

**Kuveyt Türk Katılım Bankası
Anonim Şirketi and Its
Subsidiaries**

**Consolidated financial statements as at and
for the year ended December 31, 2020 with
independent auditors' report thereon**

Table of contents

	<u>Page</u>
Independent auditors' report	1 - 4
Consolidated statement of financial position	5
Consolidated statement of comprehensive income	6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	8
Notes to consolidated financial statements	9 - 77

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Kuveyt Türk Katılım Bankası A.Ş.

Opinion

We have audited the consolidated financial statements of Kuveyt Türk Katılım Bankası A.Ş. ("the Bank") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, 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 (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated 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. Key audit matters were addressed in the context of our audit of the 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><i>Financial impact of IFRS 9 “Financial Instruments” standard and recognition of impairment on financial assets and related important disclosures</i></p>	
<p>As disclosed in footnote 2.12 under Section 2, the Group measures expected credit losses for financial instruments by IFRS 9 “Financial Instruments Standards”. The rationale reasons for selecting IFRS 9 implication and implementation of financial assets as key audit matter are as follows;</p> <ul style="list-style-type: none"> ▪ Financial assets within balance-sheet and off-balance-sheet subject to IFRS 9 expected credit losses measurement have significant balance in the financial statements ▪ The applications IFRS 9 are complex and comprehensive ▪ The classification of financial instruments based on the Group’s business models and the characteristics of contractual cash flows in line with IFRS 9 and requirement of important judgments to determine this business model and the characteristics of contractual cash flows ▪ Risks related to the policies established by the management with the compliance and requirements of the legislation and other applications for the calculation of expected credit losses ▪ The complexity and intensity of the control environment in the processes designed or reorganized for IFRS 9 ▪ Estimations and assumptions used in expected credit losses are new, important and complex ▪ Complex and comprehensive disclosure requirements of IFRS 9. 	<p>Our audit procedures in addition to our current audit procedures:</p> <ul style="list-style-type: none"> ▪ Evaluation of the compliance of the accounting policies adopted with regard to IFRS 9, the Group's past performance, and local and global practices ▪ Analysis and testing of processes, systems, and controls originated or re-designed in order to calculate expected credit losses by the Information Systems and Process Audit specialists ▪ Evaluating the impact of Covid-19 outbreak on staging of loans and macroeconomic parameters used in expected credit losses calculation together with forward-looking estimates and significant assumptions. ▪ Evaluation of the key judgments, assumptions, methods used for calculation of expected credit loss determined by the management, and whether the data source is reasonable or not, and their compliance and standard requirements in light of industry and global practices ▪ Testing criteria used for determining the contractual cash flows including interest payments with regard to solely principal and principal balance of financial assets on a sample basis and evaluation of Group's business model ▪ Evaluation of significant increase in credit risk, definition of default, definition of restructuring, probability of default, loss given default, exposure at default and macro-economic variables, and related basic and significant estimates and assumptions determined for calculation process of expected credit loss and whether these assumptions determined by financial risk management are in line with the Group’s historical performance, legislation, and reasonableness of the estimation process regarding future performance and investigation of credit risk portfolio on a sample basis ▪ Evaluation of the accuracy and completeness of attributes of the data used for the calculation process of expected credit losses ▪ Detailed testing of mathematical verification of expected credit losses’ calculation on a sample basis ▪ Evaluation of the assumptions and estimations used for the individually assessed financial assets based on expert judgment ▪ Evaluating the necessity and accuracy of the updates made or required updates after the modelling process ▪ Auditing of disclosures related to IFRS 9.



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Other Matter

As disclosed footnote 2.31; the consolidated financial statements dated 1 January 2019 and 31 December 2019 were restated by taking Neova Sigorta A.Ş. into the scope of consolidation and these restated financial statements are presented comparatively with the financial statements dated 31 December 2020.

The financial statements of Neova Sigorta A.Ş. as at 31 December 2019 were audited by another audit firm, which expressed an unqualified opinion in their reports issued on 28 February 2020. Also, the audit of consolidated financial statements of the Group before the restatement as at 31 December 2018 and the financial statements of Neova Sigorta A.Ş. as at 31 December 2018, which form the basis of the consolidated financial statements as at 1 January 2019 that are presented in comparison with the accompanying consolidated financial statements as at 31 December 2020, were audited by one another audit firm, which expressed an unqualified opinions in their report of the Group dated 7 March 2019 and in their report of Neova Sigorta A.Ş. dated 27 February 2019.

Responsibilities of Management and Board of Directors for the consolidated financial statements

The 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, the 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.

The Board of Directors 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 the Board of Directors.
- Conclude on the appropriateness of the Board of Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists



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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors 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 the Board of Directors 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 the Board of Directors 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 engagement partner who supervised and concluded 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
Partner

Istanbul, Turkey
September 13, 2021

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of financial position as at December 31, 2020

(Currency – In thousands of Turkish Lira - TL)

	Notes	December 31, 2020	Restated December 31, 2019(*)	Restated January 1, 2019(*)
Assets				
Cash and balances with the Central Bank	4	5,636,895	6,783,968	3,139,716
Balances with other banks and financial institutions	4	9,767,863	17,166,003	12,276,886
Reserve deposits at the Central Bank	5	18,486,065	11,321,132	6,495,190
Financial assets at fair value through profit or loss	6	7,813,619	4,277,483	199,905
Financial assets at fair value through other comprehensive income, net	6	20,723,085	12,452,343	6,166,974
-repurchasing agreements		179,750	-	193,192
Financial assets valued at amortised cost, net	6	6,498,716	3,212,157	485,068
Due from financing activities, net	7	69,843,995	45,284,486	39,130,394
Finance lease receivable, net	8	5,005,742	2,715,898	2,454,677
Precious metals		988,021	1,111,144	957,110
Derivative financial assets valued at fair value through profit or loss	20	461,606	182,006	42,590
Construction projects, net	10	65,093	73,480	74,614
Joint venture		61,311	40,381	28,815
Investment properties, net	11	77,457	37,646	29,671
Property and equipment, net	13	932,336	853,247	477,426
Intangible assets, net	14	281,003	211,050	205,404
Deferred tax assets	17	835,522	416,853	393,122
Assets and a disposal group held for sale	12	519,087	473,326	263,577
Other assets	9	10,005,713	2,220,734	3,394,559
Total assets		158,003,129	108,833,337	76,215,698
Liabilities and equity				
Current and profit / loss sharing investors' accounts	16	125,952,887	87,364,345	54,745,246
Money market balances	15	185,225	-	188,003
Derivative financial liabilities	20	1,676,806	424,137	170,742
valued at fair value through profit or loss		1,676,806	294,409	64,390
valued at fair value through other comprehensive income		-	129,728	106,352
Current tax liabilities	17	389,870	254,880	204,586
Employee benefit obligations	18	437,454	290,500	217,989
Due to other financial institutions and banks	15	5,934,205	1,126,094	2,256,311
Sukuk securities issued	15	5,159,273	4,638,686	7,631,492
Subordinated loans	15	4,590,265	3,380,983	1,901,210
Finance lease payable, net	8	349,294	354,051	-
Other liabilities and provisions	19	5,226,954	3,782,618	3,222,827
Total liabilities		149,902,233	101,616,294	70,538,406
Share capital	21	4,595,131	3,995,766	3,497,322
Share premium		27,135	26,053	22,841
Investments at fair value through other comprehensive income reserve, net of tax		(1,305)	214,695	(117,150)
Employee termination benefits reserve, net of tax		(51,258)	(19,082)	(13,296)
Legal reserves and retained earnings	22	3,415,715	2,976,925	2,220,074
Currency translation differences		486,343	218,927	166,734
Hedging fund		(375,780)	(184,117)	(87,494)
Other reserve	22	(22,589)	(21,211)	(24,763)
Non-controlling interest		27,504	9,087	13,024
Total equity attributable to equity holders of the parent		8,100,896	7,217,043	5,677,292
Total liabilities and equity		158,003,129	108,833,337	76,215,698

(*) The effects of the restatement are explained in the note 2.31.

The policies and explanatory notes are an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of comprehensive income for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL)

	Notes	December 31, 2020	Restated December 31, 2019 (*)
Income from financing activities:			
Profit on originated loans from profit / loss sharing accounts	25	3,188,073	3,567,946
Profit on originated loans from current accounts and equity	25	3,145,751	2,362,516
Profit on deposits with other banks and financial institutions	25	267,465	459,186
Profit on finance leases	25	342,754	252,590
Profit on sukuk investments	25	2,702,941	880,841
Total income from financing activities		9,646,984	7,523,079
Profit shares distributed to participation accounts	26	(1,934,480)	(3,088,409)
Profit shares distributed to other banks and financial institutions	26	(1,176,367)	(919,382)
Net financing income		6,536,137	3,515,288
Provision for impairment of amounts due from financing activities and lease receivables		(3,094,065)	(2,069,773)
Net financing income after provision for impairment in due from financing activities and lease receivables		3,442,072	1,445,515
Foreign exchange gain, net		3,020,678	427,148
Net financing income after net foreign exchange gain / (loss)		6,462,750	1,872,663
Fees and commission income	27	862,342	1,028,915
Net trading income	28	(2,140,444)	920,417
Other income	30	1,425,822	1,371,265
Share of a joint venture income		20,930	13,727
Total other operating income		168,650	3,334,324
Fees and commission expense	27	(600,518)	(511,770)
Staff costs	29	(1,394,497)	(1,146,592)
Depreciation and amortization expense		(249,972)	(234,151)
Withholdings and other taxes		(17,317)	(17,270)
Rent expense		(17,082)	(10,508)
Other expenses	31	(2,064,076)	(1,656,752)
Total other operating expense		(4,343,462)	(3,577,043)
Income before taxation		2,287,938	1,629,944
Current tax charge	17	(829,426)	(451,635)
Deferred tax (charge)/income	17	274,753	103,478
Net income for the year		1,733,265	1,281,787
Attributable to:			
- Owners of the equity		1,749,657	1,281,600
- Non-controlling interests		(16,392)	187
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Currency translation differences		260,831	52,193
Cash flow hedge		11,514	(21,235)
Net investment hedge		(263,591)	(51,447)
Investments at fair value through other comprehensive income reserve		(249,886)	389,098
Deferred tax relating to component of other comprehensive income		112,527	(81,194)
Items that will not be reclassified to profit or loss			
Employee termination benefits reserve	18	(40,220)	(7,233)
Deferred tax relating to component of other comprehensive income		8,044	1,447
Other comprehensive income for the year		(160,781)	281,629
Total comprehensive income for the year		1,572,484	1,563,416
Attributable to:			
- Owners of the equity		1,588,876	1,563,229
- Non-controlling interests		(16,392)	187
Basic and diluted earnings per share for net income attributable to the ordinary equity holders of the Group during the year (in full TL per share)	23	0.389	0.332

(*) The effects of the restatement are explained in the note 2.31.

The policies and explanatory notes are an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of changes in equity for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL)

	Share Capital	Share Premium	Legal Reserves	Retained Earnings	Other Reserves	At fair value through other comprehensive income reserve	Employee termination benefits reserve	Currency Translation Differences	Hedging Funds	Non- Controlling Interest	Total
Balances at January 1, 2019 (**)	3,497,322	22,841	184,578	1,769,097	(24,763)	(117,150)	(13,296)	166,734	(87,494)	13,024	5,410,893
Effect Of Changes In Accounting Policies	-	-	16,191	250,208	-	-	-	-	-	-	266,399
Share capital increase	498,444	1,556	-	(500,000)	-	-	-	-	-	-	-
<i>from retained earnings</i>	<i>498,444</i>	<i>1,556</i>	-	<i>(500,000)</i>	-	-	-	-	-	-	-
Dividends paid	-	-	-	(6,546)	-	-	-	-	-	-	(6,546)
Balances from subsidiaries transaction	-	1,656	-	-	-	-	-	-	-	(5,000)	(3,344)
Special fund depreciation	-	-	-	(1,437)	-	-	-	-	-	-	(1,437)
Change in other reserves	-	-	-	-	3,552	28,613	-	-	(28,613)	-	3,552
Other changes	-	-	52,387	(69,153)	-	-	-	-	-	-	(16,766)
Total comprehensive income for the year	-	-	-	1,281,600	-	303,232	(5,786)	52,193	(68,010)	1,063	1,564,292
Balances at December 31, 2019 (**)	3,995,766	26,053	253,156	2,723,769	(21,211)	214,695	(19,082)	218,927	(184,117)	9,087	7,217,043
Balances at January 1, 2020	3,995,766	26,053	253,156	2,723,769	(21,211)	214,695	(19,082)	218,927	(184,117)	9,087	7,217,043
Effect Of Changes In Accounting Policies	-	-	-	-	-	-	-	-	-	-	-
Share capital increase	600,000	-	-	(600,000)	-	-	-	-	-	-	-
<i>from retained earnings</i>	<i>600,000</i>	-	-	<i>(600,000)</i>	-	-	-	-	-	-	-
Dividends paid	-	-	-	(7,280)	-	-	-	-	-	-	(7,280)
Balances from subsidiaries transaction	-	-	-	-	-	-	-	-	-	-	-
Special fund depreciation	-	-	-	-	-	-	-	-	-	-	-
Change in other reserves	-	-	-	-	(1,378)	-	-	-	-	-	(1,378)
Other changes	(635)	1,082	57,140	(761,543)	-	(16,092)	-	6,585	(1,319)	-	(714,782)
Total comprehensive income for the year	-	-	-	1,750,473	-	(199,908)	(32,176)	260,831	(190,344)	18,417	1,607,293
Balances at December 31, 2020	4,595,131	27,135	310,296	3,105,419	(22,589)	(1,305)	(51,258)	486,343	(375,780)	27,504	8,100,896

(*) Neova Sigorta A.Ş., a subsidiary of the group manages the risk fund formed due to the contributions of the participants separately in accordance with Article 2.31 of the “regulation on participation insurance and working procedures and principles” published by the Ministry of Treasury and Finance. Accordingly, the profit/(expense) amount of the risk fund, which is due to participant contributions amounting to (34,809) TL for the current period, has been classified under other liabilities in balance sheet. (31 December 2019: TL 876).

(**) The effects of the restatement are explained in the note 2.31.

The policies and explanatory notes are an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Consolidated statement of cash flows for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

	Notes	2020	Restated 2019 (*)
<i>Cash flows from operating activities:</i>			
Income from continuing operations before taxation		2,287,938	1,629,944
Share of (profit) / loss of a joint venture		(20,930)	(13,727)
Depreciation and amortization	11, 13, 14	249,972	234,151
Provision for employee termination and other benefits	18	292,276	195,090
Provision for personnel bonus accrual	18	145,178	109,912
Provision for impairment in due from financing activities and lease receivables		3,094,065	2,069,773
Income accrual		(1,864,378)	(3,902,133)
Impairment in investment property	10	-	26,975
Deferred income		271,228	199,903
Expense accrual of participation accounts		(6,029)	6,428
Expense and foreign exchange accrual of funds borrowed		182,204	94,453
Other provision		333,573	178,351
Net change in derivative financial instruments		(973,069)	113,980
Gain on sale of property and equipment, intangible assets, investment properties and asset held for sale		(69,676)	(70,497)
Operating income before changes in operating assets and liabilities		3,922,352	872,603
<i>Net changes in:</i>			
Reserve deposits at the Central Bank of Turkey		(10,056,468)	2,079,480
Due from financing activities		(19,415,924)	(13,372,967)
Finance lease receivables		(2,303,476)	(256,821)
Change in FVTPL investment securities	6	(2,943,023)	(4,144,535)
Other assets and construction projects		(8,195,261)	1,180,412
Current accounts and profit/loss sharing investors' accounts		30,821,630	32,998,054
Other liabilities		1,579,326	172,246
Payment for employee termination benefits	18	(4,704)	(7,319)
Payment for personnel bonuses	18	(109,912)	(86,617)
Precious metals		123,123	(154,034)
Income taxes paid		(1,111,610)	(545,036)
Net cash used in operating activities		(7,693,947)	18,735,466
<i>Cash flows from investing activities:</i>			
Cash obtained from sale of jointly controlled operations, associates and subsidiaries	35	-	-
Purchase of FVTOCI and amortised cost investment securities	6	(14,691,823)	(5,550,781)
Proceeds from FVTOCI and amortised cost investment securities	6	6,067,423	1,681,227
Purchase of property and equipment, intangible assets and investment properties	11, 13, 14	(194,673)	(345,744)
Proceeds from sale of property and equipment, intangible assets and investment properties		79,242	116,721
Proceeds from sale of asset and liabilities held for sale		126,809	27,014
Net cash used in investing activities		(8,613,022)	(4,071,563)
<i>Cash flows from financing activities:</i>			
Dividends paid	22	(7,280)	(6,546)
Due to financial institutions and banks received		6,102,357	2,441,665
Due to financial institutions and banks paid		(2,816,178)	(3,601,882)
Sukuk securities issued		6,267,842	6,366,492
Sukuk securities redeemed		(5,600,576)	(9,723,301)
Issued subordinated debt instruments		388,646	1,423,134
Payments for finance leases		(81,876)	(69,514)
Net cash provided by financing activities		4,252,935	(3,169,952)
Net increase in cash and cash equivalents		(12,054,034)	11,493,951
Net foreign exchange difference on cash and cash equivalents		5,637,262	1,704,243
Cash and cash equivalents at the beginning of the year	4	20,412,202	7,214,008
Cash and cash equivalents at the end of the year	4	13,995,430	20,412,202

(*) The effects of the restatement are explained in the note 2.31.

The policies and explanatory notes are an integral part of these consolidated financial statements.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

1. Corporate information

General

Kuveyt Türk Katılım Bankası A.Ş. (the “Bank”), formerly Kuveyt Türk Evkaf Finans Kurumu A.Ş. (a Turkish joint-stock company-the Bank) was formed in accordance with the provisions of Decree No. 83/7506, issued on December 16, 1983 relating to the establishment of Special Finance Houses in Turkey. The Bank obtained permission from the Central Bank of Turkey (CBT) on February 28, 1989 and commenced its operations on March 31, 1989. Currently, the Bank is continuing its operations under the purview of the Banking Regulation and Supervision Agency (“BRSA”) and the Banking Law No. 5411, dated November 1, 2005. The Bank’s head office is located at Büyükdere Caddesi No: 129, 34394 Esentepe Şişli/İstanbul/Turkey. The parent and the ultimate controlling party of the Bank is Kuwait Finance House (KFH) incorporated in Kuwait. Effective from April 8, 2006, the Bank’s commercial title was changed from Kuveyt Türk Evkaf Finans Kurumu A.Ş. to Kuveyt Türk Katılım Bankası A.Ş. to comply with the Banking Law No. 5411, dated November 1, 2005.

The consolidated financial statements were authorized for issue by the General Manager and Chief Financial Officer on behalf of the Board of Directors of the Bank on September 13, 2021. The General Assembly has the power to amend the statutory financial statements after issue.

Nature of activities of the Bank and its subsidiaries

The Bank’s core business is operating in accordance with the principles of interest-free banking as a participation bank by collecting funds through current and profit/loss sharing accounts, and disbursing funds to its customers. Subsidiaries of the Bank are as follows;

- The Bank’s subsidiary of Körfez Gayrimenkul Yatırım Ortaklığı A.Ş., in which the Bank has 75% shareholding was incorporated in June 1996 in Turkey. Körfez’s registered address is Büyükdere Caddesi, No: 129/1, 34394 Esentepe Şişli/İstanbul. Körfez is engaged in development and marketing of real estate projects in Turkey. Körfez’s main sources of revenue are from the sales of these projects.
- The Bank’s subsidiary of Körfez Tatil Beldesi A.Ş. (“Körfez Tatil Beldesi”), in which the Bank has a 100% shareholding was incorporated in 2001 in Edremit, Turkey. Körfez Tatil Beldesi is engaged in Güre Project, which comprises the construction, selling and operating of 199 “time-sharing” houses in Edremit-Balıkesir.
- The Bank’s subsidiary of KT Sukuk Varlık Kiralama A.Ş. has been established on September 23, 2011 in Turkey in order to issue Sukuk Securities.
- The Bank’s subsidiary of KT Kira Sertifikaları Varlık Kiralama A.Ş. has been established on September 3, 2013 in Turkey.
- The Banks’ subsidiary of KT Sukuk Company Limited has been established in Cayman Island on July 31, 2015, for the need of subordinated loan for the Bank.
- The Bank’s subsidiary of KT Bank AG which is 100% owned by the Bank was established in April 2015. Main field of its operations are providing interest free corporate banking services and collecting funds through current and profit/loss sharing accounts in compliance with the regulation.
- The Bank established a pension company jointly with Albaraka Türk Katılım Bankası A.Ş, holding 50% of the shares. It is registered with the trade name “Katılım Emeklilik ve Hayat Anonim Şirketi”, 895027 registry numbered dated December 17, 2013 by İstanbul Register of Commerce.
- The Bank’s subsidiary of KT Portföy Yönetim Anonim Şirketi, which is 100% owned by the bank was established in May 26, 2015 is operating in Turkey. The main aim of the Company is to serve its customers in every aspect of the fund management business with a participation-based portfolio management company.
- The Bank established an IT company with holding 100% of the shares. It is registered with the trade name “Architect Bilişim Sistemleri ve Pazarlama Anonim Şirketi”, dated December 1, 2015 by İstanbul Register of Commerce.
- The Bank’s subsidiary of Neova Sigorta Anonim Şirketi, which is 100% owned by the bank was established in July 17, 2008 is operating in Turkey. The company's field of activity is to provide insurance services in non-life branches (Safety abuse, financial losses, general liability, general damages, illness and health, aircraft, legal protection, land vehicles, accident, fire, shipping and natural disasters, personal accident, water vehicles).

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared under the historical cost convention except for financial assets measured at fair value such as derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The consolidated financial statements are presented in Turkish Lira (“TL”) and except as indicated, financial information presented in TL has been rounded to the nearest thousand.

The Bank and its subsidiaries which are incorporated in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the Banking Regulation and Supervision Agency (BRSA), Turkish Commercial Code and Turkish tax legislation.

In reclassifications have been made on consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows as of and for the period ended 31 December 2020.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over the counter (“OTC”) derivatives, unlisted securities, retirement benefits obligation, expected credit loss, provisions for taxes. Actual results in the future may differ from those reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed as below;

2.2 Significant accounting judgments and estimates

- *Deferred taxes* : Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.
- *Fair value of financial instruments* : Where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.
- *Expected Credit Loss*: The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions.

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.

The COVID-19 epidemic, which has recently emerged in China, has spread to various countries around the world, causing potentially fatal respiratory infections, affects both regional and global economic conditions negatively, as well as causing malfunctions in operations, especially in countries exposed to the epidemic. As a result of the spread of COVID-19 around the world, various measures have been

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

taken in our country as well as in the world in order to prevent the transmission of the virus and it is still being taken. In addition to these measures, economic measures are also taken to minimize the economic impact of the virus outbreak on individuals and businesses in our country and worldwide. While preparing the year end financial statements as of December 31, 2020, the Bank reflected the possible effects of the COVID-19 outbreak on the significant estimates and judgments used in the preparation of the financial statements. The estimates and assumptions used in the calculation of expected loan losses are explained in the statements on impairment of financial assets.

2.3 Functional and presentation currency

The functional currency of the Bank and its subsidiaries located in Turkey is Turkish Lira (TL). The functional currency of KT Bank AG is EURO. The presentation currency of the Group is TL.

Until December 31, 2005, the consolidated financial statements were restated for the changes in the general purchasing power of TL based on IAS 29 (“Financial Reporting in Hyperinflationary Economies”). Since the objective conditions for the restatement in hyperinflationary economies was no longer applicable at that time, Turkey came off hyperinflationary status effective from January 1, 2006. The financial statements were restated until December 31, 2005 in accordance with IAS 29. Therefore, the non-monetary assets and liabilities and components of shareholders’ equity including share capital reported in the balance sheet as of December 31, 2018 and 2017 are derived by indexing the additions that occurred until December 31, 2005 and carrying the additions after this date with their nominal amounts.

2.4 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the financial statements as at December 31, 2020 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, 2020. The effects of these standards and interpretations on the Group consolidated financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2020 are as follows:

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 an acquired set of activities assets is a business or not.

The amendments:

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

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

The amendments did not have a significant impact on the 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 1 January 2020 provide reliefs which enable hedge accounting to continue. For these reliefs, it is assumed that the benchmark on which the cash flows of hedged risk or item are based and/or, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform. in connection with interest rate benchmark reform.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

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 amendments did not have a significant impact on the 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.

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020.

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

Amendments to IFRS 16 – Covid-19 Rent Related Concessions

In May 2020, the IASB issued amendments to IFRS 16 Leases to provide relief to lessees from applying IFRS 16 guidance on lease modifications to rent concessions arising a direct consequence of the Covid-19 pandemic.

A lessee that makes this election accounts for any change in lease payments related rent concession the same way it would account for the change under the standard, if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021
- There is no substantive change to other terms and conditions of the lease.

A lessee will apply the amendment for annual reporting periods beginning on or after 1 June 2020. Early application of the amendments is permitted.

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

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.

IFRS 17 - The new Standard for insurance contracts

[The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2023; 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.

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

23 January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments issued to IAS 1 which are effective for periods beginning on or after 1 January 2023, 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 amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Amendments to IFRS 3 – Reference to the Conceptual Framework

In May 2020, the IASB issued amendments to IFRS 3 Business combinations. The amendments are intended to replace to a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing requirements of IFRS 3. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments issued to IFRS 3 which are effective for periods beginning on or after 1 January 2022 and must be applied retrospectively. Earlier application is permitted if, at the same time or earlier, an entity also applies all of the amendments contained in the Amendments to References to the Conceptual Framework in IFRS standards (March 2018).

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Amendments to IAS 16 – Proceeds before intended use

In May 2020, the IASB issued amendments to IAS 16 Property, plant and equipment. The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and costs of producing those items, in profit or loss. The amendments issued to IAS 16 which are effective for periods beginning on or after 1 January 2022. Amendments must be applied prospectively only to items of PP&E made available for use on or after beginning of the earliest period presented when the entity first applies the amendment.

There is no transition relief for the first-time adopters. The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Amendments to IAS 37 – Onerous contracts – Costs of Fulfilling a Contract

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent assets. . The amendments issued to IAS 37 which are effective for periods beginning on or after 1 January 2022, to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making and also apply a “directly related cost approach”. Amendments must be applied retrospectively to contracts for which an entity has not fulfilled all of its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Earlier application is permitted and must be disclosed.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to provide temporary reliefs which address the financial reporting effects when an interbank offering rate (IBOR) is replaced with an alternative nearly risk-free rate (RFR), amending the followings:

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform

The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Under this practical expedient, if the interest rates applicable to financial instruments change as a result of the IBOR reform, the situation is not considered as a derecognition or contract modification; instead, this would be determined by recalculating the carrying amount of the financial instrument using the original effective interest rate to discount the revised contractual cash flows.

The practical expedient is required for entities applying IFRS 4 Insurance Contracts that are using the exemption from IFRS 9 Financial Instruments (and, therefore, apply IAS 39 Financial Instruments: Classification and Measurement) and for IFRS 16 Leases, to lease modifications required by IBOR reform.

Relief from discontinuing hedging relationships

- The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Amounts accumulated in the cash flow hedge reserve are deemed to be based on the RFR.
- For the IAS 39 assessment of retrospective hedge effectiveness, on transition to an RFR, entities may elect on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero.
- The amendments provide relief for items within a designated group of items (such as those forming part of a macro cash flow hedging strategy) that are amended for modifications directly required by IBOR reform. The reliefs allow the hedging strategy to remain and not be discontinued.
- As instruments transition to RFRs, a hedging relationship may need to be modified more than once. The phase two reliefs apply each time a hedging relationship is modified as a direct result of IBOR reform.

Separately identifiable risk components

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

Additional disclosures

Amendments need additional IFRS 7 Financial Instruments disclosures such as; How the entity is managing the transition to RFRs, its progress and the risks to which it is exposed arising from financial instruments due to IBOR reform, quantitative information about financial instruments that have yet to transition to RFRs and if IBOR reform has given rise to changes in the entity's risk management strategy, a description of these changes.

The amendments are mandatory, with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

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

iii) Annual Improvements – 2018–2020 Cycle

In May 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020 Cycle, amending the followings:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter: The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported by the parent. The amendment is also applied to an associate or joint venture.
- IFRS 9 Financial Instruments – Fees in the “10 per cent test” for derecognition of financial liabilities: The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either borrower or lender on the other’s behalf.
- IAS 41 Agriculture – Taxation in fair value measurements: The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring fair value of assets within the scope of IAS 41.

Improvements are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted for all. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

2.5 Consolidation of subsidiaries

The consolidated financial statements comprise the consolidated balance sheet of the Bank and its subsidiaries, as at December 31, 2020 and 2019 and the consolidated statements of comprehensive income, changes in equity and cash flows of the Bank and its subsidiaries for the years ended December 31, 2020 and 2019, respectively.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank’s voting rights in an investee are sufficient to give it power, including:

- the size of the Bank’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Details of the subsidiaries subject to consolidation are stated below:

Name of subsidiary	Country of incorporation	Effective shareholding by the Bank (%)	
		December 31, 2020	December 31, 2019
“Körfez Gayrimenkul Yatırım Ortaklığı A.Ş.”	Turkey	78.33%	92.01%
“Körfez Tatil Beldesi San.ve Tic. A.Ş.”	Turkey	99.99%	99.99%
“KT Sukuk Varlık Kiralama A.Ş.”	Turkey	100%	100%
“KT Kira Sertifikaları Varlık Kiralama A.Ş.”	Turkey	100%	100%
“KT Bank AG.”	Germany	100%	100%
“Architech Bilişim Sistemleri ve Pazarlama Tic. A.Ş.”	Turkey	100%	100%
“KT Portföy Yönetimi A.Ş.”	Turkey	100%	100%
“Neova Sigorta A.Ş.”	Turkey	100%	6,99%

2.6 Foreign currency transactions

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement as foreign exchange gain/loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The financial statements of the Bank and its Turkish subsidiaries for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29 *Financial Reporting in Hyperinflationary Economies*. Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the consolidated financial statements since 1 January 2006. Amounts expressed in the measuring unit current at December 31, 2005 were treated as the basis for the carrying amounts after 1 January 2006.

Foreign currency translation rates used by the Bank as of respective year ends are as follows:

Dates	USD / TL	EUR / TL
December 31, 2019	5.95	6.67
December 31, 2020	7.41	9.10

Foreign Subsidiary

As at the reporting date, the assets and liabilities of the Bank's foreign subsidiary are translated into the Bank's presentation currency at the rate of exchange at the balance sheet date, and its income statement is translated at the EUR/TL 9.39106 average exchange rate for the year. Exchange differences arising on translation are taken directly to a separate component of comprehensive income.

2.7 Property and equipment

Property and equipment are stated at cost (as adjusted for inflation to December 31, 2005), less accumulated depreciation and accumulated impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the property and equipment has been put into operation, such as repairs and maintenance, are normally charged to income statement in the year that costs are incurred. Expenditure incurred that result in an increase in the future economic benefits expected from the use of property and equipment is capitalized as an additional cost of property and equipment.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	50 years
Furniture and office equipment	3–7 years
Motor vehicles	4-5 years
Leasehold improvements	Shorter of the lease or useful life

The property and equipment's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

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

2.8 Construction projects

The Group has classified its time-sharing houses as construction projects.

These houses are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

2.9 Investment property

Property held for long-term rental yields and/or capital appreciation which is not occupied by the Group is classified as investment property.

Investment property comprises land and buildings in where they are stated with their fair value.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

2.10 Intangible assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged to the income statement in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

2.11 Impairment of non-financial assets

The carrying values of property and equipment, investment properties, intangible assets and construction projects are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of the asset is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement. Impairment losses recognized during the period are included in “other expenses” in the income statement.

2.12 IFRS 9

▪ Disclosures of IFRS 9 Financial Instruments:

The Group has implemented “IFRS 9 - Financial Instruments” standard as of 1 January 2018 by replacing “IAS 39 - Financial Instruments: Recognition and Measurement.” standard. It is recognised a loss allowance for expected credit losses on financial assets and loans measured at amortised cost, financial assets measured at FVOCI, loan commitments and financial guarantee contracts not measured at FVPL based on IFRS 9 requirements.

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

All recognized financial assets that are within the scope of IFRS 9 are required to be initially measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount outstanding, are generally measured at Fair Value Through Other Comprehensive Income (“FVTOCI”). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment in other comprehensive income, with only dividend income generally recognized in profit or loss.

Dividends obtained from such investments are accounted in the financial statements as profit or loss unless they are evidently a part of the recoverable cost of investment.

▪ Classification and measurement of financial assets:

On which category a financial instrument 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.

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

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.

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.

▪ **Impairment:**

Credit portfolio is determined in accordance with customer segments constituting the basis of banking activities. Cyclical Probabilities of Default are converted into Instant Probabilities of Default, and these instant probabilities of default are used to calculate Expected Credit Loss in scope of IFRS 9.

Probability of Default (PD)

Macroeconomic scenarios impact the values of Probability of Default. Three scenarios as Base, Good and Bad and expected credit loss are calculated. The default probabilities of borrowers are changing for each scenario.

- TTC PD values are obtained through the scorecard model,
- TTC PD values are converted into PIT PD values by considering the country and sector information with the expected default frequency model in corporate portfolio,
- Macroeconomic expectations are reflected on the PIT PD values by considering the sector information.

Loss Given Default (LGD)

Loss Given Default –LGD is economic loss incurred due to the default of the obligor. Bank has started to use its new LGD model developed based on its own collection data. It has utilized “Workout LGD” for its LGD model.

Exposure at Default (EAD)

Default Amount (DA) corresponds to the used balance in the reporting date for money loans, and to the balance after the application of the credit conversion rate for Non-cash loans and commitment risks. Credit Conversion Factors are applied to obtain EAD for undrawn limits of credit card and overdrafts as well as non-cash loans.

Expected Credit Loss (ECL)

12-month provision amount is calculated for customers in Stage 1 and lifetime provision for customers in Stage 2 and Stage 3. ECL is calculated based on 3 scenarios and multiplied by the following scenario weights to reach the final provision figure.

- Baseline scenario: 40%
- Downside scenario: 30%
- Upside scenario: 30%

Effective interest rates (EIR) are used to discount the expected cash flows to the reporting date in the calculation of ECL.

✓ **Explanations on expected loss provisions**

The Group allocates impairment for expected loss on financial assets measured at amortized cost and measured at fair value through other comprehensive income.

As of January 1, 2018, the Group has started to apply the terms of IFRS 9. 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: Includes financial assets not having significant increase in their credit risk from initial recognition till the following reporting date or financial assets having low credit risk at the reporting date. It is recognized 12-month expected credit losses for such financial assets.

Stage 2: Includes financial assets having significant increase in their credit risk subsequent to the initial recognition, but not having objective evidence about impairment. It is recognized life time expected credit losses for such financial assets.

Stage 3: Includes financial assets having objective evidence about impairment at the reporting date. It is recognized life-time expected credit losses for such financial assets.

The Group has calculated the possible effects of the COVID-19 outbreak as of 31 December 2020 with the best estimate method, which it obtained on the principle of maximum effort to estimate and reasoning used in the calculation of expected credit losses. In the light of the aforementioned data, the Group revised its macroeconomic expectations in the calculation of expected credit loss, and the calculation made taking into account the change in PD with the update in the EDF model was reflected in the financial statements as of 31 December 2020. By its nature, the model effects are reflected in the financial statements with a delay due to the occurrence of the events and their effects at different times. For this reason, if deemed necessary the Bank may make sectoral based valuations in order to eliminate the timing difference and establish additional provisions for the sector or customers which are considered to have a high impact due to outbreak.

Modeling studies were carried out on the principal components of the Expected Loan Loss calculation and the default probability (CTR) models were developed on various loan portfolios. Credit portfolios are determined according to customer segments that form the basis of banking activities. The cyclical default probabilities generated by these models developed for use in the Internal Rating Based Approach (IDD) are translated into the Instantaneous Default Probabilities and these instantaneous default probabilities are used when calculating the Expected Loan Loss on TFRS 9. Loss in Default (LID) calculation is made using models established on the basis of sub-segments based on the bank's internal collection data. Default Amount (TT) corresponds to the balance used in cash at the reporting date for cash loans, non-cash loans and balance after application of the loan to commitment risks. Macroeconomic scenarios affect TO values. The expected credit loss amount is calculated by weighting 3 different scenarios as Base, Good and Bad scenarios. The probability of default of the debtors and the loss rates in default vary with each scenario.

2.13 Explanations on IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Customer Contracts provides a single and comprehensive model and guide to registering revenue and replaces the IAS 18 Revenue standard. The standard became effective on January 1, 2018 and has no material impact on the consolidated financial statements of the Group.

2.14 Explanations on forward transactions and option contracts and derivative instruments

The Group enters into forward agreements to mitigate its currency risk and to manage its foreign currency liquidity. The Group classifies its derivative instruments as “Derivative Financial Instruments Held for Hedging Purposes” and “Financial asset at fair value through profit or loss” in accordance with “IFRS 9”. Even though some derivative transactions economically hedge risk, since all necessary conditions for hedge accounting are not met, they are accounted for as “Financial assets at fair value through profit or loss” within the framework of “IFRS 9”, and are reflected in the “Derivative Financial Assets / Liabilities” account in the balance sheet.

The payables and receivables arising from derivative transactions are recorded in off-balance sheet accounts at their notional amounts.

Fair values of foreign currency forward transactions and swaps are calculated by using the discounted cash flow model. Differences resulting from the changes in the fair values of derivatives held for trading are accounted under ‘Trading Income/Loss’ line in the income statement.

Embedded derivatives are separated from the host contract if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Embedded derivatives are accounted as derivative instruments in-line with “IFRS 9”. If the embedded derivatives are closely related with the host contract, embedded derivatives are accounted for in-line with the relevant standard applicable for the host contract.

While choosing the accounting policy under IFRS 9, the Group has the option to defer the adoption of hedge accounting policy and to continue apply the accounting terms of IAS 39. Within this scope, the Group applies the terms of hedge accounting policy specified under IAS 39. In addition to this, the Group enters into profit share rate and cross currency swap transactions in order to hedge the changes in cash flows of the floating-rate financial instruments. While applying cash flow hedge accounting, the effective portion of the changes in the fair value of the hedging instrument is accounted for under hedging reserves in shareholders’ equity, and the ineffective portion is recognised in income statement. The changes recognised in shareholders’ equity is removed and included in income statement in the same period when the hedged cash flows effect the income or loss.

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.

The Group performs effectiveness test at the beginning of the hedge accounting period and at each reporting period. The effectiveness tests are carried out using the “Dollar off-set model” and the hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness. The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. While discontinuing cash flow hedge accounting, the cumulative gains/losses recognised in shareholders’ equity and presented under hedging reserves are continued to be kept in this account. When the cash flows of hedged item are recognised in income statement, the gain/losses accounted for under shareholders’ equity, are recognised in income statement.

2.15 Explanations on financial assets

The Group classifies and accounts for its financial assets as 'Fair Value Through Profit/Loss', 'Fair Value Through Other Comprehensive Income,' or 'Amortized Cost.' Such financial assets are recognized and derecognized as per the terms of "Recognition and Derecognition in Financial Statements" under the section three of the "IFRS 9 Financial Instruments" regarding the classification and measurements of financial instruments. When financial assets are included in the financial statements for the first time, they are measured at fair value. Transaction costs are initially added to fair value or deducted from fair value at the initial measurement of financial assets other than the "Fair Value at Fair value Through Profit or Loss".

The Group recognizes a financial asset in the financial statements only when it becomes a party to the contractual terms of a financial instrument. During the initial recognition of a financial asset, the business model determined by Bank management and the nature of contractual cash flows of the financial asset are taken into consideration. When the business model determined by the Parent Bank management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments is made to gains, losses or profit shares that were previously recorded in the financial statements.

▪ Financial assets at fair value through profit or loss:

Financial assets at fair value through profit or loss are financial assets that are managed within a business model other than the business model whose objective is achieved by holding contractual cashflows for collection and the business model whose objective is achieved by collecting and selling contractual cash flows. Also, in case that the contractual terms of financial assets do not give rise on specified dates to cash flows that are solely payments of principal and profit share on the principal amount, such assets are those that are, obtained with the aim of providing profit from the short-term price or other factor fluctuations in the market or are part of a portfolio aiming to obtain short-term profit, regardless of the reason of acquisition. Financial assets at fair value through profit or loss are recorded at their fair value and as of record date they are valued at their fair values. Profits or losses caused by valuation are included in profit/loss accounts.

▪ Financial assets at fair value through other comprehensive income:

A financial asset is classified as at fair value through other comprehensive income when the asset is managed within a business model whose objective is achieved by collecting contractual cash flows and selling the financial asset, as well as when the contractual terms of the financial asset give rise on specified dates to cash flows are solely payments of principal and profit share on the principal amount.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition costs that reflect 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 effective profit share method regarding the financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. "Unrealized gains and losses," which is 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, or the impairment of the asset. "Unrealized gains and losses" are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity. When these assets are collected or disposed of, the accumulated fair value differences reflected in the equity are reflected to the income statement.

Equity securities, which are classified as financial assets at fair value through other comprehensive income, are carried at fair value, in the case that the securities have a quoted market price in an active market and/or the fair values of the securities can be reliably measured. In contrary case, the securities are carried at cost, less provision for impairment.

During initial recognition an entity can make an irrevocable election regarding the presentation of the subsequent changes in the fair value of the investment in an equity instrument, that is not held for trading purposes, in the other comprehensive income. In the case that the entity elects to present the changes as described, dividends arising from the investment is accounted in the financial statements as profit or loss.

▪ **Financial assets measured at amortized cost:**

In the case that a financial asset is held within a business model whose objective is achieved both by collecting contractual cash flows and that the contractual terms of the financial asset give rise to cash flows on specified dates that are solely payments of principal and profit share on the principal amount, the financial asset is classified as financial asset measured at amortized cost.

Financial assets measured at amortized cost; are financial assets, other than loans and receivables, which are held for the purpose of custody until maturity, with conditions necessary for such assets to be held until contractual maturity met, including funding ability; and which have fixed or determinable payments and fixed maturities. Financial assets measured at amortized cost are initially recognized at cost and subsequently measured at amortized cost using the internal rate of return method. Profit share income related to financial assets measured at amortized cost is reflected in the income statement. As of the balance sheet date, the Group does not have any financial assets to be held until maturity.

▪ **Derivative Financial Assets:**

The major derivative instruments utilized by the Group are foreign currency swaps, cross currency swaps and currency forwards.

Payables and receivables arising from the derivative instruments are recorded in the off-balance sheet accounts at their contractual values.

Derivative transactions are valued at their fair values subsequent to their acquisition. In accordance with the classification of derivative financial instruments, the positive fair value amounts are classified as the “Derivative financial assets valued at fair value through profit or loss ; and the negative fair value amounts are classified as the “Derivative financial liabilities valued at fair value through profit or loss”. The fair value differences of derivative financial instruments of fair value through profit or loss derivative transactions are recognized in the income statement under net trading income line in profit/loss from derivative financial transactions. The fair value of derivative instruments is calculated by taking into account the market value of the derivatives or by using the discounted cash flow model.

Net Investment Hedge

The Group enters into foreign currency risk arising from net investments in foreign affiliates are hedged with long-term foreign currency borrowings and deposits and the currency translation differences arising from the conversion of net investments in foreign affiliates and accounts long-term foreign currency borrowings into TL for other profit reserves and hedging reserves, respectively in equity.

2.16 Precious metal accounts

Gold transactions are accounted under “precious metal account” and valuation is performed with the current ounce of gold prices in the market.

2.17 Offsetting financial instruments

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

2.18 Derecognition of financial instruments

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) when:

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

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

2.19 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

2.20 Current accounts and profit / loss sharing investors' accounts

Current accounts and profit/loss sharing investors' accounts are initially recognized at cost, being the fair value. Current accounts are not entitled to profit participation. After initial recognition, all profit / loss sharing accounts are recognized at cost plus attributable profit (or less attributable loss) on credits granted taking into consideration amounts repaid and losses attributable. Profit or losses attributable to profit/loss sharing investors' accounts that result from financing transactions are distributed among such accounts according to each party's contribution to the financing investment.

2.21 Due to other financial institutions and banks

Deposits and funds borrowed are initially recognized at fair value of consideration received less directly attributable transaction costs. After initial recognition, all profit bearing liabilities are subsequently measured at amortized cost using the effective yield method. Amortized cost is calculated by taking into account any discount or premium.

2.22 Employee benefits

The Group has both defined benefit and defined contribution plans as described below:

(a) Defined benefit plans:

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the actuarial valuation by independent actuary. All actuarial gains and losses are recognized in the comprehensive income statement.

(b) Defined contribution plans:

For defined contribution plans the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

2.23 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, 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. Where discounting is used, the increase in the provision due to the passage of time is recognized as an expense.

2.24 Leases

▪ The group as 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.

▪ The group as lessor

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases onbalance 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. 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.

2.25 Income and expense recognition

Fees and commissions are recognized based on the purposes for which such fees and commissions are collected and the basis of accounting for any associated financial instrument. Commissions and fees that are collected as an integral part of the profit share rate of loans are treated as an adjustment to the profit share rate. Commissions and fees on loans that are collected as reimbursement of expenses incurred and are not considered as an adjustment to the profit share rate and commission income from various banking services are recognized as income when collected. Fees (such as credit card fees) that are related to servicing a loan are recognized on a straight-line basis over the period of the service is provided.

Income from funds invested from current accounts and equity is recognized on an accrual basis. Income from funds invested from profit/loss sharing accounts is accrued using the effective yield method and the net income is attributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognized in full and generally 60% - 99% of this income is recorded as expense being the profit share distribution (as this is the legal and contractual range for the profit share quotas).

Dividend income is recognized when the Group's right to receive the payment is established.

Income earned on financial assets valued at fair value through other comprehensive income, which are carried at cost less any impairment is reported as dividend income.

Income from the sale of time-sharing houses is recognized when the significant risks and rewards of ownership of the asset have passed to the buyer.

2.26 Income tax

Tax expense / (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiary and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investment in subsidiary and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The Group calculates and accounts for deferred income taxes for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with “Turkish Accounting Standard for Income Taxes” (“TAS 12”). Deferred tax asset is calculated on all temporary differences other than general provisions to the extent that is probable that taxable profit will be available and deferred tax liability is calculated for all temporary differences. Deferred tax asset and liabilities are shown in the accompanying financial statements on a net basis. The tax rate used in the calculation of deferred tax assets and liabilities is 20% over the temporary timing differences expected to reverse after 2021.

2.27 Fiduciary assets

Assets held by the Bank in a fiduciary, agency or custodian capacity are not included in the balance sheet, since such items are not treated as assets of the Bank.

2.28 Related parties

For the purposes of these financial statements, shareholders, key management personnel and Board of Directors' Members, in each case together with companies controlled by/or affiliated with them and their close family members, associated companies are considered and referred to as related parties.

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

2.29 Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank and its subsidiaries.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2.30 Subsequent events

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

2.31 Other significant accounting policies

▪ *Explanations regarding the accounting policy applied for the acquisition of Neova Sigorta A.Ş.*

Following the necessary legal permissions on May 5, 2020, the Bank finalized the purchase of Neova Sigorta A.Ş. by completing the share transfer process. The Bank purchased 78,864,212 shares by paying TL 745,860 and increased the partnership share in Neova Sigorta A.Ş. from 7% to 100% by owning all the shares.

As per the principle related to "Accounting for business combinations under common control" the Public Oversight Accounting and Auditing Standards Authority issued in the Official Gazette No. 30568 dated 17 October 2018, business combinations under common control shall be accounted through restating previous period's financial statements via the pooling of interest method. In line with the aforementioned Authority decisions, The Group management restated its consolidated balance sheet and off-balance sheet as at 31 December 2019 and 1 January 2019 and also the consolidated statements of profit or loss and other comprehensive income, consolidated statement of changes in shareholder's equity and cash flows for the period ended at 31 December 2019 due to the purchase of Neova Sigorta A.S.

The effects of the regulations and classifications described above are presented in detail below.

1) Effects of regulations and classifications on consolidated statement of financial positions as of January 1, 2019:

	Reported 31/12/2018	Restatement Effect, Including Elimination Effect	Restated 01/01/2019
Assets			
Balances with other banks and financial institutions	11,986,381	290,505	12,276,886
Financial assets at fair value through profit or loss	91,443	108,462	199,905
Financial assets valued at amortised cost, net	37,156	447,912	485,068
Financial assets at fair value through other comprehensive income, net	6,171,745	(4,771)	6,166,974
Property and equipment, net	468,770	8,656	477,426
Intangible assets, net	202,908	2,496	205,404
Deferred tax assets	380,683	12,439	393,122
Other assets	2,836,596	557,963	3,394,559
Total assets	74,792,036	1,423,662	76,215,698
Liabilities			
Sukuk securities issued	7,779,057	(147,565)	7,631,492
Current and profit / loss sharing investors' accounts	54,983,611	(238,365)	54,745,246
Current tax liabilities	175,685	28,901	204,586
Other liabilities and provisions	1,708,535	1,514,292	3,222,827
Total liabilities	69,381,143	1,157,263	70,538,406
Legal reserves and retained earnings	1,953,675	266,399	2,220,074
Total equity attributable to equity holders of the parent	5,410,893	266,399	5,677,292
Total liabilities and equity	74,792,036	1,423,662	76,215,698

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

II) *Effects of regulations and classifications on consolidated statement of financial positions as of December 31, 2019:*

	Reported 31/12/2019	Restatement Effect, Including Elimination Effect	Restated 31/12/2019
Assets			
Balances with other banks and financial institutions	16,250,847	915,156	17,166,003
Financial assets at fair value through profit or loss	4,019,316	258,167	4,277,483
Financial assets valued at amortised cost, net	2,858,614	353,543	3,212,157
Financial assets at fair value through other comprehensive income, net	12,457,849	(5,506)	12,452,343
Property and equipment, net	841,005	12,242	853,247
Intangible assets, net	207,811	3,239	211,050
Deferred tax assets	401,782	15,071	416,853
Other assets	1,636,218	584,516	2,220,734
Total assets	106,696,909	2,136,428	108,833,337
Liabilities			
Current and profit / loss sharing investors' accounts	87,617,982	(253,637)	87,364,345
Finance lease payable, net	350,955	3,096	354,051
Current tax liabilities	225,704	29,176	254,880
Other liabilities and provisions	1,830,762	1,951,856	3,782,618
Total liabilities	99,885,803	1,730,491	101,616,294
Legal reserves and retained earnings	2,570,988	405,937	2,976,925
Total equity attributable to equity holders of the parent	6,811,106	405,937	7,217,043
Total liabilities and equity	106,696,909	2,136,428	108,833,337

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

III) Effects of regulations and classifications on Consolidated comprehensive income for the year ended December 31, 2019:

	Reported 31/12/2019	Restatement Effect, Including Elimination Effect	Restated 31/12/2019
Income from financing activities:			
Profit on deposits with other banks and financial institutions	369,131	90,055	459,186
Profit on sukuk investments	783,266	97,575	880,841
Total income from financing activities	7,335,449	187,630	7,523,079
Profit shares distributed to participation accounts	(3,125,404)	36,995	(3,088,409)
Profit shares distributed to other banks and financial institutions	(941,716)	22,334	(919,382)
Net financing income	3,268,329	246,959	3,515,288
Provision for impairment of amounts due from financing activities and lease receivables	(2,060,922)	(8,851)	(2,069,773)
Net financing income after provision for impairment in due from financing activities and lease receivables	1,207,407	238,108	1,445,515
Foreign exchange gain, net	423,844	3,304	427,148
Net financing income after net foreign exchange gain / (loss)	1,631,251	241,412	1,872,663
Fees and commission income	1,010,241	18,674	1,028,915
Other income	230,466	1,140,799	1,371,265
Total other operating income	2,174,851	1,159,473	3,334,324
Fees and commission expense	(371,160)	(140,610)	(511,770)
Staff costs	(1,101,256)	(45,336)	(1,146,592)
Other expenses	(644,664)	(1,012,088)	(1,656,752)
Total other operating expense	(2,379,009)	(1,198,034)	(3,577,043)
Income before taxation	1,427,093	202,851	1,629,944
Current tax charge	(401,580)	(50,055)	(451,635)
Deferred tax (charge)/income	100,846	2,632	103,478
Net income for the year	1,126,359	155,428	1,281,787
Attributable to:			
- Owners of the equity	1,125,296	156,304	1,281,600
- Non-controlling interests	1,063	(876)	187

3. Segment reporting

For management purposes, the Group is organized into three main business groups and six sub-segments:

Retail Banking

Principally handling individual customers' current, saving and investment accounts and providing loans, consumer loans, credit cards facilities and funds transfer facilities. There are two subsegments, Retail and Private, under Retail Banking Group.

Retail Segment, portfolio comprised of all individuals that have deposits or sukuk and investment funds under TL 2 million (full amount), real estate loans that are less than TL 1,000,000 (full amount) in Istanbul Regions, TL 500,000 (full amount) in Anatolian Regions, vehicle loans that are less than TL 350,000 (full amount) in all regions and all foreign nationals' real estate loans that are less than TL 500,000 (full amount).

Private segment, portfolio comprised of all individuals that have deposits or sukuk and investment funds more than TL 2 million and real estate loans that are more than TL 1,000,000 (full amount) in Istanbul Regions, TL 500,000 (full amount) in Anatolian Regions, vehicle loans that are more than TL 350,000 (full amount) in all regions and all foreign nationals' real estate loans that are more than TL 500,000 (full amount).

SME Banking

Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. There are two sub-segments, Medium Size Business and Micro, under SME Banking Group.

Medium Size Business segment, portfolio comprised of all businesses that have annual sales turnover between TL 5 million - TL 50 million (full amount) and their individual owners.

Micro segment, portfolio comprised of all businesses that have annual sales turnover below TL 5 million (full amount) and their individual owners.

Commercial Banking

Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. There are two sub-segments, Commercial and Corporate, under Commercial Banking Group.

Principally handling loans and other credit facilities and current, saving and investment accounts for institutional customers. There are two sub-segments, Commercial and Corporate, under Commercial Banking Group.

Corporate segment, portfolio comprised of all businesses in corporate branches.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

The following table presents income and profit and certain asset and liability information regarding the Group's business segments as of and for the years ended December 31, 2020 and 2019, respectively.

For the period ended December 31, 2020	Retail, SME, Commercial, Corporate & Treasury, International & Investment Banking, Insurance					Segments Total	Recon- ciliation	Notes	Grand Total
	Retail Banking	SME Banking	Commerci al Banking	Corporate Banking	Treasury, International & Investment Banking, Ins urance				
Income from financing activities & sukuk	1,007,378	2,335,107	2,309,181	741,265	3,254,053	9,646,984	-		9,646,984
Intersegment income	2,378,180	(479,836)	(1,356,782)	(246,073)	(295,489)	-	-		-
Total financing income	3,385,558	1,855,271	952,399	495,192	2,958,564	9,646,984	-		9,646,984
Profit shares distributed	(1,810,845)	(368,516)	(76,650)	(11,825)	(843,011)	(3,110,847)	-		(3,110,847)
Provision for impairment of amounts due from financing activities and lease receivables	(10,748)	(383,937)	(795,882)	(512,857)	(1,390,641)	(3,094,065)	-		(3,094,065)
Net financing income	1,563,965	1,102,818	79,867	(29,490)	724,912	3,442,072	-		3,442,072
Foreign exchange gain/loss, net	309,309	116,196	62,692	3,472	2,529,009	3,020,678	-		3,020,678
Net trading income	8,545	7,361	5,616	181	(2,162,147)	(2,140,444)	-		(2,140,444)
Net fees & commission and other income	204,513	374,377	216,090	59,255	(592,412)	261,823	-		261,823
Other expenses / income (net)	(70,540)	203,501	216,913	(19,479)	(2,626,586)	(2,296,191)	-		(2,296,191)
Segment profit / (loss)	2,015,792	1,804,253	581,178	13,939	(2,127,224)	2,287,938	-		2,287,938
Tax expenses (current & deferred)	-	-	-	-	-	-	(554,673)	(a)	(554,673)
Net profit / (loss) for the year	2,015,792	1,804,253	581,178	13,939	(2,127,224)	2,287,938	(554,673)		1,733,265
Segment Assets	10,931,898	22,797,512	28,708,153	8,990,314	86,575,252	158,003,129	-		158,003,129
Segment Liabilities & Equity	76,933,228	31,443,005	10,457,794	4,847,663	26,220,543	149,902,233	8,100,896	(b)	158,003,129

a) Since the tax is calculated on Group's total profit/loss, the tax amount is not included in the performance of segments.

b) Total equity is not allocated to the segments.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

For the period ended December 31, 2019	Retail Banking	SME Banking	Commercia l Banking	Corporate Banking	Treasury, International & Investment Banking, Insurance	Segments Total	Recon- ciliation	Notes	Grand Total
Income from financing activities & sukuk	744,454	2,451,477	2,637,663	341,546	1,347,939	7,523,079	-		7,523,079
Intersegment income	2,885,543	(681,921)	(1,728,637)	(140,851)	(334,134)	-	-		-
Total financing income	3,629,997	1,769,556	909,026	200,695	1,013,805	7,523,079	-		7,523,079
Profit shares distributed	(2,433,329)	(530,246)	(127,497)	(34,459)	(882,260)	(4,007,791)	-		(4,007,791)
Credit loss expense	(78,222)	(845,093)	(852,515)	(278,646)	(15,297)	(2,069,773)	-		(2,069,773)
Net financing income	1,118,446	394,217	(70,986)	(112,410)	116,248	1,445,515	-		1,445,515
Foreign exchange gain/loss, net	139,348	77,586	43,316	5,906	160,992	427,148	-		427,148
Net trading income	2,515	2,845	2,205	490	912,362	920,417	-		920,417
Net fees & commission and other income	176,842	258,123	201,837	60,833	(180,490)	517,145	-		517,145
Other expenses / income (net)	(551,246)	(31,648)	374,897	54,684	(1,526,968)	(1,680,281)	-		(1,680,281)
Segment profit / (loss)	885,905	701,123	551,269	9,503	(517,856)	1,629,944	-		1,629,944
Tax expenses (current & deferred)	-	-	-	-	-	-	(348,157)	(a)	(348,157)
Net profit / (loss) for the year	885,905	701,123	551,269	9,503	(517,856)	1,629,944	(348,157)		1,281,787
Segment Assets	8,885,061	18,428,963	20,487,004	5,520,023	55,512,286	108,833,337	-		108,833,337
Segment Liabilities & Equity	56,466,852	23,275,541	7,260,950	2,325,852	12,287,099	101,616,294	7,217,043	(b)	108,833,337

a) Since the tax is calculated on Group's total profit/loss, the tax amount is not included in the performance of segments.

b) Total equity is not allocated to the segments.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

4. Cash and balances with banks

	December 31, 2020	December 31, 2019	January 01, 2019
Cash on hand	3,643,435	2,427,278	2,001,414
Balances with the Central Bank of Turkey	1,993,460	4,356,690	1,138,302
Cash and balances with the Central Bank of Turkey	5,636,895	6,783,968	3,139,716
Balances with banks and other financial institutions	9,768,610	17,168,959	12,358,245
ECL Allowances	(747)	(2,956)	(81,359)
Sub Total	15,404,758	23,949,971	15,416,602
Deposit with maturity more than three months	(421,307)	(2,426,625)	(1,846,664)
Less: Interbank gold deposits	(988,021)	(1,111,144)	(957,110)
Total	13,995,430	20,412,202	12,612,828

As of December 31, 2020, and 2019, “balances with other banks and financial institutions” are made up of demand and time deposits. The time deposits, all of which have original maturities less than three months, can be analyzed as follows:

	2020				2019				2018			
	Amount		Effective profit rate (average)		Amount		Effective profit rate (average)		Amount		Effective profit rate (average)	
	TL	Foreign currency	TL	Foreign currency	TL	Foreign currency	TL	Foreign currency	TL	Foreign currency	TL	Foreign currency
Deposits with other banks and financial institutions	1,650,000	1,079,243	17.47%	2.01%	1,275,000	5,196,994	10.80%	1.39%	-	3,645,862	-	3.24%
Total	1,650,000	1,079,243			1,275,000	5,196,994				3,645,862		

5. Reserve deposits at the Central Bank of Turkey

	2020		2019		2018	
	Foreign currency (full amount)	TL	Foreign currency (full amount)	TL	Foreign currency (full amount)	TL
USD	949,253,588	7,030,675	886,706,867	5,273,263	516,570,819	2,707,174
EUR	796,738,264	7,250,055	396,928,274	2,647,150	9,506,605	2,037,427
XAU (Standard Gold)	9,375,659	4,205,335	11,712,658	3,400,719	337,369,759	1,750,589
	18,486,065		11,321,132		6,495,190	

In accordance with the “Communiqué Regarding the Reserve Requirements no. 2013/15, the Bank is required to maintain reserves in CBRT for TL and foreign currency liabilities. The reserve requirements can be maintained as TL, USD, EUR and standard gold. CBRT started paying profit share on reserve balances held in USD starting from May 2015 and held in TL starting from November 2014. The reserve rates for TL liabilities vary between 1% and 6% for TL deposits and other liabilities according to their

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

maturities as of December 31, 2020 (December 31, 2019: 1% and 7% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 5% and 21% for deposit and other foreign currency liabilities according to their maturities as of December 31, 2020 (December 31, 2019: 5% and 21% for all foreign currency liabilities). The reserve rates for precious metal liabilities vary between 16% and 22% according to their maturities as of December 31, 2020 (December 31, 2019: 5% and 21% for all foreign currency liabilities).

6. Financial assets

▪ At Fair Value Through Other Comprehensive Income

	December 31, 2020	December 31, 2019	January 01, 2019
Financial Sukuk	20,550,945	12,260,900	6,065,175
Fund	132,845	163,209	110,567
Unlisted Shares	49,146	32,648	21,957
ECL allowance	(9,851)	(4,414)	(30,725)
Total	20,723,085	12,452,343	6,166,974

The breakdown of unlisted shares is as follows:

	Nature of business	December 31, 2020		December 31, 2019		January 01, 2019	
		Ownership %	Amount	Ownership %	Amount	Ownership %	Amount
VISA INC.	Financial service	-	40,405	-	27,346	-	17,045
Kredi Garanti Fonu A.Ş. (KGF)	Financial institution	1.49	4,897	1.49	4,897	1.54	4,897
Swift	Financial service	-	390	-	390	-	-
Borsa İstanbul A.Ş.	Exchange entity	0.0035	15	0.0035	15	0.0035	15
JRC Avrasya Derecelendirme A.Ş	Rating company	2.86	2,754	-	-	-	-
Tarsim	Insurance Company	-	685	-	-	-	-
			49,146		32,648		21,957

▪ At Fair Value Through Profit or Loss

Financial at fair value through profit or loss includes sukuk and share certificates. Balance of financial assets at fair value through profit or loss is as below:

	December 31, 2020	December 31, 2019	January 01, 2019
Sukuk	7,813,619	4,277,483	199,515
Share Certificates	-	-	390
	7,813,619	4,277,483	199,905

As of 31 December 2020, there are no financial assets at fair value through profit and loss subject to repurchase transactions, given as a collateral or blocked (31 December 2019 – None).

▪ At Amortised Cost

Balance of financial assets valued at amortised cost is as below:

	December 31, 2020	December 31, 2019	January 01, 2019
Sukuk	6,499,810	3,212,924	485,068
ECL allowance	(1,094)	(767)	-
	6,498,716	3,212,157	485,068

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Hierarchy of valuation techniques which establishes basis for fair value calculation of financial assets and liabilities

Level I: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level II: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level III: Inputs for the asset or liability that are not based on observable market data

Fair value hierarchy of the financial assets and liabilities of the Group carried at fair value according to the foregoing principles as of December 31, 2020 and 2019 are given in the table below:

Current Period	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through profit or loss	7,813,619	461,606	-	8,275,225
Share certificates	-	-	-	-
Forward transactions	-	52,326	-	52,326
Swap transactions	-	409,280	-	409,280
Sukuk	7,813,619	-	-	7,813,619
At fair value through other comprehensive income	20,723,085	-	-	20,723,085
Equity securities	49,146	-	-	49,146
Government debt securities	20,489,638	-	-	20,489,638
Other marketable securities	184,301	-	-	184,301
Amortised cost				
Government debt securities	6,498,716	-	-	6,498,716
	6,498,716	-	-	6,498,716
Financial liabilities				
Financial liabilities held for trading	-	1,676,806	-	1,676,806
Forward transactions	-	26,008	-	26,008
Swap transactions	-	1,650,798	-	1,650,798
Financial liabilities for hedging purposes	-	-	-	-
Previous Period	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through profit or loss	4,277,483	182,006	-	4,459,489
Share certificates	-	-	-	-
Forward transactions	-	16,053	-	16,053
Swap transactions	-	165,953	-	165,953
Sukuk	4,277,483	-	-	4,277,483
At fair value through other comprehensive income	12,452,343	-	-	12,452,343
Equity securities	32,648	-	-	32,648
Government debt securities	12,103,574	-	-	12,103,574
Other marketable securities	316,121	-	-	316,121
Amortised cost				
Government debt securities	3,212,157	-	-	3,212,157
	3,212,157	-	-	3,212,157
Financial liabilities				
Financial liabilities held for trading	-	424,137	-	424,137
Forward transactions	-	14,165	-	14,165
Swap transactions	-	280,244	-	280,244
Financial liabilities for hedging purposes	-	129,728	-	129,728

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

2018	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through profit or loss	199,505	42,590	-	242,095
Share certificates	-	-	-	-
Forward transactions	-	38,731	-	38,731
Swap transactions	-	3,859	-	3,859
Sukuk	199,505	-	-	199,505
At fair value through other comprehensive income	6,166,974	-	-	6,166,974
Equity securities	21,957	-	-	21,957
Government debt securities	5,809,485	-	-	5,809,485
Other marketable securities	335,532	-	-	335,532
Amortised cost				
Government debt securities	485,068	-	-	485,068
	485,068	-	-	485,068
Financial liabilities				
Financial liabilities held for trading	-	170,742	-	170,742
Forward transactions	-	29,913	-	29,913
Swap transactions	-	140,829	-	140,829
Financial liabilities for hedging purposes	-	-	-	-

7. Due from financing activities, net

December 31, 2020	Gross Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank) (Note 4 and 5)	24,122,988	-	-	24,122,988	28	-	-	28
Balances with other banks and financial institutions (Note 4)	9,768,610	-	-	9,768,610	747	-	-	747
Securities (Note 6)	35,046,365	-	-	35,046,365	10,945	-	-	10,945
Due from financing activities and Finance lease receivable (Note 7,8)	68,928,561	7,956,118	3,413,759	80,298,438	1,141,502	1,518,372	2,788,827	5,448,701
Total on-balance sheet financial assets in scope of ECL requirements	137,866,524	7,956,118	3,413,759	149,236,401	1,153,222	1,518,372	2,788,827	5,460,421

December 31, 2019	Gross Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank) (Note 4 and 5)	18,105,149	-	-	18,105,149	49	-	-	49
Balances with other banks and financial institutions (Note 4)	17,168,959	-	-	17,168,959	2,956	-	-	2,956
Securities (Note 6)	19,947,164	-	-	19,947,164	5,181	-	-	5,181
Due from financing activities and Finance lease receivable (Note 7,8)	42,736,873	6,186,410	2,126,083	51,049,366	487,831	996,886	1,564,266	3,048,983
Total on-balance sheet financial assets in scope of ECL requirements	97,958,145	6,186,410	2,126,083	106,270,638	496,017	996,886	1,564,266	3,057,169

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

January 01, 2019	Gross Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank) (Note 4 and 5)	9,654,823	-	-	9,654,823	19,917	-	-	19,917
Balances with other banks and financial institutions (Note 4)	12,358,245	-	-	12,358,245	81,359	-	-	81,359
Securities (Note 6)	6,882,672	-	-	6,882,672	30,725	-	-	30,725
Due from financing activities and Minimum finance lease payments receivable (Note 7,8)	37,964,453	4,376,465	1,206,368	43,547,286	450,825	648,935	862,456	1,962,216
Total on-balance sheet financial assets in scope of ECL requirements	66,860,193	4,376,465	1,206,368	72,443,026	582,826	648,935	862,456	2,094,217

December 31, 2020	Corporate and Commercial	Consumer	Credit Cards	Mortgage	Total
Stage 1	55,041,081	2,429,594	517,351	10,940,535	68,928,561
Stage 2	7,504,960	119,499	44,818	286,841	7,956,118
Stage 3	3,282,206	26,655	6,797	98,101	3,413,759
Total gross loans	65,828,247	2,575,748	568,966	11,325,477	80,298,438
Stage 1&2 (ECL)	(2,632,498)	(8,805)	(2,745)	(15,826)	(2,659,874)
Stage 3 (ECL)	(2,702,329)	(17,112)	(5,912)	(63,474)	(2,788,827)
Net loans (*)	60,493,420	2,549,831	560,309	11,246,177	74,849,737

December 31, 2019	Corporate and Commercial	Consumer	Credit Cards	Mortgage	Total
Stage 1	34,211,248	1,869,274	412,286	6,244,065	42,736,873
Stage 2	5,771,644	119,963	48,676	246,127	6,186,410
Stage 3	2,053,021	31,706	2,278	39,078	2,126,083
Total gross loans	42,035,913	2,020,943	463,240	6,529,270	51,049,366
Stage 1&2 (ECL)	(1,460,313)	(9,912)	(4,405)	(10,086)	(1,484,716)
Stage 3 (ECL)	(1,509,861)	(28,142)	(1,804)	(24,459)	(1,564,266)
Net loans (*)	39,065,739	1,982,889	457,031	6,494,725	48,000,384

(*) Also includes finance lease receivables.

December 31, 2020	Stage 1	Stage 2	Stage 3	Total
Internal Rating Grade				
Performing	1,141,502	1,518,372	-	2,659,874
High Quality	153,288	222	-	153,510
Medium Quality	321,713	550	-	322,263
Average	396,209	230,694	-	626,903
Below Average	270,292	1,286,906	-	1,557,198
Non-performing	-	-	2,788,827	2,788,827

December 31, 2019	Stage 1	Stage 2	Stage 3	Total
Internal Rating Grade				
Performing	487,863	996,853	-	1,484,716
High Quality	35,322	26	-	35,348
Medium Quality	100,798	57	-	100,855
Average	189,562	112,337	-	301,899
Below Average	162,181	884,433	-	1,046,614
Non-performing	-	-	1,564,266	1,564,266

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

	December 31, 2020	December 31, 2019	January 1, 2019
Performing			
Funds invested from profit/loss sharing accounts	26,540,083	25,575,568	20,464,779
Funds invested from current accounts and equity	43,461,002	19,075,983	17,166,434
Income accruals on due from financing activities (**)	1,882,838	1,564,212	2,259,008
	71,883,923	46,215,763	39,890,221
Non-performing			
Funds invested from profit / loss sharing accounts	1,531,722	1,108,327	603,983
Funds invested from current accounts and equity	1,809,522	981,174	591,209
	3,341,244	2,089,501	1,195,192
Total	75,225,167	48,305,264	41,085,413
Impairment allowance			
Funds invested from profit / loss sharing accounts	2,331,521	1,581,699	940,625
Funds invested from current accounts and equity	3,049,651	1,439,079	1,014,394
	5,381,172	3,020,778	1,955,019
Total due from financing activities exc lease receivables	69,843,995	45,284,486	39,130,394

(**) Also includes foreign currency evaluation differences of foreign currency indexed loans.

The total provision of TL 5,381,173 (December 31, 2019 – TL 3,020,778) is made up of impaired loans and loans classified as Stage 1 and 2. The movements are analyzed below.

The movements of provisions for loans and leasing classified as Stage 1 and 2 for financing activities are as follows:

	December 31, 2020	December 31, 2019
Balance at beginning of year	1,484,716	1,099,760
Provisions – bank	825,364	44,182
Provisions - participation accounts	349,794	340,774
Allowance at the end of the year	2,659,874	1,484,716

The movement for impaired loans' ECL (Stage 3) is as follows:

	December 31, 2020	December 31, 2019
Balance at the beginning of the year	1,536,062	855,258
Provisions - bank	1,260,728	1,301,636
Provisions - participation accounts	634,388	909,527
Recoveries of amounts previously provided for	(482,467)	(587,161)
Reserves written off in current year	(227,413)	(943,198)
Balance at the end of the year	2,721,298	1,536,062

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

8. Finance lease receivable, net

Finance lease receivable (net) is as follows:

	December 31, 2020	December 31, 2019
Gross investment in finance leases	5,690,681	3,185,159
Unearned finance income	(689,925)	(477,639)
Total impaired receivables	72,515	36,582
Impairment allowance	(67,529)	(28,204)
Lease receivable, net	5,005,742	2,715,898

Movements in the specific provisions for leasing receivables is as follows:

	December 31, 2020	December 31, 2019
Balance at January 1	28,204	7,197
Charge for the period	90,317	59,161
<i>Charges for the bank</i>	62,866	33,210
<i>Charge for the participation accounts</i>	27,451	25,951
Recoveries of amounts previously provided for	(27,949)	(7,197)
Impairment allowance written off in current period	(23,043)	(30,957)
Balance at the end of the period	67,529	28,204

Gross investment in finance leases as to their maturity:

	December 31, 2020	December 31, 2019
Not later than 1 year	2,249,517	1,227,784
Later than 1 year and not later than 5 years	3,089,153	1,734,939
Later than 5 years	352,011	222,436
Non-performing receivables	72,515	36,582
Lease receivable, gross	5,763,196	3,221,741
Less: Unearned finance income	(689,925)	(477,639)
Net investment in finance leases	5,073,271	2,744,102
Less: Allowance for impairment	(67,529)	(28,204)
Lease receivable, net	5,005,742	2,715,898

As of December 31, 2020, TL 2,815,541 (December 31, 2019 - TL 1,689,014) gross lease receivables are denominated in foreign currency (USD and EUR).

Net investment in finance leases as to their maturity:

	December 31, 2020	December 31, 2019
Less than 1 year (*)	1,855,693	886,868
1 -5 year	2,621,536	1,639,285
More than 5 years	596,042	217,949
Net investment in finance leases	5,073,271	2,744,102

(*) Includes total impaired receivables amounting to TL 72,515 (December 31, 2019 – TL 36,582).

Material finance leasing arrangements of the Group includes several machinery and equipment with a contractual maturity of 4 to 5 years.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Impacts of Covid-19 Pandemia

As it is mentioned in the significant estimates and judgments note used in the preparation of the financial statements, the Group reflected the possible effects of the COVID-19 outbreak as of December 31, 2020.

After Covid pandemic, the Group has provided additional TL 1,840,543 provision which is represented under “Additional ECL” column.

	ECL Before Covid (*)	ECL After Covid	Additional ECL
Corporate	234,711	847,374	612,663
Commercial	990,203	1,363,718	373,515
Retail	39,681	46,050	6,370
ME	1,086,345	1,540,103	453,758
Small Business	1,065,292	1,330,505	265,213
Micro	191,926	320,951	129,024
Total	3,608,158	5,448,701	1,840,543

Sectoral details of the additional provision allocated resulting from Covid-19 is as follows:

	ECL Before Covid (*)	ECL After Covid	Additional ECL
Services	239,935	482,343	242,408
Manufacturing	674,970	898,252	223,282
Building and construction	1,092,415	1,845,686	753,271
Transportation and communication	115,926	196,977	81,051
Electricity, water, gas and health serv.	162,088	254,510	92,422
Commerce	868,069	1,108,502	240,433
Other	454,756	662,431	207,675
Total	3,608,159	5,448,701	1,840,542

Effect of Covid-19 Pandemia on restructured loans:

Details of restructured loans after Covid-19 is as follows:

	Restructured Loans Before Covid (*)	Restructured Loans After Covid
Corporate	45,515	60,331
Commercial	188,467	375,687
Retail	859	2,088
ME	235,735	340,607
Small Business	241,324	290,204
Micro	17,075	27,496
Total	728,975	1,096,413

(*) These amounts represent before covid amounts as of March 31, 2020.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

9. Other assets

Other assets comprise the followings:

	December 31, 2020	December 31, 2019	January 01, 2019
Clearing accounts	639,138	562,453	716,193
Prepaid expenses	63,132	50,862	57,505
Blockage for guarantees given(*)	8,275,047	900,291	1,968,224
Receivables from banking operations	36,065	14,701	22,106
Value added tax (VAT) receivable	7,379	9,310	17,508
Other	984,952	683,117	613,023
	10,005,713	2,220,734	3,394,559

(*) As December 2020, Blockage for guarantees given includes CB open market transaction collaterals of EUR 875,000 (December 31,2019 - EUR 120,000).

10. Construction projects, net

Construction projects mainly include construction activities of Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. subsidiary.

	December 31, 2020	December 31, 2019	January 01, 2019
Uncompleted construction projects	19,698	24,969	27,612
Kartal Project			
Cost of land	-	-	-
Cost of project	19,698	24,969	25,699
Kilyos Land			
Cost of land	-	-	1,913
Güre Tesisi	72,004	75,486	76,917
Completed construction projects (inventories)	72,004	75,486	76,917
	91,702	100,455	104,529
(Less) Impairment provision for net realizable value	(26,609)	(26,975)	(29,915)
Total construction projects, net	65,093	73,480	74,614

11. Investment properties, net

	December 31, 2020	December 31, 2019
Balance at the beginning of the year	37,646	29,671
Additions	39,970	8,134
Disposal	-	-
Depreciation charge	(159)	(159)
Transfer to assets held for resale (Note 12)	-	-
Transfer from other assets	-	-
Balance at the end of the year	77,457	37,646
Cost	78,918	41,949
Accumulated depreciation	(1,461)	(3,578)
Accumulated impairment	-	(725)
Net carrying amount	77,457	37,646

Fair value of the investment properties is TL 60,000 (December 31, 2019 - TL 57,834) which is determined based on the valuations carried out by independent qualified valuation companies in December 2020.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

12. Assets and a disposal group held for sale

At December 31, 2020, the Bank classified non-current assets; mainly land and buildings; being collateral repossessed in this period amounting to TL 519,087 (December 31, 2019 – TL 473,326), which are expected to be sold in a time period less than 1 year as non-current assets held for sale. The assets and the determined sales prices have been announced to the public via website of the Bank. Movement of non-current assets held for sale is as follows:

	December 31, 2020	December 31, 2019
Balance at the beginning of the year	473,326	263,577
Additions	172,426	154,396
Transfer from investment property (Note 11)	-	82,367
Disposals	(126,809)	(27,014)
Depreciation Charge	144	-
Balance at the end of the year	519,087	473,326

Gain on sale of assets held for sale amounting to TL 43,938 is included in other income in the comprehensive income statement (December 31, 2019 – TL 11,580).

13. Property and equipment, net

	Land and buildings	Furniture and office equipment	Leasehold improvements	Motor vehicles	Right of Use Asset	Total
At January 1, 2019	182,216	186,245	54,010	50,614	4,341	477,426
Additions	12,331	111,682	35,811	10,277	429,060	599,161
Disposals	(4,233)	(6,177)	(7,946)	(1,005)	(15,684)	(35,045)
Depreciation charge for the year	(26,511)	(46,105)	(14,842)	(2,490)	(98,347)	(188,295)
At December 31, 2019, net of accumulated depreciation and impairment	163,803	245,645	67,033	57,396	319,370	853,247
Additions	2,355	99,758	27,617	47,959	127,705	305,394
Disposals	(4)	(5,452)	(9,604)	(110)	(39,688)	(54,858)
Depreciation charge for the year	(7,822)	(50,978)	(7,182)	(16,852)	(88,613)	(171,447)
At December 31, 2020, net of accumulated depreciation and impairment	158,332	288,973	77,864	88,393	318,774	932,336
	Land and buildings	Furniture and office equipment	Leasehold improvements	Motor vehicles	Right of Use Asset	Total
At December 31, 2019						
Cost	205,049	492,290	125,015	61,460	421,333	1,305,147
Accumulated depreciation	(41,246)	(246,645)	(57,982)	(4,064)	(101,963)	(451,900)
Net carrying amount	163,803	245,645	67,033	57,396	319,370	853,247
At December 31, 2020						
Cost	219,774	585,447	142,935	103,732	497,764	1,549,652
Accumulated depreciation	(37,825)	(295,894)	(65,164)	(27,796)	(190,637)	(617,316)
Net carrying amount	181,949	289,553	77,771	75,936	307,127	932,336

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

14. Intangible assets, net

	Total
At January 1, 2019	205,404
Additions	116,352
Disposals	(69,591)
Amortization charge for the year	(41,115)
At December 31, 2019, net of accumulated amortization	211,050
Additions	176,493
Disposals	(24,385)
Amortization charge for the year	(82,155)
At December 31, 2020, net of accumulated amortization	281,003
At December 31, 2019	
Cost (gross carrying amount)	391,808
Accumulated amortization	(180,758)
Net carrying amount	211,050
At December 31, 2020	
Cost (gross carrying amount)	404,313
Accumulated amortization	(123,310)
Net carrying amount	281,003

15. Due to other financial institutions and banks, Sukuk securities issued, subordinated loans and money market balances

Due to other financial institutions and banks as of December 31, 2020, 2019 and 2018 is as follows;

Original currency	Amount in TL		
	December 31, 2020	December 31, 2019	January 01, 2019
USD	4,464,546	327,198	1,515,343
Euro	923,911	411,271	643,968
TL	187,199	172,082	97,000
Other	358,549	215,543	-
Total	5,934,205	1,126,094	2,256,311

As of December 31, 2020, borrowings remaining maturities of which is less than 12 months amount to TL 5,161,042 (As of December 31, 2019 – TL 447,895).

As of December 31, 2020, the Bank has no syndicated loans (December 31, 2019 - None).

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Sukuk securities as of December 31, 2020, 2019 and 2018 is as follows;

	December 31, 2020	Amount in TL	
		December 31, 2019	January 01, 2019
Sukuk certificates issued USD	3,337,298	2,720,541	5,119,260
Sukuk certificates issued TL	1,821,975	735,587	1,473,558
Sukuk certificates issued MYR	-	1,182,558	1,038,674
Total	5,159,273	4,638,686	7,631,492

The financial terms of sukuk securities in issue as of December 31, 2020, are as follows:

Issue date	Maturity date	Currency	Nominal amount in thousand (TL)	Profit share rate (%)
01/07/2020	27/01/2021	TL	300,000	7.89
12/08/2020	24/02/2021	TL	450,000	9.37
26/08/2020	03/03/2021	TL	350,000	10.16
03/12/2020	13/01/2021	TL	300,000	15.29
23/12/2020	24/03/2021	TL	250,000	16.77
27/10/2020	29/01/2021	TL	198,370	13.07
11/11/2020	13/01/2021	TL	500,000	13.32
17/07/2020	10/02/2021	TL	275,000	8.09
01/11/2016	02/11/2021	USD	3,703,265	5.08

The financial terms of sukuk securities in issue as of December 31, 2019, are as follows:

Issue date	Maturity date	Currency	Nominal amount in thousand (TL)	Profit share rate (%)
18/12/2019	12/02/2020	TL	250,000	9.12
13/11/2019	15/01/2020	TL	100,000	10.60
31/10/2019	29/01/2020	TL	100,000	10.85
18/10/2019	15/01/2020	TL	300,000	13.07
01/11/2016	02/11/2021	USD	2,973,510	5.08
15/07/2015	15/07/2020	MYR	435,966	5.64
15/05/2015	15/05/2020	MYR	290,644	5.64
31/03/2015	31/03/2020	MYR	435,966	5.72

The financial terms of sukuk securities in issue as of December 31, 2018, are as follows:

Issue date	Maturity date	Currency	Nominal amount in thousand (TL)	Profit share rate (%)
17/02/2016	17/02/2026	USD	1,901,210	7.90
20/12/2018	05/04/2019	TRY	160,000	21.70
11/12/2018	22/03/2019	TRY	200,000	21.21
16/11/2018	19/02/2019	TRY	250,000	22.68
18/10/2018	29/01/2019	TRY	150,000	25.64
18/10/2018	29/01/2019	TRY	80,000	25.64
12/10/2018	15/01/2019	TRY	500,000	25.64
12/10/2018	15/01/2019	TRY	100,000	25.64
11/05/2018	31/05/2019	TRY	310,000	11.81
29/03/2017	29/03/2019	TRY	35,000	14.22
01/11/2016	02/11/2021	USD	2,639,610	5.08
15/07/2015	15/07/2020	MYR	382,869	5.64
15/05/2015	15/05/2020	MYR	255,246	5.64
31/03/2015	31/03/2020	MYR	382,869	5.72
26/06/2014	26/06/2019	USD	2,639,610	5.08

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Subordinated loans as of December 31, 2020, 2019 and 2018 is as follows;

	Amount in TL		
	December 31, 2020	December 31, 2019	January 01, 2019
Subordinated loan provided by other foreign banks&institutions	4,590,265	3,380,983	1,901,210
Total	4,590,265	3,380,983	1,901,210

As of December 31, 2020, money market balances include the transactions with Central Bank of Turkey amount to TL 185,225 (As of December 31, 2019 – Non, December 31, 2018 – TL 188,210).

16. Current and profit / loss sharing investors' accounts

	December 31, 2020	December 31, 2019	January 01, 2019
Current accounts:			
Turkish lira	14,264,555	12,341,128	7,706,734
Foreign currency	57,946,592	24,059,886	14,715,320
	72,211,147	36,401,014	22,422,054
Profit/loss sharing investors' accounts:			
Turkish lira	19,079,859	22,645,520	14,298,306
Foreign currency	34,294,131	28,086,704	17,806,168
	53,373,990	50,732,224	32,104,474
Blocked accounts:			
Turkish lira	69,260	43,576	26,708
Foreign currency	125,563	8,144	19,099
	194,823	51,720	45,807
Total current accounts and profit/loss investors' accounts	125,779,960	87,184,958	54,572,335
Expense accrual on current accounts and profit/loss sharing investors' accounts	172,927	179,387	172,911
Total current accounts and profit/loss sharing investors' accounts	125,952,887	87,364,345	54,745,246

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Blocked accounts include receivables of point of sales machine holding depositors which become current account within an average of one - month period.

Current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analyzed according to their original maturities as follows:

	December 31, 2020			December 31, 2019			January 01, 2019		
	TL	Foreign currency	Total	TL	Foreign currency	Total	TL	Foreign currency	Total
Up to 1 month	21,360,678	74,731,766	96,092,444	20,159,817	32,895,789	53,055,606	13,029,213	20,646,734	33,675,947
From 1 month to 3 months	9,437,096	12,946,796	22,383,892	12,218,813	15,289,874	27,508,687	7,776,447	9,449,528	17,225,975
From 3 months to 1 year	1,556,612	3,134,553	4,691,165	1,673,520	2,763,261	4,436,781	988,139	1,986,056	2,974,195
Over one year	1,059,287	1,553,171	2,612,458	978,073	1,205,811	2,183,884	348,736	347,482	696,218
	33,413,673	92,366,286	125,779,959	35,030,223	52,154,735	87,184,958	22,142,535	32,429,800	54,572,335

At December 31, 2020 and 2019, foreign currency and precious metals linked current and profit/loss sharing investors' accounts, excluding expense accruals, are as follows:

	2020		2019		2018	
	Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Current and blocked accounts:						
USD	2,982,658,212	22,091,148	2,189,894,279	13,023,345	1,705,043,927	9,001,302
Euro	746,181,026	6,790,001	737,729,056	4,919,981	470,994,262	2,844,405
Precious metals		28,025,054		5,637,258		2,588,233
Other		1,165,953		487,446		300,479
		58,072,156		24,068,030		14,734,419
Profit/loss sharing investors' accounts:						
USD	2,728,383,632	20,207,855	2,777,431,651	16,517,442	1,885,305,405	9,952,942
Euro	605,946,244	5,513,911	1,043,126,734	6,956,706	886,600,429	5,354,313
Precious metals		8,572,365		4,612,556		2,498,913
		34,294,131		28,086,704		17,806,168
		92,366,287		52,154,734		32,540,587

The Bank mainly collects profit/loss sharing accounts from domestic companies and domestic individuals.

Profit/loss sharing accounts include the gain or loss resulting from the investment activities of the Bank and there is no predetermined return on these accounts when depositing money.

Notes to consolidated financial statements for the year ended December 31, 2020*(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)***17. Income taxes****Corporate Tax**

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying condensed consolidated interim financial statements, have been calculated on a separate-entity basis. Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

In Turkey, corporate income tax is levied at the rate of 22% on the statutory corporate income tax base for the year ended December 31, 2020. This rate was 22% for the year ended December 31, 2019. Capital gains arising from the disposal of property and equipment and investments owned for at least two years are exempt at a rate of 75% from corporate tax provided that such gains are reflected in equity with the intention to be utilized in a share capital increase within five years from the date of the disposal. The remaining 25% of such capital gains are subject to corporate tax.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate applied in 2020 is 22% (2019: 22%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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

"Law on the Amendment of Certain Tax Laws and Some Other Laws" numbered 7061 was published in the Official Gazette dated 5 December 2017 and numbered 30261.

With Article 91 of this law, with the provisional article 10 added to the Corporate Tax Law, the rate of 20% corporate tax will be applied as 22% for the corporate earnings for the taxation periods of 2018, 2019 and 2020 (the accounting periods for the institutions that are designated for the special accounting period). This rate applied for the first time in the first temporary tax period of 2018.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. From 23 July 2006, withholding income tax rate is 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

In addition, it is decided to stay of execution until the publication of the decision in the Official Gazette, to avoid the circumstances and losses that are difficult or impossible to compensate subsequently and for that the annulment decision does not remain inconclusive, due to the fact that aforementioned sentence is repealed by the decision no: E. 2010/93 K. 2012/20 as of February 9, 2012 at the same meeting.

The details of income tax expense are as follows;

	December 31, 2020	December 31, 2019	January1, 2019
Current tax expense	823,639	431,663	482,659
Prepaid tax (-)	(433,769)	(176,783)	(278,073)
Income taxes payable	389,870	254,880	204,586

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

	2020	2019
Current tax expense	(829,426)	(451,635)
Deferred tax (credit)/charge	274,753	103,478
Total income tax charge/(credit)	(554,673)	(348,157)

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 Bank's effective income tax rate for the years December 31, 2020 and 2019 is as follows:

	December 31, 2020	December 31, 2019
Profit before income tax from continuing operations	2,287,938	1,629,944
At Turkish statutory income tax rate of 22% (2019: 22%)	503,346	359,124
Effect of income not subject to tax	(20,001)	(8,898)
Effect of expenditure not allowable for income tax purposes	71,328	(2,069)
Income tax charge	554,673	348,157

Deferred tax as of December 31, 2020, 2019 and 2018 is attributable to the following items:

	Deferred tax assets/(liabilities)		
	December 31, 2020	December 31, 2019	January 01, 2019
IFRS 9 provisions	427,891	214,057	192,935
Deferred income	73,122	56,469	55,507
Derivative accrual	243,384	52,909	30,080
Carryforward tax losses	73,642	43,503	34,043
Bonus and other benefits	37,460	23,220	31,297
Reserve for employee termination benefits	48,263	41,047	17,412
Effect of precious metals valuation	-	1,454	2,031
Other	28,693	26,057	45,273
Deferred tax assets	932,455	458,716	408,578
Restatement and pro-rate depreciation of property and equipment, intangible assets and other non-monetary items	(12,842)	(9,665)	(7,293)
FVTOCI valuation differences	(48,114)	(28,833)	(3,691)
Effect of precious metals valuation	(23,908)	-	-
Effect of other temporary differences	(12,069)	(3,365)	(4,472)
Deferred tax liabilities	(96,933)	(41,863)	(15,456)
Deferred tax asset – net	835,522	416,853	393,122

Movement of net deferred tax asset is as follows:

	2020	2019
Balance at the beginning of the year	416,853	393,122
Deferred tax (charge)/credit recognized in income statement	274,753	103,478
Deferred tax (charge)/credit recognized in equity	120,571	(79,747)
Other	23,345	-
Balance at the end of the year	835,522	416,853

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

18. Employee benefit obligations

	December 31, 2020	December 31, 2019	January 01, 2019
Personnel bonus accrual	145,178	109,912	86,617
Employee termination benefits	292,276	180,588	131,372
Total employee benefit obligations	437,454	290,500	217,989

The movement in reserve for personnel bonus accrual is as follows:

	December 31, 2020	December 31, 2019
Balance at January 1	109,912	86,617
Utilized/paid	(109,912)	(86,617)
Charge for the year	145,178	109,912
Balance at the end of the year	145,178	109,912

The movement in reserve for employee termination benefits and other provisions related with employee are as follows:

	December 31, 2020	December 31, 2019
Balance at January 1	180,588	131,372
Utilized/paid	(4,704)	(7,861)
Service and interest cost	76,172	51,291
Actuarial loss/gain (*)	40,220	5,786
Balance at the end of the year	292,276	180,588

(*) Retirement pay liability arising from current period and amounting TL 40,220 (2019: TL 5,786) is an actuarial loss amount and deferred tax amounting to TL 8,848 (2019: TL 1,273) related with the retirement pay liability is accounted under statement of other comprehensive income.

Reserve for employee termination benefits

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis 30 days' pay per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2020 and 2019, the Group reflected a liability calculated using the actuarial valuation by independent actuary and based on upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield at the balance sheet date on government bonds.

The amount payable consists of one month's salary limited to a maximum of TL 7,117.17 (full amount) (2019: TL 6,379.86 (full amount)) for each period of service at December 31, 2020.

There are no agreements for pension commitments other than the legal requirement as explained above. In addition, the liability is not funded, as there is no funding requirement.

The provisions for employment termination benefits of the Group, since the employment termination benefit ceiling is calculated over TL 7,638.96 (full amount) that is effective commencing on January 1, 2021 (January 1, 2020: TL 6,730.15 (full amount)).

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

The following actuarial assumptions were used in the calculation of the total liability:

	December 31, 2020	December 31, 2019	January 01, 2019
Discount Rate (%)	12.80	12.10	16.30
Inflation rate (%)	10.10	8.00	12.00
Interest rate (%)	10.60	25.00	13.00

19. Other liabilities and provisions

	December 31, 2020	December 31, 2019	January 01, 2019
Insurance for Technical Provision	2,118,814	1,693,153	1,514,292
Clearing accounts	606,584	496,691	757,125
Withholding tax and other tax payables	120,963	111,714	86,401
Payables to exporters and suppliers	87,535	75,416	80,511
Security premium for participation funds	89,535	61,396	27,243
Deferred revenue for non-cash loans	345,359	259,527	42,893
Deductions on resource utilization fund	4,323	3,720	2,658
Provision for non-cash loans	605,948	549,419	386,283
Provision for distributed profits of the participation accounts	447,552	150,934	129,152
Other provisions and liabilities	800,341	380,648	196,269
Total other liabilities	5,226,954	3,782,618	3,222,827

20. Derivative financial assets/liabilities valued at fair value through profit or loss & 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 financial instruments, reference rates or indices.

The table below shows the fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. The notional 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 notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair values of foreign currency and precious metals forward and swap transactions are determined by comparing the foreign currency rates prevailing on the date of the financial statements to the discounted value of the transaction's forward exchange rates to the date of these financial statements.

December 31, 2020								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading & Hedging Purposes								
Inflows	461,606	-	47,348,502	19,325,473	26,156,847	813,371	62,096	990,716
Outflows	-	1,676,806	49,000,829	20,037,532	27,239,921	764,743	53,027	905,606

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

December 31, 2019								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading & Hedging Purposes								
Inflows	182,006	-	28,828,950	12,077,536	9,934,763	2,695,721	2,545,726	1,575,204
Outflows	-	424,137	28,880,256	12,195,654	9,992,676	2,783,182	2,428,206	1,480,538
January 01, 2019								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year
Derivatives held for trading & Hedging Purposes								
Inflows	42,590	-	11,633,162	7,688,220	2,699,172	224,786	-	1,020,984
Outflows	-	170,742	11,750,656	7,691,214	2,692,695	222,198	-	1,144,549

▪ Explanations on hedge accounting practices

The Parent bank uses cash flow hedging (“CFH”) and net investment hedging accounting as of the balance sheet date.

The contractual amounts of the derivative financial instruments as of December 31, 2020 and the net fair values of the financial instruments are summarized in the table below:

	Current Period			Prior Period		
	Principal*	Asset	Liability	Principal*	Asset	Liability
Derivative Financial Instruments						
Cross currency swap transactions (CFH)	-	-	-	1,289,330	-	129,728
Total	-	-	-	1,289,330	-	129,728

(*) Only the "sell" legs of the related derivative financial instruments are shown. There is no balance in the Statement of Off-Balance Sheet for these derivative transactions as of December 31, 2020. (The total principal amount of derivative financial instruments amounting to TL 2,451,906, including the "purchase" legs of these derivative transactions as of December 31, 2019)

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. 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.

In accordance with IFRS, 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.

Net investment hedge:

The Group applies a net investment hedge strategy to hedge its foreign currency risk due to its net investment of EUR 107,475,903 (Full Amount) of its subsidiary KT Bank AG. The same portion of the Group's foreign currency denominated participation funds is designated as hedging instrument. The effective portion of the exchange rate changes of the foreign currency participation funds in this scope is accounted for under hedging funds account under equity.

Hedging funds account under other comprehensive income regarding net investment hedges have been accounted TL (199,555) in the current period.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Cash flow hedge:

The Bank convert Malaysian Ringgit (MYR) 800,000 MYR borrowings to USD loan with cross currency swap and this fund is evaluated in profit share-yielding assets in USD. In this context, the Bank 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 borrowings and changes in USD/TL foreign exchange rates on profit share-yielding assets. In this context, the derivative financial instruments which are determined as hedging instruments are cross currency swaps and the hedged items are funds borrowed and profit share-yielding assets. However, the accounting of CFH applied by the Bank has ended as of September 30, 2020.

In this context, the derivative financial instruments which are determined as hedging instruments are cross currency swaps and the hedged items are funds borrowed and profit share-yielding assets. In the below table, the effect of accounting of CFH is explained:

Current Period					
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Net fair value of the hedging instrument		Amount in hedging funds (*)
			Assets	Liability	
Swap Transactions	Loans received and profit share assets	Cash flow risk of exchange rate changes	-	-	-

(*) Includes the deferred tax effect. As of current period there is no deferred tax effect.

Prior Period					
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Net fair value of the hedging instrument		Amount in hedging funds (*)
			Assets	Liability	
Swap Transactions	Loans received and profit share assets	Cash flow risk of exchange rate changes	-	1,162,576	(11,514)

(*) Includes the deferred tax effect. As of prior period deferred tax effect amounting to TL (2,533).

At the inception date, the Participation Bank documents the relationship between the hedging instruments and hedged items required by the CFH accounting application in accordance with IAS 39 and its own risk management policies and principles. Every individual relationship is approved and documented in the same way. Effectiveness tests have been selected according to the methods that are allowed by IAS 39 in reliance to the risk strategies of the Participation Bank. Also, effectiveness tests have been performed at the end of every month and the effectiveness of the risk relationships have been measured.

As of December 31, 2019, cash flow hedge transactions have been determined as effective.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

21. Share capital

	December 31, 2020	December 31, 2019	January 01, 2019
Number of ordinary shares , TL 1, par value. Authorized, issued and outstanding.	4,595 million	3,996 million	3,497 million

The movement of the share capital of the Bank (in number and in historical TL) is as follows:

	December 31, 2020		December 31, 2019	
	Number	TL	Number	TL
At January 1	3,995,766,000	3,995,766	3,497,322,000	3,497,322
Shares issued in - transfer from retained earnings	599,365,000	599,365	498,444,000	498,444
At year end	4,595,131,000	4,595,131	3,995,766,000	3,995,766

The Bank has increased its share capital on March 26, 2020. The share capital increase was funded from the retained earnings amounting to TL 599,365 (2019 - TL 498,444).

The Bank does not have any share type other than common shares. There is no differentiation in the rights, preferences and restriction of the common shares.

As of December 31, 2020, and 2019 and January 1, 2019, the composition of shareholders and their respective % of ownership can be summarized as follows:

	December 31, 2020		December 31, 2019		January 01, 2019	
	Amount	%	Amount	%	Amount	%
Kuwait Finance House	2,863,098	62.24	2,489,651	62.24	2,178,444	62.2
Directorate of Vakıf Foundations, Turkey	861,086	18.72	748,771	18.72	655,174	18.7
The Public Institution for Social Security, Kuwait	414,000	9.00	360,000	9.00	315,000	9
Islamic Development Bank	414,000	9.00	360,000	9.00	315,000	9
Other	42,947	1.04	37,344	1.04	33,704	1
Total share capital	4,595,131	100	3,995,766	100	3,497,322	100

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

22. Legal reserves, retained earnings, dividends paid and proposed and other reserves

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital; but may be used to absorb losses in the event that the general reserve is exhausted.

Dividends paid and proposed

During the current year, the Bank has paid a dividend of TL 6,546 (2019 – TL 6,546) from the profit of the year 2020.

	December 31, 2020	December 31, 2019
Ordinary shares		
Amount	7,280	6,546
TL (full) per share	0.001	0.001

Other reserves

The Bank bought 25% share of the joint venture called Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. on September 23, 2011, which was established by Körfez and a third-party company who had 75% and 25% stakes, respectively. Following, the Bank bought the 25% stake of the third party company in Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. for a total consideration of TL 22,589 in exchange of releasing the debt of the third party company to the Bank amounting to TL 15,888 and taking over the debt of the third party company to Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. amounting to TL 6,701. The purchase price has been determined based on the expected discounted future cash flows of Körfez Gayrimenkul Yatırım Ortaklığı A.Ş. Since the amount of the non-controlling interest in Körfez İnşaat İş Ortaklığı is negligible, the total consideration amounting to TL 22,589 recognized as a separate component of equity as being the difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid. As of December 31, 2020, this amount is 22,589 TL (December 31, 2019 – 21,211 TL)

23. Earnings per share

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares (“Bonus Shares”) to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are similarly treated. Accordingly, the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares.

There is no dilution of shares as of December 31, 2020 and 2019.

The following reflects the income and per share data used in the basic earnings per share computations:

	December 31, 2020	December 31, 2019
Net profit attributable to continuing operations of the Bank for basic earnings per share	1,733,265	1,281,787
Net profit/(loss) attributable to discontinued operations for basic earnings per share	-	-
Net profit attributable to ordinary equity holders of the Bank for basic earnings per share	1,749,657	1,281,600
Weighted average number of ordinary shares for basic earnings per share (thousands)	4,455,553	3,866,011
Basic earnings per share (expressed in full TL per share)	0.389	0.332

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

24. Related party disclosures

The Group is controlled by Kuwait Finance House, which owns 62.2% (December 31, 2019 - 62.2%) of ordinary shares. Directorate of Vakıf Foundations, Wafra International Investment Company and Islamic Development Bank are major shareholders owning 18.7% (December 31, 2019 - 18.7%), 9.0% (December 31, 2019 - 0%) and 9.0% (December 31, 2019 - 9.0%) of ordinary shares, respectively. For the purpose of these financial statements, shareholders of the Bank and parties under common control of the majority Shareholder are referred to as related parties. The related parties also include individuals who are principal owners, key management and members of the Group's Board of Directors and their families.

The following significant balances exist as at December 31, 2020 and 2019 and transactions have been entered into with related parties during the years ended:

i) Balances with financial institutions and due from financing activities:

		December 31, 2020		December 31, 2019	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House	USD	131,040	971	112,257,408	667,597
Other related parties	-	-	54,021	-	112,915
			54,992		780,512

ii) Due to other financial institutions and banks:

		December 31, 2020		December 31, 2019	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House ⁽¹⁾	USD	200,000,000	1,481,306	-	-
	KWD	-	-	3,500,000	68,669
			1,481,306		68,669

iii) Profit/loss sharing investors' and current accounts:

		December 31, 2020		December 31, 2019	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Kuwait Finance House ⁽¹⁾	USD	-	-	1,308	8
	XAU	398,237	178,624	396,738	114,615
Public Institute for Social Securities KW ⁽¹⁾	USD	176,418	1,307	175,155	1,042
İskan Gayrimenkul Yatırım ve Geliştirme A.Ş.	TL	-	32	-	10,829
	USD	3,051,316	22,600	1,751,369	10,498
Vakıf Finansal Kiralama A.Ş.	TL	-	125	-	-
	USD	17,212	127	-	-
Kredi Garanti Fonu A.Ş.	TL	-	5	-	-
	USD	4,990	37	-	-
	EUR	30	-	-	-
Islamic Development Bank	USD	5,146	38	-	-
Bazaar Properties	USD	403	3	-	-
Other related parties	-	-	672	-	69
			203,570		137,061

(1) Shareholders.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

iv) Profit shares distributed:

		December 31, 2020		December 31, 2019	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Public Institute for Social Securities KW ⁽¹⁾	USD	1,086	7	4,317	24
Iskan Gayrimenkul Yatırım ve Geliştirme A.Ş.	TL	-	123		354
Vakıf Finansal Kiralama A.Ş.	USD	19,539	127	57,578	325
	EUR	-	-	38,238	208
			257		963

⁽¹⁾ Shareholders.

v) Non-cash credits issued:

		December 31, 2020		December 31, 2019	
		Foreign currency (full)	TL equivalent	Foreign currency (full)	TL equivalent
Other related parties	TL	-	6,632	-	723
			6,632		723

As of December 31, 2020, no specific provisions have been recognized in respect of loans given to related parties (December 31, 2019 - none).

Directors' remuneration

The executive members of the Board of Directors and key management received remuneration totaling TL 69,370 during the year ended December 31, 2020 (December 31, 2019 – TL 48,678).

The key management personnel of the Bank are as follows;

Hamad Abdulmohsen AL MARZOUQ	B.O.D. Chairman
Shadi Ahmed Yacoub ZAHRAN	B.O.D. Member and Audit Committee Chairman
Nadir ALPASLAN	B.O.D. Vice Chairman and Audit Committee
Salah A E AL MUDHAF	B.O.D. Member
Burhan ERSOY	B.O.D. Member
Mohamad Al-MİDANİ	B.O.D. Member and Audit Committee
Ahmad S A A AL KHARJİ	B.O.D. Member
Gehad Mohamed Elbendary ANANY	B.O.D. Member
Ufuk UYAN	B.O.D. Member-Chief Executive Officer

Key management includes 18 other officers together with the above B.O.D. members.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

25. Income from financing activities

	December 31, 2020	December 31, 2019
Income on originated loans from Income / loss sharing accounts	3,188,073	3,567,946
Income on originated loans from current accounts and equity	3,145,751	2,362,516
Income on deposits with other banks and financial institutions	267,465	459,186
Income on finance leases	342,754	252,590
Income on sukuk investments	2,702,941	880,841
Total	9,646,984	7,523,079

26. Profit share expenses

	December 31, 2020	December 31, 2019
Expense on participation accounts	(1,934,480)	(3,088,409)
Expense on other banks and financial institutions	(1,176,367)	(919,382)
Total	(3,110,847)	(4,007,791)

27. Fees and commission income and expense

	December 31, 2020	December 31, 2019
Fees and commission income		
Commission income from commitments	147,603	154,100
Credit card fees and commissions	147,028	197,886
POS commission income	118,516	142,735
Income from insurance & agency activities	101,074	82,623
Commissions on loans	88,712	230,596
Money transfer commissions	67,469	55,542
Commissions from checks and notes	19,541	20,781
Import letter of credit commissions	14,153	12,290
Other	158,246	132,362
Total	862,342	1,028,915

	December 31, 2020	December 31, 2019
Fees and commission expense		
Credit card machine and fees paid for credit cards	(136,437)	(204,337)
Mortgage expertise expenses	(52,184)	(27,863)
Correspondent bank fees	(47,957)	(41,037)
Brokerage fees on borrowings	(34,491)	(12,679)
Money transfer commissions	(17,357)	(10,830)
Other	(312,092)	(215,024)
Total	(600,518)	(511,770)

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

28. Net trading income

	December 31, 2020	December 31, 2019
Capital Market Transaction	70,224	36,156
Derivative Financial Instruments	(2,210,668)	884,261
Total	(2,140,444)	920,417

29. Staff costs

	December 31, 2020	December 31, 2019
Wages and salaries	(786,550)	(735,202)
Bonus	(260,508)	(117,945)
Social security premiums	(140,902)	(117,293)
Other fringe benefits	(117,815)	(100,326)
Health expenses	(31,440)	(25,943)
Provision for employee termination benefits	(29,456)	(19,952)
Other	(27,826)	(29,931)
Total	(1,394,497)	(1,146,592)

30. Other income

	December 31, 2020	December 31, 2019
Reversal of prior period provisions	1,216,375	594,691
Income from sale of assets	69,847	70,497
Income from the real estate sales' gains by rent certificates	8,052	3,050
Other	131,548	703,027
Total	1,425,822	1,371,265

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

31. Other expenses

	December 31, 2020	December 31, 2019
Impairment on construction projects (Note 10)	-	-
Impairment on investment property (Note 11)	-	-
Impairment charges/(reversal)	-	-
Insurance fund premium expense	(126,619)	(104,910)
Repair and maintenance expenses	(97,285)	(100,541)
Subscription and membership expenses	(87,616)	(70,120)
Advertising expenses	(48,875)	(46,652)
Cleaning expense	(52,588)	(40,094)
Communication	(42,230)	(35,165)
Professional fees	(46,234)	(34,528)
Energy expenses	(25,327)	(26,717)
Travel and representation expenses	(6,642)	(9,787)
Stationery and publishing expenses	(9,931)	(9,481)
Nontaxable income	(15,998)	(7,746)
Grants and donations	(38,784)	(7,350)
Insurance expenses	(9,544)	(6,686)
Loss from sale of assets	(344)	(1,125)
Other	(1,456,059)	(1,155,850)
Total	(2,064,076)	(1,656,752)

32. Commitments and contingencies

In the normal course of its banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. Such commitments include mainly letters of guarantee, letters of credit and acceptance credits.

The following is a brief summary of significant contingencies and commitments as of December 31, 2020 and 2019.

	December 31, 2020	December 31, 2019
Letters of guarantee issued by the Bank	9,588,633	9,708,470
Letters of credit	1,685,022	1,374,009
Commitments	8,527,791	6,689,874
Acceptance credits	40,996	55,035
Other guarantees	546,682	465,592
Total	20,389,124	18,292,980

Letters of Guarantee - are mainly issued on behalf of domestic customers who entered into commitments in the domestic and international markets.

Commitments - are mainly check payment commitments, credit cards and other guarantees and commitments.

Except for the Head-Office, Banking Base and four branch buildings, all branch premises of the Bank are leased under operational leases. The lease periods vary between 2-10 years and lease arrangements are cancellable. There are no restrictions placed upon the lessee by entering into these leases.

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

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

31 December 2020									
Expected credit loss measurement	Carrying Amount				ECL Allowance				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Letters of guarantee	8,873,377	312,684	402,572	9,588,633	96,569	29,857	388,692	515,118	
Other Off-Balance Loans	2,240,394	32,304	2	2,272,700	2,461	406	2	2,869	
Commitments	8,256,137	218,931	52,723	8,527,791	24,967	11,544	51,450	87,961	
Total	19,369,908	563,919	455,297	20,389,124	123,997	41,807	440,144	605,948	

31 December 2019									
Expected credit loss measurement	Carrying Amount				ECL Allowance				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Letters of guarantee	8,948,108	320,780	439,582	9,708,470	86,835	28,206	370,361	485,402	
Other Off-Balance Loans	1,854,971	39,442	223	1,894,636	2,106	129	197	2,432	
Commitments	6,504,064	133,138	52,672	6,689,874	7,306	2,574	51,705	61,585	
Total	17,307,143	493,360	492,477	18,292,980	96,247	30,909	422,263	549,419	

Fiduciary activities

Assets, other than cash deposits, held by the Bank and its subsidiaries in fiduciary for its customers are not included in the consolidated statement of financial position, since such items are not under the ownership of the Group. The fiduciary activities of the group is as follows:

	December 31, 2020	December 31, 2019
Cheques received for collection	9,568,395	7,697,912
Notes received for collection	1,853,297	1,858,624
	11,421,692	9,556,536

33. Financial risk management

Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. Procedures and operations throughout the Group are designed towards effectively addressing risk. The Group is exposed to several risks such as credit risk, market risk, operational risk, liquidity risk, profit rate risk, reputational risk, legal risk, etc. Also, the Banks' capital adequacy ratio has to exceed the minimum requirements of the Banking Regulations and Supervision Agency (BRSA). BRSA is the regulatory body for banking industry in Turkey.

Organization of the risk management function

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The mission of the Group Risk Management function is to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives.

The Group Risk Management reports to the Board of Directors through the Internal Systems Committee. Internal Systems Committee is responsible for identifying, measuring, monitoring and reporting regarding risk types including credit risk, market risk, operational risk, liquidity risk, profit rate risk,

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

reputational risk, legal risk, etc. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board of Directors, the Internal Systems Committee and the Audit Committee.

Internal systems and risk management policies

The Group's Risk Management Policies established by the Board of Directors via Internal Systems Committee are implemented and executed by Risk Management Department. The primary objectives of the Risk Management Department are to coordinate the integration of the Risk Management Policies among various business departments and to assess and analyze the risks associated with new products, business processes and key risk indicators. This risk assessment is carried by the Credit Risk Management and Modelling and Market Risk, Operational Risk and Capital Management functions. The Risk Management Department is managed by the Head of Risk Management. Internal Systems, which comprise of Risk Management, Internal Audit, Internal Control and Compliance Departments, are overseen by the Chief Risk Officer who reports directly to the Internal Systems Committee and coordinates communication, reporting and monitoring between the Internal Systems Committee and the Risk Management Department.

Board of directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

The Internal Systems Committee of Board of Directors, which consists of three non-executive directors, oversees, develops and monitors all of risk management and internal systems, policies and guidelines as well as the scope and structure of overall risk management organization and activities. Current Risk Management Policies are approved by Board of Directors and are being reviewed on a yearly basis and updated in case of necessities. The Audit Committee oversees the efficiency and adequacy of internal control and internal audit systems, the functioning of these systems and any related accounting, reporting or legal matters. In addition, the Audit Committee is responsible for coordinating the work of Internal Audit Department, preparing internal audit plans and providing information to the Board of Directors about any non-compliance with the relevant regulations and deficiencies in internal controls, including those highlighted by the BRSA or internal auditors.

Audit committee

The Audit Committee is in charge of and responsible for monitoring the effectiveness and efficiency of the internal systems of the Group, the operation of these systems as well as the accounting and reporting systems within the framework of the Banking Law and relevant regulations and the integrity of the information generated, making preliminary assessments as necessary for the Board of Directors' election of independent auditing firms as well as rating institutions, evaluation and support services firms, monitoring on a regular basis the activities of these establishments which are elected by the Board of Directors and with which contracts are concluded, ensuring the maintenance and coordination, on a consolidated basis, of the internal auditing activities of partnerships which are subject to consolidation pursuant to regulations which take effect as per the Banking Law.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Risk Management Department

Risk Management Department was constituted in order to assess the main risks of the Group. In accordance with the Risk Policies, Risk Management Activities are composed of the following activities;

- Identification of risks that the Group exposes,
- Measurement of risks,
- Monitoring of risks,
- Control and reporting of risks,
- Business Continuity Plan, Process and Procedures.

Internal Audit Department

Risk management processes throughout the Group are audited periodically by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

Credit risk

Credit risk represents risk that the Group will incur a loss because a customer, client or counterparty fails to fulfill, either partially or totally, its contractual obligations.

A customer's credit limit is established taking into consideration the customer's financial performance and is then used to monitor the customer's credit risk.

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

Internal rating grade	Internal rating description	12-month Basel PD range
Performing		
1	0.000% - 0.049%	High Grade
2+	0.049% - 0.097%	High Grade
2	0.097% - 0.135%	High Grade
2-	0.135% - 0.188%	High Grade
3+	0.188% - 0.261%	High Grade
3	0.261% - 0.362%	High Grade
3-	0.362% - 0.502%	High Grade
4+	0.502% - 0.696%	High Grade
4	0.696% - 0.965%	High Grade
4-	0.965% - 1.339%	Medium Grade
5+	1.339% - 1.857%	Medium Grade
5	1.857% - 2.576%	Average Grade
5-	2.576% - 3.527%	Average Grade
6+	3.527% - 4.954%	Average Grade
6	4.954% - 6.871%	Average Grade
6-	6.871% - 9.529%	Average Grade
7+	9.529% - 13.215%	Average Grade
7	13.215% - 18.327%	Below Average Grade
7-	18.327% - 100.000%	Below Average Grade
Non-performing		
8		Impaired

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Key Drivers	ECL Scenario	Assigned Weights	2020	2021	2022	2023	2024
Wholesale-Retail							
GDP							
	Baseline	40%	(2.72)%	5.63%	5.80%	5.91%	5.86%
	Upside	30%	(2.72)%	7.77%	5.19%	5.56%	5.64%
	Downside	30%	(2.72)%	(1.74)%	4.06%	9.52%	7.87%
Share Price Index							
	Baseline	40%	13.64%	13.59%	9.05%	(1.71)%	1.33%
	Upside	30%	13.64%	25.83%	8.29%	(4.66)%	(1.40)%
	Downside	30%	13.64%	(27.76)%	7.67%	11.53%	12.47%
Retail							
Central Government Expenditure							
	Baseline	40%	21.55%	13.83%	9.80%	9.63%	8.35%
	Upside	30%	21.55%	14.61%	10.47%	9.74%	8.35%
	Downside	30%	21.55%	10.45%	8.79%	11.01%	8.92%
HPI-Current Prices							
	Baseline	40%	21.23%	7.86%	6.47%	7.10%	8.62%
	Upside	30%	21.23%	8.91%	6.75%	8.12%	9.03%
	Downside	30%	21.23%	6.43%	2.06%	3.79%	7.00%
Industrial Production-excluding Construction							
	Baseline	40%	0.76%	13.91%	6.24%	4.89%	4.75%
	Upside	30%	0.76%	22.71%	6.66%	5.05%	4.75%
	Downside	30%	0.76%	8.67%	2.82%	4.28%	4.65%
Unemployment Rate*							
	Baseline	40%	15.05%	12.55%	11.20%	10.39%	9.86%
	Upside	30%	15.05%	11.82%	10.79%	9.98%	9.48%
	Downside	30%	15.05%	15.91%	13.51%	11.64%	10.53%
Compensation of Employees							
	Baseline	40%	(7.81)%	(5.35)%	2.40%	4.30%	5.00%
	Upside	30%	(7.81)%	(2.43)%	2.81%	3.26%	5.44%
	Downside	30%	(7.81)%	(12.39)%	(2.58)%	5.84%	7.09%

*Unemployment Rate is end of the year forecast. Other values are year over year quarterly average change.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows an analysis of the Group's maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the collaterals. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Gross maximum exposure	December 31, 2020	December 31, 2019
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	20,479,525	15,677,822
Balances with banks and other financial institutions	9,767,863	16,250,847
Due from financing activities	69,906,270	45,284,486
Financial lease receivable, net	4,943,467	2,715,898
Financial assets at FVTOCI	20,723,085	12,457,849
Financial assets at FVTPL	7,813,619	4,019,316
Financial assets valued at amortised cost, net	6,498,716	2,858,614
Other assets	10,005,713	1,636,218
Derivative financial assets valued at fair value through profit or loss	461,606	182,006
Total	150,599,864	101,083,056

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Contingent liabilities	11,273,655	11,381,580
Other guarantees	587,678	520,774
Commitments	8,527,791	6,689,874
Total	20,389,124	18,592,228
Total credit risk exposure	170,988,988	119,675,284

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty and by industry sector.

The maximum cash credit exposure to any counterparty other than the Central Bank as of December 31, 2020 was TL 1,089,232 (December 31, 2019 - TL 649,604) and non-cash credit exposure as of December 31, 2020 was TL 637,116 (December 31, 2019 - TL 272,352) before taking account of collateral or other credit enhancements.

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	December 31, 2020	December 31, 2019
	Gross exposure	Gross exposure
Financial services	75,104,207	58,254,713
Construction and materials	24,600,453	17,512,259
General retailers	16,779,100	12,256,674
Manufacturing	14,754,356	9,593,078
Electricity	5,481,169	4,632,870
Health care and social	3,467,289	2,849,205
Food and beverages	2,879,707	2,098,620
Mining operations	2,106,491	620,500
Forestry	273,149	173,254
Telecommunications	224,394	261,833
Real estate	430,569	936,475
Other	24,888,104	10,485,803
Total	170,988,988	119,675,284

December 31, 2020	Gross Amount				ECL Amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Domestic	65,770,510	7,371,213	3,389,417	76,531,140	1,133,164	1,487,670	2,775,967	5,396,801
European Union Countries	2,824,439	483,320	11,790	3,319,549	5,048	1,235	6,196	12,479
OECD Countries	3,105	6	605	3,716	7	-	345	352
Offshore Banking Regions	39	1	-	40	-	-	-	-
America-Canada	4,194	4	-	4,198	4	-	-	4
Other	326,274	101,574	11,947	439,795	3,279	29,467	6,319	39,065
Total	68,928,561	7,956,118	3,413,759	80,298,438	1,141,502	1,518,372	2,788,827	5,448,701

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

December 31, 2019	Gross Amount				ECL Amount			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Domestic	40,595,449	6,174,846	2,119,935	48,890,230	480,825	994,049	1,563,283	3,038,157
European Union Countries	1,788,210	3,734	5,352	1,797,296	3,798	1,728	739	6,265
OECD Countries	5,170	1	-	5,171	7	-	-	7
Offshore Banking Regions	107,967	-	-	107,967	8	-	-	8
America-Canada	2,379	5	-	2,384	2	-	-	2
Other	237,698	7,824	796	246,318	3,191	1,109	244	4,544
Total	42,736,873	6,186,410	2,126,083	51,049,366	487,831	996,886	1,564,266	3,048,983

December 31, 2020	Maximum exposure to credit risk	Cash	Mortgages	Promissory notes	Pledge on assets	Other	Total Collateral	Net Exposure
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	20,479,525	-	-	-	-	-	-	20,479,525
Balances with banks and other financial institutions	9,767,863	-	-	-	-	-	-	9,767,863
Due from financing activities	69,906,270	630,416	24,940,215	37,722,336	2,202,100	2,922,642	68,417,709	1,488,561
Financial lease receivable, net	4,943,467	6,466	356,163	3,745,601	160,051	269,434	4,537,715	405,752
Financial assets at FVTOCI	20,723,085	-	-	-	-	-	-	20,723,085
Financial assets at FVTPL	7,813,619	-	-	-	-	-	-	7,813,619
Financial assets valued at amortised cost, net	6,498,716	-	-	-	-	-	-	6,498,716
Other assets	10,005,713	-	-	-	-	-	-	10,005,713
Derivative financial assets valued at fair value through profit or loss	461,606	-	-	-	-	-	-	461,606
TOTAL	150,599,864	636,882	25,296,378	41,467,937	2,362,151	3,192,076	72,955,424	77,644,440

December 31, 2019	Maximum exposure to credit risk	Cash	Mortgages	Promissory notes	Pledge on assets	Other	Total Collateral	Net Exposure
Cash and balances with Central Bank (including reserve deposits, excluding cash on hand)	15,677,822	-	-	-	-	-	-	15,677,822
Balances with banks and other financial institutions	17,166,003	-	-	-	-	-	-	17,166,003
Due from financing activities	45,284,486	521,016	17,033,655	21,321,281	1,405,112	2,299,750	42,580,814	2,703,672
Financial lease receivable, net	2,715,898	8,641	303,688	1,895,965	101,823	276,198	2,586,315	129,583
Financial assets at FVTOCI	12,452,343	-	-	-	-	-	-	12,452,343
Financial assets at FVTPL	4,277,483	-	-	-	-	-	-	4,277,483
Financial assets valued at amortised cost, net	2,858,614	-	-	-	-	-	-	2,858,614
Other assets	2,220,734	-	-	-	-	-	-	2,220,734
Derivative financial assets valued at fair value through profit or loss	182,006	-	-	-	-	-	-	182,006
TOTAL	102,835,389	529,657	17,337,343	23,217,246	1,506,935	2,575,948	45,167,129	57,668,260

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

The main types of collateral obtained are as follows:

For commercial lending, charges over real estate properties, vehicles, cash blockages and trade receivables.

For retail lending, mortgages over residential properties.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Management monitors the market value of collateral during its review of the adequacy of the allowance for impairment losses, and when necessary requests additional collateral in accordance with the underlying agreement.

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

Loans, lease receivables and advances to customers	December 31, 2020	December 31, 2019
Secured loans:		
Secured by mortgages	23,853,877	16,830,848
Secured by promissory notes	38,301,501	22,599,042
Secured by pledge on assets	2,724,445	1,712,860
Secured by cash collateral	1,043,754	911,866
Other collateral	6,563,824	4,510,208
Unsecured loans	4,397,278	2,358,459
Total performing and close monitoring loans, lease receivables and advances to customers	76,884,679	48,923,283

Collaterals received for close monitoring loans:

	December 31, 2020	December 31, 2019
Loans Collateralized by Cash	40,898	167,571
Loans Collateralized by Mortgages	2,812,178	2,056,794
Loans Collateralized by Pledged Assets	191,944	114,085
Loans Collateralized by Cheques and Notes	4,304,499	3,385,273
Loans Collateralized by Collaterals	286,583	243,455
Unsecured Loans	320,016	219,232
Total	7,956,118	6,186,410

Credit quality per class of financial assets

Rating and scoring models for Corporate/Commercial/SME/Retail portfolios are developed based on statistical methods by Risk Management Department. Classes of financial assets graded by ratings and scoring models or External Credit Assessment Institutions are shown the table below as of December 31, 2020.

	Cash Loans	Non-Cash Loans	Total
High Quality	44.99%	63.93%	47.47%
Medium Quality	32.35%	23.33%	31.16%
Average	15.48%	11.01%	14.90%
Below Average	7.18%	1.73%	6.47%

Aging analysis of Stage 2 on financial assets:

Current Period	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	6,933,900	187,134	383,926	-	7,504,960
Consumer lending	271,465	91,519	43,356	-	406,340
Credit cards	39,031	3,490	2,297	-	44,818
Total	7,244,396	282,143	429,579	-	7,956,118

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Previous Period	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Due from financing activities:					
Corporate lending	4,891,156	540,266	340,222	-	5,771,644
Consumer lending	165,054	131,639	69,397	-	366,090
Credit cards	42,358	4,053	2,265	-	48,676
Total	5,098,568	675,958	411,884	-	6,186,410

Collaterals obtained from customers for the past due or impaired loans as of December 31, 2020 and 2019 comprise of blocked accounts, property and machinery pledges.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. The ability to fund existing and prospective debt requirements is managed by maintaining the availability of adequate committed funding lines from high quality lenders. In addition, the Group maintains a statutory reserve deposit with the Central Bank of Turkey.

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Maturity analysis of assets and liabilities as of December 31, 2020;

31 December 2020	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Cash and balances with the Central Bank	5,636,895	-	-	-	-	5,636,895
Balances with other banks and financial institutions	9,127,369	640,494	-	-	-	9,767,863
Reserve deposits at the Central Bank	18,486,065	-	-	-	-	18,486,065
Financial Assets At Fair Value Through Profit Or Loss	5,131,849	2,244,046	349,947	5	87,772	7,813,619
Financial assets valued at amortised cost	3,674,894	382,349	2,441,473	-	-	6,498,716
Financial assets at fair value through other comprehensive income	449,510	1,835,628	18,324,240	-	113,707	20,723,085
Due from financing activities & finance lease receivables, net	17,036,537	24,701,706	30,700,992	4,907,789	(2,497,287)	74,849,737
Precious metals	988,021	-	-	-	-	988,021
Derivative financial assets valued at fair value through profit or loss	304,725	57,273	99,608	-	-	461,606
Construction projects, net	-	-	-	-	65,093	65,093
Joint venture	-	-	-	-	61,311	61,311
Investment properties, net	-	-	-	-	77,457	77,457
Property and equipment, net	-	-	-	-	932,336	932,336
Intangible assets, net	-	-	-	-	281,003	281,003
Deferred tax assets	-	-	-	-	835,522	835,522
Assets and a disposal group held for sale	-	-	519,087	-	-	519,087
Other assets	-	-	-	-	10,005,713	10,005,713
Total assets	60,835,865	29,861,496	52,435,347	4,907,794	9,962,627	158,003,129
Due to other financial institutions and banks	2,699,161	2,120,830	1,114,214	-	-	5,934,205
Sukuk securities issued	2,083,764	3,075,509	-	-	-	5,159,273
Subordinated Loans	-	2,668,146	1,922,119	-	-	4,590,265
Money market balances	185,225	-	-	-	-	185,225
Current and profit / loss sharing investors' accounts	120,144,118	4,946,413	848,336	14,020	-	125,952,887
Finance lease payable, net	39,052	98,136	183,852	28,254	-	349,294
Derivative financial instruments	1,651,438	12,612	12,756	-	-	1,676,806
Employee benefit obligations	-	196,636	-	-	240,818	437,454
Income taxes payable	-	389,870	-	-	-	389,870
Other liabilities and provisions	-	-	-	-	5,226,954	5,226,954
Liabilities	126,802,758	13,508,152	4,081,277	42,274	5,467,772	149,902,233
Net	(65,966,893)	16,353,344	48,354,070	4,865,520	4,494,855	8,100,896

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Maturity analysis of assets and liabilities as of December 31, 2019:

31 December 2019	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Unallocated	Total
Cash and balances with the Central Bank	6,783,968	-	-	-	-	6,783,968
Balances with other banks and financial institutions	16,545,072	620,931	-	-	-	17,166,003
Reserve deposits at the Central Bank	11,321,132	-	-	-	-	11,321,132
Financial Assets At Fair Value Through Profit Or Loss	309,312	1,163,895	2,795,621	8,655	-	4,277,483
Financial assets valued at amortised cost	-	53,383	3,158,774	-	-	3,212,157
Financial assets at fair value through other comprehensive income	295,134	3,770,234	8,369,121	17,854	-	12,452,343
Due from financing activities & finance lease receivables, net	11,958,558	15,853,297	18,454,898	2,883,798	(1,150,167)	48,000,384
Precious metals	1,111,144	-	-	-	-	1,111,144
Derivative financial assets valued at fair value through profit or loss	9,564	115,325	57,117	-	-	182,006
Construction projects, net	-	-	-	-	73,480	73,480
Joint venture	-	-	-	-	40,381	40,381
Investment properties, net	-	-	-	-	37,646	37,646
Property and equipment, net	-	-	-	-	853,247	853,247
Intangible assets, net	-	-	-	-	211,050	211,050
Deferred tax assets	-	-	-	-	416,853	416,853
Assets and a disposal group held for sale	-	-	473,326	-	-	473,326
Other assets	-	-	-	-	2,220,734	2,220,734
Total assets	48,333,884	21,577,065	33,308,857	2,910,307	2,703,224	108,833,337
Due to other financial institutions and banks	813,351	312,743	-	-	-	1,126,094
Sukuk securities issued	735,587	1,182,558	2,720,541	-	-	4,638,686
Subordinated Loans	-	-	1,239,183	2,141,800	-	3,380,983
Money market balances	-	-	-	-	-	-
Current and profit / loss sharing investors' accounts	83,055,169	3,542,282	766,894	-	-	87,364,345
Finance lease payable, net	36,642	85,987	209,082	22,340	-	354,051
Derivative financial instruments	265,623	148,113	10,401	-	-	424,137
Employee benefit obligations	-	113,542	-	-	176,958	290,500
Income taxes payable	-	254,880	-	-	-	254,880
Other liabilities and provisions	-	-	-	-	3,782,618	3,782,618
Liabilities	84,906,372	5,640,105	4,946,101	2,164,140	3,959,576	101,616,294
Net	(36,572,488)	15,936,960	28,362,756	746,167	(1,256,352)	7,217,043

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Analysis of financial liabilities by contractual maturities on an undiscounted basis:

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at December 31, 2020						
Due to other financial institutions and banks	-	2,342,053	2,521,517	1,324,509	-	6,188,079
Subordinated loans	-	3,631,598	-	2,705,648	-	6,337,246
Sukuk issued	-	1,552,625	4,562,605	-	-	6,115,230
Derivative financial instruments (*)	-	47,277,453	817,770	905,606	-	49,000,829
Current accounts	72,405,970	-	-	-	-	72,405,970
Profit and loss sharing accounts (**)	-	48,586,484	4,946,413	14,020	-	53,546,917
Finance lease payable, net	-	39,052	98,136	183,852	28,254	349,294
Total undiscounted financial liabilities	72,405,970	103,429,265	12,946,441	5,133,635	28,254	193,943,565
As at December 31, 2019						
Due to other financial institutions and banks	678,194	136,082	336,745	-	-	1,151,021
Subordinated loans	-	136,513	136,514	2,281,515	2,328,110	4,882,652
Sukuk issued	-	1,202,278	899,917	2,848,306	-	4,950,501
Derivative financial instruments (*)	-	22,113,193	5,211,387	1,480,538	-	28,805,118
Current accounts	36,399,922	-	-	-	-	36,399,922
Profit and loss sharing accounts (**)	-	46,687,560	3,512,723	764,141	-	50,964,424
Total undiscounted financial liabilities	37,078,116	70,275,626	10,097,286	7,374,500	2,328,110	127,153,638

(*) As such derivatives will be settled in gross amounts, notional amounts have been disclosed.

(**) Customers have choice of demanding their accounts anytime by abandoning profit share income.

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
December 31, 2020						
Contingent liabilities and other guarantees (*)	5,572,388	1,490,831	3,146,128	1,584,985	67,001	11,861,333
Commitments	8,527,791	-	-	-	-	8,527,791
Total	14,100,179	1,490,831	3,146,128	1,584,985	67,001	20,389,124
December 31, 2019						
Contingent liabilities and other guarantees	6,179,592	1,217,820	2,780,305	1,617,353	107,284	11,902,354
Commitments	6,689,874	-	-	-	-	6,689,874
Total	12,869,466	1,217,820	2,780,305	1,617,353	107,284	18,592,228

(*) Such liabilities may be liquidated and paid by the Group in case of default or the customers.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as foreign exchange rates, interest rates and precious metals prices.

The exchange rate risk of the financial positions taken by the Group related to balance sheet and off-balance sheet accounts are measured.

The Group has determined market risk management operations and has taken precautions in order to economically hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Systems of Banks".

The Board of Directors of the Group evaluates basic risks that it can be exposed to and determines limits accordingly. Those limits are revised periodically in line with the strategies of the Group. Additionally, the Board of Directors oversees that the Risk Management Group and Senior Management have taken precautions to describe, evaluate, control and manage risks faced by the Group.

Market risk – Non-trading

The Group classifies exposures to market risk into either trading or non-trading portfolios. Trading portfolio of the Group is not significant. Except for the concentration within foreign currency, the Group has no significant concentration of market risk. The Bank has precious metal transactions. Such transactions have also market risk. The analysis below calculates the effect of a reasonably possible movement of the gold price against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2020			December 31, 2019		
Precious metal	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity
Gold	-10	(11,870)	(11,870)	-10	(122)	(122)
Gold	+10	11,870	11,870	+10	122	122

Interest risk

The Group operates in non-interest banking sector therefore there is no interest risk.

Currency risk

Exchange rate risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate movements in the market. This exposure is managed by using natural hedges that arise from offsetting foreign currency denominated assets and liabilities.

The analysis below calculates the effect of a reasonably possible movement of the currency rate against the TL, with all other variables held constant on the income statement and equity. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

	December 31, 2020			December 31, 2019		
Currency	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity	Increase/ decrease in metal price in %	Effect on profit before tax	Effect on equity
USD	+10	40,048	133,895	+10	48,196	125,527
USD	-10	(40,048)	(133,895)	-10	(48,196)	(125,527)
EUR	+10	(29,869)	(29,511)	+10	(13,219)	(8,395)
EUR	-10	29,869	29,511	-10	13,219	8,395

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

The concentrations of assets, liabilities and off-balance sheet items:

December 31, 2020

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	1,751,938	2,646,672	93,847	-	4,492,457
Deposits with other banks and financial institutions	689,619	1,204,214	690,343	4,568,842	7,153,018
Reserve deposits at the Central Bank	7,250,055	7,030,675	-	4,205,335	18,486,065
Financial assets – financial assets at FVTPL	885,744	275,145	81,818	5,577,703	6,820,410
Financial assets – financial assets at OCI	368,754	4,970,879	-	-	5,339,633
Financial assets – amortised cost	3,857,987	2,373,500	-	-	6,231,487
Due from financing activities, net	12,967,599	11,839,475	17,232	-	24,824,306
Finance lease receivable, net	1,622,291	1,028,439	-	-	2,650,730
Precious metals	-	-	-	988,021	988,021
Property and equipment, net	13,683	1,173	-	-	14,856
Intangible assets, net	77,261	-	-	-	77,261
Other assets	8,106,276	290,881	2,526	113	8,399,796
Total assets	37,591,207	31,661,053	885,766	15,340,014	85,478,040
Due to other financial institutions and banks	1,360,206	4,271,192	233,373	-	5,864,771
Sukuk issued	-	3,337,298	-	-	3,337,298
Subordinated loans	-	4,590,266	-	-	4,590,266
Current and profit / loss sharing investors' accounts	16,280,443	38,670,358	6,841,552	30,591,520	92,383,873
Employee benefit obligations	-	659	-	-	659
Finance lease payable, net	3,132	779	-	-	3,911
Other liabilities & provisions	376,918	577,731	138,326	899	1,093,874
Total liabilities and equity	18,020,699	51,448,283	7,213,251	30,592,419	107,274,652
Net balance sheet position	19,570,508	(19,787,230)	(6,327,485)	(15,252,405)	(21,796,612)
Net off-balance sheet position	(19,869,202)	20,187,707	385,215	21,195,764	21,899,484

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

December 31, 2019

	EUR	USD	Other	Precious Metals	Total
Cash and balances with the Central bank	4,076,442	870,678	68,320	-	5,015,440
Deposits with other banks and financial institutions	8,489,583	3,750,026	491,060	2,223,940	14,954,609
Reserve deposits at the Central Bank	2,647,150	5,273,263	-	3,400,718	11,321,131
Financial assets – financial assets at FVTPL	-	116,068	-	3,774,332	3,890,400
Financial assets – financial assets at OCI	5,036,453	4,457,995	68,669	-	9,563,117
Financial assets – amortised cost	2,210,573	648,807	-	-	2,859,380
Due from financing activities, net	8,398,882	9,283,263	-	91,324	17,773,469
Finance lease receivable, net	575,299	1,113,715	-	-	1,689,014
Precious metals	-	-	-	1,111,144	1,111,144
Property and equipment, net	35,220	957	-	-	36,177
Intangible assets, net	64,671	25	-	-	64,696
Other assets	864,494	88,660	1,541	103	954,798
Total assets	32,398,767	25,603,457	629,590	10,601,561	69,233,375
Due to other financial institutions and banks	411,270	327,129	96,102	119,442	953,943
Sukuk issued	-	2,720,541	1,182,558	-	3,903,099
Subordinated loans	-	3,380,983	-	-	3,380,983
Current and profit / loss sharing investors' accounts	11,880,645	29,568,052	486,844	10,253,648	52,189,189
Employee benefit obligations	-	446	-	-	446
Finance lease payable, net	34,408	815	-	-	35,223
Other liabilities & provisions	149,095	316,816	42,984	680	509,575
Total liabilities and equity	12,475,418	36,314,782	1,808,488	10,373,770	60,972,458
Net balance sheet position	19,923,349	(10,711,325)	(1,178,898)	227,791	8,260,917
Net off-balance sheet position	(20,055,535)	11,193,287	1,159,041	(229,013)	(7,932,220)

Pricing risk

The Group issues loans with a pre-determined profit rate and receives deposits on the understanding that the depositors participate in the profit or loss resulting from the investment activities and funds utilized by the Group, rather than giving them a pre-determined rate of profit. In this aspect, there is no repricing structure for the financial assets and liabilities of the Group.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, it is managing the risks. Controls include segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Capital adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by the BRSA and is obliged to comply with the minimum requirements of the capital adequacy ratio. These ratios measure capital adequacy (minimum 12% as required by BRSA) by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

As of December 31, 2020, and 2019, the Bank's statutory capital adequacy ratio exceeded the minimum requirement of BRSA.

Kuveyt Türk Katılım Bankası Anonim Şirketi and its Subsidiaries

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders. No changes were made in the objectives, policies and processes from the previous years. Below table is in accordance with consolidated financial statements prepared in accordance with BRSA accounting principles.

Regulatory capital

	December 31, 2020	December 31, 2019		
Tier 1 capital	9,559,732	8,121,764		
Tier 2 capital	3,244,385	2,668,604		
Deductions from capital	(98,649)	(121,954)		
Total capital	12,705,468	10,668,414		
Risk weighted assets amount subject to credit risk	52,168,282	47,616,376		
Risk weighted assets amount subject to market risk	3,838,461	2,978,934		
Risk weighted assets amount subject to operational risk	7,606,341	5,667,645		
	Actual	Required	Actual	Required
Tier 1 capital ratio	12.12%		12.32%	
Total capital ratio	19.97%	12%	18.96%	12%

34. Fair value of financial instruments

Fair values

The fair value of the fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market profit rates when they were first recognized with current market rates offered for similar financial instruments. As of December 31, 2020, the fair value of financing and leasing receivables has been estimated as TL 78,598,461 (December 31, 2019 – TL 51,203,405) whereas their carrying amount is TL 74,849,737 (December 31, 2019 – TL 48,000,384).

Fair value of borrowings at amortized cost is estimated as TL 16,979,852 (December 31, 2019 – TL 10,979,094), whereas their carrying amount is TL 15,868,968 (December 31, 2019 – TL 9,145,762). Fair values of profit/loss sharing accounts stated at amortized cost are considered to approximate their respective carrying values as the profit share rates applicable to those accounts are in line with the market rates and the maturities of these accounts are mainly short-term.

For other short-term financial assets and liabilities, fair value is estimated to approximate carrying value due to their short term or non-interest-bearing structures.

To the extent relevant and reliable information is available from financial markets in Turkey, the fair value of financial instruments is based on such market data. The fair values of other financial instruments are determined by using estimation techniques that include reference to the current market value of another instrument with similar characteristic or by discounting the expected future cash flows at prevailing profit rates.

35. Subsequent events

In accordance with the law on the method of collection of public receivables and amendments in some laws, published in the Official Gazette No. 31462 dated April 22, 2021, the corporate tax rate for the corporate earnings of the 2021 taxation period is 25%, It has been decided to apply the corporate tax rate for the earnings as 23% for 2022.

Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on January 13, 2021 with a nominal value of TL 800,000 thousand and a maturity of 72 days with a cost of 18%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on January 21, 2021 with a nominal value of TL 300,000 thousand and a maturity of 36 days with a cost of 17%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on January 27, 2021 with a nominal value of TL 400,000 thousand and a maturity of 84 days with a cost of 17.50%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on January 29, 2021 with a nominal value of TL 300,000 thousand and a maturity of 90 days with a cost of 17.50%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on February 08, 2021 with a nominal value of TL 130,000 thousand and a maturity of 81 days with a cost of 17%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on February 10, 2021 with a nominal value of TL 200,000 thousand and a maturity of 70 days with a cost of 17.40%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on February 24, 2021 with a nominal value of TL 250,000 thousand and a maturity of 91 days with a cost of 17.25%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on February 26, 2021 with a nominal value of TL 200,000 thousand and a maturity of 91 days with a cost of 17%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on March 03, 2021 with a nominal value of TL 400,000 thousand and a maturity of 91 days with a cost of 17.25%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on March 12, 2021 with a nominal value of TL 30,000 thousand and a maturity of 32 days with a cost of 17.60%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on March 23, 2021 with a nominal value of TL 70,000 thousand and a maturity of 45 days with a cost of 18%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on March 24, 2021 with a nominal value of TL 400,000 thousand and a maturity of 63 days with a cost of 18.10%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on March 24, 2021 with a nominal value of TL 150,000 thousand and a maturity of 69 days with a cost of 18.25%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on March 26, 2021 with a nominal value of TL 800,000 thousand and a maturity of 75 days with a cost of 18.10%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on April 02, 2021 with a nominal value of TL 100,000 thousand and a maturity of 84 days with a cost of 19%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on April 07, 2021 with a nominal value of TL 130,000 thousand and a maturity of 56 days with a cost of 18.25%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on April 14, 2021 with a nominal value of TL 200,000 thousand and a maturity of 93 days with a cost of 19%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on April 21, 2021 with a nominal value of TL 600,000 thousand and a maturity of 98 days with a cost of 18.35%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on April 21, 2021 with a nominal value of TL 300,000 thousand and a maturity of 72 days with a cost of 19%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on April 29, 2021 with a nominal value of TL 350,000 thousand and a maturity of 97 days with a cost of 18.35%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on April 30, 2021 with a nominal value of TL 155,000 thousand and a maturity of 95 days with a cost of 19%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on May 07, 2021 with a nominal value of TL 70,000 thousand and a maturity of 91 days with a cost of 17.90%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on May 26, 2021 with a nominal value of TL 650,000 thousand and a maturity of 86 days with a cost of 18.40%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on May 28, 2021 with a nominal value of TL 224,000 thousand and a maturity of 91 days with a cost of 19%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on June 01, 2021 with a nominal value of TL 125,000 thousand and a maturity of 78 days with a cost of 18.59%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on June 01, 2021 with a nominal value of TL 600,000 thousand and a maturity of 84 days with a cost of 18.15%. Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on June 04, 2021 with a nominal value of TL 250,000 thousand and a maturity of 60 days with a cost of 18.74%.

Notes to consolidated financial statements for the year ended December 31, 2020

(Currency – In thousands of Turkish Lira - TL unless otherwise indicated)

Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on June 08, 2021 with a nominal value of TL 700,000 thousand and a maturity of 84 days with a cost of 18.15%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on June 17, 2021 with a nominal value of TL 160,000 thousand and a maturity of 69 days with a cost of 18.15%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on June 29, 2021 with a nominal value of TL 100,000 thousand and a maturity of 93 days with a cost of 18.74%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on July 01, 2021 with a nominal value of TL 262,110 thousand and a maturity of 89 days with a cost of 18.54%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on July 02, 2021 with a nominal value of TL 143,890 thousand and a maturity of 72 days with a cost of 18%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on July 14, 2021 with a nominal value of TL 200,000 thousand and a maturity of 91 days with a cost of 18.74%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on July 27, 2021 with a nominal value of TL 700,000 thousand and a maturity of 91 days with a cost of 18.15%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on August 03, 2021 with a nominal value of TL 400,000 thousand and a maturity of 94 days with a cost of 18.74%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on August 04, 2021 with a nominal value of TL 350,000 thousand and a maturity of 91 days with a cost of 18.15%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on August 06, 2021 with a nominal value of TL 70,000 thousand and a maturity of 91 days with a cost of 17.75%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on August 18, 2021 with a nominal value of TL 250,000 thousand and a maturity of 98 days with a cost of 18.74%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on August 20, 2021 with a nominal value of TL 650,000 thousand and a maturity of 82 days with a cost of 18.15%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on August 24, 2021 with a nominal value of TL 750,000 thousand and a maturity of 92 days with a cost of 18.15%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on August 26, 2021 with a nominal value of TL 275,000 thousand and a maturity of 91 days with a cost of 18.74%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on August 31, 2021 with a nominal value of TL 500,000 thousand and a maturity of 91 days with a cost of 18.15%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on September 06, 2021 with a nominal value of TL 50,000 thousand and a maturity of 62 days with a cost of 18.74%.
Parent Bank, KT Leasing Certificates Varlık Kiralama A.Ş. has issued sukuk on September 08, 2021 with a nominal value of TL 350,000 thousand and a maturity of 91 days with a cost of 18.15%.