JCR Eurasia Rating
"JCR-ER, Group of Japan Credit Rating Agency, Ltd."

Corporate Credit & Issue Rating

☐New ☒Update

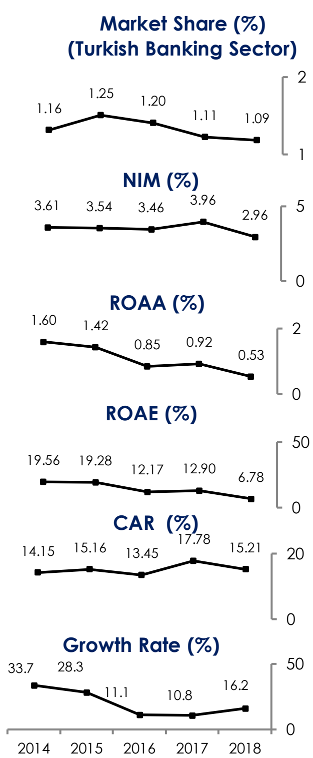
Sector: Banking
Publishing Date: 07/05/2019

Analysts
Sevket GÜLEÇ (Group Head)
+90 212 352 56 73
sevket.gulec@jcrer.com.tr

RATINGS

			Long	Short
International	Foreign		BBB-	A-3
	Local Currency		BBB-	A-3
	Outlook	FC	Negative	Negative
		LC	Negative	Negative
	Issue Rating		-	-
National	Local Rating		AA-(Trk)	A-1+(Trk)
	Outlook		Negative	Negative
	Issue Rating		-	-
Sponsor Support			3	-
Stand-Alone			AB	-
Sovereign*	Foreign		BBB-	-
	Local Currency		BBB-	-
	Outlook	FC	Negative	-
		LC	Negative	-

*Affirmed by JCR on November 27, 2018



alBaraka

Albaraka Türk Katılım Bankası A.Ş.

Company Overview

Financial Data	2018*	2017*	2016*	2015*	2014*
Total Assets (000,000 USD)	8,026	9,535	9,320	10,152	9,925
Total Assets (000,000 TRY)	42,222	36,332	32,800	29,517	23,014
Total Deposit (000,000 TRY)	28,539	25,244	23,151	20,341	16,643
Total Net Loans (000,000 TRY)	26,185	25,193	22,722	19,505	16,184
Equity (000,000 TRY)	3,552	2,645	2,273	2,096	1,786
Net Profit (000,000 TRY)	173	265	220	301	248
Market Share (%) **	20.42	22.62	24.72	24.58	22.08
ROAA (%)	0.53	0.92	0.85	1.42	1.60
ROAE (%)	6.78	12.90	12.17	19.28	19.56
Equity/Assets (%)	8.41	7.28	6.93	7.10	7.76
CAR - Capital Adequacy Ratio (%)	15.21	17.78	13.45	15.16	13.89
Asset Growth Rate (Annual) (%)	16.21	10.77	11.12	28.26	33.68

** End of year ** On solo basis among the Participation Banking Sector*

Albaraka Türk Katılım Bankası A.Ş. (hereinafter referred to as "Albaraka" or "the Bank") operates in the fields of SME, corporate, commercial, investment and retail banking services strictly conformable to the principles of Islamic Shari'a. The first finance institution in the interest-free banking field in Turkey, the Bank was incorporated in 1984 and launched operations in the beginning of 1985. Albaraka Türk went public in 2007 and is currently trading on the Borsa Istanbul A.Ş. (BIST) index under the ticker "ALBRK" with a current actual outstanding share of 18.82%. The qualified shareholder, the Bahrain-based Al Baraka Banking Group B.S.C., is listed on the Bahrain Stock Exchange and NASDAQ Dubai and is one of the leading groups in the Middle East with an asset size of USD 23,831mn. The group held 54.06% of shares at FYE2018 and is engaged in banking activities strictly conformable to the principles of Islamic Shari'a in Algeria, Bahrain, Tunisia, Egypt, Lebanon, Jordan, Turkey, Africa, Sudan and Syria with a total network of 697 branches/offices.

JCR Eurasia Rating has revised Albaraka Türk's National Local Rating Notes to "AA- (Trk)" from "AA (Trk)" on the long term, which denotes a high investment grade, and 'A-1+ (Trk)' in the short term along with downward revision of outlook from "Stable" to "Negative" considering the deterioration in asset quality evinced by remarkable growth in NPL coupled with lower loan loss coverage, tightening in profit and profitability ratios, increase and high concentration in loan portfolio, contraction in market share and expected further growth in NPLs due to weak loan demand reinforced by higher cost of funding, uncertainty in the economic and political arena and deterioration in debt service capacity of the real sector firms.

Strengths

- Permanence of income generation capability trough core banking activities
- Maintenance of access to international financial markets
- High level of compliance concerning corporate governance implementations
- High market power in participation banking sector with an asset size-based market share of 20.42%
- Long and good track record
- Experienced management team
- Attached importance for digitalization of their offerings in order to respond to new generation banking needs

Constraints

- Growing, high and above sector average non-performing loans ratio deteriorating asset quality
- Below sector average net profit share margin
- Steadiness of feeble profitability indicators, principally those of ROAA and ROAE, which markedly underperformed the sector averages
- Continuity of below sector average loan loss reserves coverage
- Sector-wide structural maturity mismatch and short maturity profile of collected funds (deposits)
- Though compliant with regulations, below sector averagesCET1 lessening loans loss coverage
- Further growth expected in the Banks' NPLs stemming from deteriorating debt service capacities of borrowers, likely feeble economic recovery
- Upsurge and steadiness of high credit risk concentration among the top 100 customers

1. Rating Rationale

The rating study is based on Albaraka's consolidated independent audit reports prepared in accordance with the BRSA's regulations. Furthermore, the banking sector comparison is based on unconsolidated financial statements compiled according to Banking Regulation and Supervision Agency (BRSA) regulations which have been independently audited. In addition to financial metrics such as income generation power & profitability, capitalization level, asset quality, funding profile and growth rate performance, qualitative indicators such as corporate governance compliance level, branch network, market influence and risk management practices were also taken into consideration in the assignment of the ratings.

JCR Eurasia Rating has revised Albaraka Türk's National Local Rating Notes to **"AA- (Trk)"** from **"AA (Trk)"** on the long term, which denotes a high investment grade, and **'A-1+ (Trk)'** in the short term along with a downward revision of outlook from **"Stable"** to **"Negative"** considering the deterioration in asset quality evidenced by notable growth in NPLs coupled with lower loan loss coverage, tightening in profit and profitability ratios, increase and high concentration in loan portfolio, contraction in market share and expected further growth in NPLs due to weak loan demand, deterioration in debt service capacity of the real sector firms stemming from noteworthy depreciation of TRY against hard currencies and higher cost of funding, probable feeble and fragile recovery in economy underpinned by uncertainty in the economic and political arena along with continuity of geopolitical risks.

JCR-ER undertook the peer group analysis of Albaraka based on the principle indicators including ROAA (Return on Average Assets), ROAE (Return on Average Equity), NPL (Non-performing Loans) and CAR (Capital Adequacy Ratio) against Kuveyt Türk and Türkiye Finans, the results of which have been included on page 24. The Bank markedly underperformed regarding the ratios of ROAA, ROAE and NPLs.

Essential rating drivers are as below;

<u>Deteriorating Asset Quality Evidenced by Markedly Above Sector Average NPLs Coupled with Notable Increase in Stage 2 Credit Risk</u>

At FYE2018, the Bank's gross non-performing loans increased by 55.74% on a YoY basis to TRY 1,889mn. In FY2018, loans which amounted to TRY 1,388mn were transferred to the non-performing loans portfolio. On the other hand, the transfer of loans which amounted to TRY 470mn to standard loan book and write off of TRY 242mn non-performing loans thought to be un-collectible abridged the non-performing loans growth. It is also noted that sale/write-off of non-performing loans is a common practice across the sector. When including non-performing loans, which were sold and written off from the assets, the Turkish Banking Sector's NPLs ratio would be nearly 6% at FYE2017, which is remarkably higher than the current stated level of 3.86%.

In addition, lower growth in loan portfolio (3.94% YoY) than the Turkish and Participation Banking Sectors' growths of 13.33% and 13.54% at FYE2018 respectively, contributed to the increase in NPLs. Accordingly, the Bank's NPLs ratio increased to 6.88% at FYE2018 from the previous year's level of 4.68% and markedly remained above the sector averages. Even if the sector's adjusted NPLs figure is taken into consideration, Albaraka's NPLs ratio was still above the sector average when including the Bank's written off non-performing loans.

The Bank's specific loan loss reserves coverage deteriorated to 47.31% at FYE2018 from 57.68% at FYE2017. The loss coverage is notably below both the Turkish Banking and the Participation Banking Sectors figures of 68.32% and 63.30% respectively. The lower coverage ratio also exerts pressure on asset quality.

Significant increase in Stage 2 credit risk, which accounted for nearly 19.4% of total gross loans at FYE2018 (FYE2017: 3.6%), together with stage 3 credits constituted 26.3% of total gross loans, confirms the further deterioration possibility in loans quality in upcoming periods.

<u>Profitability Continues to be Repressed</u>

Tapering net profit share income through higher rise in cost of funding, increasing provisioning expenses stemming from deteriorating asset quality along with IFRS 9 related expenses, one-off revaluation loss (TRY 211mn) on asset held for sale due to remarkable TRY deprecation against hard currencies and higher OPEX depressed profit and profitability ratios, despite offsetting effect of IFRS 9 adjustment related reversal provision and FX gains mostly derived from USD denominated additional Tier 1 capital issuance in February 2018.

Accordingly, the Bank's solo based net profit contracted to TRY 134mn at FYE2018 with a rate of 43.50% compared to the previous year's figure of TRY 237.1mn. In the same period, the increase in the net profit of both the Turkish Banking and the Participation Banking Sectors were 10.02% and 34.06% respectively. Regarding the net profit growth, the Bank underperformed the sector averages as in the previous year. In line with reduction in profit, the return on asset and equity ratios, tumbled to their lowest level to 0.43% and 5.87% at FYE2018 over the reviewed period and remained markedly below the sector averages.

Lower CET1 Compared to the Sector Averages, despite the Presence of an Adequate Capitalization Level

Albaraka Türk's consolidated and non-consolidated Capital Adequacy Ratios were 15.21% and 14.66% respectively at FYE2018 and exhibited decreases compared to the previous year's ratios of 17.78% and 17.06%. The core capital, comprised 68.21% of the Bank's total own fund structure, whilst the supplementary capital accounted for 31.82% of the Bank's own fund structure at FYE2018 and stayed above the Turkish Banking Sector and the Participation Banking Sector's average of 19.15% and 25.46% respectively. Supplementary capital, classified as second-tier capital under the regulatory capital, contributed 4.66% to the Bank's unconsolidated CAR as of FY2018. Above figures indicate the Bank's higher reliance on Tier II capital, which is not considered to be loss absorbent.

On the other hand, the Bank's Common Equity Tier 1 Capital Ratio and Total Tier 1 Capital Ratio were 7.56% and 9.98% respectively at FYE2018 and were well above the required levels of 4.5% and 6%. The Common Equity Tier 1 Ratio of the Turkish Banking and the Participation Banking Sectors were 13.78% and 11.28%, respectively, and remained well above Bank's ratio. Additionally, capital conservation buffer requirement of the Bank was 1.88% at FYE2018. Consequently, the Bank's unconsolidated Common Equity Tier 1 Capital Ratio was 7.56% and higher than the required minimum level (6.38%). Accordingly, we, as JCR Eurasia Rating, have assessed that the current level of capitalization provides an adequate buffer against incidental loan loss.

Satisfactory Liquidity

At FYE2018, the average Liquidity Coverage Ratios of the Bank on consolidated and unconsolidated bases were above the requirement levels and remained compliant with BRSA parameters. Furthermore, the Bank's leverage level (Tier 1 Capital to Total Risk Exposure) was measured on a consolidated basis and amounted to 6.24% (FYE2017: 5.02%), pursuant to the "regulation regarding the measurement and evaluation of banks' leverage level". It was expressively above the required minimum level of 3%. In addition, the Bank's loans (including leasing receivals) to deposits ratio (LTD) was 91.75% at FYE2018, down from the previous year's level of 99.80%, slightly up regarding the Participation Banking Sector average (84.31%) while below the Turkish Banking Sector average (117.62%), providing conformity to the liquidity management to a certain extent. Accordingly, the Bank's liquidity levels are monitored closely and satisfy threshold levels.

Short Maturity Profile of the Collected Funds as in the Sector

Collected funds (profit sharing and demand deposits) are the foremost funding source of both the Turkish Banking Sector in general and Albaraka in particular. As per to the solo figures, the Bank's total deposits comprised 67.59% of total sources, notably higher than the Turkish Banking Sector's average of 52.65% at FYE2018. Moreover, according to the remaining contractual maturities of total deposits, 84.54% fell in the up to one-month maturity bracket indicating the short maturity profile of the deposits, which is also prevalent in the Turkish Banking Sector.

To diversify funding resources and extend funds maturity, the Bank has accessed international financial markets and obtained funds in the form Murabaha Syndication, Subordinated loans, Wakala borrowing and Sukuk Certificates. Together overseas and domestic borrowings accounted for nearly 19% of the total resources.

Focusing on Digital Banking

Following implementation of a dynamic and adaptive long-term corporate transformation program titled SIMURG and IT transformation program-principal banking system-known as "ALBATROS" in 2016, the Bank takes continuous steps for future banking. Within the scope of its business development and innovation activities, the

Bank launched Europe's first interest free digital only banking services "insha" in Germany with the cooperation of Solaris Bank. The Bank has initiated the Robotic Process Automation project, a new computer software enabling the execution of transactions much faster and error-free. The Bank has also launched digital signature projection through smart electronic devices which enable the transactions to be executed faster while reducing cost consumption of papers. Initially as a pilot application in the three branches, transactions below TRY 20k were included in the digital signature process.

Increase and Steadiness of High Credit Risk Concentration

The Bank's (i) largest 100 cash loan customers comprised 51% (FYE2017:40%) of the total cash loan portfolio as of FYE2018, (ii) the largest 100 non-cash loan customers composed 49% (FYE2017:47%) of the total non-cash loan portfolio as of FYE2018 and (iii) the largest 100 cash and non-cash loan customers represented 44.00% of the total "on and off-balance sheet" as of FYE2018 (FYE2017: 37%). Those figures indicate high credit concentration risk among the largest 100 customers and a notable increase compared to the previous year's figures.

High Level of Compliance with Corporate Governance Implementations

Albaraka Türk is currently trading on the Borsa Istanbul A.Ş. (BIST) under the ticker "ALBRK" with a current free float of 25.22%. The Bank has attained high compliance level with the corporate governance principles. The Bank's Corporate Governance Rating Note, assigned by JCR Eurasia Rating, increased to 89.23 out of 100 in FY2018 from 88.05 in FY2017, denoting "Distinctive Compliance" in all categories regarding compliance with the CMB Corporate Governance Principles, calculated based on weightings determined for the 4 distinct categories of Shareholders, Public Disclosure and Transparency, Stakeholders and Board of Directors.

The Weaker Growth Outlook Coupled with Ongoing Regional Tensions and Developments in the International Arena Pressurizing Profitability and Asset Quality of the Sector

Severe depreciation of the TRY against the hard currencies, high interest rates, deteriorated debt service capacity of the borrowers, ongoing tension in the nearby region and cross border military operations, feeble growth outlook for the ongoing year following contraction in economy in the last quarter of FY2018, limited fund flows from the developed countries to emerging economies, alteration to conservative economy models through the increase in customs tariffs as well as increase in socio-economic and political risks in international arena, increase the concerns in investment climate. However, the FED's recent decision indicating no more rate hikes for FY2019 and the completion of the balance sheet roll-off program by the end of September is expected to relieve the pressure on interest rate increases and fund inflows to a certain extent.

Under the challenging operating environment, the Bank and Turkish Banking Sector have achieved enough robustness to offset the negative effects of speculative economic attacks. However, in the upcoming period, both the sector and the Bank's profits and asset quality will be further deteriorated.

2. Outlook

JCR Eurasia Rating has revised the outlook to "Negative" from "Stable" from on the short- and long-term national rating perspectives of Albaraka Türk regarding the (i) deterioration in asset quality proved by notable growth in NPLs along with lower loan loss coverage, (ii) remarkable decline in profit and profitability ratios, (iii) increase and highly concentrated loan portfolio, (iv) contraction in market share and the management stance for being highly liquid under the depressed economic environment, (v) expected further growth in NPLs in future due to weak loan demand and deterioration in debt service capacity of the real sector firms. In addition, its international rating outlooks have been affirmed as "Negative" representing the sovereign national ratings outlook of the Republic of Turkey.

Vital considerations which would impede the ratings and its outlooks are (i) further deterioration in asset quality through increasing non-performing loans book and NPLs ratio, (ii) continuity of erosion in profitability and profitability metrics, (iii) downgrades in Turkey's sovereign rating level, (iv) probable adversities in accessing external financing sources, (v) notable decrease in CAR, (vi) possible regulatory actions that would restrain the profitability & growth performance of the sector and (vii) developments in international politics particularly relating to Turkey's neighboring countries along with domestic politics.

On the other hand, (i) noteworthy improvement in asset quality, (ii) notable enhancement in profitability ratios, (iii) remarkable improvement in CET1 through cash equity injection, (iv) diversification of funding mix and extension of maturity profile and management of additional risks combined with the growth of the Bank are substantial factors that may be taken into consideration for any future positive changes in ratings and outlook status.

3. Sponsor Support and Stand-Alone Assessment

Albaraka Türk's Sponsor Support Note has been determined by taking into account the financial strength and support willingness of the qualified shareholder, the Albaraka Banking Group. The group has a wide geographical presence through banking subsidiaries in Turkey, Algeria, Jordan, Lebanon, Syria, Egypt, Sudan, Tunisia and South Africa, in addition to its base in Bahrain.

It is also noted that some countries in which the group operates have high political risks and harbor ongoing social unrest. Moreover, Albaraka Türk is the flagship firm of the Group. Accordingly, although financial support is expected from ABG if urgent need arises for short or long-term liquidity, the prospective financial support on offer will be limited due to the aforementioned reasons. Regarding the above-mentioned factors, the Sponsor Support Note of the Bank has been affirmed as "3", denoting a moderate external support possibility bearing some uncertainties. Up to date, Albaraka Türk has not been exposed to any weaknesses to require assistance from the firm shareholders.

The Stand Alone Note of the Bank has been affirmed as "AB" regarding its adequate equity base and liquidity level, sustainable profit generation capacity, risk management practices and growth performance. This Stand-Alone note specifies that the Bank is expected to be able to manage its balance sheet risks successfully even if the shareholders or public authorities do not provide any assistance, provided that there is no further deterioration in the quality of the asset and maintains its effectiveness in the market.

4. Company Profile

a) History & Activities

Albaraka Türk Katılım Bankası A.Ş., the largest subsidiary of the Bahrain based Al Baraka Banking Group, was incorporated in 1984 and initiated its operations in the beginning of 1985. The Bank, the first finance institution of interest-free banking in Turkey, offers services in the corporate, commercial, SME and retail banking fields as well as services in financial leasing and profit/loss sharing based projects. Albaraka Türk's shares (25.23% as of FYE2018) have been traded on the Borsa Istanbul (BIST) index since 2007.

b) Organization & Employees

Albaraka Türk carried out its operations through a total of 230 branches, 229 of which are located domestically with 1 based overseas in Erbil-Iraq as of FYE2018. The total number of personnel employed across the Bank's operations was 3,988 at FYE2018 (FYE2017: 3,899). In addition to the conventional services stream offered through the branch network, Albaraka facilitates the use of alternative delivery channels (ADC) including a call center, ATMs along with mobile and internet banking facilities. In order to increase its customer access in ATMs, the Bank made an agreement with PTT. As a result, 3,200 PTT ATMs have been accessible to Albaraka Customers, in addition to its 313 ATMs.

c) Shareholders, Subsidiaries & Affiliates

The shareholder structure of the Bank which had a paid-in capital of TRY 900mn and registered capital ceiling of TRY 2,500mn remained unchanged in comparison to the previous year. The qualified shareholder, Albaraka Banking Group, holds 54.06% of the Bank's shares. Based on the form dated 8 March 2019, disseminated by the Public Disclosure Platform, the share of Albaraka Banking Group increased to 56.65% and publicly traded actual outstanding shares were 18.82%.

Shareholders	Paid Capital -TRY	FYE2018 Share %
Foreign Partners	**593,952,934**	**65.99%**
Al Baraka Banking Group	486,523,266	**54.06%**
İslamic Development bank	70,573,779	**7.84%**
Alharthy Family	31,106,364	**3.46%**
Other	5,749,525	**0.64%**
Local Partners	**78,932,965**	**8.77%**
Publicly Traded	**227,114,101**	**25.23%**
Total	**900,000,000**	**100.00%**

Al Baraka Banking Group B.S.C. was established in 2002 in Bahrain and is listed on the Bahrain Stock Exchange and the NASDAQ Dubai. The group is engaged in banking activities strictly conformable to the principles of Islamic Shari'a in the Middle East, Europe and Africa. The group carries out its banking operations in Algeria, Bahrain, Tunisia, Egypt, Lebanon, Jordan, Turkey, Africa, Sudan, Pakistan and Syria with a total network of 697 branches/offices. At FYE2018, Al Baraka Banking Group B.S.C.'s consolidated financial figures in asset size, equity and net income were approximately USD 23,831mn, 2,256mn and 218mn, respectively.

Consolidated subsidiaries, associates and joint ventures have been listed in the table below.

	Country	Sector	2018	
			Effective Interest Rates %	Voting Rights (%)
Consolidated - Joint Venture, Subsidiaries and Structured Entity				
Katılım Emeklilik ve Hayat A.Ş.	Turkey	Finance	50.00	50.00
Bereket Varlık Kiralama A.Ş.	Turkey	Finance	100.00	100.00
Albaraka Gayrimenkul Portföy Yönetimi A.Ş. *	Turkey	Finance	100.00	100.00
Insha GMBH	German	Finance	100.00	100.00
Unconsolidated Affiliates				
Kredi Garanti Fonu A.Ş.	Turkey	Finance	1.54	1.54

As of FYE2018	Interest Rates %	Investment Amount (000)	Net Profit /Loss (000)
Consolidated Investment Funds			
Albaraka Gayrimenkul Portföy Yönetimi A.Ş. One Tower Gayrimenkul Yatırım Fonu	90.94	395,000	31,099
Albaraka Gayrimenkul Portföy Yönetimi A.Ş. Dükkan Gayrimenkul Yatırım Fonu	94.88	390,000	25,373
Albaraka Gayrimenkul Portföy Yönetimi A.Ş.Batışehir Gayrimenkul Yatırım Fonu	42.46	295,000	19,300
Albaraka Gayrimenkul Portföy Yönetimi A.Ş. Metropol Gayrimenkul Yatırım Fonu	100.00	12,000	716
Albaraka Gayrimenkul Portföy Yönetimi A.Ş. Değer Girişim Sermayesi Fonu	100.00	150,000	962
Albaraka Gayrimenkul Portföy Yönetimi A.Ş. Katılım Hisse Senedi Fonu	99.89	1,000	-77
Albaraka Gayrimenkul Portföy Yönetimi A.Ş. Katılım Fonu	99.51	800	-56
Albaraka Gayrimenkul Portföy Yönetimi A.Ş. Altın Katılım Fonu	98.48	1,600	-131
Albaraka Gayrimenkul Portföy Yönetimi A.Ş. Kira sertifikaları Katılım Fonu	89.79	700	37
Albaraka Gayrimenkul Portföy Yönetimi A.Ş. Vadeli Kira Sertifikaları Katılım Fonu	100.00	2,500	128

Kredi Garanti Fonu A.Ş. was not consolidated due to its insignificant influence on the Bank's financials. As JCR Eurasia Rating has not presently analyzed the independent risk level of those companies, no opinion regarding their creditworthiness has been formed.

Brief explanation on the Company's consolidated subsidiaries and joint ventures is provided below.

Bereket Varlık Kiralama A.Ş.

The Company, headquartered in Istanbul, was established in October 2011 to issue lease certificates. The Company had a paid-in capital of TRY 400mn along with assets and equity of TRY 3,458mn and TRY 403mn respectively at FYE2018. Albaraka holds 100% of the Company's shares.

Albaraka Portföy Yönetimi A.Ş.

Established in 2015 under the name of Albaraka Gayrimenkul Portföy Yönetim A.Ş., the trade name of the Company changed to Albaraka Portföy Yönetimi A.Ş. in December 2017. Headquartered in Istanbul, the Company had a paid-in capital of TRY 5mn along with assets and equity of TRY 18.8mn and TRY 17.3mn at FYE2018.

Katılım Emeklilik ve Hayat A.Ş.

Established in 2013 in cooperation with Kuveyt Türk Katılım Bankası A.Ş. to operate in the interest free private pension field. Headquartered in Istanbul, the Company is consolidated via the equity method. The Company had a paid-in capital of TRY 40mn and TRY 1,673mn as of FYE2018.

Insha GMBH

Insha GMBH, a Berlin-Germany based Company, was established under the Bank's "Europe Digital Banking Project". The Company provides digital participation banking services with the banking license of Solaris bank AG in Germany. Collecting funds through mudaraba method and evaluating the funds in accordance with the principles of interest-free finance signed.

d) Corporate Governance

We, as JCR Eurasia Rating, have assessed Albaraka Türk in accordance with CMB corporate governance principles and assigned an overall rating of 8.92 (Convergence Level AAA) with a positive outlook on 11 July 2018, and up from the previous year's score of 8.81. The Bank's scores in the four principal segments are as follows; Shareholders: 9.05, Public Disclosure & Transparence: 9.04, Board of Directors: 8.76 and Stakeholders: 8.90. These rating scores reflect the Bank's high level of compliance with the corporate governance principles.

e) The Company & Its Group Strategies

In line with its vision of "Being the World's Best Participation Bank", the Bank placed sustainable growth at the core of its strategy. To achieve this strategy, the Bank prioritizes digital banking services to further advance and diversify activities as well as providing effective access to SMEs across all streams with higher volumes and a wider product range.

5. TURKISH BANKING SECTOR

The banking sector is the largest and the most significant element of the financial system in Turkey. All potential changes in the Turkish banking sector might have direct impacts on the financial stability of the Turkish economy and the real sector.

The Turkish banking sector, which is closely monitored by the regulatory authorities and directly affected by financial innovations and developments in the information technologies, has the major share in the overall financial system in Turkey. The pivotal role of the banking sector is reinforced by the high share of the households in total financial assets.

The Turkish banking sector, which is pervasively regulated by the BRSA-the Banking Regulation and Supervision Agency, consists of deposit banks, development and investment banks, and participation banks whose operations are designed based on the Islamic principles of profit or loss sharing. Total asset size of the banking sector amounts to USD 735bn (TRY 3,867bn) as of FYE2018.

SUMMARY OF KEY INDICATORS OF THE TURKISH BANKING SECTOR				
(000,000)	2018	2017	2016	2015
Asset size -TL	3,867,135	3,257,814	2,731,016	2,357,387
Asset size-USD	735,071	863,706	799,150	807,850
Equity-TL	421,185	358,676	300,264	262,214
Profit-TL	53,522	48,648	37,530	26,052
ROAA%	1.85	2.05	1.86	1.52
ROAE%	16.86	18.63	16.81	13.39
NPL Ratio%	3.86	2.95	3.23	3.09
CAR Ratio%	17.27	16.87	15.57	15.56
Equity / total assets	10.89	11.01	10.99	11.12

Turkey's "bank assets to GDP" ratio is in parallel with the average of the developing countries but much lower than the average of the developed ones, so that the growth potential of the Turkish banking sector is still high.

Although the Turkish banking sector has nominally increased its profits by 10.02% in 2018, the total profit of the sector denominated in USD has declined by 21.42% due to the extraordinary depreciation of the Turkish Lira.

Despite the fact that the potential of the Turkish banking sector to boost economic activities and growth has been constrained and weakened in parallel with the extraordinary depreciation of the Turkish Lira in 2018, the capacity of the sector to have an access to external financial sources is still maintained.

Alongside with the global developments, the political and diplomatic issues came up during 2018 put an upward pressure on the exchange and interest rates, as a result general business conditions of the banking sector have deteriorated. There have been remarkable additional regulations put into practice regarding the banking sector, following the worsening of the general circumstances during the year.

As the Turkish banks' cost of borrowing increased, the growth trend has slowed down. Although the deterioration in asset quality was limited, cost increases were the main reason for the rising pressure on the profitability indicators. On the other hand, we expect a positive trend in profitability due to the deceleration in cost increases. However, non-performing loans will continue to be a critical factor in the future trend of the profitability of the sector.

As a result of the technological developments and innovative approaches which ensure more efficiency in business processes with smaller operational organizations, the need for personnel and the tendency for opening new branches have diminished. Consequently, the total number of both branches and personnel declined during the period between 3Q2018 and 3Q2017.

In 2019, the most determining factors for the prospective outlook of the sector will be the capability of accessing international financial sources and the trend of non-performing loans. Even though we expect the sector to perform better in 2019 than 2018 and maintain its profitability level, the growth of the sector would still be limited due to the limited level of appetite. The loan growth is predicted to restart by the second half of the year. We estimate that the sector has enough means of liquidity and equity to satisfy the prospective demand for credits. Furthermore, state-led investment incentives may create new opportunities for the banking sector during 2019.

The damage of the high volatility of the financial markets to the banking sector was managed successfully during 2018. On the other hand, the uncertainties about the real sector and the likelihood of propagation of the current risk factors still create an ambiguity about the medium-term outlook of the banking sector. The loan restructuring processes of the middle-sized and large corporations were the main focal point of the banking sector in 2018. Through loan restructuring, the banking sector provided a remarkable contribution to the real sector firms dealing with the difficulties in the economy.

We do not observe any refinancing risk for the Turkish banks. In addition, the Turkish banking sector still has the capacity to enlarge its loan portfolio and balance sheet further thanks to high levels of capital adequacy ratios it has already attained. Furthermore, all the Turkish banks are able to meet the requirement of two extra buffers added to the capital adequacy ratios. As a result, we assess that the Turkish banking sector has a stable outlook. However, through allowing the implementation of certain methods which kept risk-weighted assets at lower and Tier 1 Capital at higher levels, the decline in the capital adequacy ratios was somewhat concealed during 2018.

The net interest margin of the Turkish banking sector, which was 4.60% in 2018, is still quite above the average of the developed countries. On the other hand, this margin has been achieved through launching credits which provide working capital rather than investment capital, which did not generate a capacity to create new businesses and employment. The Turkish banking sector still maintains a high level of asset profitability in terms of local currency, a high net interest margin average, and ensures the continuation of the progress of its noninterest income.

Despite their limited asset size, the Turkish banks maintained their well-established structure by means of satisfactory level of profitability, high share of t deposits, high noninterest expenditure, high level of equity, high inflation and depreciated local currency in 2018. On the other hand, the growth trend in 2019 will be heavily related to the stabilization of the local currency, the decline in the inflation rates and the capability to have access to domestic and foreign financial sources.

The total number of the banks operating in the sector was 52 in 2018. In order to deepen the penetration of the banking sector, the investments in the internet, ATM and POS based banking services are increasing in an accelerated manner. The concentration of the assets, loans and deposits are at a high level in the sector. In all these three categories, the top 5 banks hold approximately a 60% share in the whole sector. The highest concentration is observed in deposits, loans and profits respectively. Non-domestic banks have a quite large share in terms of equity in the sector.

Bank-branch-employee numbers in the Turkish banking sector (*)		Deposit Banks (*)	Development % Investment Banks (*)	Participation Banks (**)	Total
Number of Banks	State Banks	3	4	2	**9**
	Private Banks	9	5		**14**
	SDIF Bank	1			**1**
	Foreign Banks	21	2	3	**26**
	Branches of Foreign Banks		2		**2**
	Total	**34**	**13**	**5**	**52**
Number of Branches	State Banks	3,715	33	171	**3,919**
	Private Banks	3,988	16		**4,004**
	SDIF Bank	1			**1**
	Foreign Banks	2,748	2	949	**3,699**
	Branches of Foreign Banks		2		**2**
	Total	**10,452**	**53**	**1,120**	**11,625**
Number of Staff	State Banks	60,061	**4,058**	2,135	**66,254**
	Private Banks	72,932	**1,173**		**74,105**
	SDIF Bank	219			**219**
	Foreign Banks	54,707	**117**	13,543	**68,367**
	Branches of Foreign Banks		**76**		**76**
	Total	**187,919**	**5,424**	**15,678**	**209,021**

(*) As of September 30, 2018.
(**) As of December,31,2018

Apart from the branch network abroad and deposit insurance, the Turkish banking sector's legal framework is in general compatible with the EU regulations and structured according to the Basel requirements and the capital requirement directives (CRD) in order to ensure full integration with the global economy. In this respect, in December 2016, it was acknowledged by the EU Commission that the regulatory and internal systems framework of the Turkish banking sector are in parallel with and equivalent to the EU regulations. The advanced implementation of the Basel III framework ensured the acceptance of the above stated equivalence. Regarding risk management, the Turkish banking sector is able to manage its balance sheet structure and pricing mechanisms at international standards.

Small-sized banks in the sector operate under the circumstances which are shaped by oligopolist competition in terms of resource management strategy and monopolist competition by means of wealth management strategy. Large banks, on the other hand, enjoy the advantages of full monopolist competition in terms of balance sheet management strategies. So that a tight competition exists among small-sized banks but large banks still do not demonstrate a tendency for competitive behavior due to the impact of concentration.

The banking sector is completely subject to change and progress due to the domestic and international regulations, continuously altering customer demands, improving technology, and changes in social and political structures. Regarding its revolutionary character; the banking sector focuses/will focus more on the capital adequacy, liquidity, profitability, cost management and digitalization in internal processes. Especially in 2019, digitalization for efficiency in cost management and competition will remain to be a significant topic.

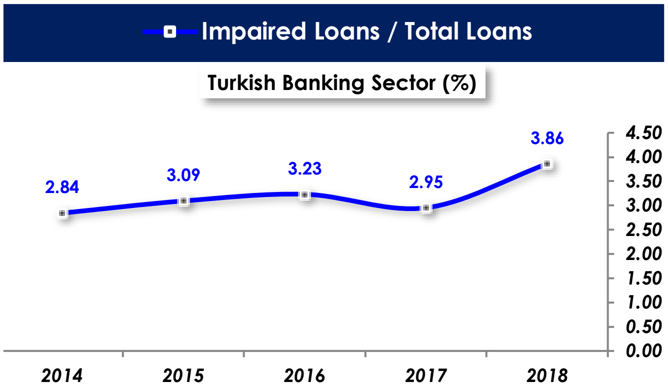
Since the sector revises and updates its infrastructure in a flexible manner in parallel with the continuously changing expectations of the credit and deposit customers and investors in terms of progressive and sustainable business models, it has a very dynamic structure regarding the offering of new products and services. We expect that the Turkish banks will maintain their advantages regarding deposit collection and domestic and international funding activities thanks to their strong capital structure and the deepening of the capital markets.

The Turkish banking sector will concentrate its growth strategy more on the scale and cost efficiency issues, in which it did not yet reach the desired level.

Although there have been innovative approaches regarding branch-opening strategies in the Turkish banking sector, branches still maintain their importance among all the sales channels. The loan provision capacity of the Turkish banking sector is quite above the global optimum levels in terms of the interest rate volatility and flexibility against regulation pressures. Even though the legal regulations improve the banks' resilience against the crises, they create a downward impact on their efficiency and profitability. However, the financial innovations, which are created at domestic and international level, could bypass the negative effects of the legal regulations.

Even though the Turkish banks still heavily rely on deposit collection regarding fund raising, the use of alternative sources also increases. In the developed countries, in parallel with the enlargement in the size, the international liabilities of the banks ascended due to the developments in the funding opportunities. Similarly, in the Turkish banking sector, the roll-over ratios of the foreign debts of the banks exceed 100%, and by the help of the longer-term structure of the international sources, the average term of the liabilities is lengthening. Additionally, the security issuances grow in an accelerated manner.

The ratio of the non-performing loans to the equity was 17.84% in 2017 but reached 22.94% in 2018. There has been a nominal increase of 50.98% in non-performing loans in 2018, and since the nominal increase rate in total loans (14.13%) was lower than the increase in non-performing loans, the share of non-performing loans in total loans has increased in comparison to the previous year. The NPL conversion rate was 2.95% in 2017 but reached 3.86% in 2018. Additionally, even though we in general know about the loan restructuring and other special methods applied for the companies which had difficulties in the repayment of their loans which took place during 2018, there is no clear data about the exact volume of these sorts of concealment practices. On the other hand, it is obvious that these practices kept the NPL conversion rates seen on the balance sheets at lower levels.



The average capital adequacy ratio of the Turkish banks was 17.27% in 2018. The fact that 80.88% of the regulatory capital consists of the core capital shows that the banking sector still keeps up its strong capital structure, the levels around 90% which were achieved in the previous years could not be maintained.

As in the previous years, the banking sector has funded its asset growth which is out of loans given and accrued interests by deposits, equity, issued securities and loans to other banks in 2018.

Market Share %	2011	2012	2013	2014	2015	2016	2017	2018
PARTICIPATION BANKS	4.61	5.13	5.55	5.23	5.10	4.87	4.92	5.35
DEVELOPMENT &INVESTMENT BANKS	3.42	3.85	4.05	4.24	4.52	5.23	5.37	6.65
DEPOSIT BANKS	91.97	91.02	90.41	90.53	90.37	89.91	89.71	88.00
SECTOR	100	100	100	100	100	100	100	100

As of FYE2018, the deposit banks have a total share of 88% in the sector, while participation banks hold a share of 5.35% and development and investment banks have a share of 6.65%. The share of deposit banks still follows a decreasing trend.

In the last 9 years, the Turkish banking sector achieved growth in each year in a cumulative manner, and the total cumulative growth rate between 2010 and 2018 amounts to approximately 400%.

By means of the U.S. Dollars, on the other hand, the Turkish banking sector attained a cumulative growth rate of 1.2% between 2010 and 2018. In the last two years, the growth of the sector in terms of the U.S. Dollars has decreased due to the rapid depreciation of the Turkish Lira.

The fastest growing type of banks was development and investment banks with a 47.04% growth rate in 2018. In the same year, the yearly growth rate of the participation banks was 29.14%, whereas deposit banks attained a yearly growth rate of 16.43%.

In 2018, the foreign currency liabilities of the banking sector increased by 26.38% whereas the TRY liabilities rose by 10.50%, which brought a yearly growth rate of 18.85% in total liabilities. The growth of total assets, on the other hand, was provided by an increase of 34.43% in the assets denominated in foreign currencies and 8.82% growth in the assets denominated in the Turkish Lira.

Regarding the contribution to the growth; foreign currency deposits held the largest share among liabilities in 2018, whereas foreign currency debts to other banks ranked the second and domestic currency deposits had the third place. On the asset size; foreign currency loans contributed most to the asset growth, whereas accrued interests came the second and securities were the third. The amount of required reserves decreased in comparison to the previous year due to the easing in its regulations.

In the framework of the macro prudential policies of the Central Bank of Republic of Turkey, liquidity reserves and required reserves have always been significant parts of the liquidity management. In 2018, however, since some of the liquidity demand was fulfilled from these reserves, the share of required reserves in total assets decreased to 3.98%, which was 6.96% in 2017.

Although the profitability indicators started to demonstrate a downward inclination, their relatively high levels were still maintained in 2018. The large share of deposits in funding necessitates a well-established branch network which leads to increasing operating expenses, and this puts a downward pressure on the profitability of the sector. On the other hand, based on the assessment of the expected losses in the given loans, the banks cannot completely reflect their risk on their net interest margins. This weakens the banks' asset profitability indicators. The high levels of non-interest expenses indicate that there is still need for progress in terms of operational efficiency of the banks.

In 2018, the Turkish banking sector attained a return on asset level of 1.85% and a return on equity level of 16.86%.

Profitability Indicators of the Turkish Banking Sector	2018	2017	2016	2015	2014	2013
Interest Margin (%)	4.60	4.15	3.90	3.84	3.80	4.02
ROAA (%)	1.85	2.05	1.86	1.52	1.69	2.01
ROAE (%)	16.86	18.63	16.81	13.39	14.81	16.59
Net Profit Margin %	22.25	29.68	27.97	22.60	23.79	25.98

Although the cost of funding was increased at nationwide level, the banking sector has not been affected badly from it thanks to its wide net interest margins. Furthermore, the interest margin increased to 4.60% in 2018 from the levels of 3.84% in 2015, 3.90% in 2016 and 4.15% in 2017. However, provision expenses continue their negative pressure on the financial statements of the banks.

The main source of income for the Turkish banks could not be diversified enough that net interest income is still the main driver of income generation. Regarding the composition of the net interest margin, it is analyzed that provision expenses have a bigger impact on the Turkish banks' income statement than their EU counterparts. The main source of income for the Turkish banks is net interest income that constituted 60.77% of all income in 2018 and decreased from the previous year's figure of 69.19% due to the hike in cost of funding. The ratio of non-interest income to total income of the sector is quite below the average of the banks operating in the EU.

Regardless of the temporary yearly improvements, the average of the return on equity of the Turkish banking sector is in general lower than the returns of the government debt securities and the interest rates offered for deposits, taking into account the risks taken in a relative manner. This shows that the sector performs still lower than its potential by means of profitability.

Two of the major indicators of the sector's net foreign exchange position, namely "total foreign exchange position to assets" and "total foreign exchange position to equity" ratios, were 0.40% and 3.69% respectively as of FYE2018. The low levels of these two ratios demonstrate that the foreign currency risk has a negligible impact on the revenue generation capabilities of the sector. However, the use of derivative instruments to hedge the short positions in the balance-sheets with off balance-sheet transactions increased the renewal risk and counterparty risk of the Turkish banking sector.

Regarding the balance-sheet items, there are liquidity gaps in almost all of the term structures. By the effect of the increased level of provisions, the largest liquidity surplus was observed in 7-day and yearly terms. The off balance-sheet transactions create liquidity shortage as well. On the other hand, the Turkish banking system has an overall liquidity surplus since the sector operates with a combined structure of highly liquid assets and liabilities.

The sector finances 52.65% of its assets by deposits and/or participation accounts as of 2018. Despite the tax incentives provided since 2013 to lengthen the term structure of the deposits; the average term of the deposits could not exceed the level of 73.93 days in 2018, which was 74 days in 2012, 72.77 days in 2014, 84.8 days in 2015, 72.27 days in 2016 and 71.06 days in 2017.

Regarding the total balance-sheet of the sector, 62.01% of total assets consist of loans and leasing receivables, whereas securities, primarily government debt securities, make up 12.27% of it. The share of securities in total assets decreased, while the share of loans has slightly increased.

The credit risk, market risk and operational risk of the Turkish banking system are calculated according to the internal ratings-based approach and the BRSA regulations. Primarily regarding credit risk, independent external rating institutions have not yet taken part in the assessment of these risks. According to the data provided by the BRSA, the total risk calculated for the capital adequacy ratio consists of credit risk by 90.79%, operational risk by 7.35% and market risk by 1.86% in 2018. The total risk calculated was TRY 2,983,385mn.

In general, the Turkish banking sector covers its in balance-sheet short foreign exchange position by its off balance-sheet long foreign exchange position. The net total foreign exchange position has been remaining at a quite low level for a long period of time.

The share of total equity in the total balance-sheet of the sector was 13.17% in 2012, 11.19% in 2013, 11.64% in 2014, 11.12% in 2015 and decreased to 10.99% in 2016. The ratio has become 11.01% in 2017 but declined to 10.89% in 2018. The lowest share of equity in the sector belongs to the participation banks.

On the other hand, even though the development and investment banks lost their attractiveness and reputation in the developed countries due to their weakening equity structure, they maintain their high levels of equity and capital adequacy ratios in Turkey and continue to be attractive for investments.

In 2018, although the profitability and capital adequacy ratios increased, the rapid hike in NPL ratios could not be prevented despite the restructured loans and the non-performing loans which were sold to the asset management companies. The main reason for this hike was the deterioration in the financial structures of the companies in parallel with the increasing trend of the exchange rates.

A deceleration in loan growth and difficulties in profitability could be expected for the upcoming period together with the rising cost of funding, high rates of loan to deposit ratio and hardships in creating additional financial sources.

As the risk premium of Turkey increased in the recent period, the average cost of syndication loans that the Turkish banks provide from the international banking system has risen but we do not expect a deterioration in the roll-over capabilities of the sector. The financial and managerial strength of the sector, which has a dynamic character as well, is enough to balance possible external shocks and maintain its growth performance.

The Turkish banking sector's combination of loan and funding is quite balanced. In addition, its asset quality and financial sources are managed in a sustainable and steady manner.

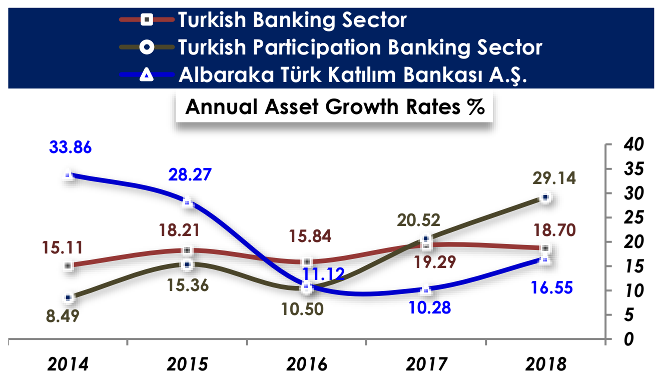
A well-established capital structure, profitability and asset quality facilitate the ways in which the banks provide loans and the real sector firms have access to these financial sources. Although we expect that the cost of funding will remain to be high and the net interest margin of the banks would contract, the general outlook of the sector will continue to be stable.

6. Financial Foundation

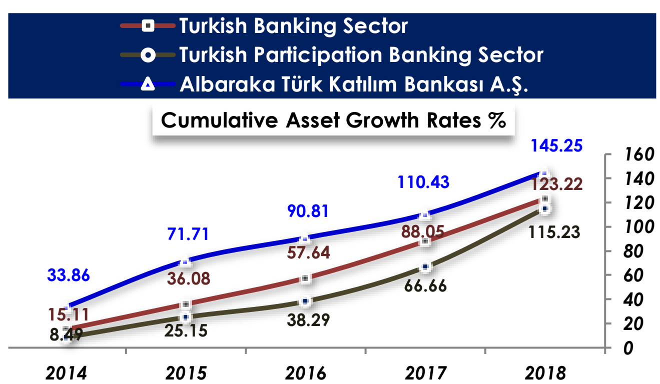
a) Financial Indicators & Performance

i. Indices relating to size

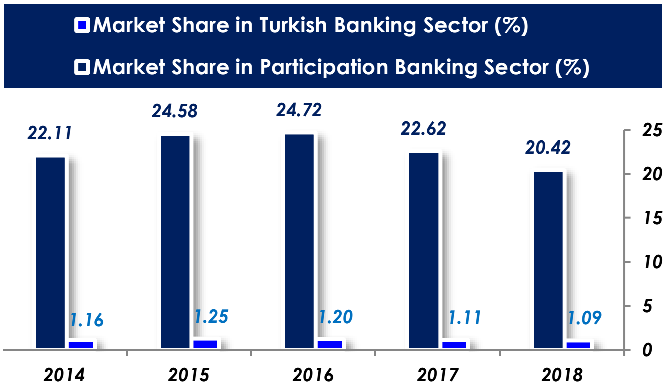
At FYE2018, Albaraka's asset size growth was 16.55% YoY, whereas those of the Participation Banks and the Turkish Banking Sector as a whole were 29.14% and 18.70%, respectively, and as such it underperformed the sector averages. The graph below presents the growth of the Bank's asset base in comparison to the sector.



The Bank's cumulative asset-based growth performance over the last five years was 145.25% and remained above the sector averages.



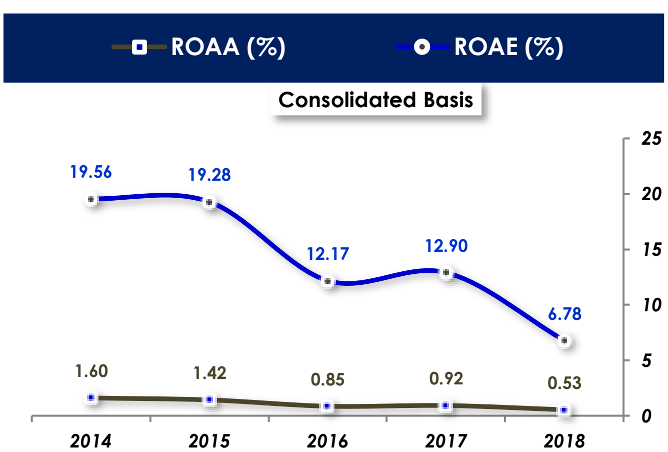
At FYE2018, the Bank's market shares in terms of assets within the Turkish Banking Sector and among Participation banks were 1.09% and 20.42% respectively, and represented a decline compared to the previous three years' figures.



According to the consolidated 2018 year-end financial statements; the Bank's assets, deposits, equity and loans (including leasing and receivables) increased by 16.21%, 13.05%, 34.26% and 3.94% respectively.

ii. Indices relating to profitability

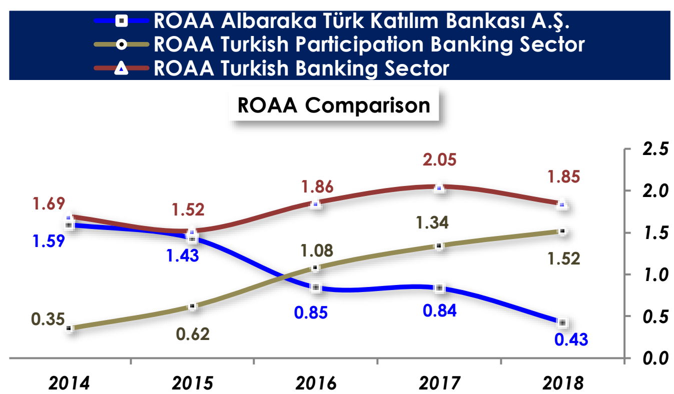
As per to the consolidated financial statements, the Bank gained a net profit of TRY 173.2mn at FYE2018, remarkably down compared to the previous year's figure of TRY 265.5mn. Resulting from contraction in profit, the Bank's ROAA and ROAE ratios were reduced to 0.53% and 6.78% at FYE2018 from 0.92% and 12.90% at FYE2017, respectively. Those figures indicate lowest and weak profitability performance over the reviewed period.

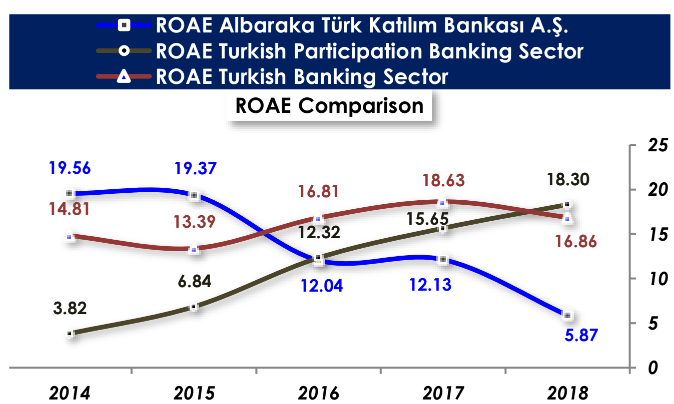


The Bank's solo based net profit was TRY 134mn at FYE2018 and contracted by 43.50% YoY compared to the previous year's figure of TRY 237.1mn. In the same period, the increase in the net profit of both the Turkish Banking and the Participation Banking Sectors were 10.02% and 34.06% respectively. Regarding net profit growth, the Bank underperformed the sector averages as in the previous year.

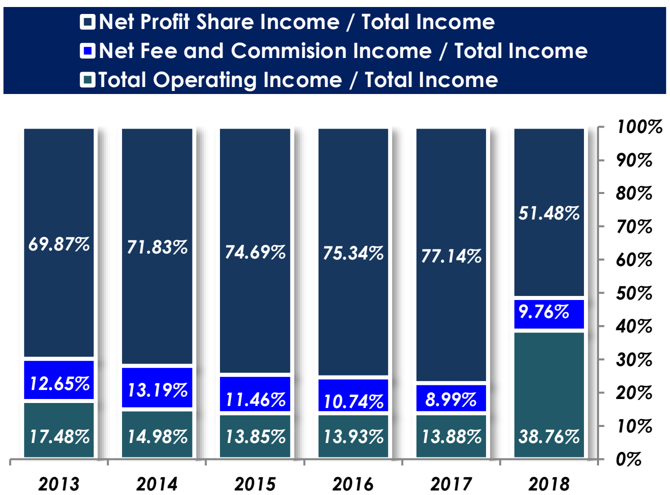
Contraction in net profit share income, higher OPEX and provision expenses were the principal underlying reasons for the lower profitability. At FYE2018, while the profit share income increased by 13.05% YoY, profit share expenses increased by 41.99% YoY. Accordingly, net profit share income contracted by 18.28% YoY. The Bank's OPEX augmented to TRY 1,205mn at FYE2018 from TRY 874mn with an increase of 37.90%. Impairment expenses of assets held for sale and assets of discontinued operations amounted to TRY 211mn supported the growth of OPEX. At FYE2018, the Bank's OPEX to total income and provision expenses to total income ratios were 58.70% and 29.61% respectively, and higher than sector averages. The aforementioned ratios of the Turkish Banking Sector were 28.23% and 27.40% respectively. The same ratios across the Participation Banking Sector were 35.33% and 39.58% at FYE2018 respectively.

Following FY2014, erosion in profitability is continued and both the ROAA and ROAE, which are essential profitability metrics, decreased and stayed on lower side. Regarding those indicators, the Bank underperformed compared to the sector averages.





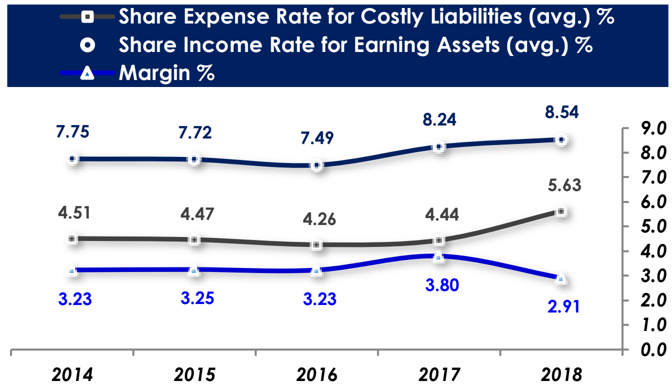
The portion of Net Profit Share Income within the total income composition of the Bank contracted to 51.48% at FYE2018 from the previous year's figure of 77.14%. Despite the increase in net fee and commission share in total income to 9.76% at FYE2018, the ratio of the Turkish Banking and Participation Banking Sectors were 15.39% and 12.57% respectively and above the Bank's ratio. Together, the net profit share income with net fee & commission income accounted for 61.24% (FYE2017: 86.13%) of total income derived from sustainable streams.



FX gains amounting to TRY 335.6mn and reversal of prior year provisions amounting to TRY 314mn underpinned the growth of operating income and its share in total income at FYE2018.

The Bank's operating expenses to average total assets ratio was 2.96% at FYE2018 and underperformed the Turkish Banking and Participation Banking Sector averages of 1.91% and 2.14% respectively. That figure indicates the Bank's feeble efficiency.

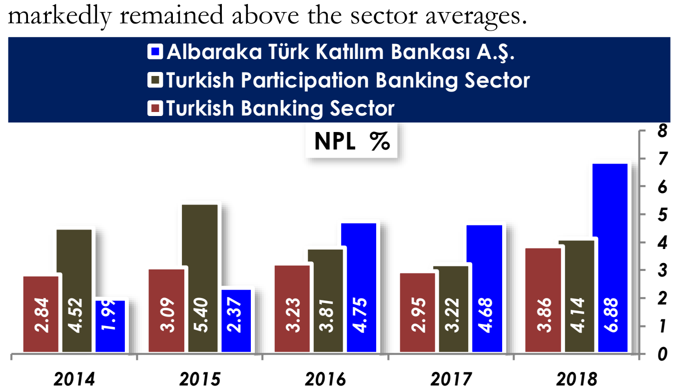
The Bank's net profit share income margin (NIM) remarkably contracted to 2.91% at FYE2018 from the previous year's figure of 3.80%. The ratio specifies that the Bank could not reflect the increase in cost of funding to its earning assets. As in the previous years, the margin remained somewhat below the Turkish Banking Sector averages.



b) Asset quality

The loans constituted the largest share in the Bank's total assets dispersal with a rate of 62.01% at FYE2018 (FYE2017:69.54%) and stayed above the Participation Banking Sector's ratio of 56.48% and in line with the Turkish Banking Sector's ratio of 62.01%.

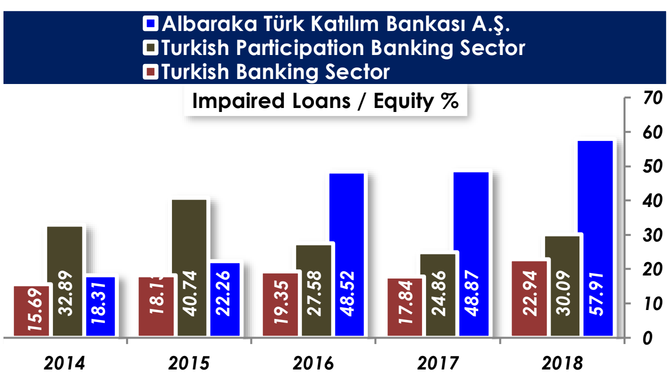
At FYE2018, the Bank's non-performing loans book was TRY 1,889mn and increased by 55.74% on a YoY basis. In FY2018, loans which amounted to TRY 1,388mn were transferred to the non-performing loans portfolio. On the other hand, the transfer of loans which amounted to TRY 470mn to the standard loan book and write off of TRY 242mn of non-performing loans thought to be un-collectible curtailed the non-performing loan growth. It should also note that sale/write-off of non-performing loans is a common practice across the sector. In addition, lower growth in loan portfolio (3.94% YoY) than the Turkish and Participation Banking Sectors' growths of 13.33% and 13.54% at FYE2018 respectively, contributed to the increase in NPLs. Accordingly, the Bank's NPL ratio increased to 6.88% at FYE2018 from the previous year's level of 4.68% and markedly remained above the sector averages.



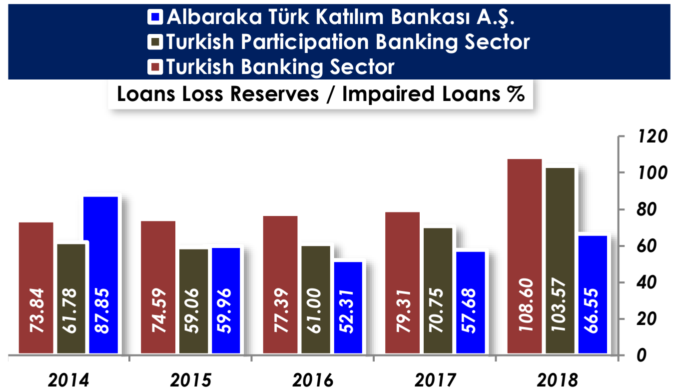
Since 1 January, 2018, the Bank has adopted provisions for impairment in accordance with the TFRS 9 "Regulation on Procedures and Principles for the Classification of Loans by Banks and the Provisions to be Reserved" published in the Official Gazette dated June 22, 2016. In line with the notice of BRSA dated 17 April 2018, FYE2017 statements were not restated.

The transition effect of implementation of TFRS 9 was restricted regarding the figures of FYE2017. Specific Provision (Default- Stage 3) and General Provision (12 Months Expected Credit Loss – Stage 1, Lifetime Expected Credit Loss – Stage 2) increased to TRY 1,035mn as of 1 January 2018 from TRY 824mn at FYE2017, due to notable increase in stage 2 loan loss. Specific Provision (Stage 3), 12 Months Expected Credit Loss (Stage 1) and Lifetime Expected Credit Loss (Stage 2) amplified to TRY 1,256mn at FYE2018, from TRY 824mn at FYE2017 with a rate of 52.53%.

The non-performing loans portfolio of the Bank as a proportion of its equity was 57.91% at FYE2018 and exhibited a notable growth compared to the previous year's ratio of 48.87%. Those figures were markedly higher than both the Turkish Banking Sector and Turkish Participation Sector. Those stages necessitate the management focus on credit quality.



The Bank's specific loan loss reserves coverage contracted to 47.31% at FYE2018 from 57.68% at FYE2017. The loss coverage is notably below both the Turkish Banking and the Participation Banking Sectors' figures of 68.32% and 63.30% respectively.



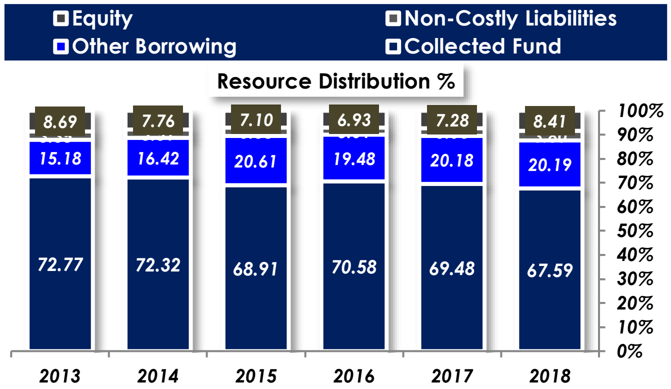
* FYE2018 figures including 12 Months Expected Credit Loss and Lifetime Expected Credit Loss in addition specific loan loss

In FY2019, we, as JCR Eurasia Rating, assume that NPLs in the banking sector will continue its increase due to deterioration in macro-economic indicators coupled with depressed economic activities following currency and interest attacks in the second half of FY2018 in particular.

Significant increase in Stage 2 credit risk (generally loans overdue by 30 days which do not exceed 90 days are transferred to this stage), which accounted for nearly 19.4% of total gross loans at FYE2018 (FYE2017: 3.6%), together with stage 3 credit constituted 26.3% of total gross loans, confirms the further deterioration possibility in loans quality.

c) Funding & Adequacy of Capital

Collected funds (deposits), accounted for the largest share of the Bank's funding mix with a rate of 67.59%, are the principal and conventional funding sources of the banking system. At FYE2018, total deposits of the Bank were equivalent to TRY 28,539mn and increased by 13.05% YoY. TRY denominated deposits constituted 40.98% (FYE2017:52.22%) of the Bank's total deposit base, with the remaining 59.02% comprised of FC deposits. In addition, according to the remaining contractual maturities of total deposits, 84.54% fell in the up to one-month maturity bracket indicating the short maturity profile of the deposits, which is also prevalent in the Turkish Banking Sector. At FYE2018, 65.18% of total deposits (TRY belonged to individuals and 37.83% of the saving deposits are covered by the Savings Deposit Insurance Fund (SDIF). The SDIF covers up to TRY 100K of deposit accounts held at each bank per investor.

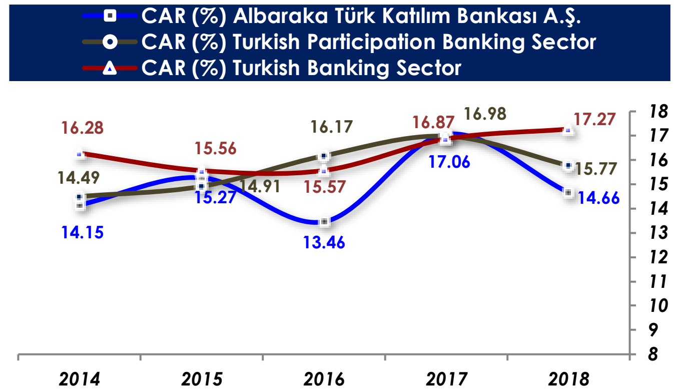


As per to the solo based financials, the Bank's total deposits (funds collected) increased by 13.09% YoY. In the same time, deposit growth in the Turkish Banking and Participation Banking Sectors were 20.03% and 31.96% respectively. Accordingly, the Bank's deposit-based market share in the Turkish Banking and Participation Banking Sectors contracted to 1.35% and 20.66% at FYE2018 from 1.43% and 24.11% at FYE2016 respectively.

Besides deposits, the Bank has diversified its funding sources principally through borrowing in the form of sukuk issuance, subordinated loans and borrowed funds. Although no debt securities were issued by the Bank, its subsidiary Bereket Varlık Kiralama A.Ş. and its structured entities Bereket One Ltd. and Albaraka Sukuk Ltd. issued borrowings in the domestic and international arenas.

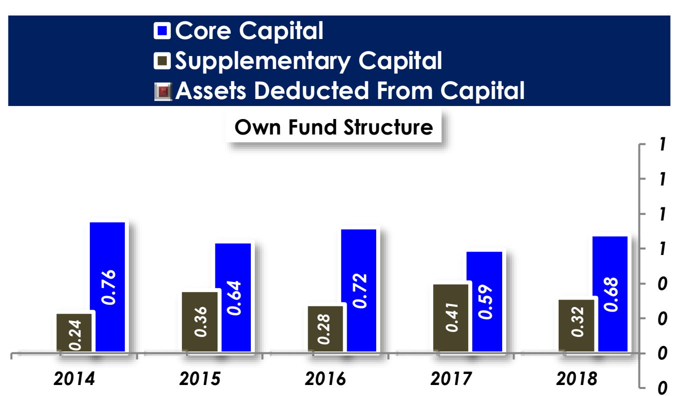
As of FYE2018, in addition to issued sukuk which amounted to TRY equivalent of 3,159mn, the Bank provided a subordinated loan amounting to USD 250mn in FY2015 with ten-year maturity with a grace period of 5 years through its structured entity Albaraka Sukuk Ltd. The Bank also provided funds in the form of Murabaha Syndication (and Wakala borrowing totally amounting to TRY equivalent of 2,876mn from overseas financial markets.

At FYE2018, the Bank's unconsolidated CAR was 14.66%, down from the previous year's ratio of 17.06% and remained well above the minimum CAR requirements set by the Basel Accord (8%) and recommended by the BRSA (12%). The ratio fell below the averages of both the Turkish Banking Sector and the Turkish Deposits Banks at FYE2018. In addition, the Bank's consolidated CAR ratio was 15.21% at FYE2018, down from 17.78% at FYE2017.

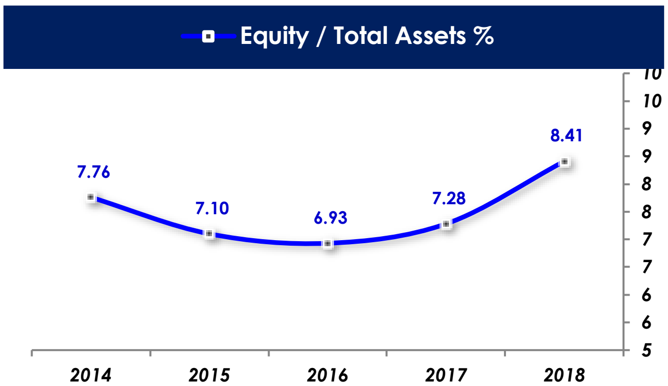


The Bank has also remained compliant with the minimum requirements of Common Equity Tier 1 Capital Ratio (4.5%) and Total Tier 1 Capital Ratio (6%) set by the BRSA, with figures of 7.56% and 9.98%, respectively (FYE2017: 10.11% and 10.09% respectively). The Common Equity Tier 1 Ratio of the Turkish Banking and the Participation Banking Sectors were 13.78% and 11.28%, respectively, and remained well above Bank's ratio. Additionally, capital conservation buffer requirement of the Bank was 1.88% at FYE2018. Consequently, the Bank's unconsolidated Common Equity Tier 1 Capital Ratio was 7.56% and higher than the required minimum level (6.38%).

The Bank's consolidated own fund dispersion is represented in the graph below. The share of core capital, principally consisting of paid-up capital, retained earnings and additional tier 1 capital, comprised 68.21% of the Bank's total own fund structure, whilst the supplementary capital accounted for 31.82% of the Bank's own fund structure at FYE2018 and stayed above the Turkish Banking Sector and the Participation Banking Sectors averages of 19.15% and 25.46% respectively. Supplementary capital, classified as second-tier capital under the regulatory capital, contributed 4.66% to the Bank's unconsolidated CAR as of FY2018.



The Bank's equity to total assets ratio increased to 8.41% at FYE2018 from 7.28% at FYE2017. Perpetual additional tier 1 capital amounted to USD 205mn (TRY equivalent of 775.7mn) was issued by Bereket One Ltd in 2018, recognized under other capital reserves as of FYE2018, supported the ratio increase. The ratio was 8.11% for the Participation Banking and 10.89% for the Turkish Banking Sectors at FYE2018.



Accordingly, we, as JCR Eurasia Rating, assume that the current CAR provides a reasonable buffer against potential incidental losses, regarding the Bank's higher reliance on Tier II capital which is not considered to be loss absorbent.

7. Risk Profile and Management

a) Risk Management Organization & its Function – General Information

Albaraka Türk is mainly exposed to Credit, Liquidity, Operational and Market risks. The Board of Directors has the overall responsibility for the implementation and overseeing of an effective risk management mechanism and culture. In this sense, the Bank has set up Credit, Audit Corporate Governance, Remuneration, Sustainability & Social Responsibility and Executive Committees. The Bank has also formed several committees with the participation of senior executives to establish a thorough and comprehensive risk management system under its risk management framework. In addition, at the BoD meeting dated 24 December 2018, a decision was made to form "Information Technology Governance Committee" for evaluating, developing and reporting the Bank's studies in the field of information technologies taking into account international best practices along with the fulfillment of the duties and responsibilities assigned to it by the Board of Directors.

The Audit Committee, which is comprised of three full and three observing Board Members, assists the audit and supervision activities of the BoD. The Audit Committee is also responsible for monitoring the operations of the Bank's internal systems, accounting and reporting systems. In line with BRSA regulations, the Bank has established "Internal Systems" to identify, measure, monitor and control risks which arise as a result of the Bank's strategies and activities. Within the scope of the Internal Systems; Inspection, Internal Control, Risk Management and Legislation and Compliance units operate under the supervision of the Audit Committee and the BoD.

Overall, the Bank has formed the sufficient mechanisms and administrative units that are required by the Banking Law and supervisory bodies.

b) Credit Risk

Albaraka Türk manages its credit risk through the allocation of loan limits for customers and customer groups as well as the definition of limits for sectors and geographical regions within its credit risk policy, procedures and risk appetite.

Credit limit assignment authority primarily belongs to the Board of Directors and is based on the authority given by the BoD, the credit risk limits are also determined by head office loan committee and loan committee. Head-office loan committee may exercise such authority partially through units of the Bank or branches. In accordance with the Bank's lending policies, satisfactory collaterals such as cash collateral, bank guarantees, mortgages, pledges, bills and personal or corporate guarantees are required in line with the financial position of the debtor and its creditworthiness. Credit limits on clients are revised periodically or when necessary due to changes in the economic environment and/or the creditworthiness of the debtors. According to the decision made by the BoD, the loans above 15% of the Bank's equity cannot be granted to a real person or legal entity.

Although, the Bank uses the standard approach for the calculation of capital adequacy ratio, internal rating-based outcomes are used for credit allocation and authorization limits at the approval stage. In this sense, the Bank utilizes an in-house developed internal risk rating model and calculates the default probability for each customer classified on a scale from "A" to "D". Outputs from internal risk rating models are incorporated into the relevant lending policies and procedures by rating customers using objective criteria with respect to loans portfolio.

At FYE2018, 62.01% of Bank assets were extended as customer loans (including receivables from lease assets) and distributed as SMEs, corporates and retail lending with rates of 48.1%, 41.7% and 10.2%, respectively, based on the figures provided by the Bank. Nearly 46% of loans are extended in TRY and the remainder in foreign currencies (including FX indexed credits).

The Bank's total risk weighted assets and required minimum capital were TRY 31,148mn and TRY 2,492mn respectively. Required minimum capital for the credit risk was 2,177mn at FYE2018. 73.30% of the extended cash loans (including leasing receivables) were unsecured.

The Bank's (i) largest 100 cash loan customers comprised 51% (FYE2017:40%) of the total cash loan portfolio as of FYE2018, (ii) the largest 100 non-cash loan customers composed 49% (FYE2017:47%) of the total non-cash loan portfolio as of FYE2018 and (iii) the largest 100 cash and non-cash loan customers represented 44.00% of the total "on and off-balance sheet" as of FYE2018 (FYE2017: 37%). Those figures indicate high credit concentration risk among the largest 100 customers and a notable increase compared to the previous year's figures.

c) Market Risk

In the context of market risk, the Bank is exposed to exchange rate, equity position, profit rate and commodity risks. Albaraka executes and monitors its market risks and takes appropriate measurements in accordance with the 'Regulation on Measurement and Evaluation of Capital Adequacy of Banks'. The Bank calculates and reports market risk using the 'Standard Method', in line with the methodology outlined in BRSA regulations. In addition to the 'Standard Method', the Bank measures and monitors its market risk through its Internal Models with testing purposes.

The Bank does not have any interest sensitive assets or liabilities and consequently does not face any interest-based risk owing to interest free banking operations. Therefore, the Bank is mostly exposed to the fluctuations in currency exchanges. The currency risk and net foreign currency position/equity ratio is monitored on a daily basis regarding the limits set by BoD. At FYE2018, the Bank was long in USD (equivalent to TRY 104.7mn) and in EUR in particular (equivalent to TRY 1,114mn) as well as long in other FX (equivalent to TRY 43.8mn) through on balance sheet items. Thus, overall, the Bank has a net long position equivalent to TRY 1,262mn on balance sheet position. At FYE2018, the Bank's net FX position to assets and equity ratios were 3.20% and 38.03% respectively and exhibited notable increases compared to the previous year's figures of 0.29% and 3.96% respectively.

d) Liquidity Risk

The liquidity risk is managed by ALCO in line with risk management policies and risk appetite approved by the BoD in order to take appropriate and timely measures against possible liquidity shortages that may arise from market conditions and balance sheet profile of the Bank. Within the framework of its "Contingency Funding Plan" the Bank employs mechanisms to avoid increases in liquidity risk during normal and liquidity crisis scenarios for different conditions and risk levels.

Albaraka Türk meets its liquidity needs through domestic in particular and foreign markets. As in the sector, collected funds (deposits) are steadily foremost funding sources. While the short-term liquidity needs are met through deposits, internal sources and money markets, the long-term liquidity needs are provided generally through customer deposits, syndicated loans, borrowing in the form of sukuk issuance, subordinated loans, equity and others. The management makes an effort to obtain good access to various financing sources in the event of fluctuations in the markets.

The BRSA's Regulation on Liquidity Coverage Ratios stipulating that Banks must maintain an adequate level of high-quality liquid assets (HQLA) on consolidated and unconsolidated bases to meet the net cash outflows. The ratios of the HQLA stock to the net cash outflows have been kept to a minimum of 100% in respect of total consolidated and unconsolidated liquidity and 80% in respect of total consolidated and unconsolidated foreign currency liquidity. Those ratios were applied by deposit banks as 90% and 70%, respectively for 2018 as per the BRSA decision.

The average Liquidity Coverage Ratios of the Bank on consolidated and unconsolidated bases for the last quarter of FY2018 are given below. The liquidity ratios were above the required levels and remained compliant with BRSA parameters in 2018.

Average LCRs FY2018 of Albaraka	Turkish Lira + Foreign Currency	Foreign Currency
Consolidated LCR	266.15%	301.65%
Unconsolidated LCR	250.80%	293.47%

e) Operational, Legal Regulatory & Other Risks

Albaraka Türk calculates operational risk by using the basic indicator approach according to the 'Communiqué on Measurement and Evaluation of Capital Adequacy of Banks'. The Bank categorizes operational risks under five groups according to occurring sources; employee, technologic, organization, legal & compliance and external risks.

In order to minimize operational and other risks, the Bank implements human resources, network security and back-up recovery policies. The risk management, internal audit, internal control and compliance departments measure, monitor and take timely precautions in line with its risk management applications frame. The Bank also insures its premises and equipment, as well liability insurance.

In 2018, the Bank was charged with penalties amounting to TRY 76.3k from public institutions. Regarding the Bank's size and scale of operations, the charged fines are immaterial and not expected to have a serious negative impact on the continuity of operations. The Bank complies with laws and follows the regulations set by the authorities and changes to the legal framework.

Albaraka Türk Katılım Bankası A.Ş. BALANCE SHEET - ASSET (000)	FYE 2018 USD (Converted)	FYE 2018 TRY (Original)	FYE 2018 TRY (Average)	FYE 2017 TRY (Original)	FYE 2017 TRY (Average)	FYE 2016 TRY (Original)	FYE 2016 TRY (Average)	FYE 2015 TRY (Original)	As % of 2018 Assets (Original)	As % of 2017 Assets (Original)	As % of 2016 Assets (Original)	FYE 2018 Growth Rate %	FYE 2017 Growth Rate %	FYE 2016 Growth Rate %
A- TOTAL EARNING ASSETS (I+II+III)	**7,065,968**	**37,173,352**	**35,137,080**	**33,100,807**	**32,196,616**	**31,292,424**	**29,578,076**	**27,863,727**	**88.04**	**91.11**	**95.40**	**12.30**	**5.78**	**12.31**
I- LOANS AND LEASING RECEIVABLES (net)	**4,977,283**	**26,184,989**	**25,689,226**	**25,193,463**	**23,957,759**	**22,722,054**	**21,113,723**	**19,505,392**	**62.02**	**69.34**	**69.27**	**3.94**	**10.88**	**16.49**
a) Short Term Loans	4,785,052	25,173,679	24,558,444	23,943,209	22,629,418	21,315,626	19,843,013	18,370,399	59.62	65.90	64.99	5.14	12.33	16.03
b) Lease Assets	72,146	379,554	558,318	737,081	808,030	878,979	913,203	947,427	0.90	2.03	2.68	-48.51	-16.14	-7.22
c) Medium- & Long-Term Loans	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
d) Over Due Loans	358,978	1,888,547	1,550,579	1,212,610	1,159,282	1,105,954	787,184	468,413	4.47	3.34	3.37	55.74	9.64	136.1
e) Others	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
f) Receivable from Customer due to Brokerage Activities	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
g) Allowance for Loan and Receivables Losses (-)	-238,893	-1,256,791	-978,114	-699,437	-638,971	-578,505	-429,676	-280,847	-2.98	-1.93	-1.76	79.69	20.90	106
II- OTHER EARNING ASSETS	**1,769,756**	**9,310,509**	**7,661,453**	**6,012,396**	**6,252,614**	**6,492,831**	**6,522,683**	**6,552,535**	**22.05**	**16.55**	**19.80**	**54.86**	**-7.40**	**-0.91**
a) Balance with Banks -Time Deposits	991,909	5,218,335	3,364,871	1,511,407	1,834,792	2,158,177	2,320,396	2,482,614	12.36	4.16	6.58	245.26	-29.97	-13.07
b) Money Market Placements	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
c) Reserve Deposits at CB	580,626	3,054,614	3,391,529	3,728,443	3,403,077	3,077,710	3,037,538	2,997,366	7.23	10.26	9.38	-18.07	21.14	2.68
d) Balance With CB- Demand Deposits	197,221	1,037,560	905,053	772,546	1,014,745	1,256,944	1,164,750	1,072,555	2.46	2.13	3.83	34.30	-38.54	17.19
III- SECURITIES AT FAIR VALUE THROUGH P/L	**318,929**	**1,677,854**	**1,786,401**	**1,894,948**	**1,986,244**	**2,077,539**	**1,941,670**	**1,805,800**	**3.97**	**5.22**	**6.33**	**-11.46**	**-8.79**	**15.05**
a) Treasury Bills and Government Bonds	318,929	1,677,854	1,105,329	532,803	600,693	668,582	715,736	762,890	3.97	1.47	2.04	214.91	-20.31	-12.36
b) Other Investment	0	0	681,073	1,362,145	1,385,551	1,408,957	1,225,934	1,042,910	n.a	3.75	4.30	-100.0	-3.32	35.10
c) Repurchase Agreement	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
B- INVESTMENTS IN ASSOCIATES (NET) + EQUITY SHARE	**18,927**	**99,571**	**61,380**	**23,189**	**21,114**	**19,038**	**15,459**	**11,880**	**0.24**	**0.06**	**0.06**	**329.39**	**21.80**	**60.25**
a) Investments in Associates (Net)	673	3,540	4,130	4,719	4,719	4,719	4,719	4,719	0.01	0.01	0.01	-24.98	0.00	0.00
b) Equity Share	18,254	96,031	57,251	18,470	16,395	14,319	10,740	7,161	0.23	0.05	0.04	419.93	28.99	99.96
C- NON-EARNING ASSETS	**940,718**	**4,949,024**	**4,078,368**	**3,207,711**	**2,348,051**	**1,488,391**	**1,565,116**	**1,641,840**	**11.72**	**8.83**	**4.54**	**54.29**	**115.52**	**-9.35**
a) Cash and Cash Equivalents	347,128	1,826,207	1,541,107	1,256,006	960,202	664,398	749,638	834,877	4.33	3.46	2.03	45.40	89.04	-20.42
b) Balance with Banks - Current Accounts	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
c) Financial Assets at Fair Value through P/L	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
d) Accrued Interest from Loans and Lease	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
e) Other	593,590	3,122,817	2,537,261	1,951,705	1,387,849	823,993	815,478	806,963	7.40	5.37	2.51	60.00	136.86	2.11
- Intangible Assets	6,982	36,734	32,607	28,479	31,975	35,470	39,877	44,283	0.09	0.08	0.11	28.99	-19.71	-19.90
- Property and Equipment	124,590	655,457	622,563	589,668	553,401	517,134	509,137	501,139	1.55	1.62	1.58	11.16	14.03	3.19
- Deferred Tax	32,214	169,474	112,490	55,506	40,287	25,067	22,746	20,424	0.40	0.15	0.08	205.33	121.43	22.73
- Other	429,803	2,261,152	1,769,602	1,278,052	762,187	246,322	243,720	241,117	5.36	3.52	0.75	76.92	418.85	2.16
TOTAL ASSETS	8,025,613	42,221,947	39,276,827	36,331,707	34,565,780	32,799,853	31,158,650	29,517,447	100.00	100.00	100.00	16.21	10.77	11.12

Albaraka Türk Katılım Bankası A.Ş. BALANCE SHEET LIABILITIES & SHAREHOLDERS' EQUITY (000)	FYE 2018 USD (Converted)	FYE 2018 TRY (Original)	FYE 2018 TRY (Average)	FYE 2017 TRY (Original)	FYE 2017 TRY (Average)	FYE 2016 TRY (Original)	FYE 2016 TRY (Average)	FYE 2015 TRY (Original)	As % of 2018 Assets (Original)	As % of 2017 Assets (Original)	As % of 2016 Assets (Original)	FYE 2018 Growth Rate %	FYE 2017 Growth Rate %	FYE 2016 Growth Rate %
A- COST BEARING RESOURCES (I+II)	**7,045,218**	**37,064,187**	**34,819,095**	**32,574,002**	**31,056,337**	**29,538,671**	**27,981,913**	**26,425,155**	**87.78**	**89.66**	**90.06**	**13.78**	**10.28**	**11.78**
I- DEPOSIT	**5,424,800**	**28,539,331**	**26,891,588**	**25,243,844**	**24,197,346**	**23,150,848**	**21,746,072**	**20,341,295**	**67.59**	**69.48**	**70.58**	**13.05**	**9.04**	**13.81**
a) TRY Deposit	2,223,092	11,695,466	12,438,593	13,181,719	12,867,288	12,552,857	11,942,075	11,331,293	27.70	36.28	38.27	-11.28	5.01	10.78
b) FC Deposit	3,201,708	16,843,865	14,452,995	12,062,125	11,330,058	10,597,991	9,803,997	9,010,002	39.89	33.20	32.31	39.64	13.82	17.62
c) FC & LC Banks Deposits	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
II- BORROWING FUNDING LOANS & OTHER	**1,620,418**	**8,524,856**	**7,927,507**	**7,330,158**	**6,858,991**	**6,387,823**	**6,235,842**	**6,083,860**	**20.19**	**20.18**	**19.48**	**16.30**	**14.75**	**5.00**
a) Borrowing from Domestic Market	309,042	1,625,841	1,199,336	772,831	476,232	179,632	164,768	149,903	3.85	2.13	0.55	110.37	330.23	19.83
b) Borrowing from Overseas Markets	935,726	4,922,761	4,756,463	4,590,164	4,397,317	4,204,470	4,063,956	3,923,441	11.66	12.63	12.82	7.25	9.17	7.16
c) Borrowing from Interbank	146,735	771,957	555,979	340,000	416,392	492,784	631,872	770,959	1.83	0.94	1.50	127.05	-31.00	-36.08
d) Securities Sold Under Repurchase Agreements	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
e) Subordinated Loans & Others	228,915	1,204,297	1,415,730	1,627,163	1,569,050	1,510,937	1,375,247	1,239,557	2.85	4.48	4.61	-25.99	7.69	21.89
B- NON-COST BEARING RESOURCES	**305,305**	**1,606,178**	**1,359,334**	**1,112,490**	**1,050,251**	**988,011**	**992,138**	**996,264**	**3.80**	**3.06**	**3.01**	**44.38**	**12.60**	**-0.83**
a) Provisions	17,275	90,880	177,873	264,865	249,370	233,874	242,870	251,865	0.22	0.73	0.71	-65.69	13.25	-7.14
b) Current & Deferred Tax Liabilities	0	0	47,008	94,015	72,927	51,838	54,924	58,010	n.a	0.26	0.16	-100.00	81.36	-10.64
c) Trading Liabilities (Derivatives)	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
d) Other Liabilities	288,030	1,515,298	1,134,454	753,610	727,955	702,299	694,344	686,389	3.59	2.07	2.14	101.07	7.31	2.32
C- TOTAL LIABILITIES	**7,350,523**	**38,670,365**	**36,178,429**	**33,686,492**	**32,106,587**	**30,526,682**	**28,974,051**	**27,421,419**	**91.59**	**92.72**	**93.07**	**14.79**	**10.35**	**11.32**
E- EQUITY	**675,090**	**3,551,582**	**3,098,399**	**2,645,215**	**2,459,193**	**2,273,171**	**2,184,600**	**2,096,028**	**8.41**	**7.28**	**6.93**	**34.26**	**16.37**	**8.45**
a) Prior Year's Equity	502,807	2,645,215	2,459,193	2,273,171	2,184,600	2,096,028	1,941,017	1,786,005	6.27	6.26	6.39	16.37	8.45	17.36
b) Equity (Added from Internal & External Resources at This Year)	89,541	471,068	210,784	-49,500	-45,982	-42,464	-16,642	9,180	1.12	-0.14	-0.13	-1,052	16.57	-562.6
c) Profit & Loss	32,929	173,235	219,366	265,497	242,552	219,607	260,225	300,843	0.41	0.73	0.67	-34.75	20.90	-27.00
d) Minority Interest	49,814	262,064	209,056	156,047	78,024	0	0	0	0.62	0.43	n.a	67.94	n.a	n.a
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**8,025,613**	**42,221,947**	**39,276,827**	**36,331,707**	**34,565,780**	**32,799,853**	**31,158,650**	**29,517,447**	**100.00**	**100.00**	**100.00**	**16.21**	**10.77**	**11.12**
	USD Rates 1=TRY	**5.2609**		**3.8104**		**3.5192**		**2.9076**						

Albaraka Türk Katılım Bankası A.Ş. INCOME STATEMENT (000) TRY	FY 2018	FY 2017	FY 2016
Net Profit Share Income	**1,041,278.00**	**1,274,182.00**	**1,024,044.00**
a) Profit Share Income	3,000,503.00	2,654,045.00	2,216,811.00
b) Profit Share Expense	1,959,225.00	1,379,863.00	1,192,767.00
Net Fee and Commission Income	**197,508.00**	**148,457.00**	**145,935.00**
a) Fee and Commission Income	292,525.00	216,704.00	208,127.00
b) Fee and Commission Expense	95,017.00	68,247.00	62,192.00
Total Operating Income	**784,053.00**	**229,208.00**	**189,319.00**
Net trading income (+/-)	-26,231.00	-21,019.00	102,994.00
Foreign Exchange Gain or Loss (net) (+/-)	335,605.00	13,351.00	-58,055.00
Gross Profit from Retail Business	0.00	0.00	0.00
Premium income from insurance business	0.00	0.00	0.00
Income on Sale of Equity Participations and Consolidated Affiliates	0.00	8,002.00	200.00
Gains from Investment Securities (Net)	-3,708.00	0.00	0.00
Other Operating Income	470,773.00	224,600.00	141,628.00
Taxes other than Income	0.00	0.00	0.00
Dividend	7,614.00	4,274.00	2,552.00
Provisions	**607,836.00**	**460,758.00**	**356,274.00**
Provision for Impairment of Loan and Trade Receivables	607,836.00	460,758.00	356,274.00
Other Provision	0.00	0.00	0.00
Total Operating Expense	**1,205,080.00**	**873,885.00**	**737,106.00**
Salaries and Employee Benefits	539,998.00	444,841.00	417,031.00
Depreciation and Amortization	267,705.00	64,088.00	66,401.00
Other Expenses	397,377.00	364,956.00	253,674.00
Profit from Operating Activities before Income Tax	**209,923.00**	**317,204.00**	**265,918.00**
Income Tax – Current	36,688.00	76,256.00	53,999.00
Income Tax – Deferred	0.00	-24,549.00	-7,688.00
Net Profit for the Period	**173,235.00**	**265,497.00**	**219,607.00**
Total Income	**2,052,778.00**	**1,672,866.00**	**1,417,353.00**
Total Expense	**1,235,019.00**	**894,904.00**	**795,161.00**
Provision	**607,836.00**	**460,758.00**	**356,274.00**
Pre-tax Profit	**209,923.00**	**317,204.00**	**265,918.00**

Albaraka Türk Katılım Bankası A.Ş. FINANCIAL RATIOS %	FY 2018	FY 2017	FY 2016
I. PROFITABILITY & PERFORMANCE			
1. ROAA – Pre-tax Profit / Total Assets (avg.)	0.53	0.92	0.85
2. ROAE – Pre-tax Profit / Equity (avg.)	6.78	12.90	12.17
3. Total Income / Equity (avg.)	66.25	68.02	64.88
4. Total income / Total Assets (avg.)	5.23	4.84	4.55
5. Provisions / Total Income	29.61	27.54	25.14
6. Total Expense / Total Liabilities (avg.)	3.41	2.79	2.74
7. Net Profit for the Period / Total Assets (avg.)	0.44	0.77	0.70
8. Total Income / Total Expenses	166.21	186.93	178.25
9. Non-Cost Bearing Liabilities + Equity- Non-Earning Assets / Total Assets	0.49	1.51	5.40
10. Non-Cost Bearing Liabilities - Non-Earning Assets / Total Assets	-7.92	-5.77	-1.53
11. Total Operating Expenses / Total Income	58.70	52.24	52.01
12. Net Interest Margin	2.96	3.96	3.46
13. Operating ROAA (avg.)	5.52	4.91	4.68
14. Operating ROAE (avg.)	70.01	69.01	66.77
15. Interest Coverage – EBIT / Interest Expenses	110.71	122.99	122.29
16. Net Profit Margin	8.44	15.87	15.49
17. Gross Profit Margin	10.23	18.96	18.76
18. Market Share in Turkish Participation Banking Sector	20.42	22.62	24.72
19. Market Share in Entire Banking System	1.09	1.11	1.20
20. Growth Rate	16.21	10.77	11.12
II. CAPITAL ADEQUACY (year-end)			
1. Equity Generation / Prior Year's Equity	17.81	-2.18	-2.03
2. Internal Equity Generation / Previous Year's Equity	6.55	11.68	10.48
3. Equity / Total Assets	8.41	7.28	6.93
4. Core Capital / Total Assets	7.65	6.72	6.74
5. Supplementary Capital / Total Assets	3.57	4.62	2.60
6. Tier 1 Capital Ratio	10.37	10.54	9.73
7. Own Fund / Total Assets	11.22	11.34	9.32
8. Standard Capital Adequacy Ratio	15.21	17.78	13.45
9. Surplus Own Fund	47.40	55.01	40.54
10. Free Equity / Total Assets	6.54	5.52	5.19
11. Equity / Total Guarantees and Commitments + Equity	22.20	18.77	17.19
III. LIQUIDITY (year-end)			
1. Liquidity Management Success (On Demand)	97.83	94.62	96.83
2. Liquidity Management Success (Up to 1 Month)	85.85	83.92	85.28
3. Liquidity Management Success (1 to 3 Months)	98.01	99.66	98.24
4. Liquidity Management Success (3 to 6 Months)	98.29	98.73	97.25
5. Liquidity Management Success (6 to 12 Months)	98.29	98.73	97.25
6. Liquidity Management Success (Over 1 Year & Unallocated)	85.11	80.74	85.86
IV. ASSET QUALITY			
1. Loan and Receivable's Loss Provisions / Total Loans and Receivables	4.58	2.70	2.48
2. Total Provisions / Profit Before Provision and Tax	74.33	59.23	57.26
3. Impaired Loans / Gross Loans	6.88	4.68	4.75
4. Impaired Loans / Equity	53.17	45.84	48.65
5. Loss Reserves for Loans / Impaired Loans	66.55	57.68	52.31
6. Total FX Position / Total Assets	3.20	0.29	0.04
7. Total FX Position / Equity	38.03	3.96	0.59
8. Assets / Total Guarantees and Commitments + Assets	77.24	76.05	74.97

COMPARATIVE FINANCIAL FIGURES						
	Albaraka Türk Katılım Bankası A.Ş.		Kuveyt Türk Katılım Bankası A.Ş.		Türkiye Finans Katılım Bankası A.Ş.	
	FYE2018	FYE2017	FYE2018	FYE2017	FYE2018	FYE2017
ROAA (%)	0.43%	0.84%	1.71%	1.61%	1.32%	1.18%
ROAE (%)	5.87%	12.13%	22.45%	19.97%	13.58%	11.85%
Equity to Total Assets (%)	7.72%	6.85%	7.33%	8.04%	9.19%	10.39%
NPLs Ratio (%)	6.88%	4.68%	2.47%	1.85%	5.52%	5.15%
Assets Size Market Share (%)	1.09%	1.11%	1.92%	1.75%	1.22%	1.20%
Capital Adequacy Ratio (%)	14.66%	17.06%	17.68%	17.66%	16.62%	18.22%
Loans to Deposits (%)	91.75%	96.63%	84.96%	90.43%	111.03%	115.01%
Reserves to NPLs (%)	47.31%	57.68%	71.29%	93.39%	70.41%	70.88%
Total Assets (TRY 000)	42,223,652	36,229,077	74,232,325	57,123,095	47,052,484	39,080,897
Total Deposits (TRY 000)	28,539,331	25,309,840	53,986,278	39,857,400	26,862,479	22,030,496
Total Loans (TRY 000)	26,184,989	24,456,382	45,865,291	36,041,299	29,825,791	25,337,819
Total Equity (TRY 000)	3,261,451	2,481,506	5,438,553	4,591,151	4,323,181	4,060,598
Net Profit	133,968,000	237,093	869,812	673,991	444,750	375,360