İŞBANK AG
ANNUAL REPORT 2019

İŞBANK

CONTENTS

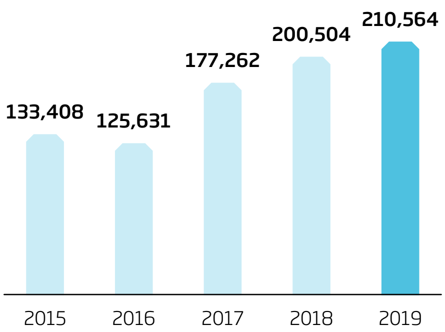
THE OUTSTANDING FINANCIAL PERFORMANCE İŞBANK AG ACHIEVED IN 2019 WAS A RESULT OF ITS SUCCESSFUL STRATEGIES.

(EUR thousand)	December 31, 2018	December 31, 2019	Change (%)
Total assets	1,805,038	1,806,789	0.10
Capital and reserves	200,504	210,564	5.02
Tangible assets	1,422	1,078	-24.24
Cash funds	143,831	247,740	72.24
Bonds and securities	135,229	110,539	-18.26
Due from banks	365,869	381,294	4.22
Due from customers	1,133,526	1,046,191	-7.70
Due to banks	357,100	298,207	-16.49
Due to customers	1,236,347	1,291,365	4.45
Risk-weighted assets	1,429,895	1,451,864	1.54
Interest income	58,650	59,800	1.96
Commission income	8,816	8,278	-6.10
Net income for the year	8,243	10,060	22.05
(%)			
Equity ratio	12.46	12.96	
Return on assets before taxes (§26a Abs.1 Satz 4 KWG)	0.67	0.82	
Return on assets after taxes (§26a Abs.1 Satz 4 KWG)	0.46	0.56	

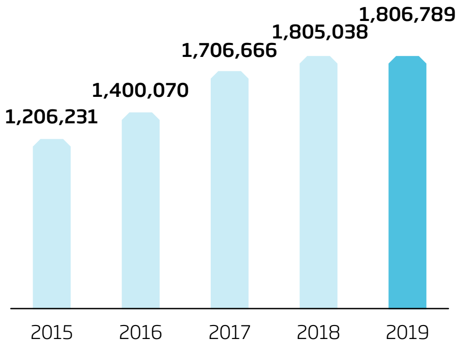
5.0%

IN 2019 İŞBANK AG'S CAPITAL AND RESERVES INCREASED BY 5.0% YEAR-ON-YEAR.

CAPITAL AND RESERVES
IN EUR THOUSAND



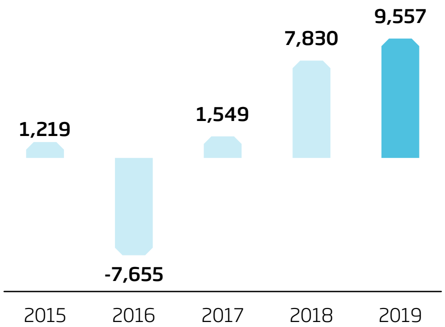
TOTAL ASSETS
IN EUR THOUSAND



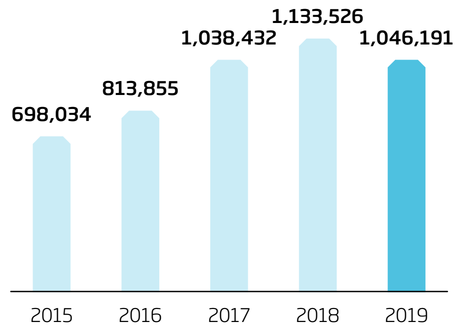
22.0%

THE RISE IN NET RETAINED PROFIT IN 2019 WAS REMARKABLE AT 22.0% YEAR-ON-YEAR

NET RETAINED PROFIT
IN EUR THOUSAND



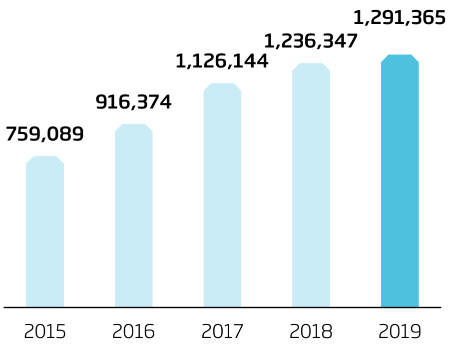
DUE FROM CUSTOMERS
IN EUR THOUSAND



4.5%

"DUE TO CUSTOMERS" GREW BY 4.5% IN 2019 AND REACHED EUR 1.3 BILLION.

DUE TO CUSTOMERS
IN EUR THOUSAND



İŞBANK AG IS A WHOLLY-OWNED SUBSIDIARY OF TÜRKİYE İŞ BANKASI A.Ş., WHICH IS THE LARGEST PRIVATE BANK OF TURKEY IN TERMS OF TOTAL ASSETS, TOTAL LOANS AND TOTAL DEPOSITS BY THE END OF 2019.

İŞBANK'S STRATEGY IS ACHIEVING SUSTAINABLE AND PROFITABLE GROWTH BASED ON "THE BANK CLOSEST TO CUSTOMERS" PHILOSOPHY.

TÜRKİYE İŞ BANKASI A.Ş. AT A GLANCE

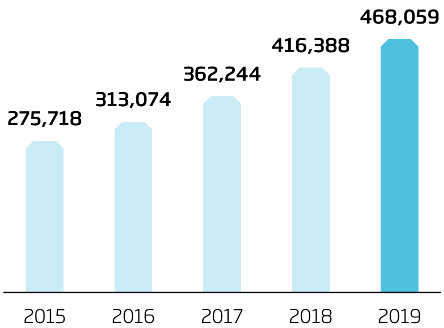
IN 2019, İŞBANK HAS BEEN THE HIGHEST RANKED PRIVATE TURKISH BANK IN THE BANKER MAGAZINE'S "TOP 1000 WORLD BANKS" LIST BASED ON TIER 1 CAPITAL.

İşbank AG is a wholly-owned subsidiary of Türkiye İş Bankası A.Ş. (İşbank), which is the largest private bank of Turkey in terms of total assets, total loans and total deposits by the end of 2019. İşbank maintains its solid financial structure with its capital adequacy ratio, which is comfortably above the regulatory minimum limits. In 2019, İşbank has been the highest ranked private Turkish bank in the Banker magazine's "Top 1000 World Banks" list based on Tier 1 capital.

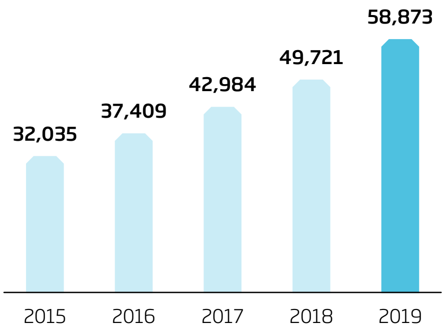
İşbank's strategy is achieving sustainable and profitable growth based on "the bank closest to customers" philosophy. In this regard, İşbank serves its retail, SME and large corporate customers with an extensive network and more than 24,000 employees. Having the largest branch and ATM network among private banks in Turkey with its 1,249 domestic branches and more than 6,500 ATMs, İşbank also strongly focuses on digitalization through its mobile applications and internet banking. The number of İşbank's digital customers reached more than 7.1 million by the end of 2019.

Besides İşbank AG, İşbank operates abroad through its 22 foreign branches (15 in Northern Cyprus, 2 in London, 1 in Bahrain, 2 in Iraq, 2 in Kosovo) and 2 representative offices in China and Egypt as well as 2 wholly- owned subsidiaries in Russia (İşbank Russia) and Georgia (İşbank Georgia). As a highly trusted financial institution, İşbank also maintains its pioneering position in foreign trade through its extensive correspondent network of banks based in over 120 countries.

BALANCE-SHEET TOTAL
IN TL MILLION



EQUITY
IN TL MILLION



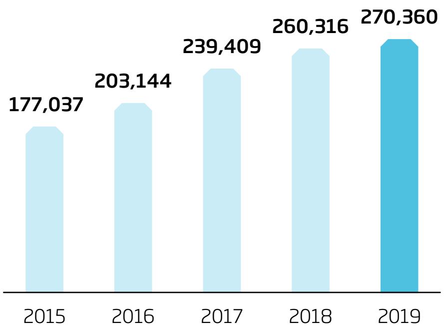
KEY FINANCIAL FIGURES	MARKET SHARE (%) [1]	RANKING [2]
Total Assets	11.1	1st
Total Loans	10.6	1st
TL Loans	10.1	1st
FX Loans	11.4	1st
Consumer Loans [3]	10.9	2nd
Non-Retail Loans	10.4	1st
Total Deposits	12.0	1st
TL Deposits	10.7	1st
FX Deposits	13.2	1st
Demand Deposits [4]	15.1	1st

OTHER PRODUCTS & DISTRIBUTION NETWORK	MARKET SHARE (%)	RANKING
Number of POS [5]	10.7	3rd
Acquiring Volume [5]	16.4	3rd
Number of Credit Cards [5]	11.6	3rd
Issuing Volume [5]	14.3	3rd
Volume of Debit Cards [5]	9.0	2nd
Number of Branches	12.5	1st
Number of ATMs	12.3	1st

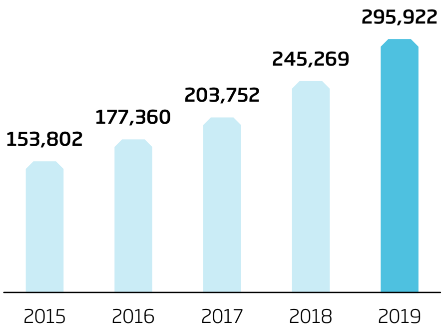
(1) Market share calculations are based on weekly BRSA data excluding participation banks. Total assets market share is based on monthly BRSA data.
(2) Ranking among private-sector banks
(3) Including retail overdraft accounts
(4) Excluding interbank deposits
(5) Market share calculations are based on Interbank Card Center (BKM) data

IN 2019 İŞBANK MAINTAINED ITS SECTORAL LEADERSHIP IN TOTAL LOANS AND TOTAL DEPOSITS EXCEEDING TL 270 BILLION AND TL 416 BILLION, RESPECTIVELY.

LOANS
IN TL MILLION



DEPOSITS
IN TL MILLION



MESSAGE FROM THE CHAIRMAN OF SUPERVISORY BOARD

İŞBANK AG SERVES A NICHE WITH A MISSION OF BEING THE PRIMARY BANKING INSTITUTION FOR TRADE RELATIONSHIPS BETWEEN GERMANY AND TURKEY.

The year 2019 was characterized by various difficulties across the board for the players in the global economy. Economic activity suffered a clear loss of momentum as geopolitical risks emerged cast a darker shadow, with pressing issues like trade wars, Brexit and signs of a slowdown continuing to define the global economic and political backdrop. While central banks and governments reverted to policies aimed at stimulating economic activity, renewed fears of a recession sent shockwaves through an overleveraged global economy. It is reported that the global outstanding debt of non-financial companies in the form of corporate bonds has doubled in real terms since the outbreak of the 2008 financial crisis. At the same time, rating profiles and bondholder rights markedly deteriorated, rendering the global debt portfolio significantly more sensitive to the effects of a recession by amplifying the effects of an economic downturn.

Even as we were already observing the gathering storm clouds, the world was hit by the COVID-19 pandemic starting early in the year, calling for unprecedented measures worldwide. The negative effects of the pandemic have already started being observed on the global economy.

Together with our parent, Türkiye İş Bankası A.Ş., we at İşbank AG are confident that with our experience, we are equipped to weather any storm which is thrown at us, as we have in the past. This is already evident in our 2019 financial results, which was hardly a buoyant year for business and banking activities. Despite the high level of volatility and slowing economic activity, İşbank AG succeeded in writing a record high net profit for 2019. Our profitability reached the highest in its history while maintaining solid asset quality, greatly helped by our efforts to eliminate non-performing loans.

WE HAVE NO DOUBT THAT İŞBANK AG WILL SUSTAIN ITS PERFORMANCE IN THE COMING YEARS AND REMAIN THE MOST RELIABLE BUSINESS PARTNER FOR ALL OF ITS STAKEHOLDERS.

İşbank AG serves a niche with a mission of being the primary banking institution for trade relationships between Germany and Turkey. While helping our customers from Turkey and other European Union countries benefit from our facilities to realize their economic potential, as a banking institution subject to EU law, we are also required to adhere to a number of regulations regarding anti-money-laundering and compliance. As an international bank, compliance and AML matters are of the utmost importance to İşbank AG. We employ a highly stringent AML policy to comply with the most up-to-date international standards.

Serving our partners and customers efficiently while complying with the highest legal standards requires a comprehensive level of automation and digitalization, a target which we attach priority to. Drawing on the advantage of our parent company's state-of-the-art infrastructure, we are preparing to announce a wide array of new products and services, particularly in the area of payment services. These innovations will undoubtedly help our customers use international payment services much more efficiently.

Building on our promises from previous years, we realized even better financial results for the year 2019. On behalf of the Supervisory Board of İşbank AG, I would like to express my gratitude to all those who have contributed to these successful results.

Despite the inevitable effects of the COVID-19 pandemic, we have no doubt that İşbank AG will sustain its performance in the coming years and remain the most reliable business partner for all of its stakeholders.

Finally, I would like to inform our business partners that our accounts and annual financial statements for the financial year extending from January 1 to December 31, 2019, and the management report have been audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft and issued with an unqualified auditor's report. The Supervisory Board approved the results of the audit and adopted financial statements as of December 31, 2019 as well as the management report.

On behalf of the İşbank AG family, I would like to extend my sincere gratitude to our clients, business partners and stakeholders for their cooperation and trust.

Yılmaz ERTÜRK
Chairman of the Supervisory Board
İŞBANK AG

REPORT OF THE SUPERVISORY BOARD

Cooperation between the Supervisory and Management Boards

In the past business year, the Supervisory Board monitored the work of the Management Board on an ongoing basis and regularly supported it in managing the company. In this context, the Supervisory Board was at all times convinced of the legal propriety, purposefulness and due order of the work of the Management Board. The Management Board duly fulfilled its duties to provide information and continuously, promptly and comprehensively informed the Supervisory Board both verbally and in writing of all the issues related to strategy, short and long-term planning, business performance, risk position, risk management, compliance and other important topics which are of relevance to the Bank. This also included information on when developments deviated from goals reported earlier and departures of business from the planned budgets. At its committee meetings, the members of the Supervisory Board had sufficient opportunity to critically scrutinize the reports and the documentation for decision- making presented to it by the Management Board and to contribute its own ideas. In particular, the Supervisory Board intensively discussed all items of business of importance to the company on the basis of written and oral Management Board reports and assessed their plausibility. On several occasions the Supervisory Board exhaustively discussed the Bank's risk position, its liquidity planning and the situation as regards its capitalization.

The Supervisory Board issued its approval for the individual items of business to the extent that this was necessary in line with the law, the articles of incorporation, or the Management Board's rules of procedure.

Activities of the Supervisory Board

In business 2019 the Supervisory Board held four meetings, which took place on March 22, 2019 in Istanbul/Turkey, on June 14, 2019 in Frankfurt am Main/ Germany, on September 27, 2019 in Mainz/Germany and on December 20, 2019 in Istanbul/ Turkey.

The Supervisory Board formed the following committees composed of its members:

- Audit committee
- Risk control committee
- Remunerations control committee
- Credit committee

In the year under review, the risk control committee convened twice, while each of the credit, audit and remunerations control committees met once.

Annual audit

Auditors Ernst & Young GmbH, Eschborn, who were appointed as auditors by the 2019 Annual General Meeting 2019, were commissioned to handle the annual audit of İşbank AG. The auditors those commissioned presented a declaration of their independence to Supervisory Board, which the latter duly received. The Supervisory Board has no doubts as to the accuracy of the content of the declaration of independence.

Wirtschaftsprüfungsgesellschaft, Ernst & Young GmbH, Eschborn, duly audited the annual financial statements of İşbank AG including the management report for business year 2019 and on the basis of its audit findings issued an unqualified opinion on the annual financial statements.

The corresponding audit opinion including the notes to the financial statements and the management report of İşbank AG were made available to all the members of the Supervisory Board in due time. The Supervisory Board examined all the documents. At the Supervisory Board meeting of Mai 6, 2020 with the participations of the auditors all the key elements of the annual audit were discussed with the Management Board. The auditors were present at the meeting, outlined the key audit findings, and provided supplementary information. All the questions were answered to the Supervisory Board's satisfaction. In the wake of its own examination, the Supervisory Board raised no objections to the conclusive findings of the annual audit and concurred with them. The Supervisory Board has thus formally approved the annual financial statements presented by the Management Board and the annual financial statements of İşbank AG are therefore considered adopted.

The Supervisory Board declares that it concurs with the Management Board's suggestion on the allocation of profits.

Affiliated companies (dependent companies report)

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Eschborn likewise examined the Management Board report on relations to affiliated companies (dependent companies report).

At its meeting of May 6, 2020, the Supervisory Board likewise approved the auditor's findings on relations to affiliated companies and following its own examination raised no other objections.

Changes in the Management Board

There have been no changes in Management Board during the year.

Changes in the Supervisory Board

There occurred no changes in Supervisory Board during the year.

Thanks to the Management Board and staff

The Supervisory Board would like to thank the members of the Management Board and all the staff for their immense efforts in what was an eventful and challenging business 2019.

Yılmaz Ertürk
Chairman of the Supervisory Board

MANAGEMENT

Franz Hakan Elman
Member of the Management Board

Ünal Tolga Esgin
CEO and Chairman of the Management Board

Ayşe Doğan
Deputy CEO, General Counsel

İŞBANK AG IS A GERMAN BANK WITH ITS HEAD OFFICE IN FRANKFURT AND 10 BRANCHES IN GERMANY AS WELL AS ANOTHER IN THE NETHERLANDS.

MESSAGE FROM THE CEO OF MANAGING BOARD

THE FIGURES FOR THE END OF 2019 HAVE BEEN ENCOURAGING. WE ROUNDED OFF THE YEAR WITH NET INCOME OF EUR 10.1 MILLION.

Dear Clients and Business Partners,

İşbank AG has a mission of representing Türkiye İş Bankası A.Ş. - our sole shareholder and parent company - in Europe, whose mission goes back nearly 90 years. Today, İşbank AG is a highly reputable and credible member of the German and European Banking Community within the legal and operative framework of the European Banking System. Besides, our conduct of business fully reflects the deeply rooted and long established values of the Türkiye İş Bankası Group, which we are proud to be carrying further.

Without a major shift in our course, in 2019 we maintained our efforts to serve our customers better while seeking to improve and fine-tune our banking model and operations. The figures for the end of 2019 have been encouraging. We rounded off the year with net income of EUR 10.1 million. Our efforts in cost management continued in 2019. While our cost/income ratio further improved in 2019, we are aware that there is still room for improvement regarding cost management policies for 2020.

Overall, our Bank's profitability measured by Return on Equity based on net income reached 5.02% at the end of 2019. Profitability measured in terms of the Return on Assets based on net income was 0.56% for the same date.

The growth in our asset size as well as total customer credit volume have been accompanied with an improvement in asset quality. At the end of the reporting year, the non-performing loans ratio remained at a benign 2.20%. Furthermore, we sought to achieve further diversification of our assets in 2019. As an indication of this, our exposure in the European Union at the level of European corporations has increased to a significant level.

As far as liabilities are concerned, our efforts to widen our customer deposit base and reach private customers with higher volume have gained headway. Additionally, in spite of a challenging

İŞBANK AG WILL CONTINUE ITS OPERATIONS BY STICKING TO OUR GROUP'S STRONG INSTITUTIONAL VALUES AND WITH FIRM COMPLIANCE WITH INTERNATIONAL RISK MANAGEMENT PRINCIPLES, AS WELL AS INTERNATIONALLY ACCEPTED BEST PRACTICES.

business environment at the time, we achieved the renewal of our syndicated loan involving 10 financial institutions from eight different countries in April 2019. We regard this as a sign of confidence international markets have placed in the İşbank Group and in the long-term business strategy of İşbank AG.

As well as the business performance, improved compliance measures with international banking rules and best practices were also been a major theme in 2019. İşbank AG has and will continue to place the utmost importance on measures to tackle money laundering and remain a reliable member in the international banking community.

Last but not least, we have continued to invest in our digital infrastructure in order to provide up-to-date services to our customers. The concrete results of these investments will mostly become apparent in the first half of 2020.

To sum up, in 2019 İşbank AG pressed ahead in its mission to function as a bridge between Turkey and Europe as a niche bank focused on trade finance. With no major shift in our strategy, we will continue to proceed on this path while focusing on improving the current system, and will continue to work tirelessly, systematically and with devotion by remaining loyal to the main values of our Group.

2019 was a year of economic difficulties and was a tough year for both Turkey and Europe. It now appears that the further uncertainties created by the spread of the COVID-19 pandemic around the world will leave their mark in 2020. In this sense, despite the expectation of another difficult year both in Europe and in Turkey, we would like to maintain a degree of cautious optimism about 2020 and hope that these difficult times for the world will be overcome as soon as possible. In the face of all difficulties we will do our best to improve our business performance and offer better solutions to our customers.

It goes without saying that İşbank AG will continue its operations by sticking to our Group's strong institutional values and with firm compliance with international risk management principles, as well as internationally accepted best practices. We will also continue to focus on providing high-quality services with a particular emphasis on digital products in order to support and strengthen the economic and trade relations between Turkey and the European Union. We always have the advantage of being able to rely on the know-how and resources of our parent company.

On behalf of the Management Board, I would like to express my thanks to all of our staff for their unwavering commitment and their achievements in 2019, which was an important business year. I would also like to thank our parent company, Türkiye İş Bankası A.Ş., our Supervisory Board as well as our customers and business partners for their support and the trust they have shown in us.

With my best wishes,

Ünal Tolga Esgin
CEO

MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2019

2019 WAS A SIGNIFICANT YEAR FOR İŞBANK AG, ESPECIALLY SINCE IT ACHIEVED ITS BEST ANNUAL RESULT TO DATE.

A) GENERAL INFORMATION ABOUT İŞBANK AG

Basic information

İşbank AG is a German bank with its head office in Frankfurt and 10 branches in Germany as well as another in the Netherlands. Since it was founded in 1992, the bank has worked to provide lasting support to trade and business relationships between Europe and Turkey. İşbank AG operates on the one hand as a full-service bank, which offers a selected range of products and services in the areas of commercial and retail banking to its customers in Turkey and Europe, and on the other hand acts as a specialized bank in the area of foreign trade finance for Turkish companies with trade and investment relationships in Europe as well as European companies with business relationships in Turkey. It will continue to perform this special niche function in the future.

The sole shareholder of İşbank is Türkiye İş Bankası A.Ş., the largest private bank in Turkey. Since it was founded in 1924, it has played a significant role in the development of the Turkish economy. With its unique shareholder structure characterized by the 40.2-percent capital share of the bank employees through their pension fund, Türkiye İş Bankası A.Ş. is one of the highest-revenue companies in Turkey and one of the largest companies worldwide.

The parent company, Türkiye İş Bankası A.Ş., which has played a significant role in the development of the Turkish economy since it was founded, was the first institution in the country to open a branch outside Turkey. The first foreign branches of the bank opened in Hamburg and Alexandria in 1932.

The vision of the bank is to continue its business activities on the basis of its strategy of sustainable and profitable growth.

Countries and sectors

The business area of İşbank AG essentially extends to Europe and Turkey. The branches in Germany that operate in retail and commercial banking are spread over major cities where a high proportion of the population is Turkish and offer classic banking services to their customers.

The Amsterdam branch specializes in foreign trade business. The focus here is on institutional customers who require banking services with respect to cross-border short-term financing business.

Corporate Banking and Financial Institutions Department located at the head office in Frankfurt is responsible for the corporate sector and banks. Within its area of responsibility are banks, European and international companies with a trade finance context, and also groups from the corporate segment that are based in Turkey or Europe.

Organizational structure

The front office line remains subject to Board Chairman Mr. Ünal Tolga Esgin, and the back office to board member Mr. Franz Hakan Elman. On 01.07.2019, Mr. Emir Serdar Gülpınar was appointed Senior Vice President. In his back office role, he is responsible for the areas of Credit Management, Processing/Monitoring/Remediation as well as Financial Management/Legal Reporting.

Control system

The overall bank management of İşbank AG is geared towards maintaining a healthy balance between the financial performance indicators of annual result, equity base and liquidity. The balance sheet and income statement, the liquidity statement and the risk-bearing capacity statement for risk control (see risk report section) constitute central control instruments of the bank. The reports of the internal management committees, e.g. such as the risk and credit committees and the bank asset/liability committee, constitute a further key element of the management system of İşbank AG, through which the board is regularly informed of key developments and necessary decisions are initiated.

Goals and strategies

The overall target of İşbank AG lies in sustainable and profitable growth. It is pursuing the following priorities here in the short and medium term:

Market strategy

Increasing risk monitoring as well as operational efficiency through a focus on niche products and business areas.

Branch strategy

Focus on profitability through optimal use of resources, coordinated processes and centralization of operational/administrative tasks, simplification of the work organization and product range.

Product strategy

Adaptation of the product range to the needs of target customers, digitalization of products and concentration on revenue priorities.

B) ECONOMIC REPORT

Overall economic and industry-related framework conditions

Along with a global downturn, global trade declined. Political issues and international trade conflicts in particular between key pillars of the global economy placed a noticeable strain on global economic activity. The trade conflict had an impact here not only directly through new duties; the tensions may also have undermined the business confidence of companies. Furthermore, they certainly increased uncertainty on the financial markets and possibly therefore diminished the investment activity of companies. However, it is clear that the trade disputes were not alone in applying the brakes to global economic activity. The critical problems in a range of emerging countries – including in South America, the Middle East and Turkey – as well as the uncertainties in respect of the intended Brexit contributed significantly to the loss of momentum in the global economy since 2017. In addition, there were weakening cyclical forces, such as on the car market. As a result, at 2.9%, global growth in 2019 was as low as it has been since the financial and economic crisis of 2009.

According to statistical office Eurostat, the ailing economy in Germany, France and Italy significantly slowed growth in the euro area. GDP in the Eurozone therefore grew by only 1.2%. The EU Commission is also assuming that all states in the EU zone will indeed remain on course for growth in 2020, yet the coronavirus represents a "key risk" to general growth.

The spread of the virus, which began in China and has now arrived in Europe, is causing concerns with regard to global economic trends.

Germany

As a result of the low interest rate, the financing conditions in 2019 remained very favorable both for companies and for private households in Germany. Nevertheless, the continuing low interest rate also poses risks for financial markets, investors, asset accumulation and capital-funded pension provision. It also hampers the classic bank/insurance and building society business. Interest rate change risks as well as the risk of price bubbles may intensify. As a result of the prolonged growth period, there is also the risk – among others – of underestimating credit risks.

According to the German Federal Statistical Office (Destatis), the German economy grew by 0.6% in 2019 and therefore for the tenth consecutive year. Price-adjusted GDP rose significantly more in 2017 and 2018: by 2.5% in 2017 and 1.5% in 2018. Compared with the +1.3-percent average of the previous ten years, German economic growth was weaker in 2019. On account of the consequences of the corona pandemic, there is a possibility in the opinion of leading German economists incl. the ifo institute that the German economy will ratchet into recession in the first half of 2020.

Turkey

After three quarters of economic decline, the Turkish economy was on a growth trend again from the second half of 2019, as a result of the economic recovery taking place. The gradual interest rate cuts by the Turkish central bank resulted in increasing growth in economic activity in the fourth quarter of 2019. Despite an economic decline in the first half year in 2019, the Turkish economy therefore recorded overall growth of 0.9% for 2019.

The annual rate of inflation stood at 12.4% and the rate of unemployment at the end of the year was 13.3%. Turkey's export volume rose by 2.1% in 2019 to USD 172 billion; the import volume fell by 9.1% to USD 203 billion. In comparison with 2018, the import surplus fell by 44% to USD 31 billion. In parallel with this, the current account deficit typical for Turkey also recovered. For the first time since 2001, a current account surplus of USD 1.7 billion was generated. Politically, the situation between Turkey and the European Union is tense. The reasons for this include the conflict situation of Turkey with northern Syria and the dispute with EU members Greece and Cyprus over gas reserves in the eastern Mediterranean. Not least, the situation in respect of the refugee issue is triggering further political discourse between the EU and Turkey.

In spite of all this, 2019 was characterized by relaxation in the continuing economic relations between the USA and Turkey since 2018, and the result of the local elections was also received positively by European media and markets.

Banking sector in Germany

Like the previous year, the past year 2019 for the banking sector in Germany was characterized by cost reductions as part of new digitalization processes as well as obligations in respect of regulatory requirements. In particular, implementation of Payment Services Directive PSD2 ensured dynamism in the financial institutions.

In the financial and banking sector, the continuing advancement of digitalization is leading to significant changes. It is very important that the state provide the right framework to make the best possible use of the possibilities and opportunities of digitalization and at the same time to face potential risks appropriately. Here, the federal government will continue to assess the fitness of financial markets for digitalization. The council of experts is likewise in favor of close support for new business models accompanying digitalization of the finance industry. Germany's role in development as one of the leading digitalization and financial technology locations is thus being strengthened further.

The reduction of risk in the banking sector takes top priority here. Key measures to achieve this were adopted by the European Parliament. The European banking package took effect in June 2019 and should be implemented in national law by the end of 2020. These comprise a reform of the regulatory requirements concerning the equity and liquidity situation, through which the international Basel standards are implemented in European law.

Financial sector in Turkey

According to data from the Turkish banking regulator (BRSA), the total volume of deposits at the end of 2019 increased by 26% in comparison with the same period in the previous year, to TL 2,567 billion. Whereas borrowing requirements increased as a result of the interest rate cuts by the Turkish central bank, the USD credit volume fell. The total credit volume amounted to TL 2,657 billion, which equates to an increase of 10.9% on the previous year.

These positive trends can be traced to the fact that the Turkish banking sector has developed into one of the most robust economic sectors in the country, especially following the financial crisis in 2001. Thanks to the strong equity structure of the banks and strict banking regulation, equally strong resilience to any crisis situations is emerging in the branch. The average equity ratio is 18.6% and therefore very satisfactory. In order not to be exposed to the aforementioned risks of refinancing in times of crisis, the banks strongly diversified their sources of finance. Whereas the industry focus was previously on growth, this changed during the reporting year in the direction of concentration on high asset quality and stable financing structures.

With the exception of credit cards, the increase in consumer lending as a result of the interest rate reductions by the Turkish central bank continued since August 2019. Owing to the decline in commercial loans, the proportion of loans no longer being paid lies at 5.3%. This is the highest level in the last 10 years. This rate was 5.9% for commercial loans and 3.3% for consumer credit.

In Turkey, in the financial year 2019, a total of 50 banks with 11,300 branches and 203,839 employees had a balance sheet total amounting to TL 4.491 trillion (2018: TL 3.867 trillion). The profit of the sector at the end of the year amounted to TL 49.0 billion (2018: TL 54.1 billion).

Business performance

2019 was a significant year for the bank, especially since it achieved its best annual result to date. Taking into account economic sensitivities, the primary contributors to this were the prioritization of the corporate sector with a focus on the trade finance business and the commission business in retail banking. As part of the digitalization, İşbank AG aimed to make greater use of finance portals, online banking and mobile banking as sales channels in parallel with the existing branches. In connection with this, the tests for mobile application "ParaGönder", an application for transferring money using a mobile device, were completed at the end of the year in cooperation with a fintech company established for this purpose, such that it has been possible to integrate this product into the product portfolio in 2020. In the course of the digital age, the mobile application that exists as an alternative alongside bank transfers to Turkey over the counter and Isweb online transfers aims to meet the needs of the modern generation of customers, to appeal to new potential customers in the competitive environment and to expand the customer portfolio of İşbank AG through customer acquisitions in regions and cities where there are no İşbank AG branches. Existing processes in the area of customer acquisitions, especially in the deposit business, have been optimized further as part of the digitalization.

In the corporate sector, the focus in the financial year 2019 was especially on establishing a sustainable European customer portfolio with no connection to Turkey. The bank was able to increase its European corporate portfolio by 92%, from EUR 72 million to EUR 144 million.

Also in the financial year 2019, a syndicated loan for refinancing purposes was signed for the fifth successive time with the involvement of 10 financial institutions from eight countries, for a total of EUR 75 million and a term of one year. This successful conclusion despite the challenging market conditions demonstrates once again the confidence of the international markets in the İşbank group and in the long-term business strategy of İşbank AG.

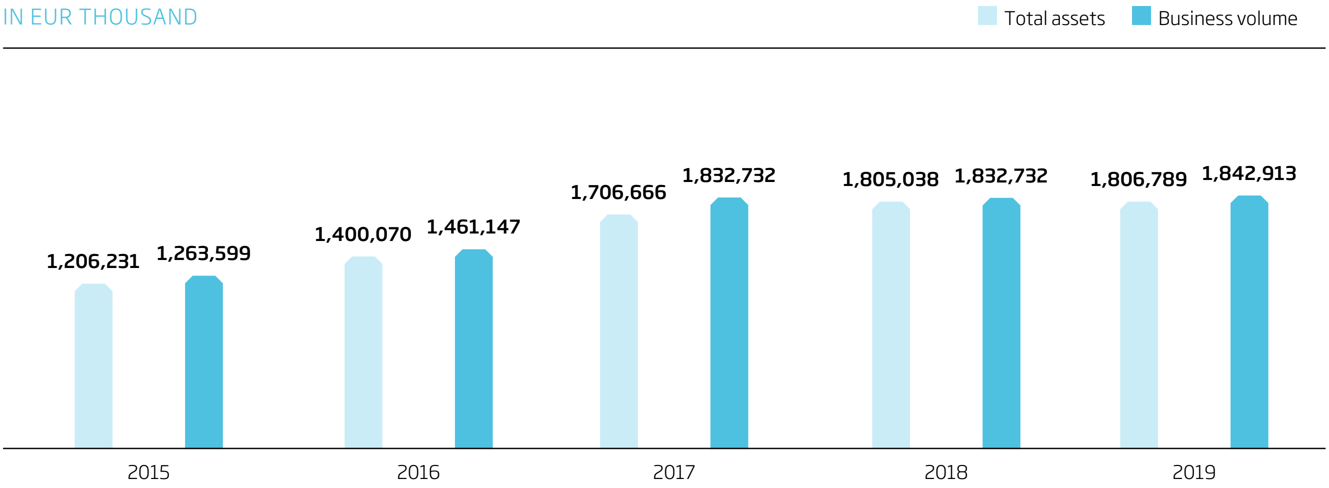
Income, financial and asset situation

Asset and financial situation

As part of the consistently targeted approach, planning and implementation of sales activities, the credit volume of retail and commercial customers was reduced by 27% in line with the business strategy, whilst the focus remains on the expansion of business activities with institutional customers in the form of financial institutions and companies from the corporate sector. Despite optimization of the asset structure with reduction of the receivables from small businesses, the balance sheet total was kept constant at EUR 1.8 billion. In the corporate customer sector, business expansion amounting to EUR 180 million was achieved both on the bilateral level and on the level of the international syndicated loans and schuldschein transactions of European companies.

The financial year 2019 therefore ended with a balance sheet total over EUR 1.8 billion.

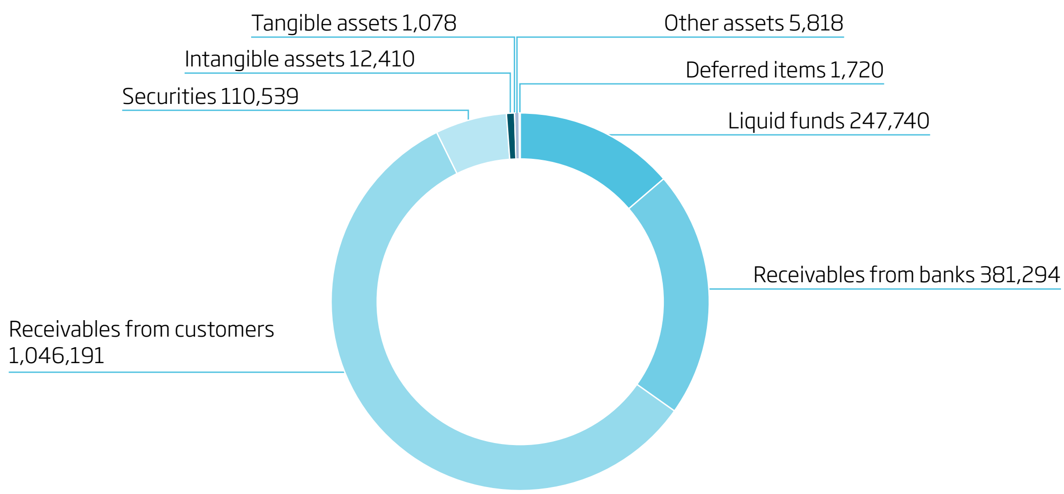
TOTAL ASSETS AND BUSINESS VOLUME
IN EUR THOUSAND



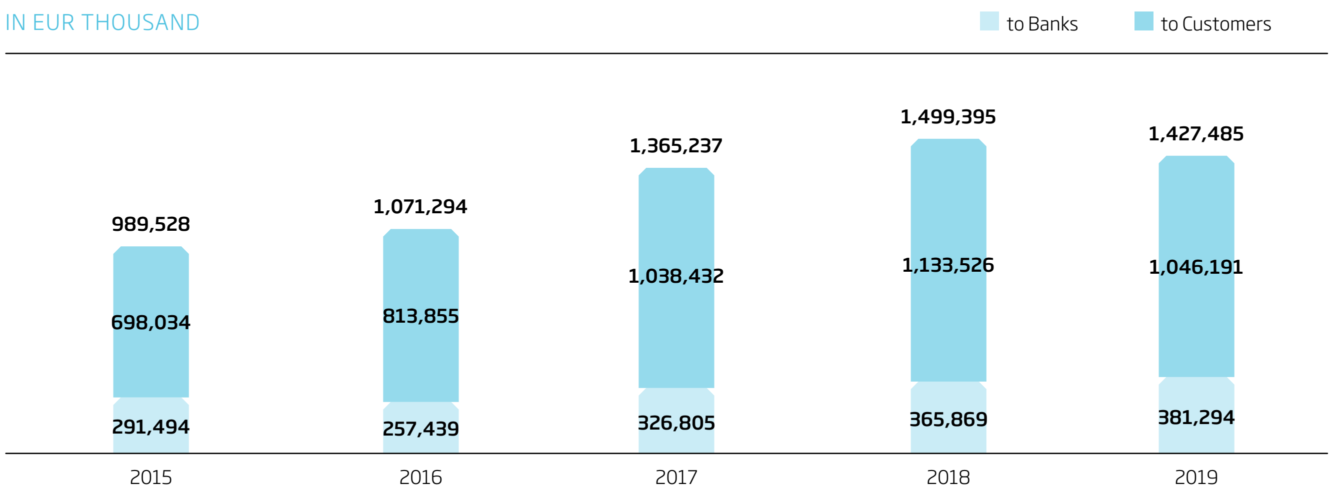
In the reporting year, the receivables from banks displayed an increase of 4.2% and amounted to EUR 381 million. The receivables from customers decreased by 7.7% to EUR 1,046 million. The balances with central banks increased on the previous year from EUR 140 million to EUR 244 million and thus by 75%.

Bonds and other fixed-interest securities amounted to EUR 111 million at the end of the reporting year. In the previous year, the total of the securities portfolio amounted to EUR 135 million.

ASSETS, DECEMBER 31, 2019
IN EUR THOUSAND



LOANS
IN EUR THOUSAND



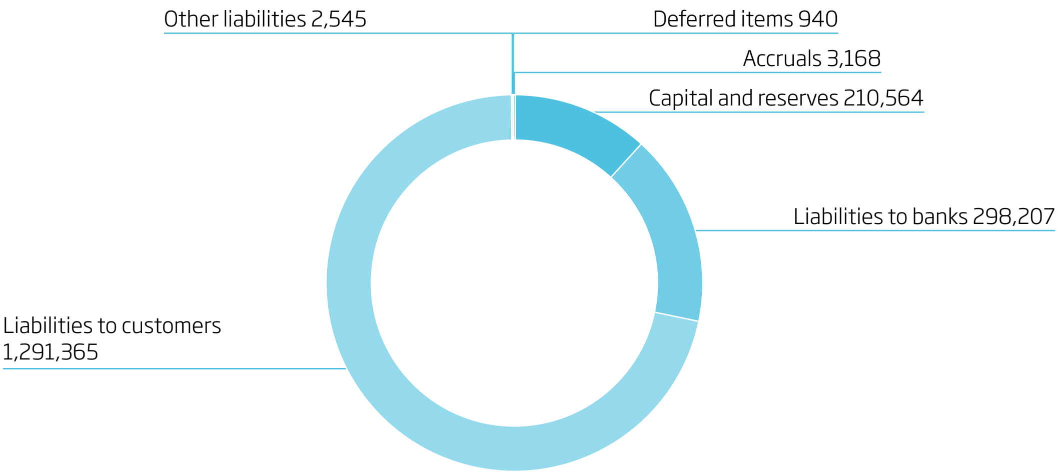
On the liabilities side, there was a fall of 16% to EUR 298 million in the liabilities to banks and a value of EUR 1,291 million was shown under the liabilities to customers, after a rise of 4.5%. The other liabilities decreased in comparison with the previous year, from EUR 5.3 million to EUR 2.5 million. Moreover the deferrals amount to EUR 940 thousand (previous year: EUR 2,328 thousand) and the accruals to EUR 3,168 thousand (previous year: EUR 3,408 thousand). The reduction in accruals is largely due to the restructuring measures completed in 2019.

The financial year concluded overall with equity of EUR 211 million. This represents a solid and sound capital base for future development in line with the strategy of the bank.

The contingent liabilities of the bank (regardless of flat-rate value adjustments) progressed as follows in comparison with the previous year:

EUR thousand	31.12.2019	31.12.2018
Liabilities from guarantees and indemnity agreements	36,155	27,720
Irrevocable loan commitments	0	0

LIABILITIES, DECEMBER 31, 2019
IN EUR THOUSAND



Income situation

In the reporting year, as part of the focus on the trade finance business with banks and corporate customers, growth of 10% was recorded in the interest surplus and thus a total interest result of EUR 39.4 million. The interest income here increased by 2% to EUR 59.8 million and at the same time interest expenditure fell by 10.6% to a total of EUR 20.3 million. The majority of the increase in interest income comes from the banking and corporate sector, which is attributable to transactions both on the bilateral level and on the level of the international syndicated loans and schuldschein transactions with European companies. The interest expenditure is largely the result of customer deposits, liabilities to banks and swaps.

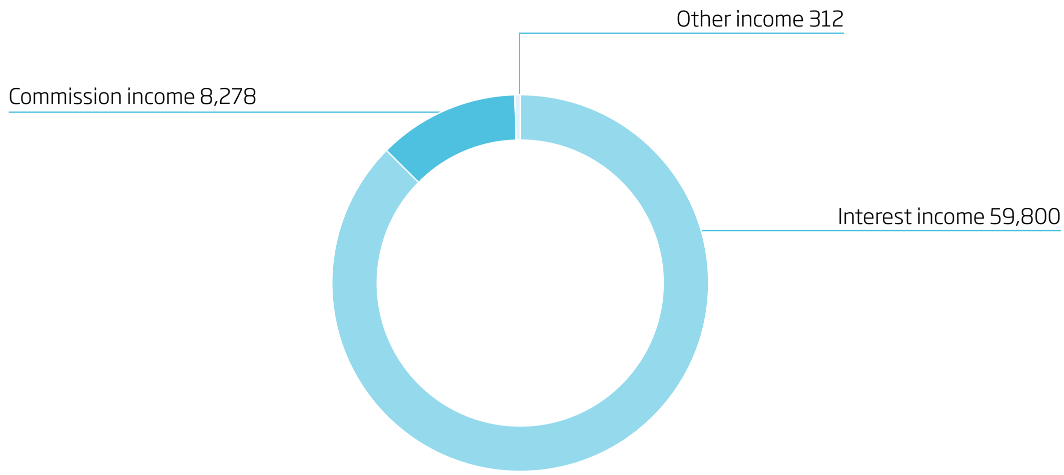
The income is structured by branch, as follows:

EUR thousand	Germany	Netherlands	France	Total
Interest income	55,942	3,848	9	59,800
Commission income	7,365	908	5	8,278
Annual surplus	7,481	2,620	-42	10,060

The commission result decreased on the previous year from EUR 8.4 million to EUR 7.9 million. The decline is largely due to the reduction in customer transactions as a result of the closed branches and to the negative development in bank transfers to Turkey. The negative trend in bank transfers to Turkey, which has continued for a number of years, and the associated decline in commission income are also expected in the coming years.

The general administrative expenses fell by 5% in comparison with the previous year and amounted to EUR 26.2 million at the end of the year. As a result of the cost reduction measures, the personnel costs were reduced by 6% and other administrative expenses by 3% here. Furthermore, costs incurred as a result of the restructuring measures, which amounted to EUR 0.1 million, were recorded as extraordinary expenses from the time of closure

INCOME, JANUARY 1 - DECEMBER 31, 2019
IN EUR THOUSAND

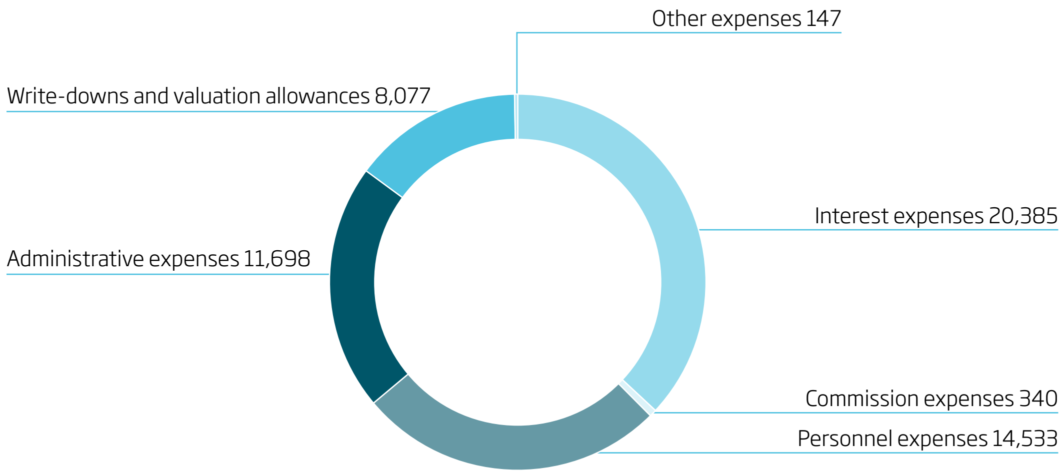


of the Paris branch. These expenses largely comprise the general administrative expenses. A net risk provision amounting to EUR 4,362 thousand was formed in the reporting year.

After consideration of accruals and taxes, the financial year 2019 ended with an annual surplus amounting to EUR 10.1 million.

Overall, the established target for the annual result was fulfilled with target achievement of 87%.

EXPENSES, JANUARY 1 - DECEMBER 31, 2019
IN EUR THOUSAND



Liquidity situation

The solvency of İşbank AG was guaranteed at all times in the financial year 2019 on the basis of planned and balanced liquidity provision and the liquidity coverage ratio required under the regulations was observed.

On 31.12.2019, there were revocable loan commitments amounting to EUR 25 million from the unused loan facilities. There were no irrevocable loan commitments.

In the last financial year, the deposit business, syndicated loan, covered loan, repo transactions, money market transactions and bilateral loans were essentially also available to İşbank AG as refinancing options for the transaction of new business.

Important financial indicators

The principal key figures are shown below as a three-year comparison:

Indicators	2019	2018	2017
Total capital ratio [1] on the balance sheet date	12.96%	12.46%	11.92%
LCR [2]	199.58%	163.97%	173.24%
After-tax profit as a % of average equity (ROAE) [3]	5.02%	4.34%	0.96%
Cost-income ratio (CIR) [4]	60.60%	68.37%	80.33%
Annual result in EUR thousand	10,060	8,243	1,631

(1) The regulatory total capital ratio, which describes the ratio between equity (in accordance with article 92 of regulation (EU) no. 575/2013) of the bank and its risk-weighted assets.

(2) The regulatory liquidity coverage ratio is determined in accordance with delegated regulation (EU) 2015/61 in conjunction with article 411 et seq. or regulation (EU) no. 575/2013.

(3) The after-tax profit as a % of average equity (ROAE) is determined from the commercial annual result of the corresponding year after tax divided by the average equity of the month ends in the corresponding year.

(4) The cost-income ratio (CIR) is the ratio of operating expenditure divided by operating income. The margin is specifically determined from the sum of the administrative expenses divided by the sum of the interest result, commission result, other net result and income from write-ups of the securities treated as fixed assets.

Overall statement

Taking into account the regulatory requirements and the volatile market conditions, İşbank AG was able to fulfil its targets with respect to achievement of a healthy transaction volume. The institutional loan portfolio comprising receivables from firms in the corporate sector and banks was kept relatively constant here (-1.7% in comparison with the previous year). This transaction volume largely comprises the international trade finance business, bilateral and syndicated corporate loans as well as schuldschein transactions with European companies in Europe. The loan portfolio of the latter item was increased by 90% in comparison with the previous year; its share in the overall corporate portfolio doubled from 4.8% to 9.6%. This reduced the dependency of the existing loan portfolio on cross-border interdependencies and international trade conflicts. In parallel, as intended, the loan portfolio of the local loan business, which was historically subject to greater risks for İşbank AG, was gradually reduced by 27.2% in the course of the financial year 2019. This optimization of the balance structure had a positive effect on the income situation. From the perspective of İşbank AG, the business development was positive overall. The bank has adequate liquidity reserves. The financial and liquidity situation is fully compliant with the regulatory and business requirements.

C) RISK REPORT

In accordance § 25a par. 1 of the German banking act (KWG), institutions must have a proper business organization, which must include in particular the definition of a business strategy that has the aim of sustainable development as well as appropriate and effective risk management, on the basis of which the risk-bearing capacity must be constantly guaranteed. Specifically, procedures to determine and ensure the risk-bearing capacity are required as an element of the risk management. The risk-bearing capacity exists if all significant risks of an institution are constantly covered by the risk coverage potential, taking into account risk concentrations.

Significant changes within the risk-bearing capacity in comparison with the previous year:

in EUR thousand	Q4 2019			Q4 2018		
	Utilization	Limit	Usage rate	Utilization	Limit	Usage rate
Counterparty default risk	**56,605**	**88,333**	*64.1%*	**39,177**	**78,083**	*50.20%*
Expected loss	*8,081*			*7,382*		
Unexpected loss	*46,058*			*31,795*		
Country risk for Turkey	*9,367*			*3,274*		
Gen. credit risk provision	*-596*			*-740*		
Country risk provision for Turkey	*-6,305*			*-3,205*		
Market price risks	*561*	**3,943**	*14.2%*	*267*	*3,486*	**7.7%**
Interest rate change risk	**437**			**252**		
Currency risks	**124**			**16**		
Operational risks	**999**	**1,972**	**50.6%**	**999**	**1,743**	**57.30%**
Commercial risk	**1,877**	**3,943**	**47.6%**	**1,526**	**3,486**	**43.80%**
Reputational risk	**188**	**394**	**47.6%**	**153**	**349**	**43.80%**
Overall risk position	**60,228**	**87,146**	**61.1%**	**42,122**	**87,146**	**48.30%**
Aggregate risk cover	**98,586**			**87,146**		
Usage rate	**61.1%**			**48.3%**		

Because of the increase in net profit and planned result, the aggregate risk cover rose from EUR 87,146 thousand to EUR 98,586 thousand (+13.1%). At the same time, however, the credit risk and therefore the overall risk position increased significantly as a result of the credit rating of the country of Turkey being downgraded by rating agency Fitch and the new risk position "country risk for Turkey". The gross risk position is offset against the risk provision formed for the general credit risk and the country risk provision for Turkey. Taking into account all effects, the usage rate of the aggregate risk cover on 31.12.2019 lies at 61.1%.

For all other positions in the risk-bearing capacity, there was no significant change in comparison with the previous year.

According to § 94 par. I CRR and MaRisk, İşbank is defined as a *'non-trading-book institution'* and the scope of its on-balance-sheet and off-balance-sheet trading book business is limited to EUR 20 million. The risks from the use of financial instruments are classified as low, as İşbank uses financial instruments only for the purpose of risk reduction or securing risks rather than establishing speculative positions. All derivatives transactions are concluded exclusively with banks that have a top credit rating under ISDA and CSA. The counterparty default risk is therefore considered negligible.

The internal control system of İŞBANK AG

The board of İşbank AG is responsible for establishing an appropriate internal control system (ICS). In accordance with the regulatory requirements, an internal control system was established, which includes provisions on the structural and process organization as well as on risk management and controlling processes. Overall, together with compliance and risk management, the ICS and internal audit form the internal control process of İşbank AG.

Overall risk profile

According to AT 2.2 note 1 MaRisk, an institution must gain an overview of the overall risk profile regularly and as required. The risk management system and the processes for the identification, measurement, assessment, management, control and communication of the individual risk types are described in the risk handbook of İşbank AG and in the additional work directives. An assessment of significance is documented for all risk types and – if relevant – for their individual characteristics. The counterparty default risk (incl. country risk), market price risk (interest rate change and currency risk), liquidity risk, commercial and income risk, operational risks and reputational risk are identified as significant risks. All risks that are defined as significant by the institution, which can be quantified, are taken into account in the risk-bearing capacity statement of İşbank. The liquidity risk is an exception. As the liquidity risk (in the narrower sense, the insolvency risk) cannot be reasonably limited by risk coverage potential, separate consideration as part of the risk-bearing capacity statement is omitted and the risk (including the refinancing risk) is instead managed by means of stress tests and monitored especially, as explained below in the chapter on liquidity risk.

The risk map with the significant risks is determined in three steps:

- The general risk universe forms the overview of the basic risks associated with the operation of banking businesses and the provision of financial services.
- Starting from this general risk universe, as part of the risk inventory the risk map for İşbank is defined as the risk types that are actually relevant on the basis of the business activity and strategy.
- The significant risks for İşbank are determined on the basis of the relevant risks. If there is quantification of the risk, the threshold of significance is that a risk is classified as significant if occurrence of the risk reduces the aggregate risk cover by more than 3% within one year. If no quantification of the risk takes place, the significance is assessed by means of expert estimates / claim histories or qualitative criteria.

Organization of risk management

The board of İşbank AG is responsible for ensuring appropriate risk management and fulfilment of the regulatory requirements. In operational implementation, it is supported by the risk management department, risk committee, assets/liabilities committee and internal auditing.

The potential effects of the interest rate change risk on the assets and liabilities of the bank are addressed in the assets/liabilities committee in the light of current market developments and the general and expected economic situation. If necessary, measures are taken to reduce risk.

The area of risk management undertakes the central management, monitoring and control of the risk areas of the bank at home and abroad.

One of the core tasks of risk management is to inform the board. In particular, constant information about all significant risk positions of the bank allows the board to fulfil its overall responsibility for all risk areas and to take the necessary measures in time to manage and minimize these risks.

Risk reporting takes place regularly, both by risk and across risks at overall bank level. The risk management department generates a comprehensive risk report at quarterly intervals. This report is supplemented with a monthly report on the significant risks and risk-bearing capacity. Moreover, ad hoc reports are also scheduled as required.

Monitoring of the loan business with respect to compliance with the statutory requirements and internal competence provisions is the responsibility of the loan department. This is subject to the back office board member. The loan department monitors the trading activities of the bank on the basis of IT-aided instruments and guarantees compliance with the set trading limits.

Business and risk strategy

Retail and business banking form the core business areas of İşbank AG. İşbank AG is active in these business areas in the loan and deposit business and also offers non-recourse financing services and foreign trade loans as part of the business banking.

Effective risk strategies are essential in order to achieve sustainable, smooth and profitable growth. The risk management of İşbank AG is subject to a continuous optimization process and regularly reviews the methods and management approaches used with respect to their efficiency and suitability in the light of the current business development.

Risk types

Various risks therefore arise from the business activity of İşbank AG, which have been systematically identified and assessed by the board together with the departments responsible. The risks identified as significant and assessed as part of the risk assessment process are shown subsequently, after implementation of risk limitation measures (net presentation):

- Counterparty default risks,
- Market price risks (interest rate change and currency risk),
- Liquidity risks,
- Operational risks,
- Commercial risk,
- Reputational risk.

For each significant risk type, it was additionally investigated whether there is an impact on the asset situation (including capital base), income situation and/or liquidity situation.

Counterparty default risks

The counterparty default risk defines the risk of occurrence of a loss as a result of default or downgrading of the credit rating of an external counterparty. In addition to the counterparty-related credit risk, there is also the country risk in the case of cross-border capital services.

The counterparty default risk for İşbank AG includes the following significant risk types:

- Default risk
- Issuer risk
- Country risk

To calculate the regulatory equity backing for credit risks, İşbank AG uses the standardized approach for credit risk provided in the CRR. The risk position for credit risks is EUR 1,914 million on December 31, 2019.

Types of receivables

(EUR thousand)	Centralized states	Institutions	Companies	Bulk business	Other	Total
Total (without risk reduction techniques)	302,098	496,554	1,050,496	57,900	7,097	1,914,146
Loans	246,479	420,968	988,703	46,829	5,082	1,708,062
Items below the line (consents, guarantees)	152	26,889	50,942	11,071	2,015	91,070
Securities	55,467	44,222	10,850			110,539
Derivatives		4,475				4,475

Rating classes	Risk content	Probability of default	Proportion (%)
1 to 8	Very low to average default risk	< 1.2%	71%
9 to 12	Slightly elevated default risk	< 6.25%	28%
13 to 15	High / very high default risk	< 20%	1%

One key instrument, both for risk assessment in the case of individual risks and for managing and monitoring counterparty default risks, is the 15-stage rating process developed by CredaRate GmbH. The following overview shows the rating distribution of the loan portfolio on December 31, 2019.

It is highly likely that there will also be effects on the risk classification as a result of the corona pandemic. The bank is currently still analyzing the potential effects of the pandemic on individual sectors and customers. As part of this, the measures of the Turkish state to combat the corona pandemic are also being assessed. For example, receivables from customers who are adversely affected by the corona crisis may be deferred for three months by banks, and financial institutions have been granted extensive liquidity reliefs. Furthermore, tax reliefs and suspensions of rent payments have been agreed for companies. As soon as reliable results are available, the newly acquired knowledge will flow into the process of risk classification. It must be expected that the quality of the loan portfolio will decline in line with other banks as a result of the present crisis. In this case, the bank has sufficiently high capital buffers that there is no danger to the risk-bearing capacity.

İşbank AG uses the average probability of default for each rating class to determine the counterparty default risks. By using the average probability of default, both positive and negative migration effects are considered.

İşbank AG considers the counterparty default risks both on the level of individual borrowers and in the portfolio context. The aim here is to identify, limit or avoid both disproportionately high individual risks and the formation of concentration and portfolio risks.

Management and control of counterparty default risks

The counterparty default risks are managed on both individual loan and portfolio level. To do this, İşbank AG relies on limit systems for the individual credit risk, country risk and industry risk. Here, the country risk for Turkey is additionally monitored and limited in close cooperation with voluntary deposit protection. A further limit is set through the overall portfolio and as part of the risk-bearing capacity statement. At individual loan level, İşbank AG uses risk classification systems for grading risk.

The counterparty default risks are monitored constantly through limit monitoring and risk developments as well as analyses of the limit uses and formation of individual and flat-rate value adjustments. İşbank AG reviews industry and country limitations according to business development and makes adjustments to the limit system if applicable.

Counterparty default risks are included in the risk limitation on the basis of the aggregate risk cover.

Risk identification instruments and sources

With regard to risk identification, there are essentially two instruments:

1. Monitoring of payment problems
2. Risk classification

Payment problems are monitored daily by the loan department or by the branches. Furthermore, payment problems are reported by means of corresponding reports to the board and to the areas/departments concerned.

Risk measuring methods/processes

Expected and unexpected losses are included in the risk-bearing capacity statement. A value-at-risk approach is taken as the basis for this, which is calculated using an asset value model commonly known by the name "CreditMetrics". The individual model parameters are configured in consideration of regulatory standards and on the basis of conservative internal estimates. Using a Monte Carlo simulation, which also takes into account expected future revenue from securities (through recovery rates) and planned growth according to the business strategy, the credit risk is determined for a one-year horizon as part of the going-concern approach on the basis of the 97% quantile and as part of the liquidation approach on the basis of the 99.9% quantile. As part of this calculation, the country risk is also taken into account in that customers with a home country outside the Eurozone cannot receive a better individual rating than that of their home country.

The loan commitments are moreover regularly reviewed to determine whether there is a need for risk provision. On the basis of the implemented methods, organizational provisions and IT systems, we are able to identify the risks at an early stage and to take appropriate management measures both at group level and on the level of the individual management entities. If information is available to the bank, which indicates a deterioration in the economic conditions, an extraordinary review will be performed.

In the third quarter of 2019, a new method was introduced to quantify the country risk. This takes effect whenever rating agency Fitch classifies a country in the non-investment grade area. In this case, a lifetime expected loss is determined for all items concerned, in line with IFRS 9. A component for the transfer risk is moreover added to this. Conversely, the balance sheet country risk provision has a risk-reducing effect, as this was formed explicitly to compensate for losses.

Market price risks

At İşbank AG, the potential losses that could arise from changes to market parameters are defined under market price risks.

İşbank AG divides its market price risks into the following sub-risks:

- Interest rate change risk
- Currency risk

For the bank, the interest rate change risk arises from differences in the fixed-interest periods and interest adjustment options between asset and liability items, whereas the currency risk describes the risk of the value of an item reacting to changes in one or more foreign currency exchange rates and consequently of changes in the exchange rates resulting in depreciation of the item.

Management and monitoring of the market price risks

General

The market price risks are managed through individual measures on the basis of the specific risk characteristic. The board, risk committee and operational entities have an obligation to monitor the market price risk, check the risk limit usage rate and intervene if necessary. On the basis of analyses of the accounting system, the board decides on the respective measures to be taken, e.g. such as raising financing resources with the same deadline, using swap transactions for interest rate hedging or using derivatives for hedging currency positions.

a) Interest rate change risk

As part of the regulatory reporting system, İşbank AG calculates the present value interest rate change risk at least once per quarter, in line with the regulatory requirement in accordance with circular 6/2019 of the German federal financial supervisory authority.

As part of the risk-bearing capacity statement, the interest rate change risks are additionally determined on the basis of the fixed-interest balance with a P&L-oriented historic simulation with absolute changes. The interest rate change risk is determined for a one-year horizon as part of the going-concern approach on the basis of the 97% quantile and as part of the liquidation approach on the basis of the 99.9% quantile.

b) Currency risk

Currency risks arise as part of the daily reassessment of asset and liability surpluses and derivatives in foreign currency and of the associated effect on P&L.

Reporting form "C 22.00 – Market Risk: Standardized Approaches for Foreign Exchange Risk", which shows the open foreign currency position for each currency, serves as the basis in this context. Based on the open currency position, the currency risk is then determined for a one-year horizon as part of the going-concern approach on the basis of the 97% quantile and as part of the liquidation approach on the basis of the 99.9% quantile.

Risk identification instruments

a) Interest rate risk

The fixed-interest balance and, based on this, the calculation of the interest rate change risk by means of historic simulation with absolute changes serves as an instrument for monitoring the interest rate change risk.

b) Currency risk

The market prices are monitored predominantly through the daily analysis of the open positions.

Operational risks

İşbank AG defines the operational risk as the risk of damage as a result of human error, the inadequacy of internal processes and systems, and external events.

The operational risk comprises the following significant risk types:

- Legal risk,
- Compliance risk,
- Fraud risk,
- IT risk,
- Outsourcing risk.

Risk identification, measuring and management instruments for operational risks

The identification and especially the measurement of operational risk are complicated as a result of the diversity of the risk factors. İşbank AG makes an assessment annually of the existing operational risks from self-assessments. This is a qualitative instrument.

For risk management, İşbank AG relies on instruments including the following, depending on the specific risk factors:

- Insuring risks,
- Controls and the principle of dual control in the case of essential activities, current working directives,
- Training employees,
- Contingency planning and contracts with service providers for the contingency,
- Personnel planning,
- Involving the legal department in the case of uncertainty concerning legal matters,
- Assessment of risks from outsourcing through risk analysis and continuous monitoring in the outsourcing committee,
- Monitoring of the IT risks by the "IT Security & Process Management" group and as part of the IT risk committee,
- Continuous monitoring of compliance with regulatory and statutory requirements by the compliance department.

The operational risk is included in the risk limitation on the basis of the risk-bearing capacity.

In addition a loss database is kept in the area of risk management to measure the operational risk (incurred).

To measure the operational risk as part of fulfilment of the CRR and determination of the equity required to cover the operational risks, İşbank AG relies on the basic indicator approach in accordance with the CRR.

Management and monitoring of operational risks

The operational risks are monitored and managed on the one hand as part of the quarterly risk report. On the other hand, all employees of İşbank AG are involved in the monitoring and management, in order to ensure timely identification of operational risks that occur, newly appearing or changing risk factors and the derivation of measures. On the basis of past damage events and the knowledge gained from them, the methods for measuring and managing operational risks are considered appropriate.

Other risks

İşbank AG has identified the following other risks as significant:

- Commercial and income risk (also including sales risk)
- Reputational risks

Commercial and income risk

The commercial and income risk is defined as the risk of deviation from the income plan (plan before risk).

Management and monitoring of the commercial and income risk

The commercial and income risk is calculated on the basis of a time series of the historical annual trend in results. Specifically, the maximum deviation from a long-term trend determined by regression analysis, which occurs with a given probability, is calculated – the so-called standard deviation. The result is then multiplied by the corresponding z-value of the standard normal distribution, depending on the desired confidence level. A value-at-risk is thus calculated for the one-year horizon of consideration with a confidence level of 97% in the going-concern approach and a confidence level of 99.9% in the liquidation approach.

Reputational risks

We understand reputational risk as the risk of events that diminish confidence in İşbank AG in public, in the media, among employees or customers / business partners. As part of their business activities, the operational business entities and branches are directly responsible for reputational risks that arise from their respective business activity.

Through the name and the connection to the parent company, Türkiye İş Bankasi A.Ş., İşbank AG benefits specifically from the transfer of confidence among those customers who are familiar with the bank from Turkey. Even today, it is an important criterion for many customers to know who is behind İşbank AG as a partner and what performance power the Türkiye İş Bankasi A.Ş. group represents. The good reputation of İşbank AG itself has also been built up over decades.

In addition to the high regard within the Turkish population in Europe, the reputational risk is also taken into account in the risk strategy of İşbank AG in that fair dealing with all business partners is defined and transactions with dubious counterparties are excluded.

Risk-bearing capacity and stress testing

In accordance with § 25a par. 1 KWG, banks are obliged to establish appropriate and effective processes to calculate and sustainably ensure their risk-bearing capacity. The risk-bearing capacity statement of İşbank AG primarily aims at balance sheet and P&L values. The risk-bearing capacity exists if all significant risk types are constantly covered by the risk coverage potential. Based on this, limits are defined for the significant risks. To define the limits, a distribution key is defined/reviewed annually, according to which the available aggregate risk cover is assigned to the individual risk positions. This is dependent on the risk appetite of İşbank AG and distributes the available aggregate risk cover relative to the individual risk positions. At present, the warning threshold for the total upper loss limit is equal to 90% of the aggregate risk cover. İşbank AG calculates the risk-bearing capacity both under the going-concern and under the gone-concern approach, in order to satisfy the requirement of AT 4.1 note 8 MaRisk.

To fulfil the regulatory requirements in accordance with the CRR, İşbank AG applies the CRSA approach for the loan business and the basic indicator approach for operational risks.

The going-concern approach used by İşbank AG fulfils the requirements of the German federal financial supervisory authority circular on "regulatory assessment of internal bank risk-bearing capacity concepts" published on October 7, 2017.

The risk-bearing capacity exists if the overall risk position is covered by the risk coverage potential. The ratio of overall risk position to aggregate risk cover on 31.12.2019 was 61.1%. The risk-bearing capacity therefore existed. For further details of individual risk positions and the aggregate risk cover, we refer to the complete overview of risk-bearing capacity at the beginning of this section.

Taking into account risk concentrations, İşbank AG regularly schedules the performance of stress tests for the risks that are significant from the perspective of the bank, as part of the risk-bearing capacity statement. In this, it relies on appropriate historical and hypothetical scenarios, taking into account the strategic focus of the bank.

In order to ensure consistency of the individual risk-specific stress scenarios with one another, an overall bank stress test was developed, starting from a higher-level macroeconomic scenario, from which individual stress tests are derived for the individual risk types.

İşbank AG uses two different stress test processes: multiple-risk-type and risk-type-specific stress tests. The effects of an extreme deterioration in the overall economic situation (decline in GDP, rise in unemployment rate) and a sharp fall in prices in the property markets are simulated in the multiple-risk-type stress test. Furthermore, as part of the risk-type-specific stress tests, further scenarios are added to the scenario for the multiple-risk-type stress test.

As part of the risk-type-specific stress tests, four different scenarios are used for the counterparty default risk:

- A deterioration of all ratings by one level and a flat-rate reduction of the recovery rate by 20%,
- A deterioration of the rating by two levels among all customers with Turkey as their home country and a flat-rate reduction of the recovery rate by 20%,
- Default of the group/customer with the greatest utilization (excluding banks and financial institutions),
- Default of the Turkish bank with the greatest utilization.

For the market price risk, synthetic and historic scenarios are used to check which economic effects the changes in interest rates could have in the light of the current fixed-interest balance. For FX scenarios, the open currency position is taken as the basis for the stress testing.

As the expansion of the credit spreads in the bond portfolio can have a negative effect on the risk-bearing capacity of the bank by taking into account hidden charges and reserves within the aggregate risk cover, the bank integrated a corresponding test into the regular reporting in 2018.

Moreover, the scenarios of IT failure and bank raid are taken into account for operational risks.

Taking into account the strategic focus of the bank, appropriate historical and hypothetical scenarios are used. The risk-bearing capacity in the case of stress is likewise assessed on the basis of the risk coverage potential usage rate.

In addition to the stress tests described above, İşbank AG also performs inverse stress tests at quarterly intervals for the credit and market price risk.

Liquidity risk

Under the term liquidity risk, İşbank AG differentiates on the one hand the liquidity risk in the narrower sense as the risk of the bank no longer being able to meet its payment obligations and on the other hand the refinancing risk as the risk of the bank being unable to maintain the desired refinancing level.

Risk identification, measuring and management instruments for liquidity risk

The following instruments are available in connection with this:

- The liquidity coverage ratio is calculated daily by the reporting department and communicated to the relevant departments.
- In addition to the LCR, a survival horizon is calculated daily by the risk management department and communicated to the relevant departments.
- "Liquidity Report" list (generated by the money and foreign currency trading department) A liquidity report of the maturity profiles of all receivables and liabilities is generated regularly and published on the portal. The money and foreign currency trading department generates a liquidity contingency plan annually. By contrast, the risk management department performs a stress test on the basis of 3 different scenarios and compares the results with those of the previous quarter. The money and foreign currency trading department is responsible for reporting on the current liquidity situation and significant inputs and outputs each month in the asset/liability committee or the asset/liability management committee with the involvement of the risk management, loan, financial management, retail and business banking, and corporate banking departments.
- Liquidity stress tests for the insolvency and refinancing risk.
- Monthly ALCO committees as well as the FTP pricing system.

Management and monitoring of the liquidity risk

İşbank AG manages and monitors the liquidity risks on the basis of the liquidity coverage ratio, observation figures, liquidity report and survival horizon. Depending on the development of the key figures, specific measures are taken, which include:

- Early external fundraising,
- Fundraising through the parent company,
- Liquidation of deposits at Deutsche Bundesbank or sale of / borrowing against securities.

Liquidity risk tolerance

İşbank AG defines appropriate risk tolerances for liquidity risks and takes appropriate measures to ensure compliance with them. In this, the respective maximum tolerable level of liquidity risks is defined.

The liquidity risk tolerances extend to the:

- Liquidity reserve (liquidity buffer),
- Maturity bands and
- Determining the survival period.

Liquidity reserve

To guarantee solvency, especially in the case of short-term liquidity shortages, a liquidity reserve of liquid and high-quality securities is held, with which additional liquidity can be generated in the case of stress through repo transactions with Deutsche Bundesbank.

Fixing of maturity bands

Solvency and the optimization of the refinancing structure payment flows are ensured on the basis of a liquidity coverage ratio. A traffic light system based on risk tolerance figures was implemented to this end, which ensures the early identification of risks and the corresponding initiation of measures.

Survival horizon

The survival horizon means the period for which İşbank AG is able to survive in the case of liquidity outflows and no new liquidity inflows. The cash flow statement prepared and continuously updated by the money and foreign currency trading department serves as the basis for calculation of the survival horizon.

Refinancing risk

The refinancing risk generally means the risk of the bank no longer being able to maintain the desired refinancing level.

Market liquidity risk

The market liquidity risk is covered indirectly in connection with the İşbank AG risk management of the liquidity risk.

Concentration risks

In general, the concentration risk at İşbank AG can essentially materialize in the counterparty default risks. A concentration in the counterparty default risks occurs if the risk becomes concentrated by certain factors and the diversification of the portfolio is limited as a result of this. In accordance with our risk strategy, the loan portfolio is managed on the basis of defined limits for industries and countries. In addition, the granularity of the portfolio is also monitored on the level of borrowers, such that the occurrence of concentrations is largely limited. Concentration risks exist for İşbank AG largely in respect of Turkey, the home market of our parent company. This risk concentration is assessed firstly by downgrading the individual customer ratings to the rating of the country, if they would otherwise have a better rating than the country rating of Turkey. Within the risk-bearing capacity, this modification results in a significant rise in the credit risk position and through this allocates additional equity to cover the risk. In addition, the credit volume with customers in Turkey is restricted by an absolute limit in close cooperation with voluntary deposit protection. In granting loans to Turkish companies and banks, the bank additionally cooperates intensively with the loan department of the parent company. Through its many years of experience in the Turkish loan market, the parent company has developed a corresponding core competence and is able to assess such credit risks very effectively.

D) OPPORTUNITIES AND RISKS OF FUTURE DEVELOPMENT

Overall economic situation

A negative development in the economy must be expected for 2020. Risks for the economy lie on the one hand especially in the foreign economic environment: the global trade conflicts as well as geopolitical risks and the resulting uncertainty are having a damping effect on world trade and global industrial production, in the assessment of the German Federal Ministry for Economic Affairs and Energy. Furthermore, the discussions about Brexit have until recently created a high level of political uncertainty, which has sometimes also adversely affected the growth dynamic in Europe.

On the other hand, the economic effects of the coronavirus pandemic are currently placing the economy under massive pressure worldwide. According to the European Commission, the COVID-19 crisis will have a very large negative effect on the economy. The economy of the European Union will shrink this year, because of the coronavirus crisis. Originally, growth of 1.4% had been expected for 2020 – it is now expected that growth will fall “below zero”, possibly even significantly.

According to the report by the council of experts on the assessment of overall economic development, it is difficult to give accurate forecasts, as it is difficult to estimate when normal conditions will be achieved. Indeed, the council of experts is expecting the worst economic collapse since the financial crisis in 2008 (-5.7%), although this fall is not expected to be reached in 2020, even in the case of a pessimistic scenario.

The population and companies are afflicted by global production stoppages in companies and disrupted supply chains, collapses in the travel industry and hospitality, cancelled events and trade fairs and the associated uncertainty.

The EBA and ECB adopted measures on March 12, 2020, which should give the banks greater scope to support their customers in the corona crisis and offer relief for operational resources: to do this, banks are permitted to fall below defined capital and liquidity buffer requirements (the Pillar II Guidance / equity indicator, the capital conservation buffer and the liquidity coverage ratio requirement (LCR)). Moreover, the regulator also expects the national authorities to reduce the anti-cyclical capital buffer. These measures provide substantial capital relief for the banks. In addition, the EU-wide stress test of the EBA and ECB planned for 2020 is being postponed to 2021. Not least, other timetables and deadlines, e.g. for on-site inspections or implementation of the directives for non-performing loans, are being discussed and adjusted individually with individual banks.

In Germany, however, the federal government has passed an extensive package of measures to contain the economic impact of the coronavirus pandemic. The aim is to provide companies with sufficient liquidity to overcome the crisis.

For workers and companies affected by the impact of the coronavirus, a protective shield is being established, which is based on four pillars and essentially includes extensive liquidity and tax reliefs for companies and the protection of employees from unemployment.

Collapse of the health system in Germany and an economic recession would be a toxic combination. Because of the surpluses of the German economy in recent years, this scenario should not be able to occur, at least in the near future.

As well as in Europe, the negative effects from the coronavirus are being felt particularly strongly especially in Asia. As a result of the sharp falls in commodity prices, significant economic losses are also expected for the emerging countries. The growth rate in global production in 2020 is therefore expected to fall from 3% to 2%. With swift normalization of the situation, a production increase of 4% is expected in 2021.

In China, the economy is initially expected to shrink in the first quarter of 2020, although a rapid recovery is anticipated, owing to the radical state measures. How severely the crisis will affect Italy, which difficulties it will bring for the Eurozone and what the coronavirus means for the economy in the USA are hard to assess at the moment. However, the economic forecast for 2020 is expected to contract worldwide.

In the USA, fear of a recession is growing as a result of the effects of the coronavirus, which is why the US Federal Reserve (FED) reduced the key interest rate once again on March 8, 2020 to a range from 0 to 0.25%. It had reduced the key interest rate by half a percentage point only at the start of March, to a corridor between 1 and 1.25%.

Furthermore, it announced a new bond buying program comprising a volume of at least USD 700 billion.

OECD, the Organization for Economic Cooperation and Development, reduced its forecast for real economic growth in Turkey by 0.3 percentage points to 2.7%. The coronavirus pandemic will push the Turkish economy to its limit, as the country was already forced to spend vast sums to defuse the tense situation after the economic crisis in 2018. The precise effects depend on the spread of the virus in the country and worldwide. Some industries will incur losses; others could benefit. The net effect is difficult to predict. As Turkey obtains energy sources such as oil and gas mainly from abroad, it is expected to benefit from the oil price war.

The tourist industry, the sixth largest in the world, will incur great losses as a result of the coronavirus pandemic, as many people who love to travel will stay at home this spring for fear of infection. How the situation will transpire in the summer season depends on the course of the pandemic. Tourism contributes 12% to Turkish economic performance. Last year, the sector earned revenue of around 35 billion USD, attracted 50 million visitors and employed around 1.5 million people.

As global trade is declining overall because of the coronavirus, Turkey will also be able to export correspondingly less abroad. Many local companies obtain supplies from China for their production, which will also have a negative impact.

On the other hand, local producers could benefit, if they are able to offer alternatives to supplies from China or other severely affected countries. The manufacturing sector in Turkey has a broad base. Opportunities could emerge in the chemical, textile, footwear, steel or furniture industries.

The Turkish central bank reduced interest rates over several months, which resulted in further devaluation of the Turkish Lira. The delicate geopolitical situation in northern Syria is additionally deterring many investors/speculators, who flee to hard currencies such as the US dollar in times of crisis. As a result, pressure on the already tense price stability is increasing again. In respect of the currency reserves of the country as well as the strong dependency on imports, a weak Turkish Lira must also be considered negative. It increases the cost of borrowing abroad and therefore of implementing investment projects. Turkey is facing economically challenging times in 2020.

Development of İşbank AG

In the coming financial year, the aim remains to focus on ensuring the achievement of continuing positive results from the accomplishments of the organizational changes in the previous years. The financial year 2020 will be a year in which the quality of the asset and liability side will be managed in consideration of economic sensitivities and in which risk control as well as operational efficiency will be improved by focusing on niche products and business areas.

In line with the medium-term strategy of the bank, which is based on sustainable and profitable growth, the target is a result from the financial year 2020, which exceeds that of the last financial year 2019. However, the current corona crisis will also play a not insignificant role in achieving the target, which could involve adjustment of the annual targets, depending on the duration, the force of effect and the effectiveness of the state support. The expansion of business activities and the achievement of loan receivables from banks and customers, amounting to EUR 1,544 million with a total capital ratio of at least 12.85%, should take place here primarily through increased trade finance transactions, corporate banking transactions and improving profitability in the area of retail and business banking. In the light of this, it is also intended to reduce the cost-income ratio to below 60% by moving forward with the digitalization and streamlining processes. The target annual result after tax for the financial year 2020 is EUR 10.7 million.

For İşbank AG, this year will also be characterized by the implementation of regulatory requirements, the effects of the low-interest environment, further investments in digitalization, and implementation of a business model with further optimized details.

Protecting the health of our entire staff and their families as well as the health of our customers at the same time as maintaining business operations will be the top priorities for our institution in the present corona crisis. In the light of this, all contingency plans to maintain banking operations have been adjusted in consideration of the new situation. In connection with this, substitutes have already been defined for each area of the head office and the technical requirements have been expanded so that employees can immediately work from home. Since 16.03.2020, a large proportion of our employees from the head office have already been working from home. All business trips and external meetings have been prohibited. Emergency plans and packages of measures for the branches have likewise been updated and provided. If it becomes necessary to close one or more branches, it is ensured that care for our branch customers continues to be guaranteed through our service center or through a nearby branch. In summary, the necessary resources are ensured in the form of IT infrastructure, so that the processes to guarantee business operations can continue in the case of occurrence of the disease or introduction of exceptional measures in our bank.

In parallel, contingency plans were also coordinated with the cooperation partners of our outsourced services. Regardless of whether branch closures occur, the restrictions on public life will have effects on the commission income of İşbank AG. In the branches, the "transfers to Turkey" product forms the key pillar of the commission income. For this service, in cooperation with a newly established fintech company, a mobile application has been developed, tests have been completed and the product has been operational since the start of February, such that customers are not dependent on the presence of a physical branch in order to use this service. An alternative product can therefore be offered to the customer for the main product of the branch channel in the case of branch closure. With digitalized account opening processes, it can furthermore be guaranteed that accounts can be opened and other products of the bank can be used via the service center.

With regard to the loan business, the economic effects of the coronavirus, especially for companies, are indeed not yet predictable, although it is already inevitable that sales in 2020 will decline sharply in economic sectors such as tourism or catering. However, even in production and the transport sector, very few companies will be able to maintain their annual targets unchanged. Both in the corporate and in the business banking sector, the loan portfolio of the bank was accordingly analyzed immediately after the first severe political restrictions nationwide on the basis of the current risk factors. In the corporate sector, the analysis was conducted on the level of the individual borrower entities and the companies were identified according to a traffic light system (high, medium or insignificant effect). The analysis of Turkish corporate customers was performed here in close cooperation with the risk management of our parent company.

Like the Federal Republic, the Turkish state has also already taken economic measures and the requirements of the Turkish banking regulator were quickly adapted. Receivables from customers who are affected by the corona crisis can therefore be deferred for three months by banks, and financial institutions have been granted extensive liquidity reliefs. The Turkish Credit Guarantee Fund, a state funding pool to support companies, was topped up from TL 25 billion to TL 50 billion. Furthermore, tax reliefs and suspensions of rent payments were implemented for companies.

In the local business banking sector, the loan portfolio was divided into economic sectors and the analysis is based on risky or less risky economic sectors.

Regarding the expected economic effects of the corona crisis, İşbank AG is braced for a prolonged downturn. The present equity ratio of approx. 13.2% forms a solid buffer for this. In parallel, the current proportion of non-performing loans of the bank is at the lowest level since the start of the banking crisis. The bank additionally regularly performs internal stress scenarios with various simulations. Also, the present refinancing has a strongly diversified position on the one hand, and on the other hand additional measures can be taken to raise liquidity. In combination with successful slowing of the corona pandemic and the economic policy measures of the German legislature, these features of the bank and ultimately our solidly positioned parent company give us confidence that we will overcome the crisis successfully together with our staff.

E) DEPENDENCY REPORT

The board of İşbank AG declares:

“We declare that İşbank AG in Frankfurt am Main received an appropriate consideration for each legal transaction according to the circumstances known to us at the time when the aforementioned legal transactions were performed. At the instigation or in the interest of the companies associated with it, measures were neither taken nor omitted, through which a disadvantage can be excluded.”

F) ASSOCIATION MEMBERSHIPS

The bank is a member of the Association of German Banks and of regional banking associations. Furthermore, it is a member of the Association of Foreign Banks in Germany. As a member of the Auditing Association of German Banks, it participates in the deposit protection fund of private banks in Germany.

Frankfurt am Main, April 6, 2020

Ünal Tolga Esgin	**Franz Hakan Elman**
Board Chairman	Board Member

SERVICES AT A GLANCE

RETAIL BANKING

- Accounts and Cards
- Saving and Investing
- Payments and Transfers
- Loans
- Insurance
- Mortgages
- Services

CORPORATE BANKING

- Accounts and Cards
- Saving and Investing
- Payments and Transfers
- Loans
- Trade Finance
- Mortgages
- Services

FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2019 WITH INDEPENDENT AUDITOR'S REPORT THEREON

BALANCE SHEET AS OF DECEMBER 31, 2019

Assets			
		Dec. 31, 2019 in EUR	**Previous year in EUR**
1. Liquid funds			
a) Cash		3,314,850.36	3,962,788.79
b) Balances with central banks		244,424,858.20	139,868,168.37
thereof with Deutsche Bundesbank:	EUR 244,215,247.34		
	(Previous year: EUR 139,270,260.29)		
		247,739,708.56	**143,830,957.16**
2. Receivables from banks			
a) Due at sight		4,530,251.33	18,164,971.32
b) Other receivables		376,763,284.15	347,704,007.88
		381,293,535.48	**365,868,979.20**
3. Receivables from customers		**1,046,191,113.89**	**1,133,526,068.24**
thereof: secured by mortgages:	EUR 49,812,314.00		
(Previous year: EUR 45,567,865.34)			
loans granted by local authorities:	EUR 0.00		
	(Previous year: EUR 0.00)		
4. Debentures and other fixed interest securities			
a) Money-market instruments			
aa) By other issuers		0.00	0.00
thereof: eligible as collateral with Deutsche Bundesbank	EUR 0.00		
	(Previous year: EUR 0.00)		
b) Bonds and debt securities			
ba) By public issuers		38,419,682.28	28,297,101.57
thereof: eligible as collateral with Deutsche Bundesbank	EUR 15,020,002.96		
	(Previous year: EUR 15,034,290.79)		
bb) By other issuers		72,119,241.72	106,931,928.55
thereof: eligible as collateral with Deutsche Bundesbank	EUR 33,025,556.02		
	(Previous year: EUR 73,528,055.33)		
		110,538,924.00	**135,229,030.12**
5. Shares and other non-fixed interest bearing securities		**0.00**	**0.00**
6. Intangible assets			
Concessions, industrial property rights and similar rights purchased and licences for such rights and assets		12,409,733.95	14,118,152.96
		12,409,733.95	**14,118,152.96**
7. Tangible fixed assets		**1,077,617.36**	**1,422,353.85**
8. Other assets		**5,817,515.13**	**9,667,381.14**
9. Prepaid and deferred assets		**1,720,368.51**	**1,375,241.00**
Total assets		**1,806,788,516.88**	**1,805,038,163.67**

Liabilities		
	Dec. 31, 2019	**Previous year**
	in EUR	**in EUR**
1. Liabilities to banks		
a) Payable on demand	16,287,495.54	22,150,882.55
b) With an agreed term of notice period	281,919,797.37	334,949,553.31
	298,207,292.91	**357,100,435.86**
2. Liabilities to customers		
a) Saving depots		
aa) With an agreed notice period of up to three months	28,625,719.04	28,748,366.67
ab) With an agreed notice period of more than three months	1,519,898.05	2,370,628.25
b) Other liabilities		
ba) Payable on demand	274,288,264.46	244,187,687.47
bb) With an agreed term of notice period	986,930,998.41	961,039,882.75
	1,291,364,879.96	**1,236,346,565.14**
3. Other liabilities	**2,545,148.85**	**5,349,862.28**
4. Deferred expenses and accrued income	**939,647.91**	**2,328,681.42**
5. Accruals		
a) Tax accruals	299,334.34	269,785.00
b) Other accruals	2,868,535.88	3,138,798.31
	3,167,870.22	**3,408,583.31**
6. Equity		
a) Subscribed capital	185,000,000.00	185,000,000.00
b) Capital reserves	315,292.40	315,292.40
c) Revenue reserves		
ca) Statutory reserves	1,532,767.21	1,029,785.14
cb) Other revenue reserves	14,158,958.12	6,328,577.75
d) Net retained profit	9,556,659.30	7,830,380.37
	210,563,677.03	**200,504,035.66**
Total liabilities and equity	**1,806,788,516.88**	**1,805,038,163.67**
1. Contingent liabilities		
Contingent liabilities from guarantees and indemnity agreements		
	36,124,286.57	27,694,257.33
2. Other liabilities		
Irrevocable credit commitments	0.00	0.00
	36,124,286.57	**27,694,257.33**

STATEMENT OF INCOME

			Dec. 31, 2019 in EUR	Previous year in EUR
1. Interest income from				
a) Loans and money market transactions minus	55,142,887.75			56,065,782.05
negative interest on money market transactions	-651,445.02			-586,150.80
		54,491,442.73		
b) Fixed-interest securities and debentures		5,308,081.75		3,170,698.77
		59,799,524.48		**58,650,330.02**
2. Interest Expense		20,385,387.05		22,807,984.06
			39,414,137.43	**35,842,345.96**
3. Commission Income		8,277,642.16		8,815,708.68
4. Commission Expense		339,777.89		405,680.25
			7,937,864.27	**8,410,028.43**
5. Other operating income			**312,008.82**	**3,482,436.40**
6. General administrative expense				
a) Personnel expenses				
aa) Wages and salaries (with accruals)	12,692,694.41			13,442,516.20
ab) Social security contributions, pensions and welfare expense	1,840,648.88			2,086,970.33
thereof: pension expenses EUR 113,499.76 (Previous year: EUR 168,444.82)				
		14,533,343.29		**15,529,486.53**
b) Other administrative expenses		11,697,525.08		12,089,325.51
			26,230,868.37	**27,618,812.04**
7. Write-downs and value adjustments on intangible and tangible fixed assets			**2,505,458.74**	**2,760,218.62**
8. Other operating expenses			**146,925.21**	**90,515.94**
9. Write-downs and value adjustments on receivables and certain securities, as well as allocations to provisions in the lending business		**5,571,913.03**		**7,137,651.03**
10. Income from reversals of write-downs of receivables and certain securities, as well as income from release of accruals relating to the lending business		1,209,580.17		1,289,489.48
			4,362,332.86	**5,848,161.55**
11. Depreciation and value adjustments on participations, shares in affiliated companies and securities held as fixed assets			**0.00**	**806.45**
12. Income from participations, shares in affiliated companies and securities held as fixed assets			410,817.71	624,151.36
13. Result from ordinary operations			**14,829,243.05**	**12,040,447.54**
14. Extraordinary expenses			**87,102.85**	**1,156,944.06**
15. Taxes on income and earnings		**4,952,969.40**		**3,094,891.17**
16. Other taxes, unless shown under item 8		-270,470.57		-453,893.34
			4,682,498.83	**2,640,997.83**
17. Net Income for the year			**10,059,641.37**	**8,242,505.65**
18. Allocations to the revenue reserves				
a) to the statutory reserves	502,982.07			412,125.28
b) To the reserve for shares in a controlling company or a company with a majority interest	0.00			0.00
c) To reserves provided for in the articles of association	0.00			0.00
d) To other revenue reserves	0.00			0.00
			502,982.07	**412,125.28**
19. Net Retained Profit			**9,556,659.30**	**7,830,380.37**

ANNEX FOR THE 2019 FISCAL YEAR

A. Preamble

İşbank AG is domiciled in Frankfurt am Main and is registered in Commercial Register B at the Municipal Court of Frankfurt am Main (HRB 94361). The annual financial statement of İşbank AG for the 2019 fiscal year was prepared in accordance with the provisions of the Commercial Law Code in accordance with §§ 242 ff. and 340 ff. HGB as well as the Credit Institute Accounting Ordinance (RechKredV) and German Stock Corporation Act (AktG).

B. General Accounting and Evaluation Principles

The receivables recorded under the individual items include accrued interest recorded at the nominal value. İşbank created specific bad debt allowance as well as reserves and general loan loss reserves for identifiable creditworthiness risks in the credit business.

Classification criteria which prescribe management of non-performing loans have been defined, also within the scope of the early detection, system for securing of loan commitments. In general, loan commitments with defaults between 60 and 90 days and installment loans starting from 3 installments in arrears are subjected to inspection by the loan restructuring department. In order to determine the necessary specific loan loss reserves the collateral is re-evaluated in the process of management of the loans. The application and dissolution of the corresponding risk provision is calculated and recorded on a quarterly basis to an appropriate and sufficient amount.

Bonds and debentures were allocated to investment assets. The total portfolio is evaluated on the basis of the mitigated lowest value principle. As per the balance sheet date there are dormant reserves and hidden losses. No non-scheduled depreciation was carried out, as a reduction in value due to creditworthiness and hence non-permanent value reduction is being assumed. Fixed interest securities acquired sub-par are recorded according to the accrual principle at nominal value. Fixed interest securities acquired above par are recorded according to the accrual principle at nominal value.

The tangible and intangible assets, the use of which is temporary, are recorded applying scheduled depreciation via the anticipated length of use. The length of use of the new core banking system was fixed at 10 years in the 2016 fiscal year. Low value assets up to EUR 800 net are written off in the year of acquisition. Assets with acquisition costs ranging between EUR 800 and EUR 1,000 are recorded on the asset side and written-off on the basis of linear depreciation over a period of five years.

The liabilities were recorded at their settlement value plus accrued interest. Where the settlement value of a liability is greater than the issue amount, the difference is recorded on the asset side under deferred items pursuant to § 250 Sect. 3 HGB in conjunction with § 340c Sect. 2 Clause 3 HGB. The deferred items are written-off on the basis of scheduled linear depreciation over the term of the liability.

Tax reserves and other reserves take all identifiable risks into account and have been recorded at the amount of the settlement value necessary according to reasonable business assessment pursuant to § 253 Sect. 1 HGB.

The subscribed capital to the amount of KEUR 185,000 is recorded at nominal value.

The contingent liabilities and irrevocable credit commitments are formed with the nominal value after deduction of cash securities and reserves taken into account on the balance sheet. For reserves with a term of more than one year there is a discounting obligation with average market interest over the past seven years related to the residual period as set out in § 253 Sect. 2 HGB. The filing reserves are likewise discounted at the average market interest rates corresponding with their residual term.

Expenditure and profit are recorded according to the accrual principle. Account management fees are charged on a quarterly basis and admissible processing fees immediately upon the transaction.

All expenditure as well as all reserves and payment obligations in connection with the restructuring measures were recorded in the extraordinary expenses.

Assets and liabilities in foreign currency were converted to EUR on the basis of the exchange rate set by the European Central Bank at the balance sheet date in accordance with § 256a HGB in conjunction with § 340h HGB.

The expenditure and income from the foreign currency conversion are recorded under the miscellaneous operational expenditure and profit.

The conversion results from transactions which were integrated into the special coverage in accordance with § 340h HGB are balanced under miscellaneous operational profits/recorded under miscellaneous operational expenditure.

In the loss-free evaluation of interest-related transactions of the banking book (BFA3) the periodic (P & L-oriented) method was applied. In this context, the cash-value period results calculated by Financial Management from interest-related transactions, the management expenditure for the portfolio transactions calculated on the basis of the P&L account and the risk costs to be anticipated before the final due date of the transactions based on the anticipated payment defaults were compared. No imminent loss reserves need to be created pursuant to IDW RS BFA 3 as per 12/31/2019.

Negative interest from money market transactions is recorded as reduced earnings under interest income.

C. Notes to the Balance Sheet

The liquid assets have been recorded at nominal value. The proportional interest is not recorded as part of the residual term breakdown, but separately in accordance with §11 Clause 3 RechKredV.

	31.12.2019		Previous year
	KEUR		KEUR
Receivables from credit institutes			
- due daily	4,530		18,165
- up to 3 months	122,016		124,386
- 3 months up to 1 year	255,487		223,843
- 1 year up to 5 years	558		0
Accrued interest	1,032		642
General loan loss reserves	2,329	(*)	1,167
(*) of which allocated to country loan loss reserves KEUR 2,329			
Receivables from customers			
- Up to 3 months	89,301		120,534
- more than 3 months up to 1 year	298,846		342,334
- more than 1 year up to 5 years	517,218		541,736
- more than 5 years	24,831		26,847
- with an indefinite term	114,679		98,488
Accrued interest	5,888		6,365
General reserves for loan losses	4,572	(**)	2,778
(**) of which allocated to country loan loss reserves KEUR 3,976			
Receivables from affiliated companies are included in the following items			
Receivables from credit institutes	66,273		17,914
- of which from sole shareholder	66,273		17,914
Receivables from customers	44,551		40,157
Debentures and other fixed interest securities	0		7,055
Bonds and debentures in the portfolio			
Money market instruments			
From other issuers	0		0
Debentures (accounting values)			
From public issuers	37,854		28,078
- of which allocated to pension	27,769		0
From other issuers	71,571		106,172
- of which allocated to pension	26,693		12,944
- due the following year	178		26,705
Accrued interest	1,114		979

All bonds and debentures are marketable and listed.

At the balance sheet date, the bonds and debentures consist of dormant reserves to the amount of KEUR 2,633 (Previous year: KEUR 2,060) and hidden losses to the amount of KEUR 0 (Previous year: KEUR 2,350).

The amount of the marketable securities in the bond and debenture portfolio not valued using the lowest principle is KEUR 0 (Previous year: KEUR 35,224).

Receivables from customers to the amount of KEUR 49,812 (Previous year: KEUR 45,568) are secured by liens.

The intangible assets essentially comprise expenditure recorded on the asset side of the core banking system of İşbank AG acquired in 2016.

The total amount of other assets is KEUR 5,818 (prev. year: KEUR 9,667). KEUR 4,771 (Previous year: KEUR 8,481), is allocated to receivables from derivative transactions due to currency valuations, KEUR 551 (Previous year: KEUR 433) to tax receivables from the Internal Revenue Service regarding turnover tax as well as KEUR 237 (Previous year: KEUR 366) to tax return claims on commercial and corporation tax as well as the solidarity surcharge. This also includes deposits to the amount of KEUR 123 (Previous year: KEUR 125). In addition, KEUR 9 (previous year: KEUR 203) are allocated to not yet approved customer orders and KEUR 125 (Previous year: KEUR 59) to suspense accounts of the bank.

Already KEUR 949 (Previous year: KEUR 1,042) are allocated to advance payments on the rent for the headquarters under the item accrued income to the amount of KEUR 1,720 (Previous year: KEUR 1,375). KEUR 338 (Previous year: KEUR 110) from agio payments are added to this as well as KEUR 312 (Previous year: KEUR 187) from invoices paid in advance. This also includes advance payments for rent of the branch office in Amsterdam to the amount of. KEUR 35 (Previous year: KEUR 33).

İşbank AG, Frankfurt am Main
Asset analysis as per 31.12.2019

										Accounting values	
	Acquisition/ manufacturing costs Status 1.1.2019 KEUR	Inflow KEUR	Outflow KEUR	Transfer KEUR	Acquisition/ manufacturing costs Status 31.12.2019 KEUR	Cumulative Depr.. Status 1.1.2019 KEUR	Cumulative Depr. Status 31.12.2019 KEUR	31.12.2019 Appreciation of the fiscal year KEUR	31.12.2019 Depreciation of the fiscal year KEUR	Status 31.12.2018 KEUR	Status 31.12.2019 KEUR
Intangible assets	23,972	401	0	0	24,373	9,854	11,963	0	2,109 (*)	14,118	12,410
Software (****)	23,972	401	0	0	24,373	9,854	11,963	0	2,109	14,118	12,410
Tangible assets	5,148	52	107	0	5,093	3,725	4,015 (*)	0	396 (*)	1,422	1,078
Plant and equipment	29,120	452	107	0	29,465	13,579	15,978 (*)	0	2,505	15,541	13,487
Securities (***)	134,878	12,648	38,299	0	109,226	628	199	984	157	135,229	110,539 (**)
Total	163,996	13,100	38,406	0	138,692	14,207	16,177	984	2,663	150,770	124,026

(*) Inflows in the fiscal year are included in the write-offs to the amount of KEUR 42 (Software and plant and equipment) The write-offs include separations from the shut-down international branch offices to the amount of KEUR 107.

(**) Inclusive accrued interest to the amount of KEUR 1,114 per 12/31/2019. The inflow to securities includes currency effects to the amount of KEUR 485

(***) Debentures and other fixed-interest securities, stocks and other non-fixed interest securities

(****) Permits, industrial property rights and similar rights and values acquired for a fee as well as licenses to such rights and values

	31.12.2019	Previous year
	KEUR	KEUR
Payables to credit institutes		
- due daily	16,287	22,151
- up to 3 months	103,566	180,678
- more than 3 months up to 1 year	75,000	70,388
- more than 1 year up to 5 years	102,051	83,000
- Accrued interest	1,303	884
Payables to customers (savings deposits)		
- up to 3 months	28,626	28,748
- more than 3 months up to 1 year	1,038	1,345
- more than 1 year up to 5 years	112	201
- more than 5 years	370	825
Payables to customers (other payables)		
- due daily	274,288	244,188
- up to 3 months	402,599	414,870
- more than 3 months up to 1 year	308,377	338,145
- more than 1 year up to 5 years	220,683	176,715
- more than 5 years	51,300	28,125
- Accrued interest	3,973	3,185
Payables to affiliated companies are included under the following items:		
Payables to credit institutes	12,072	11,228
-of which to the sole shareholder	12,072	11,228
Payables to customers	24,374	1,520

Payables to credit institutes include KEUR 60,000 (Previous year: KEUR 83,000). Open market operations with Deutsche Bundesbank hedged by the securities deposited on the safe custody account there. KEUR 51,650 (Previous year: KEUR 10,465) are allocated to pension transactions and KEUR 75,235 (Previous year: KEUR 100,645) to an assumed syndicate loan.

The other liabilities to the amount of KEUR 2,545 (Previous year: KEUR 5,350) include inactive accounts to the amount of KEUR 1,213 (Previous year: KEUR 677), outstanding payments (customer orders not yet processed by the clearing body) to the amount of KEUR 605 (Previous year: KEUR 3,914), liabilities to Internal Revenue Offices due to outstanding income, church and turnover tax KEUR 211 (Previous year: KEUR 229), liabilities from derivative transactions due to currency valuations to the amount of KEUR 364 Previous year: KEUR 399), returns from non-deliverable credit transfers to Turkey to the amount of KEUR 69 (Previous year: KEUR 97), outstanding capital income tax at KEUR 82 (Previous year: KEUR 33) as well as liabilities from payroll to the amount of KEUR 3 (previous year: KEUR 25).

Deferred income and accrued expenses to the amount of KEUR 940 (Previous year: KEUR 2,329) consists of accrued upfront fee payments from purchased syndicate loans to the amount of KEUR 911 (Previous year: KEUR 2,321) and commission income received in advance to the amount of KEUR 29 (Previous year: KEUR 7).

The tax reserves to the amount of KEUR 299 (Previous year: KEUR 270) essentially include corporation tax make-up payments to the amount of KEUR 178 (Previous year: KEUR 270) by the branch office in Amsterdam as well as profit make-up payments from previous years to the amount of KEUR 120.

As per the end of the year Other Reserves to the amount of KEUR 2,869 (Previous year: KEUR 3,139) were created. They essentially consist of bonus reserves to the amount of KEUR 1,315 (Previous year: KEUR 1,408), reserves for settlement payments and salaries of departing employees KEUR 437 (Previous year: KEUR 470). KEUR 250 (Previous year: KEUR 113) are allocated to reserves for audit expenses and KEUR 104 (Previous year: KEUR 125) for reserves for consulting expenses. This item further includes reserves for contributions to the amount of KEUR 107 (Previous year: KEUR 121), reserves for litigation fees to the amount of KEUR 238 (Previous year: 96), vacation reserves to the amount of KEUR 76 (previous year: KEUR 38), filing fees to the amount of KEUR 104 (Previous year: KEUR 104) and reserves for guarantees of bills of exchange to the amount of KEUR 31 (Previous year: KEUR 26).

The total subscribed capital is KEUR 185,000 and has not changed in relation to the previous year.

The equity of İşbank AG is KEUR 185,000 and is divided up into 18,500,000 non-par bearer shares. There are no other types of securities.

The equity is divided up as follows:

	31.12.2019	Previous year
	KEUR	KEUR
Subscribed capital	185,000	185,000
Capital reserves	315	315
Statutory reserves	1,533	1,030
Profit reserves	14,159	6,329
Net profit	9,557	7,830
	210,564	200,504

Pursuant to §150 Sect. 2 AktG 5% of the net income for the year are to be adjusted annually in the statutory reserves. Accordingly, the statutory reserves were increased by KEUR 503.

The total amount of loan loss reserves for country risks of Receivables from customers und credit institutes is KEUR 6,305 (Previous year: KEUR 3,205).

The breakdown of total risk prevention due to country risks to the individual items of the balance sheet is as follows:

	31.12.2019	Previous year
	KEUR	KEUR
Receivables from credit institutes	2,329	1,167
Receivables from customers	3,976	2,038

Items recorded in foreign currency:

	31.12.2019	Previous year
	KEUR	KEUR
Assets	281,148	281,330
Debts	288,279	237,693

The breakdown of payables from guarantees and guarantee contracts after deduction of the general loan loss reserves is as follows:

	31.12.2019	Previous year
	KEUR	KEUR
Guarantees and guarantee contracts	10,433	10,509
Letters of credit	25,723	17,211
	36,155	27,720

KEUR 8,150 (Previous year: KEUR 4,155) of guarantees and guarantee contracts are allocated to the sole shareholder

Cash-secured guarantees in the fiscal year amount to KEUR 27,307 (Previous year: KEUR 4,938). Irrevocable credit commitments in the fiscal year amount to KEUR 0 (Previous year: KEUR 0).

The risks from claims to contingent liabilities and other liabilities are estimated as low by İşbank AG due to the existing securities.

D. Notes to the Profit and Loss Account

The profit and loss account has been prepared in vertical format.

The Management Board of İşbank AG proposes to the Supervisory Board in accordance with § 170 Sect. 2 AktG to retain the profit in the 2019 annual financial statement to the full amount of EUR 9,556,659.30, carry it forward to a new account and to allocate it immediately to profit reserves.

The breakdown of the earnings according to the places of business is as follows:

	Germany	Netherlands	France	Total
	KEUR	KEUR	KEUR	KEUR
Interest income	55,942	3,848	9	59,799
Commission income	7,365	908	5	8,278
Net income	9,768	333	-42	10,059

Interest income includes negative interest to the amount of KEUR 651 (Previous year: KEUR 546). It results from reserve deposits with the German Federal Bank exceeding the minimum target reserves of İşbank AG.

Other operating profit to the amount of KEUR 312 (Previous year: KEUR 3,482) results essentially from profit from foreign currency conversions to the amount of KEUR 137 (Previous year: KEUR 106), from the dissolution of other reserves to the amount of KEUR 65 (Previous year: KEUR 284), from tax income to the amount of KEUR 26 as well as out-of-period payments to the amount of KEUR 57 (Previous year: KEUR 99).

Other operating expenditure to the amount of KEUR 147 (Previous year: KEUR 91) results essentially from expenditure to the amount of KEUR 74 (Previous year: KEUR 30), from expenditure for company events to the amount of KEUR 11, from payment of the severe disability contribution to the amount of KEUR 11 as well as from general administrative expenditure to the amount of KEUR 40.

The extraordinary expenditure to the amount of KEUR 87 (Previous year: KEUR 1,157) results essentially from other expenditure to the amount of KEUR 37 (previous year: KEUR 315), other administrative expenditure to the amount of KEUR 26 (Previous year: KEUR 373) personnel expenditure to the amount of KEUR 13 (Previous year: KEUR 418) as well as restructuring expenditure to the amount of KEUR 11 of the shut-down branch office in Paris. KEUR 254 (Previous year: KEUR 212), were charged as fees for audit services for Germany for the fiscal year, KEUR 4 (Previous year: KEUR 4) for other services.

During the fiscal year taxes on income and profit to the amount of KEUR 4,953 (Previous year: KEUR 3,095) were incurred.

Set-off of the Net Profit of the Previous Year:

Per resolution of the regular shareholders' meeting of June 14, 2019 it was resolved to retain the net profit from 2018 of KEUR 7,830 to the full amount and to carry it forward to a new account and to immediately deposit it to the profit reserves.

E. Other Information

Country-specific reporting (Country-by-Country Reporting) by İşbank AG pursuant § 26a

KWG as per December 31, 2019

The data on country-specific reporting (Country by Country Reporting) from Article 89 EU-Directive 2013/36/EU resp. § 26a KWG are presented in detail in our "Country-Specific Report" (Country by Country Reporting) as per December 31, 2019. After approval of the annual financial statement the country-by-country reporting is published together with the annual financial statement and management report in the Federal Gazette.

Disclosure Report

İşbank AG is subject to disclosure provisions as set out in the Articles 431 ff. of Ordinance (EU) Nr.575/2013. The disclosure report is published on the website of İşbank AG (www.isbank.de).

Other Financial Obligations

The total amount of other financial obligations is divided up as follows:

	2020	2021-2022	As from 2023	Total
	KEUR	KEUR	KEUR	KEUR
Leases	2,380	4,098	11,729	18,207
Leasing contracts	200	220	0	419
Other contracts	174	163	237	575

For coverage of the loan grants in USD, TRY and GBP the bank had nine foreign currency swap transactions (Nominal value: KEUR 67,641) and ten cross currency swap transactions (Nominal value: KEUR 32,913) in the portfolio. As per the balance sheet date a negative amount KEUR 364 as well as a positive amount of KEUR 4,771 result from these currency swaps.

The following table illustrates the nominal amounts of the foreign currency swaps concluded for coverage of foreign exchange risks from customer transactions:

Residual term	Nominal	- Market value	+ Market value
	KEUR	KEUR	KEUR
Up to 1 year	83,499	364	3,307
More than 1 year	17,055		1,464

On the basis of membership in the investment hedging fund with Bundesverband deutscher Banken e.V. (Federal Association of German Banks) İşbank AG may be obligated to pay subsidies. Currently, there is no obligation to pay subsidies.

Employees

İşbank AG employed an annual average staff number of 171.

	2019	Previous year
Authorized signatories	2	3
Salaried employees	166	169
Total	168	172

The breakdown of the number of personnel shed per branch office is as follows:

Branch offices	2019	Previous year
Berlin	3	0
Düsseldorf	1	0
Frankfurt	0	1
Gelsenkirchen	0	1
Kreuzberg	0	1
Mannheim	1	1
Munich	1	1
Stuttgart	1	3
Amsterdam	2	1
Paris	1	5

The salaries of the CEOs in the past fiscal year were KEUR 541 (Previous year: KEUR 874). No pension guarantees were made to members of the Management Board. For this reason, no pension reserves are being created by İşbank AG for members of the Management Board.

Expenditure compensation was paid to members of the Supervisory Board in 2019 pursuant to § 285 Nr. 9a HGB to the amount of KEUR 162 (Previous year: KEUR 162).

Follow-up Report

The outbreak of the novel Coronavirus (Corona pandemic) poses a large number of imponderables for the bank.

The bank's assessment and acknowledgement of the current situation caused by the corona virus pandemic as well as measures instated by the bank were presented in the management report.

Company Bodies

Management Board

Ünal Tolga Esgin, Frankfurt am Main, Chairman of the Management Board

Franz Hakan Elman, Frankfurt am Main, Member of the Management Board

Supervisory Board

Yılmaz Ertürk, İstanbul/Turkey, Chairman of the Supervisory Board, Chairman of the Management Board Anadolu Hayat Emeklilik A.Ş.

Gamze Yalçın, İstanbul/Turkey, Deputy Chairman of the Supervisory Board, Deputy Chief Executive International Correspondence Relations and Investor Relations at Türkiye İş Bankası A.Ş.

Yavuz Ergin, İstanbul/Turkey, Consultant at Türkiye İş Bankası A.Ş.

Ali Tolga Ünal, İstanbul/Turkey, Division Head Financial Management at Türkiye İş Bankası A.Ş.

Can Yücel, İstanbul/Turkey, Division Head Corporate Loans at Türkiye İş Bankasi A.Ş.

Mustafa Tankut Tabak, İstanbul/Turkey, Division Head Human Resources at Türkiye İş Bankası A.Ş.

Sabri Gökmenler, İstanbul/Turkey, Department Head IT at Türkiye İş Bankasi A.Ş.

Mete Uluyurt, İstanbul/Turkey, Division Head Strategy and Corporate Performance at Türkiye İş Bankası A.Ş.

Murat Demircioğlu, İstanbul/Turkey, Department Head Commercial Loans at Türkiye İş Bankası A.Ş.

Company Group Relations

İşbank AG, Frankfurt am Main, is a wholly owned subsidiary of Türkiye İş Bankası A.Ş., Büyükdere Cad. Pembegül Sok, 34330, Levent - İstanbul, Turkey. The parent company Türkiye İş Bankası A.Ş. prepares consolidated financial statements as per December 31, 2019, which is also available at the registered office of the company.

Frankfurt am Main, April 6, 2020

Ünal Tolga Esgin
Chairman of the Management Board

Franz Hakan Elman
Member of the Management Board

REPRODUCTION OF THE AUDIT CERTIFICATE

We have issued the following audit certificate for the annual financial statement and the management report:

"Audit certificate by the independent auditor

To Isbank AG

Audit Certificate for the Audit of the Annual Financial Statement and the Management Report

Audit Evaluations

We audited the annual financial statement of Isbank AG, Frankfurt am Main - consisting of the annual financial statement as per December 31, 2019 and the Profit and Loss Account for the fiscal year from January 1, 2019 up until December 31, 2019 as well as the notes, including the presentation of the accounting and evaluation methods. In addition, we audited the management report of Isbank AG for the fiscal year from January 1, 2019 until December 31, 2019.

According to our assessment based on the findings of the audit

- The attached annual financial statement essentially complies with the provisions of German Commercial Law prescribed for corporations and illustrates the actual asset and financial situation of the company as per December 31, 2019 and its profit situation for the fiscal year from January 1, 2019 up until December 31, 2019, observing the German standard accounting practices in all essential points and
- The attached Management Report overall accurately presents the situation of the company. In all key points, this Management Report is in conformity with the annual financial statement, complies with the German legal provisions and accurately portrays opportunities and risks of the future development.

Pursuant to § 322 Sect. 3 Clause 1 HGB (Commercial Code) we hereby declare that our audit did not give rise to any objections against the compliance of the annual financial statement and management report.

Basis for the Audit Evaluations

We performed the audit of the annual financial statement and of the management report in compliance with § 317 HGB and the EU Auditor Ordinance (Nr. 537/2014; hereinafter "EU-APrVO") in compliance with the German standard accounting practices as set by the Institute of Auditors (IDW). Our responsibility pursuant to these provisions and practices is set out under the section "Responsibility of the Auditors for the Audit of the Annual Financial Statement and the Management Report" of our audit certificate.
We are independent of the company in compliance with the provisions of European law as well as the German Commercial and Professional law provisions and have fulfilled our other German professional obligations in accordance with these requirements. In addition, we hereby declare pursuant to Article 10 Sect. 2 lit, f) EU-APrVO that we have not rendered any prohibited non-audit services pursuant to Article 5 Sect. 1 EU-APrVO. In our opinion, the audit proof records obtained by us are sufficient and adequate to serve as the basis of our audit evaluations of the annual financial statement and management report.

Particularly Important Audit Circumstances in the Audit of the Annual Financial Statement

Particularly important audit circumstances are such which according to our due discretion are most important in our audit of the annual financial statement for the fiscal year from January 1 until December 31, 2019. These circumstances were taken into account within the context of our audit of the annual financial statement overall and in the formation of our audit evaluation in this regard; we are not providing any separate audit evaluation of these circumstances.

Below we are describing what we believe to be an especially important audit circumstance:

Identification and Evaluation of Impaired Receivables from Customers from the Company Customer Credit Portfolio

Reasons for the Designation as a Particularly Important Audit Circumstance

The identification and evaluation of impaired receivables from customers is a key area in which the Management takes discretionary decisions.

The identification of impaired receivables from customers as well as the evaluation of impaired receivables from customers is associated with uncertainties and includes diverse assumptions and influential factors which unlock discretionary leeway or require estimates. Anticipated future discounted cash flow is to be determined on the basis of the evaluation of the customers' financial situations/ the collateral provided. For impaired receivables, these discretionary decisions can significantly impact the amount of the reserves to be created for loan loss

Within the context of the business model of Isbank AG focusing on the company customer credit business, which constitutes a key part of the assets of the bank, we identified the identification and evaluation of impaired receivables from customers from the company customer credit portfolio as an especially important audit circumstance.

Audit Procedures

We examined the organization and effectiveness of selected checks in relation to the identification and evaluation of impaired receivables from customers and tested these checks. The focus of our audit procedures in this context was the process of regular evaluation of the borrowers' financial situation using inhouse risk classification procedures as well as the monitoring of early warning indicators.

In addition, we carried out relevant audit procedures on a random check basis and examined within the scope of our credit individual case audit whether there is a need for write-down for the loans in our random check or if existing write-downs were adequately created with regard to their amount. We risk-oriented the random check, in particular on the basis of criteria such as the amount of the loans and/or the management of loans on monitoring lists for latent and acute default risks as well as of the rating class.

On the basis of our audit procedures no objections arose with regard to the identification and evaluation of impaired receivables from customers from the company customer credit portfolio.

Reference to Corresponding Data

The company's data for the identification and evaluation of impaired receivables from customers are included in Section B, "General Account and Evaluation Practices" " in the Notes.

Miscellaneous Information

The Supervisory Board is responsible for the "message from the Chairman of supervisory board" as well as the "report of the supervisory board". In other respects, the legal representatives are responsible for the other information. The other information comprises the declaration on the Dependence Report under Section e) of the management report. In addition, it includes the following parts intended for the business report of which we obtained a copy before the issue of the audit certificate, the "report of the management board" as well as the Country-by-Country-Reporting 2019 (disclosure pursuant to § 26a Sect. 1 Clause 2 KWG) (Banking Act).

Our audit evaluations of the annual financial statement and management report do not cover other information and accordingly we are not providing any audit evaluation or any type of audit conclusions in this context.

In connection with our audit we are responsible for reading the other information and assessing whether the other information

- shows significant discrepancies with the annual financial statement, management report or our audit findings or
- is otherwise significantly misrepresented.

Should we conclude on the basis of the work performed by us that this information has been significantly misrepresented we will be obligated to report this fact. We have nothing to report in this context.

Responsibility of the Legal Representatives and of the Supervisory Board for the Annual Financial Statement and Management Report

The legal representatives are responsible for the preparation of the annual financial statement, which complies with the German standard accounting practices for institutes in all key points and for representation of the company's actual asset, financial and profit situation in the annual financial statement in compliance with the German standard accounting practices. In addition, the legal representatives are responsible for inhouse checks which they have determined necessary for preparation of an annual financial statement which is free of significant accidental or deliberate misrepresentation in accordance with the German standard accounting practices.

In the preparation of the annual financial statement the legal representatives are responsible for evaluating the company's ability to continue its business activity. In addition, they are responsible for presenting facts in connection with continuation of the business activity, where relevant. Beyond this, they are responsible for preparing the balance sheet on the basis of the accounting principle of the continuation of business activity, provided that there are no actual or legal circumstances to the contrary.

Moreover, the legal representatives are responsible for preparation of the management report, which provides a generally accurate picture of the company's situation and is in conformity with the annual financial statement in all key points, complies with the German legal provisions and accurately presents the opportunities and risks of the future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) which they have deemed necessary for facilitating the preparation of a management report in compliance with the applicable German legal provisions and in order to provide sufficient suitable proof for the statements in the management report.

The Supervisory Board is responsible for the monitoring of the accounting procedures of the company for preparation of the annual financial statement and of the management report.

Auditor's Responsibility for the Audit of the Annual Financial Statement and of the Management Report

Our objective is to obtain adequate certainty whether the entire annual financial statement is free of significant-accidental or deliberate- misrepresentation and whether the management report provides an accurate depiction of the company's situation and whether it is in conformity with the annual financial statement and audit findings in all key points, complies with the German legal provisions, and accurately depicts the opportunities and risks of the future development as well as to issue an audit certificate which includes our audit evaluations for the annual financial statement and the management report.

Adequate certainty is a high degree of certainty, but not a guarantee that an audit performed duly in compliance with § 317 HGB and EU-APrVO, observing the German standard accounting practices set by the Auditors' Institute (IDW) always identifies misrepresentation of information. Misrepresentation may result from breaches or inaccuracies and is regarded as essential where it can be reasonably anticipated that individually or collectively it impacts the financial decisions of the addressees taken on the basis of this annual financial statement and management report.

During the audit we exercise due discretion and maintain a critical basic attitude. Furthermore,

- we identify and assess the risks of essential deliberate or accidental misrepresentation in the annual financial statement and in the management report, plan and execute audit procedures as a response to these risks and obtain audit proof records which are sufficient and suitable to act as the basis of our audit evaluation. The risk that essential misrepresentation is not detected is higher in the case of breaches than in the case of errors, as breaches imply fraudulent activity, forgery, deliberate omissions, misrepresentation/ overriding of inhouse checks;
- we gain an understanding of the relevant inhouse monitoring system relevant to the audit of the annual financial statement and of the relevant precautions and measures for the audit of the management report in order to plan audit procedures which might be adequate, but not with the objective of providing an audit evaluation on the validity of these systems of the company;

- we assess the adequacy of the accounting methods applied by the legal representatives as well as the acceptability of the estimated values represented by the legal representatives and the corresponding information;
- we draw conclusions about the adequacy of the accounting principle of the continuation of business activity applied by the legal representatives as well as on the basis of the audit proof records obtained whether there is significant uncertainty in connection with events or circumstances which might give rise to significant doubts regarding the company's ability to continue its business activity. Should we conclude that there is significant uncertainty we are obligated to report the corresponding information in the annual financial statement on the audit certificate or to modify the respective audit evaluation should this information be inaccurate. We derive our conclusions on the basis of the audit proof obtained by the date of our audit certificate. Future events or circumstances may entail that the company is no longer able to continue its business activity;
- we evaluate the general representation, organization and subject matter of the annual financial statement including the data as well as whether the annual financial statement represents the underlying business transactions and events in such a way that the annual financial statement provides an accurate representation of the asset, financial and profit situation of the company in compliance with German standard accounting practices;
- we evaluate the conformity of the management report with the financial report, its compliance with the law and its representation of the company situation;
- we perform audit procedures in relation to the future-oriented information in the management report as depicted by the legal representatives. On the basis of adequate suitable audit proof records we follow in particular the relevant assumptions made by the legal representatives as the basis for the future-oriented information and evaluate the proper derivation of the future-oriented information from these assumptions. We do not provide an independent audit evaluation of the future-oriented information or of the underlying assumptions. There is a significant unpreventable risk that future events will significantly deviate from the future-oriented information.

We discuss the planned scope and timetable for the audit with the parties in charge of the monitoring as well as relevant audit findings, including any defects in the inhouse monitoring system.

We submit a declaration to the parties responsible for monitoring that we complied with the relevant independence requirements and discuss all relations and other facts with them of which it can be reasonably assumed that they have an impact on our independence and the protective measures taken for this purpose.

From the facts discussed with the parties responsible for the monitoring we determine the facts which are most relevant in the audit of the annual financial statement for the current reporting period and thus constitute particularly important audit facts. We record these facts in the audit certificate unless the laws or other legal provisions exclude the public disclosure of the facts.

Other Statutory and Legal Requirements

Other information as set out under Article 10 EU-APrVO

We were chosen as the auditor by the general shareholders' meeting of June 14, 2019. We were assigned by the Supervisory Board on September 16, 2019. We have been working as the auditor of Isbank AG since the 2017 fiscal year without interruption.

We hereby declare that the audit evaluations contained in the present audit certificate are in conformity with the additional report to the Audit Committee in accordance with Article 11 EU-APrVO (Audit Report).

Auditor in charge

The auditor in charge of the audit is Mr. Marcus Binder."

Frankfurt/Main, May 7, 2020

Ernst & Young GmbH

Wirtschaftsprufungsgesellschaft

Binder, Auditor Stier, Auditor

OFFICES

OFFICES OF TÜRKIYE İŞ BANKASI A.Ş. WORLDWIDE

HEAD OFFICE
İş Towers, Büyükdere Cad., Pembegül Sok., 34330 Levent-İstanbul
Tel: +90 212 316 00 00
Fax: +90 212 316 09 00

UNITED KINGDOM
London Branch
8 Princes Street
London EC2R 8HL United Kingdom
Tel: +44 207 3971 400
Fax: +44 207 726 25 66

North London Branch
98 Great North Road, First Floor
London N2 0NL United Kingdom
Tel: +44 207 3971 440

TURKISH REPUBLIC OF NORTHERN CYPRUS
Head Office
Girne Caddesi No: 9 Nicosia, TRNC
Tel: +90 392 228 31 33
Fax: +90 392 227 83 15

KINGDOM OF BAHRAIN
Bahrain Branch
Al Jasrah Tower, 8th Floor, Building 95, Road 1702, Block 317, Diplomatic Area, Manama, Kingdom of Bahrain
Tel: +973 17 549 222
Fax: +973 17 549 218

IRAQ
Bagdad Branch
District 301, Street 4, Building: 7, Waziriyah - Baghdad - Iraq
Tel: +964 751 010 16 96

Erbil Branch
Gulan Street, UB Plaza, Bakhtiary, 48 640 Erbil-Iraq
Tel: +964 066 230 17 17

KOSOVA
Kosova Directorate
Ukshin Hoti Street No:100
10000 Lakrishtë Prishtina Kosovo
Tel: +383 38 245 245
Fax: +383 38 224 542

Prishtina Branch
Ukshin Hoti Street No: 100
10000 Lakrishtë Prishtina Kosovo
Tel: +383 38 245 245
Fax: +383 38 224 542

Prizren Branch
Zahir Pajaziti No: KK Lakuriqi2-Block A-1
20000 Prizren Kosovo
Tel: +381 29 245 255
Fax: +381 29 245 278

OFFICES OF İŞBANK AG IN EUROPE

Head Office
Zeil 123, 60313 Frankfurt am Main
Tel: +49 69 2 99 010
Fax: +49 69 28 75 87

Frankfurt Branch
Zeil 123, 60313 Frankfurt am Main
Tel: +49 69 2 99 010
Fax: +49 69 28 75 87

Berlin Branch
Müller Strasse 34a, 13353 Berlin
Tel: +49 30 254 22 70
Fax: +49 30 254 227 77

Berlin-Kreuzberg Branch
Kottbusser Strasse 2, 10999 Berlin
Tel: +49 30 616 95 50
Fax: +49 30 614 89 88

Düsseldorf Branch
Graf-Adolf-Strasse 70, 40210 Düsseldorf
Tel: +49 211 38 80 10
Fax: +49 211 38 80 130

Gelsenkirchen Branch
Arminstrasse 11, 45879 Gelsenkirchen
Tel: +49 209 17 70 73 14
Fax: +49 209 17 70 73 19

Cologne Branch
Unter Sachsenhausen 35, 50667 Cologne
Tel: +49 221 91 38 21 0
Fax: +49 221 91 38 21 20

Mannheim Branch
U1, 8, 68161 Mannheim
Tel: +49 621 397 49 80
Fax: +49 621 156 994 22

Munich Branch
Goethe Strasse 21, 80336 Munich
Tel: +49 89 530 79 23
Fax: +49 89 538 03 02

Nuremberg Branch
Am Plärrer 6, 90429 Nuremberg
Tel: +49 911 92 99 53 80
Fax: +49 911 92 99 53 820

Stuttgart Branch
Friedrichstrasse 9-11A, 70174 Stuttgart
Tel: +49 711 222 99 16
Fax: +49 711 222 99 177

Amsterdam Branch
World Trade Center Strawinskylaan 841, Tower C, Level 8, 1
077 XX Amsterdam
Tel: +31 20 530 63 33
Fax: +31 20 530 63 40

SUBSIDIARIES OF TÜRKIYE İŞ BANKASI A.Ş.

JSC İşbank
Head Office
Nametkina Street 13D, Moscow 117420, Russia
Tel: +7 495 232 12 34
Fax: +7 495 232 28 88

JSC Isbank Georgia
Tbilisi Branch
Agmashenebeli Avenue, No: 140/B, 0102, Tbilisi, Georgia
Tel: +995 322 310 515
Fax: +995 322 310 516

Batumi, Georgia Branch
L. Asatiani / Rustaveli Street Nr: 1/25
Batumi
Tel: +995 422 242 950
Fax: +995 422 242 954

REPRESENTATIVE OFFICES OF TÜRKIYE İŞ BANKASI A.Ş.

Shanghai Representative Office
4407 Jin Mao Tower,
88 Century Boulevard,
200121, Pudong New Area
Shanghai/P.R.C.
Tel: +86 21 504 708 83
Fax: +86 21 504 708 85

Cairo Representative Office
Nile City Towers, 2005 C Cornish El Nil
North Tower, 27th Floor
Cairo-Egypt
Tel: +20 22 461 98 11 - 12
Fax: +20 22 461 98 10

Produced by Tayburn
Tel: (90 212) 227 04 36
www.tayburnkurumsal.com

www.isbank.de