3          | Total             | Stage 1              | Stage 2        | Stage 3          | Total            |
| Cash and cash equivalents<br>(including reserves at Central<br>Bank)                | 7,986,450                | -                | -                | 7,986,450         | 1,845                | -              | -                | 1,845            |
| Loans and advances to Banks   | 3,603,961                | -                | -                | 3,603,961         | 1,924                | -              | -                | 1,924            |
| Securities  | 4,676,527                | -                | -                | 4,676,527         | 1,065                | -              | -                | 1,065            |
| Loans and advances to<br>customers  | 26,400,844               | 4,306,059        | 2,666,352        | 33,373,255        | 80,789               | 123,954        | 1,446,437        | 1,651,180        |
| Other financial assets  | 8,450                    | 3,662            | -                | 12,112            | 114                  | 347            | -                | 461              |
| <b>Total on-balance sheet<br/>financial assets in scope of<br/>ECL requirements</b> | <b>42,676,232</b>        | <b>4,309,721</b> | <b>2,666,352</b> | <b>49,652,305</b> | <b>85,737</b>        | <b>124,301</b> | <b>1,446,437</b> | <b>1,656,475</b> |

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**20. Loans, lease receivables and advances to customers (continued)**

|   | December 31, 2018 |                  |                  |                   |                |                |                  |                  |
|---|-------------------|------------------|------------------|-------------------|----------------|----------------|------------------|------------------|
|   | Gross Amount      |                  |                  |                   | ECL Allowance  |                |                  |                  |
|   | Stage 1           | Stage 2          | Stage 3          | Total             | Stage 1        | Stage 2        | Stage 3          | Total            |
| Cash and cash equivalents<br>(including reserves at Central<br>Bank)                | 8,513,672         | -                | -                | 8,513,672         | 1,902          | -              | -                | 1,902            |
| Loans and advances to<br>Banks  | 1,432,658         | -                | -                | 1,432,658         | 2,642          | -              | -                | 2,642            |
| Securities  | 2,624,174         | -                | -                | 2,624,174         | 724            | -              | -                | 724              |
| Loans and advances to<br>customers(*)   | 26,027,548        | 3,894,738        | 1,732,682        | 31,654,968        | 111,705        | 235,014        | 1,220,037        | 1,566,756        |
| Other financial assets  | 95,205            | 3,472            | -                | 98,677            | 152            | 58             | -                | 210              |
| <b>Total on-balance sheet<br/>financial assets in scope of<br/>ECL requirements</b> | <b>38,693,257</b> | <b>3,898,210</b> | <b>1,732,682</b> | <b>41,880,979</b> | <b>117,125</b> | <b>235,072</b> | <b>1,220,037</b> | <b>1,572,234</b> |

(\*) Leasing receivables amounted as TL 1,010,512 is not included in Credit risk by risk groups table (December 31, 2017: TL 1,144,273).

| Impairment allowance for loans and advances to<br>customers | December 31, 2019 |                |                  |                  |
|---|-------------------|----------------|------------------|------------------|
|   | Stage 1           | Stage 2        | Stage 3          | Total            |
| <b>Internal rating grade</b>                                |                   |                |                  |                  |
| <b>Performing</b>   |                   |                |                  |                  |
| High grade  | 14,995            | 69             | -                | 15,064           |
| Standard grade  | 18,840            | 299            | -                | 19,139           |
| Sub-standard grade  | 23,337            | 4,532          | -                | 27,869           |
| Past due but not impaired                                   | 7,928             | 102,890        | -                | 110,818          |
| Other   | 15,689            | 16,164         | -                | 31,853           |
| <b>Non-performing</b>                                       |                   |                |                  |                  |
| Individually impaired                                       | -                 | -              | 1,446,437        | 1,446,437        |
|   | <b>80,789</b>     | <b>123,954</b> | <b>1,446,437</b> | <b>1,651,180</b> |

| Impairment allowance for loans and advances to<br>customers | December 31, 2018 |                |                  |                  |
|---|-------------------|----------------|------------------|------------------|
|   | Stage 1           | Stage 2        | Stage 3          | Total            |
| <b>Internal rating grade</b>                                |                   |                |                  |                  |
| <b>Performing</b>   |                   |                |                  |                  |
| High grade  | 44                | 27             | -                | 71               |
| Standard grade  | 99,082            | 176,721        | -                | 275,803          |
| Sub-standard grade  | 3,402             | 677            | -                | 4,079            |
| Past due but not impaired                                   | 414               | 50,130         | -                | 50,544           |
| Other   | 8,763             | 7,459          | -                | 16,222           |
| <b>Non-performing</b>                                       |                   |                |                  |                  |
| Individually impaired                                       | -                 | -              | 1,220,037        | 1,220,037        |
|   | <b>111,705</b>    | <b>235,014</b> | <b>1,220,037</b> | <b>1,566,756</b> |

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
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**20. Loans, lease receivables and advances to customers (continued)**

| Non cash allowances             | December 31, 2019 |              |               |                |
|---------------------------------|-------------------|--------------|---------------|----------------|
|                                 | Stage 1           | Stage 2      | Stage 3       | Total          |
| <b>ECL at December 31, 2018</b> | <b>13,089</b>     | <b>7,845</b> | <b>45,160</b> | <b>66,094</b>  |
| <b>Net ECL Change</b>           | <b>(1,769)</b>    | <b>299</b>   | <b>36,547</b> | <b>35,077</b>  |
| Transfers to stage 1            | 323               | (323)        | -             | -              |
| Transfers to stage 2            | (405)             | 405          | -             | -              |
| Transfers to stage 3            | (59)              | (6,652)      | 6,711         | -              |
| <b>ECL at December 31, 2019</b> | <b>11,179</b>     | <b>1,574</b> | <b>88,418</b> | <b>101,171</b> |

| Non cash allowances             | December 31, 2018 |              |               |                |
|---------------------------------|-------------------|--------------|---------------|----------------|
|                                 | Stage 1           | Stage 2      | Stage 3       | Total          |
| <b>ECL at December 31, 2018</b> | <b>19,045</b>     | <b>9,519</b> | <b>44,091</b> | <b>72,655</b>  |
| <b>Net ECL Change</b>           | <b>(7,700)</b>    | <b>309</b>   | <b>830</b>    | <b>(6,561)</b> |
| Transfers to stage 1            | (258)             | 208          | 50            | -              |
| Transfers to stage 2            | 1,675             | (2,199)      | 524           | -              |
| Transfers to stage 3            | 327               | 8            | (335)         | -              |
| <b>ECL at December 31, 2018</b> | <b>13,089</b>     | <b>7,845</b> | <b>45,160</b> | <b>66,094</b>  |

Loans, lease receivables and advances to customers include the following finance lease receivables for leases of certain property and equipment where the Participation Bank is the lessor:

|  | December 31,<br>2019 | December 31,<br>2018 |
|--|----------------------|----------------------|
| <b>Gross investment in finance leases, receivable:</b> |                      |                      |
| Less than one year                                     | 354,753              | 498,335              |
| Between one and four years                             | 291,018              | 678,469              |
| More than four years                                   | 15,345               | 41,462               |
| <b>Total</b>   | <b>661,116</b>       | <b>1,218,266</b>     |
| Unearned finance income                                | (54,685)             | (207,754)            |
| <b>Net investment in finance leases</b>                | <b>606,431</b>       | <b>1,010,512</b>     |

The net investment in finance leases comprises:

|   | December 31, 2019 | December 31, 2018 |
|---|-------------------|-------------------|
| Less than one year                      | 325,409           | 413,353           |
| Between one and four years              | 266,946           | 562,768           |
| More than four years                    | 14,076            | 34,391            |
| <b>Net investment in finance leases</b> | <b>606,431</b>    | <b>1,010,512</b>  |

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 21. Derivative financial instruments held for trading and hedging purposes

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying, such as financial instrument prices, reference rates, commodity prices or indices. In the ordinary course of business, the Participation Bank enters into various types of transactions that involve derivative financial instruments. Derivative financial instruments used include currency forwards and cross currency swaps.

The tables below show the contractual amounts of derivative instruments analysed by the term to maturity. The contractual amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The contractual amounts indicate the volume of transactions outstanding at the period- end and are neither indicative of the market risk nor credit risk.

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. 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.

|   | December 31, 2019 |                        |                   | December 31, 2018 |                        |                   |
|---|-------------------|------------------------|-------------------|-------------------|------------------------|-------------------|
|   | Fair value assets | Fair value liabilities | Notional amount   | Fair value assets | Fair value liabilities | Notional amount   |
| Forward contracts                             | 11,902            | 12,531                 | 6,936,917         | 23,085            | 5,693                  | 4,603,031         |
| Currency swap contracts                       | 3,221             | 45,932                 | 9,204,887         | 884               | 57,606                 | 6,633,301         |
| Options                                       | 151               | 128                    | 222,913           | 49                | 51                     | 31,873            |
| <b>Derivatives Held for Trading</b>           | <b>15,274</b>     | <b>58,591</b>          | <b>16,364,717</b> | <b>24,018</b>     | <b>63,350</b>          | <b>11,268,205</b> |
| Cross Currency Swap                           | -                 | 76,768                 | 1,119,864         | 272,745           | 363,665                | 3,967,672         |
| <b>Total Derivatives for Hedging Purposes</b> | <b>-</b>          | <b>76,768</b>          | <b>1,119,864</b>  | <b>272,745</b>    | <b>363,665</b>         | <b>3,967,672</b>  |

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**21. Derivative financial instruments held for trading and hedging purposes (continued)**

|                              | December 31, 2019 |                |                  |              |              | Total             |
|------------------------------|-------------------|----------------|------------------|--------------|--------------|-------------------|
|                              | Up to 1 month     | 1 to 3 months  | 3 to 12 months   | 1 to 5 years | Over 5 years |                   |
| Forward contracts            | 6,380,061         | 295,345        | 261,511          | -            | -            | 6,936,917         |
| Currency swap contracts      | 8,565,377         | -              | 639,510          | -            | -            | 9,204,887         |
| Cross currency swaps         | -                 | 464,335        | 655,529          | -            | -            | 1,119,864         |
| Options                      | 28,094            | -              | 194,819          | -            | -            | 222,913           |
| <b>Total of transactions</b> | <b>14,973,532</b> | <b>759,680</b> | <b>1,751,369</b> | <b>-</b>     | <b>-</b>     | <b>17,484,581</b> |

  

|                              | December 31, 2018 |                |                  |                  |              | Total             |
|------------------------------|-------------------|----------------|------------------|------------------|--------------|-------------------|
|                              | Up to 1 month     | 1 to 3 months  | 3 to 12 months   | 1 to 5 years     | Over 5 years |                   |
| Forward contracts            | 4,017,531         | 462,811        | 122,689          | -                | -            | 4,603,031         |
| Currency swap contracts      | 6,633,301         | -              | -                | -                | -            | 6,633,301         |
| Cross currency swaps         | 31,873            | -              | 2,547,325        | 1,420,347        | -            | 3,999,545         |
| <b>Total of transactions</b> | <b>10,682,705</b> | <b>462,811</b> | <b>2,670,014</b> | <b>1,420,347</b> | <b>-</b>     | <b>15,235,877</b> |

**Cash flow hedge accounting**

Group enters into hedge relationships to manage exposures to fixed profit shares and foreign currency risks and applies hedge accounting. The Group implements cash flow hedge accounting in order to avoid the financial risk of securities issued together with assets that are profit-sharing yielded respectively.

The Group has converted funds obtained from securities issued in Malaysian Ringgit of MYR 360,000 to USD loan with cross currency swap and invested this fund in profit share-yielding assets in USD. In this context, the Group has started to implement cash flow hedge accounting on August 1, 2014 to protect itself with cross currency swap against cash flow risks due to the changes in MYR/TL foreign exchange rates on securities issued and due to changes in USD/TL foreign exchange rates on profit share-yielding assets.

The hedging instruments are cross currency swaps and the hedged items are issued securities and profit share-yielding assets.

Cash Flow Hedge Accounting's effect is summarized in below table;

| Type of hedging instrument | Hedged item (asset and liability)                       | Nature of hedged risks  | December 31, 2019                        |           | Net gain/(loss) recognized in hedging funds <sup>(1)</sup> | Ineffective Portion recognized in income Statement(Net) |
|----------------------------|---|---|--|-----------|--|---|
|                            |   |   | Net fair value of the hedging instrument |           |  |   |
|                            |   |   | Asset                                    | Liability |  |   |
| Swap transactions          | Debt Securities Issued and Profit Share Yielding Assets | Cash flow risk due to the changes in the foreign exchange rates | -  | 76,768    | (1,706)  | -   |

<sup>(1)</sup> Includes deferred tax effect.

| Type of hedging instrument | Hedged item (asset and liability)                       | Nature of hedged risks  | December 31, 2018                        |           | Net gain/(loss) recognized in hedging funds <sup>(1)</sup> | Portion recognized in income Statement(Net) |
|----------------------------|---|---|--|-----------|--|---|
|                            |   |   | Net fair value of the hedging instrument |           |  |   |
|                            |   |   | Asset                                    | Liability |  |   |
| Swap transactions          | Debt Securities Issued and Profit Share Yielding Assets | Cash flow risk due to the changes in the foreign exchange rates | -  | 363,665   | 3,879  | -   |

<sup>(1)</sup> Includes deferred tax effect.

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 21. Derivative financial instruments held for trading and hedging purposes

##### *Fair value hedge accounting*

The Group does not have any fair value hedge accounting transactions.

| December 31, 2019          |                                   |  |  |           |                                       |   |
|----------------------------|-----------------------------------|--|--|-----------|---------------------------------------|---|
| Type of hedging instrument | Hedged item (asset and liability) | Nature of hedged risks                                       | Net fair value of the hedging instrument |           | Fair Value Difference of Hedged Items | Ineffective Position Recognized in income statement |
|                            |                                   |  | Asset                                    | Liability |                                       |   |
| Swap transactions          | Leasing Receivables and FC funds  | Fixed profit share and changes in foreign exchange rate risk | -  | -         | -                                     | -   |
| December 31, 2018          |                                   |  |  |           |                                       |   |
| Type of hedging instrument | Hedged item (asset and liability) | Nature of hedged risks                                       | Net fair value of the hedging instrument |           | Fair Value Difference of Hedged Items | Ineffective Position Recognized in income statement |
|                            |                                   |  | Asset                                    | Liability |                                       |   |
| Swap transactions          | Leasing Receivables and FC funds  | Fixed profit share and changes in foreign exchange rate risk | 272,745                                  | -         | 286,905                               | (14,160)  |

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 will continue to apply hedge accounting in accordance with IAS 39 in this context.

#### 22. Investment securities

##### Financial assets measured at fair value through other comprehensive income investment securities

|                                    | December 31, 2019 | December 31, 2018 |
|------------------------------------|-------------------|-------------------|
| Government sukuks                  | 4,655,721         | 2,386,438         |
| Other sukuks                       | -                 | -                 |
| Unquoted equity securities at cost | 5,532             | 5,474             |
| <b>Total</b>                       | <b>4,661,253</b>  | <b>2,391,912</b>  |

As of December 31, 2019, the Group's "financial assets measured at fair value through other comprehensive income investment securities" portfolio includes the rent certificate at a total face value of TL 4,445,359 (December 31, 2018: TL 2,393,272), a total carrying value amounting to TL 4,655,721 (December 31, 2018: TL 2,386,438) which is issued by Republic of Turkey Under secretariat of Treasury.

All investment securities are issued in Turkey.

Unquoted equity securities at cost is mainly comprised of the equity participation to Kredi Garanti Fonu AŞ amounting to TL 4,897 (December 31, 2018: TL 4,897).

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
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**22. Investment securities (continued)**

| <b>ECL Movement</b>             | <b>December 31, 2019</b> |                |                |              |
|---------------------------------|--------------------------|----------------|----------------|--------------|
|                                 | <b>Stage 1</b>           | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b> |
| <b>ECL at January 1, 2019</b>   | 590                      | -              | -              | 590          |
| Transfers to stage 1            | -                        | -              | -              | -            |
| Transfers to stage 2            | -                        | -              | -              | -            |
| Transfers to stage 3            | -                        | -              | -              | -            |
| Additions/(Disposals)           | 475                      | -              | -              | 475          |
| <b>ECL at December 31, 2019</b> | <b>1,065</b>             | -              | -              | <b>1,065</b> |

| <b>ECL Movement</b>             | <b>December 31, 2018</b> |                |                |              |
|---------------------------------|--------------------------|----------------|----------------|--------------|
|                                 | <b>Stage 1</b>           | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b> |
| <b>ECL at January 1, 2018</b>   | 1,529                    | -              | -              | 1,529        |
| Transfers to stage 1            | -                        | -              | -              | -            |
| Transfers to stage 2            | -                        | -              | -              | -            |
| Transfers to stage 3            | -                        | -              | -              | -            |
| Additions/(Disposals)           | (939)                    | -              | -              | (939)        |
| <b>ECL at December 31, 2018</b> | <b>590</b>               | -              | -              | <b>590</b>   |

| <b>Impairment allowance for<br/>financial assets measured at fair value through<br/>other comprehensive income investment<br/>securities</b> | <b>December 31, 2019</b> |                |                |              |
|--|--------------------------|----------------|----------------|--------------|
|  | <b>Stage 1</b>           | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b> |
| <b>Internal rating grade</b>   |                          |                |                |              |
| <b>Performing</b>  |                          |                |                |              |
| High grade   | -                        | -              | -              | -            |
| Standard grade(*)  | 1,065                    | -              | -              | 1,065        |
| Sub-standard grade   | -                        | -              | -              | -            |
| Past due but not impaired  | -                        | -              | -              | -            |
| Other  | -                        | -              | -              | -            |
| <b>Non-performing</b>  |                          |                |                |              |
| Individually impaired  | -                        | -              | -              | -            |
|  | <b>1,065</b>             | -              | -              | <b>1,065</b> |

(\*)12 month Basel III PD range is 1.32%-4.35%.

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
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(Currency - In thousands of Turkish Lira unless otherwise stated)**

**22. Investment securities (continued)**

| Impairment allowance for<br>financial assets measured at fair value through other<br>comprehensive income investment securities | December 31, 2018 |          |          |            |
|---|-------------------|----------|----------|------------|
|   | Stage 1           | Stage 2  | Stage 3  | Total      |
| <b>Internal rating grade</b>  |                   |          |          |            |
| <b>Performing</b>   |                   |          |          |            |
| High grade  | 255               | -        | -        | 255        |
| Standard grade(*)   | 335               | -        | -        | 335        |
| Sub-standard grade  | -                 | -        | -        | -          |
| Past due but not impaired   | -                 | -        | -        | -          |
| Other   | -                 | -        | -        | -          |
| <b>Non-performing</b>   |                   |          |          |            |
| Individually impaired   | -                 | -        | -        | -          |
|   | <b>590</b>        | <b>-</b> | <b>-</b> | <b>590</b> |

(\*)12 month Basel III PD range is 1.32%-4.35%.

**Financial Assets valued at amortised cost**

As at December 31, 2019, the Group does not have any financial assets valued at amortised cost securities (December 31, 2018: TL 208,244).

|   | Current Period |
|---|----------------|
| Opening Balance                         | 208,244        |
| Foreign Exchange Gain/Loss              | -              |
| Purchases During the Year               | -              |
| Disposals Through Sales and Redemptions | (200,000)      |
| Impairment Provision (-)                | -              |
| ECL Provision                           | 134            |
| Income Accruals and Rediscounts         | (8,378)        |
| Ending Balance                          | -              |
|   | Prior Period   |
| Opening Balance                         | 670,528        |
| IFRS 9 Opening Effect                   | (210)          |
| January 1, 2018 Balance                 | 670,318        |
| Foreign Exchange Gain/Loss              | -              |
| Purchases During the Year               | -              |
| Disposals Through Sales and Redemptions | (450,000)      |
| Impairment Provision (-)                | -              |
| ECL Provision                           | 76             |
| Income Accruals and Rediscounts         | (12,150)       |
| Ending Balance                          | 208,244        |

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
as at and for the year ended December 31, 2019 (continued)  
(Currency - In thousands of Turkish Lira unless otherwise stated)**

**22. Investment securities (continued)**

| <b>ECL Movement</b>             | <b>December 31, 2019</b> |                |                |              |
|---------------------------------|--------------------------|----------------|----------------|--------------|
|                                 | <b>Stage 1</b>           | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b> |
| <b>ECL at January 1, 2019</b>   | 134                      | -              | -              | 134          |
| Transfers to stage 1            | -                        | -              | -              | -            |
| Transfers to stage 2            | -                        | -              | -              | -            |
| Transfers to stage 3            | -                        | -              | -              | -            |
| Additions/(Disposals)           | (134)                    | -              | -              | (134)        |
| <b>ECL at December 31, 2019</b> | -                        | -              | -              | -            |

  

| <b>ECL Movement</b>             | <b>December 31, 2018</b> |                |                |              |
|---------------------------------|--------------------------|----------------|----------------|--------------|
|                                 | <b>Stage 1</b>           | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b> |
| <b>ECL at January 1, 2018</b>   | 210                      | -              | -              | 210          |
| Transfers to stage 1            | -                        | -              | -              | -            |
| Transfers to stage 2            | -                        | -              | -              | -            |
| Transfers to stage 3            | -                        | -              | -              | -            |
| Additions/(Disposals)           | (76)                     | -              | -              | (76)         |
| <b>ECL at December 31, 2018</b> | <b>134</b>               | -              | -              | <b>134</b>   |

The carrying amount and fair value of securities pledged under agreement to repurchase (repo) are as follows:

|   | <b>December 31, 2019</b> |                   | <b>December 31, 2018</b> |                   |
|---|--------------------------|-------------------|--------------------------|-------------------|
|   | <b>Carrying amount</b>   | <b>Fair value</b> | <b>Carrying amount</b>   | <b>Fair value</b> |
| Financial assets valued at fair value through OCI           | 1,583,652                | 1,583,652         | 1,753,330                | 1,753,330         |
| Financial Assets at Fair Value through Profit or Loss (Net) | -                        | -                 | 31,257                   | 31,257            |
| Financial assets valued at amortised cost                   | -                        | -                 | -                        | -                 |
| <b>Total</b>  | <b>1,583,652</b>         | <b>1,583,652</b>  | <b>1,784,587</b>         | <b>1,784,587</b>  |

  

|   | <b>December 31, 2019</b> | <b>December 31, 2018</b> |
|---|--------------------------|--------------------------|
| Financial Assets at Fair Value through Profit or Loss (Net) | 1,262,919                | -                        |
| <b>Total</b>  | <b>1,262,919</b>         | <b>-</b>                 |

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**Notes to the consolidated financial statements  
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**23. Property and equipment and intangible assets**

Movements in property and equipment and intangible assets for the years ended 2019 and 2018 are as follows:

| <b>Property and equipment</b>        | <b>January 1, 2019</b> | <b>Additions</b> | <b>Disposals</b> | <b>Value increase</b> | <b>Transfers</b> | <b>December 31, 2019</b> |
|--------------------------------------|------------------------|------------------|------------------|-----------------------|------------------|--------------------------|
| <b>Cost:</b>                         |                        |                  |                  |                       |                  |                          |
| Land and buildings                   | 757,032                | 870              | (219)            | 16,653                | -                | <b>774,336</b>           |
| Right of Use Assets <sup>(2)</sup>   | 254,861                | 123,712          | (36,861)         | -                     | -                | <b>341,712</b>           |
| Other tangible assets <sup>(1)</sup> | 414,976                | 72,329           | (8,282)          | -                     | -                | <b>479,023</b>           |
|                                      | <b>1,426,869</b>       | <b>196,911</b>   | <b>(45,362)</b>  | <b>16,653</b>         | <b>-</b>         | <b>1,595,071</b>         |
| <b>Accumulated depreciation:</b>     |                        |                  |                  |                       |                  |                          |
| Land and buildings                   | (18,380)               | (8,555)          | 19               | -                     | -                | <b>(26,916)</b>          |
| Right of Use Assets <sup>(2)</sup>   | -                      | (63,961)         | 8,906            | -                     | -                | <b>(55,055)</b>          |
| Other tangible assets <sup>(1)</sup> | (237,584)              | (51,870)         | 7,451            | -                     | -                | <b>(282,003)</b>         |
| <b>Net book value</b>                | <b>1,170,905</b>       | <b>72,525</b>    | <b>(28,986)</b>  | <b>16,653</b>         | <b>-</b>         | <b>1,231,097</b>         |

(1) Other tangible assets are mainly comprised of leasehold improvements and fixtures and furniture.

(2) IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019.

| <b>Property and equipment</b>        | <b>January 1, 2018</b> | <b>Additions</b> | <b>Disposals</b> | <b>Value increase</b> | <b>Transfers</b> | <b>December 31, 2018</b> |
|--------------------------------------|------------------------|------------------|------------------|-----------------------|------------------|--------------------------|
| <b>Cost:</b>                         |                        |                  |                  |                       |                  |                          |
| Land and buildings                   | 716,772                | 40,532           | (272)            | -                     | -                | 757,032                  |
| Leased tangible assets               | 5,782                  | 2                | (5,784)          | -                     | -                | -                        |
| Other tangible assets <sup>(1)</sup> | 337,778                | 100,957          | (23,759)         | -                     | -                | 414,976                  |
|                                      | <b>1,060,332</b>       | <b>141,489</b>   | <b>(29,815)</b>  | <b>-</b>              | <b>-</b>         | <b>1,172,008</b>         |
| <b>Accumulated depreciation:</b>     |                        |                  |                  |                       |                  |                          |
| Land and buildings                   | (9,915)                | (8,449)          | (16)             | -                     | -                | (18,380)                 |
| Leased tangible assets               | (5,782)                | -                | 5,782            | -                     | -                | -                        |
| Other tangible assets <sup>(1)</sup> | (209,395)              | (42,092)         | 13,903           | -                     | -                | (237,584)                |
| <b>Net book value</b>                | <b>835,240</b>         |                  |                  |                       |                  | <b>916,044</b>           |

(1) Other tangible assets are mainly comprised of leasehold improvements and fixtures and furniture.

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 23. Property and equipment and intangible assets (continued)

The fair value measurement for land and buildings has been categorised as a level 2 fair value based on the inputs to the valuation techniques used. This category includes assets valued using: observable market prices in markets for similar assets; observable prices for identical or similar assets in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

| Intangible assets                | January 1, 2019 | Additions | Disposals | Transfers | December 31, 2019 |
|----------------------------------|-----------------|-----------|-----------|-----------|-------------------|
| <b>Cost:</b>                     |                 |           |           |           |                   |
| Software programmes              | 295,778         | 72,316    | (13,386)  | -         | 354,258           |
| <b>Accumulated amortisation:</b> |                 |           |           |           |                   |
| Software programmes              | (207,406)       | (41,029)  | 316       | -         | (248,119)         |
| <b>Net book value</b>            | <b>88,372</b>   |           |           |           | <b>106,139</b>    |

| Intangible assets                | January 1, 2018 | Additions | Disposals | Transfers | December 31, 2018 |
|----------------------------------|-----------------|-----------|-----------|-----------|-------------------|
| <b>Cost:</b>                     |                 |           |           |           |                   |
| Software programmes              | 235,840         | 60,228    | (290)     | -         | 295,778           |
| <b>Accumulated amortisation:</b> |                 |           |           |           |                   |
| Software programmes              | (169,782)       | (37,639)  | 15        | -         | (207,406)         |
| <b>Net book value</b>            | <b>66,058</b>   |           |           |           | <b>88,372</b>     |

There were no capitalised borrowing costs related to the acquisition of plant and equipment and to the internal development of software during the period (December 31, 2018: None).

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

During 2019 and 2018, the Group identified no events or circumstances that would indicate that the Group's intangible assets may be impaired.

#### 24. Other assets

|   | December 31, 2019 | December 31, 2018 |
|---|-------------------|-------------------|
| Receivables from cheque clearing and credit card POS machines | 318,668           | 474,742           |
| Assets held for resale (net)                                  | 778,590           | 739,846           |
| Others(*)   | 430,094           | 1,322,094         |
| <b>Total other assets</b>                                     | <b>1,527,352</b>  | <b>2,536,682</b>  |

(\*) Includes miscellaneous receivables, deferred expenses and nostro account differences.

#### 25. Funds collected from banks

As at December 31, 2019 and 2018, funds collected from banks comprise of current accounts amounting to TL 52,058 and TL 48,311.

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**Notes to the consolidated financial statements  
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**26. Funds collected from customers**

As at December 31, 2019 and 2018, funds collected from customers comprise the following:

|   | December 31, 2019 |                                | December 31, 2018 |                                |
|---|-------------------|--------------------------------|-------------------|--------------------------------|
|   | Current account   | Profit sharing funds collected | Current account   | Profit sharing funds collected |
| Saving funds collected-TL                   | 3,044,470         | 8,631,687                      | 1,581,535         | 5,401,912                      |
| Saving funds collected-FC                   | 7,587,700         | 10,548,182                     | 4,662,320         | 7,101,784                      |
| Public, commercial and other enterprises-TL | 1,728,119         | 1,865,905                      | 1,134,016         | 2,741,340                      |
| Public, commercial and other enterprises-FC | 2,645,151         | 3,890,313                      | 2,321,363         | 1,887,901                      |
| <b>Total funds collected from customers</b> | <b>15,005,440</b> | <b>24,936,087</b>              | <b>9,699,234</b>  | <b>17,132,937</b>              |

**27. Funds borrowed and debt securities issued**

As at December 31, 2019 and 2018, funds borrowed are detailed as follows:

|              | December 31, 2019 | December 31, 2018 |
|--------------|-------------------|-------------------|
| Short-term   | 1,778,762         | 5,218,198         |
| Long-term    | 129,301           | 205,029           |
| <b>Total</b> | <b>1,908,063</b>  | <b>5,423,227</b>  |

As of December 31, 2019, the Participation Bank did not borrow syndication loans.

The Participation Bank issued rent certificates amounting to MYR 150,000,000 on February 11, 2015 with a maturity of 5 years and with a semi-annually coupon payment at a profit rate of 5.90% and amounting to MYR 210,000 with 5 years maturity on May 21, 2015 with a semi-annually coupon payment at a profit rate of 5.75%.

| Debt securities issued | December 31, 2019 |                | December 31, 2018 |                  |
|------------------------|-------------------|----------------|-------------------|------------------|
|                        | TL                | FC             | TL                | FC               |
| Rent certificate-VKŞ   | 1,085,917         | 528,217        | 2,072,347         | 4,089,491        |
| <b>Total</b>           | <b>1,085,917</b>  | <b>528,217</b> | <b>2,072,347</b>  | <b>4,089,491</b> |

The financial terms of fixed rate debt securities in issue as of December 31, 2019, are as follows:

| Issue date    | Maturity date | Currency | Nominal amount in thousand (TL) | Profit share rate        |
|---------------|---------------|----------|---------------------------------|--------------------------|
| Jul.29, 2019  | Jan.24, 2020  | TL       | 150,000                         | Paid at maturity 19.75%  |
| Oct.28, 2019  | Jan.24, 2020  | TL       | 450,000                         | Paid at maturity 12.50%  |
| Dec.6, 2019   | Feb.2, 2020   | TL       | 200,000                         | Paid monthly 10.75%      |
| Feb. 11, 2015 | Feb. 7, 2020  | MYR      | 217,170                         | Paid semi-annually 5.90% |
| Nov.15, 2019  | Feb.17, 2020  | TL       | 200,000                         | Paid monthly 11.50%      |
| Dec.17, 2019  | Mar.16, 2020  | TL       | 150,000                         | Paid monthly 10.75%      |
| May 21, 2015  | May 20, 2020  | MYR      | 304,038                         | Paid semi-annually 5.75% |
| Dec.17, 2019  | Jun. 12, 2020 | TL       | 150,000                         | Paid at maturity 11.25%  |

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
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**27. Funds borrowed and debt securities issued (continued)**

Major fixed rate debt securities in issue redeemed or repurchased in 2018, are as follows:

| Issue date    | Maturity date  | Currency | Nominal amount in thousand (TL) | Profit share rate          |
|---------------|----------------|----------|---------------------------------|----------------------------|
| Sep. 11, 2018 | March 15, 2019 | TL       | 98,100                          | Paid monthly 14.10%        |
| Sep.28, 2018  | Jan.25, 2019   | TL       | 270,000                         | Paid at maturity 24.50%    |
| Oct.11, 2018  | Jan.18, 2019   | TL       | 200,000                         | Paid at maturity 26.00%    |
| Oct.22, 2018  | Jan.25, 2019   | TL       | 440,000                         | Paid at maturity 24.50%    |
| Nov.1, 2018   | Feb.14, 2019   | TL       | 200,000                         | Paid monthly 25.50%        |
| Feb. 11, 2015 | Feb. 7, 2020   | MYR      | 190,215                         | Paid semi-annually 5.90%   |
| Nov.15, 2018  | Apr.4, 2019    | TL       | 140,000                         | Paid monthly 24.00%        |
| Nov.23, 2018  | Feb.28, 2019   | TL       | 350,000                         | Paid at maturity 23.00%    |
| Dec.18, 2018  | Mar. 22, 2019  | TL       | 340,000                         | Paid at maturity 21.00%    |
| Dec.25, 2018  | Mar. 15, 2019  | TL       | 350,000                         | Paid at maturity 22.00%    |
| June 30, 2014 | June 27, 2019  | MYR      | 1,014,480                       | Paid semi-annually L+6.00% |
| May 21, 2015  | May 20, 2020   | MYR      | 266,301                         | Paid semi-annually 5.75%   |
| Apr. 24, 2014 | Apr.23, 2019   | USD      | 2,630,450                       | Paid semi-annually 5.38%   |

**Changes in liabilities arising from financing activities**

| December 31, 2019                                  | January 1, 2019   | Cash flow          | Foreign exchange differences | Expense accrual | December 31, 2019 |
|--|-------------------|--------------------|------------------------------|-----------------|-------------------|
| Debts securities                                   | 7,488,353         | (4,909,680)        | 598,277                      | (65,258)        | 3,111,692         |
| Funds Borrowed                                     | 5,423,227         | (3,815,156)        | 327,476                      | (27,484)        | 1,908,063         |
| <b>Total liabilities from financing activities</b> | <b>12,911,580</b> | <b>(8,724,836)</b> | <b>925,753</b>               | <b>(92,742)</b> | <b>5,019,755</b>  |

  

| December 31, 2018                                  | January 1, 2018   | Cash flow       | Foreign exchange differences | Expense accrual | December 31, 2018 |
|--|-------------------|-----------------|------------------------------|-----------------|-------------------|
| Debts securities                                   | 6,580,837         | (606,933)       | 1,455,768                    | 58,681          | 7,488,353         |
| Funds Borrowed                                     | 4,519,156         | 563,369         | 340,128                      | 574             | 5,423,227         |
| <b>Total liabilities from financing activities</b> | <b>11,099,993</b> | <b>(43,564)</b> | <b>1,795,896</b>             | <b>59,255</b>   | <b>12,911,580</b> |

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 28. Subordinated liabilities

As at December 31, 2019 and 2018, subordinated liabilities are all in foreign currency denominated and detailed as follows:

|  | Profit share rate | Years of maturity | December 31, 2019 | December 31, 2018 |
|--|-------------------|-------------------|-------------------|-------------------|
| USD 100 million coupon fixed profit share rate | 7.23%             | March 2025        | 605,016           | 536,041           |
| USD 150 million coupon fixed profit share rate | 7.78%             | June 2025         | 892,542           | 790,474           |
| <b>Total</b>                                   |                   |                   | <b>1,497,558</b>  | <b>1,326,515</b>  |

On March 31, 2015, the Bank has borrowed 10-year-term loan with a nominal value of USD 100 million, as a subordinated loan. The loan has fixed profit rate with maturity of March 31, 2025 and 7.23% profit share rate.

On June 30, 2015, the Bank has borrowed 10-year-term loan with a nominal value of USD 150 million, as a subordinated loan. The loan has variable profit rate with maturity of 30 June 2025 and 7.78% profit share rate.

#### 29. Provisions

|  | December 31, 2019 | December 31, 2018 |
|--|-------------------|-------------------|
| Provision for non-cash loans and cheques               | 101,171           | 66,094            |
| Reserve for employee severance indemnity               | 92,381            | 71,415            |
| Short-term employee benefits                           | 41,548            | 39,410            |
| Provision for law suits against the Participation Bank | 58,815            | 38,719            |
| Provision for credit card promotions                   | 1,253             | 1,139             |
| Other  | 15,764            | 18,078            |
| <b>Total</b>   | <b>310,932</b>    | <b>234,855</b>    |

Under the Turkish Labour Law, the Group entities 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.

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
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**29. Provisions (continued)**

Reserve for retirement pay is computed and reflected in the financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Participation Bank arising from the retirement of the employees. IAS 19 ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the bank's obligation under defined employee plans. IAS 19 ("Employee Benefits") has been revised effective from the annual period beginning after January 1, 2014. In accordance with the revised standard, actuarial gain / loss related to employee benefits shall be recognised in other comprehensive income. The average discount rate is 8.20% and share rate is 12.10% at the respective balance sheet date (December 31, 2018: 12.02% and 16.31%).

The calculation was based upon the retirement pay ceiling announced by the Government. Movement in the reserve for employee severance indemnity is as follows:

|                                  | December 31,<br>2019 | December 31,<br>2018 |
|----------------------------------|----------------------|----------------------|
| Balance on 1 January             | 71,415               | 56,516               |
| Current service cost             | 7,714                | 5,920                |
| Profit share cost                | 10,386               | 5,908                |
| Actuarial profit/loss(1)         | 7,254                | 10,185               |
| Accounted profit/loss            | 5,562                | 2,302                |
| Indemnity paid during the period | (9,950)              | (9,416)              |
| <b>Balance on December 31,</b>   | <b>92,381</b>        | <b>71,415</b>        |

(1) Actuarial losses/gain, calculated as TL 7,254 in relation to the reserve for employee termination benefits, are shown as TL 5,803 under shareholders' equity offsetting deferred tax of TL 1,451. (December 2018, 31: Actuarial gains/losses, calculated as TL 10,185 in relation to the reserve for employee termination benefits, are shown as TL 8,148 under shareholders' equity offsetting deferred tax of TL 2,037).

Expected credit loss measurement of off-balance sheet financial assets:

| December 31, 2019                   |                  |                |                |                  |               |              |               |                |
|-------------------------------------|------------------|----------------|----------------|------------------|---------------|--------------|---------------|----------------|
| Expected credit loss<br>measurement | Carrying Amount  |                |                |                  | ECL Allowance |              |               |                |
|                                     | Stage 1          | Stage 2        | Stage 3        | Total            | Stage 1       | Stage 2      | Stage 3       | Total          |
| Guarantees                          | 6,371,286        | 577,013        | 378,847        | 7,327,146        | 3,226         | 945          | 42,972        | 47,143         |
| Others                              | 1,635,050        | 26,965         | 50,293         | 1,712,308        | 7,953         | 629          | 45,446        | 54,028         |
| <b>Total</b>                        | <b>8,006,336</b> | <b>603,978</b> | <b>429,140</b> | <b>9,039,454</b> | <b>11,179</b> | <b>1,574</b> | <b>88,418</b> | <b>101,171</b> |
| December 31, 2018                   |                  |                |                |                  |               |              |               |                |
| Expected credit loss<br>measurement | Carrying Amount  |                |                |                  | ECL Allowance |              |               |                |
|                                     | Stage 1          | Stage 2        | Stage 3        | Total            | Stage 1       | Stage 2      | Stage 3       | Total          |
| Guarantees                          | 6,816,668        | 521,917        | 220,423        | 7,559,008        | 5,557         | 7,292        | 39,062        | 51,911         |
| Others                              | 1,302,396        | 130,754        | 47,567         | 1,480,717        | 7,532         | 553          | 6,098         | 14,183         |
| <b>Total</b>                        | <b>8,119,064</b> | <b>652,671</b> | <b>267,990</b> | <b>9,039,725</b> | <b>13,089</b> | <b>7,845</b> | <b>45,160</b> | <b>66,094</b>  |

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
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**29. Provisions (continued)**

Impairment allowance for off-balance sheet financial assets:

|                              | <b>December 31, 2019</b> |                |                |                |
|------------------------------|--------------------------|----------------|----------------|----------------|
|                              | <b>Stage 1</b>           | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b>   |
| <b>Internal rating grade</b> |                          |                |                |                |
| <b>Performing</b>            |                          |                |                |                |
| High grade                   | 46                       | 2              | -              | 48             |
| Standard grade               | 5,573                    | 1,333          | -              | 6,906          |
| Sub-standard grade           | 206                      | 24             | -              | 230            |
| Past due but not impaired    | 34                       | 14             | -              | 48             |
| Other                        | 5,320                    | 201            | -              | 5,521          |
| <b>Non-performing</b>        |                          |                |                |                |
| Individually impaired        | -                        | -              | 88,418         | 88,418         |
| <b>Total</b>                 | <b>11,179</b>            | <b>1,574</b>   | <b>88,418</b>  | <b>101,171</b> |

|                              | <b>December 31, 2018</b> |                |                |               |
|------------------------------|--------------------------|----------------|----------------|---------------|
|                              | <b>Stage 1</b>           | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b>  |
| <b>Internal rating grade</b> |                          |                |                |               |
| <b>Performing</b>            |                          |                |                |               |
| High grade                   | 3,180                    | 19             | -              | 3,199         |
| Standard grade               | 2,386                    | 79             | -              | 2,465         |
| Sub-standard grade           | 1,975                    | 1,395          | -              | 3,370         |
| Past due but not impaired    | 342                      | 6,344          | -              | 6,686         |
| Other                        | 5,206                    | 8              | -              | 5,214         |
| <b>Non-performing</b>        |                          |                |                |               |
| Individually impaired        | -                        | -              | 45,160         | 45,160        |
| <b>Total</b>                 | <b>13,089</b>            | <b>7,845</b>   | <b>45,160</b>  | <b>66,094</b> |

Movement for impairment allowance for off-balance sheet financial assets:

|  | <b>December 31, 2019</b> |
|--|--------------------------|
| Reserve at beginning of period (January 1, 2019) | 66,094                   |
| Provision for possible loan losses               | 74,438                   |
| Recoveries                                       | (39,361)                 |
| Provision, net of recoveries                     | 101,171                  |
| Disposal of non-performing loans                 | -                        |
| <b>Reserve at end of period</b>                  | <b>101,171</b>           |

|  | <b>December 31, 2018</b> |
|--|--------------------------|
| Reserve at beginning of period (December 31, 2017) | 84,355                   |
| IFRS 9 Impact                                      | (11,702)                 |
| Reserve at beginning of period (January 1, 2018)   | 72,653                   |
| Provision for possible loan losses                 | 17,561                   |
| Recoveries   | (24,120)                 |
| Provision, net of recoveries                       | 66,094                   |
| Disposal of non-performing loans                   | -                        |
| <b>Reserve at end of period</b>                    | <b>66,094</b>            |

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 30. Other liabilities

|  | December 31,<br>2019 | December 31,<br>2018 |
|--|----------------------|----------------------|
| Payable to cheque clearing account                           | 549,337              | 881,812              |
| Cash guarantees received                                     | 340,998              | 312,252              |
| Blocked accounts   | 77,301               | 97,006               |
| Unearned income  | 62,102               | 70,341               |
| Blocked accounts against expenditures of credit card holders | 191,750              | 258,309              |
| IFRS 16  | 302,217              | -                    |
| Taxes payable other than income tax                          | 67,439               | 59,000               |
| Others(*)  | 232,807              | 155,060              |
| <b>Total</b>   | <b>1,823,951</b>     | <b>1,833,780</b>     |

(\*)Includes debts to vendors, payment orders and credit card clearances.

#### 31. Capital and reserves

##### Share capital

|  | December 31,<br>2019 | December 31,<br>2018 |
|--|----------------------|----------------------|
| Number of common shares, TL 1 (in full TL), par value<br>Authorised, fully paid, issued and outstanding as thousands | 2,600,000,000        | 2,600,000,000        |
| <b>Total</b>   | <b>2,600,000,000</b> | <b>2,600,000,000</b> |

The authorized nominal share capital of the Participation Bank is TL 2,600,000 as at December 31, 2019 (December 31, 2018: TL 2,600,000).

As of December 31, 2019, and December 31, 2018, the composition of shareholders and their respective percentage of ownership can be summarized as follows:

|  | December 31, 2019 |            | December 31, 2018 |            |
|--|-------------------|------------|-------------------|------------|
|  | Amount            | %          | Amount            | %          |
| The National Commercial Bank JSC             | 1,742,676         | 67.03      | 1,742,676         | 67.03      |
| Gözde Girişim Sermayesi Yatırım Ortaklığı AŞ | 274,838           | 10.57      | 274,838           | 10.57      |
| Other shareholders                           | 582,486           | 22.40      | 582,486           | 22.40      |
| <b>Total</b>                                 | <b>2,600,000</b>  | <b>100</b> | <b>2,600,000</b>  | <b>100</b> |

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 31. Capital and reserves (continued)

##### Fair value reserve – Financial assets measured at fair value through other comprehensive income

|  | 2019             | 2018             |
|--|------------------|------------------|
| <b>Balance at the beginning of the year</b>  | <b>(111,765)</b> | <b>(35,425)</b>  |
| Change in fair value of financial assets measured at fair value through other comprehensive income | 176,708          | (96,150)         |
| Related deferred income taxes  | (35,342)         | 19,220           |
| Net amount transferred to profit or loss   | -                | -                |
| Other(*)   | 475              | 590              |
| <b>Balance at the end of the period/year</b>   | <b>30,076</b>    | <b>(111,765)</b> |

(\*)Consists of ECL provision

##### Revaluation reserve – buildings

Revaluation of buildings is detailed as follows:

|  | 2019           | 2018           |
|--|----------------|----------------|
| <b>Balance at the beginning of the year</b>  | <b>121,823</b> | <b>121,823</b> |
| Net change in revaluation of tangible assets | 16,653         | -              |
| Related tax                                  | (1,665)        | -              |
| <b>Balance at the end of the period/year</b> | <b>136,811</b> | <b>121,823</b> |

##### Hedging reserves

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

##### Other reserves

Other reserves consist of legal reserves kept within the Participation Bank. The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5%, until the total reserve reaches 20% of the Participation Bank's paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

**Türkiye Finans Katılım Bankası Anonim Şirketi**

**Notes to the consolidated financial statements  
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**32. Related party transactions**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The major shareholders of the Participation Bank namely the National Commercial Bank and Ülker Group and all their subsidiaries, and their ultimate owners, directors and executive officers are referred to as related parties. During the course of the business, the Participation Bank has granted loans, advances and lease receivables to related parties and also received funds collected from these related parties at various terms. These are all commercial transactions and realised on an arms-length basis. Related party transactions are as follow:

In addition to the transactions and balances explained in the note above, the total remuneration of directors and other key members of key management as at for the year ended December 31, 2019 and 2018 are as follow:

*Balances with the related parties:*

| <b>December 31, 2019</b>        | <b>Parent</b>    | <b>Other(*)</b> | <b>Total</b>     |
|---------------------------------|------------------|-----------------|------------------|
| Loans and advances to customers | 50               | 4,928           | 4,978            |
| Lease receivables               | -                | -               | -                |
| Funds borrowed                  | 1,497,558        | -               | 1,497,558        |
| Funds collected                 | 8,023            | 97,463          | 105,486          |
| Non-cash loans                  | -                | 19,900          | 19,900           |
| <b>Total</b>                    | <b>1,505,631</b> | <b>122,291</b>  | <b>1,627,922</b> |

| <b>December 31, 2018</b>        | <b>Parent</b>    | <b>Other(*)</b> | <b>Total</b>     |
|---------------------------------|------------------|-----------------|------------------|
| Loans and advances to customers | 17               | 4,963           | 4,980            |
| Lease receivables               | -                | 157             | 157              |
| Funds borrowed                  | 1,862,614        | -               | 1,862,614        |
| Funds collected                 | 1,461            | 26,156          | 27,617           |
| Non-cash loans                  | -                | 22,787          | 22,787           |
| <b>Total</b>                    | <b>1,864,092</b> | <b>54,063</b>   | <b>1,918,155</b> |

(\*)Group Companies of shareholders-VKŞ

*Transaction with the related parties:*

| <b>December 31, 2019</b>                | <b>Parent</b> | <b>Other(*)</b> | <b>Total</b> |
|---|---------------|-----------------|--------------|
| Profit share income                     | 8             | 530             | 538          |
| Profit share expense on funds collected | 1             | 2,401           | 2,402        |
| Profit share expense on borrowings      | 141,484       | -               | 141,484      |

| <b>December 31, 2018</b>                | <b>Parent</b> | <b>Other(*)</b> | <b>Total</b> |
|---|---------------|-----------------|--------------|
| Profit share income                     | 13            | 9,428           | 9,441        |
| Profit share expense on funds collected | 11            | 1,149           | 1,160        |
| Profit share expense on borrowings      | 138,302       | -               | 138,302      |

(\*)Group Companies of shareholders

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 32. Related party transactions (continued)

|   | 2019          | 2018          |
|---|---------------|---------------|
| Short-term compensation of key management personnel | 19,330        | 13,023        |
| Other benefits                                      | 629           | 672           |
| <b>Total</b>  | <b>19,959</b> | <b>13,695</b> |

No impairment losses have been recorded against balances outstanding during the year with related parties and no specific allowance has been made for impairment losses on balances with the related parties as at December 31, 2019 and 2018.

#### 33. Commitments and contingencies

|                      | December 31, 2019 | December 31, 2018 |
|----------------------|-------------------|-------------------|
| Letters of guarantee | 6,288,310         | 6,994,118         |
| Commitments          | 1,712,308         | 1,480,717         |
| Letters of credit    | 734,625           | 434,015           |
| Acceptances          | 304,210           | 130,875           |
| Other guarantees     | -                 | -                 |
| <b>Total</b>         | <b>9,039,453</b>  | <b>9,039,725</b>  |

(\*) Commitments mainly consist of Commitments for credit card limits and Commitments for cheque payments.

#### Litigations

A liability is recognized as a contingent liability where a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of more than one events not wholly within the control of the Bank; or a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability and disclosed in the footnotes. Contingent liabilities are assessed continually to determine whether or not there is probable outflow of that economic benefits from the entity.

The Group set TL 58,815 provision for ongoing suits filed against to the Participation Bank for which cash outflow is probable and measurable (December 31, 2018: TL 38,719).

#### 34. Group subsidiaries

The table below provides details of the significant subsidiaries of the Group.

|                         | Principal place of business | Ownership interest |                   |
|-------------------------|-----------------------------|--------------------|-------------------|
|                         |                             | December 31, 2019  | December 31, 2018 |
| TF Varlık Kiralama AŞ   | Istanbul/Turkey             | 100%               | 100%              |
| TFKB Varlık Kiralama AŞ | Istanbul/Turkey             | 100%               | 100%              |

TF Varlık Kiralama AŞ, which was established on February 11, 2013 and the subsidiary of the Parent Participation Bank with 100% ownership is fully consolidated in the consolidated financial statements of the Participation Bank starting from June 30, 2013.

## Türkiye Finans Katılım Bankası Anonim Şirketi

### Notes to the consolidated financial statements as at and for the year ended December 31, 2019 (continued) (Currency - In thousands of Turkish Lira unless otherwise stated)

#### 34. Group subsidiaries (continued)

TFKB Varlık Kiralama AŞ, which was established on July 8, 2014 and the subsidiary of the Parent Participation Bank with 100% ownership is fully consolidated in the consolidated financial statements of the Participation Bank from December 31, 2014.

TF Varlık Kiralama AŞ and TFKB Varlık Kiralama AŞ which are wholly owned by the Parent Participation Bank were established to generate (leasing/rental) income by leasing assets back to the originating company which were taken over from the originating company; by issuing leasing certificate related to aforementioned leasing (rental) income and then transferring the related assets back to the originating company.

#### 35. Operating leases

As at December 31, 2019, the future minimum lease payments under cancellable operating leases were payable as follows:

|                            | <b>December 31, 2019(*)</b> |
|----------------------------|-----------------------------|
| Less than one year         | 67,767                      |
| Between one and five years | 168,346                     |
| More than five years       | 66,104                      |
| <b>Total</b>               | <b>302,217</b>              |

(\*)Due to the transition to IFRS 16 as of January 1, 2019; current year amounts are disclosed only.

#### 36. Subsequent event

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 Group cannot reasonably estimate the impact on Group's operations.