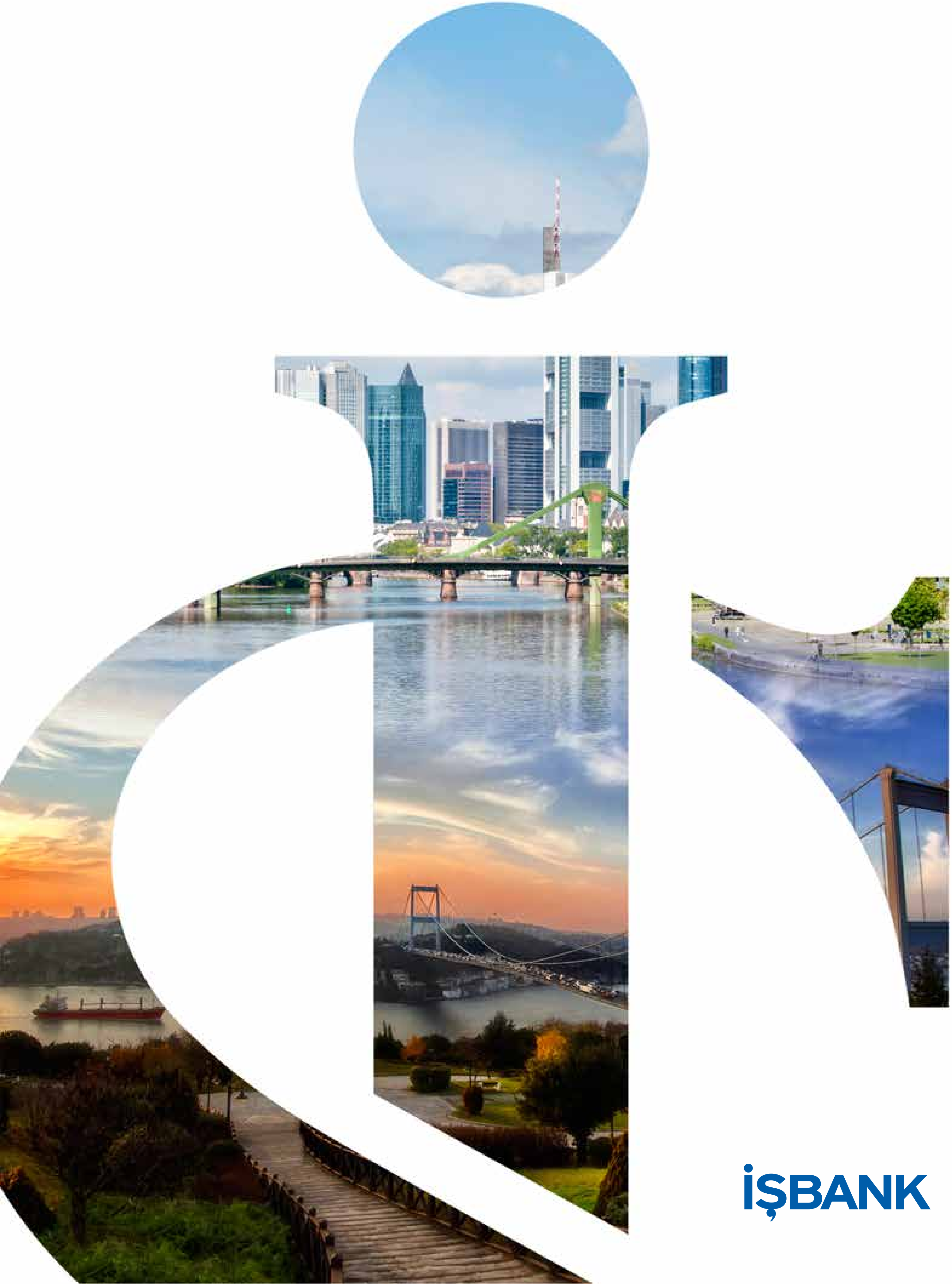
İŞBANK AG
ANNUAL REPORT 2018



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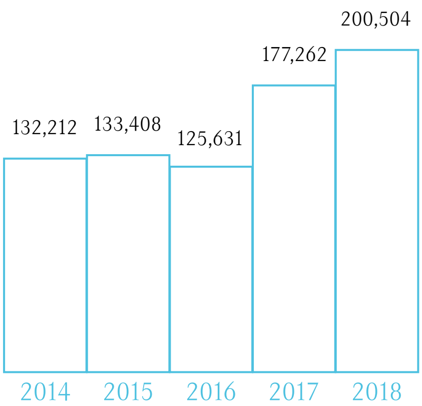
KEY FIGURES

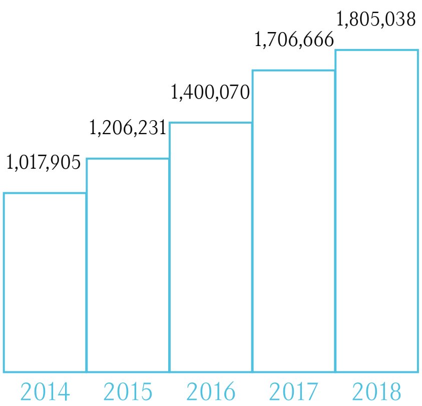
In line with the consistent and target-oriented approach, the planning and implementation of marketing activities and a high transaction volume in the trade finance and Corporate client segment, the bank was able to increase total assets by 5.8%.

(EUR thousand)	DECEMBER 31, 2017	DECEMBER 31, 2018	CHANGE (%)
Total assets	1,706,666	1,805,038	5.76
Capital and reserves	177,262	200,504	13.11
Tangible assets	1,930	1,422	-26.30
Cash funds	209,486	143,831	-31.34
Bonds and securities	109,530	135,229	23.46
Due from banks	326,805	365,869	11.95
Due from customers	1,038,432	1,133,526	9.16
Due to banks	368,103	357,100	-2.99
Due to customers	1,126,144	1,236,347	9.79
Risk-weighted assets	1,256,097	1,429,895	13.84
Interest income	42,175	58,650	39.06
Commission income	10,078	8,816	-12.53
Net income for the year	1,631	8,243	405.37
(%)			
Equity ratio	11.92	12.46	
Return on assets before taxes	0.42	0.67	
Return on assets after taxes	0.10	0.46	

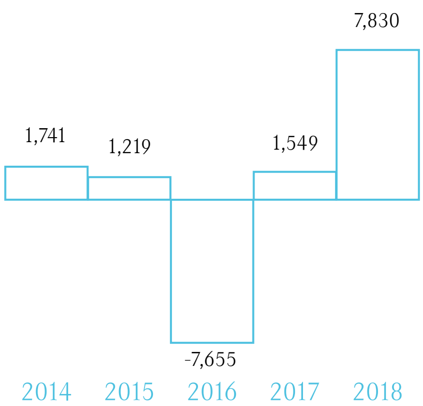
CAPITAL AND RESERVES
IN EUR THOUSAND



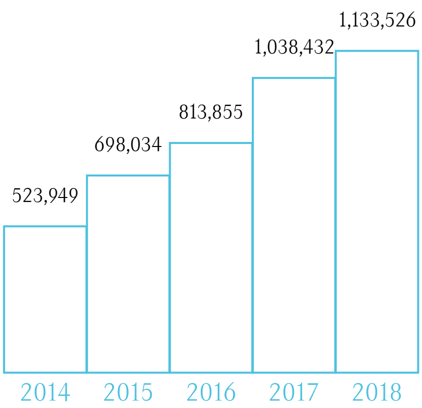
TOTAL ASSETS
IN EUR THOUSAND



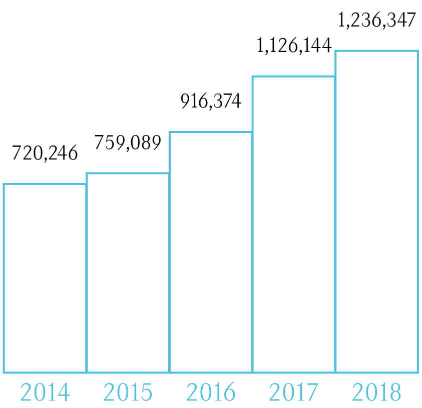
NET RETAINED PROFIT
IN EUR THOUSAND



DUE FROM CUSTOMERS
IN EUR THOUSAND



DUE TO CUSTOMERS
IN EUR THOUSAND



12.46%

At the end of 2018, the shareholder's equity reached EUR 201 million that yielded in a capital adequacy ratio of 12.46%.


“Türkiye İş Bankası A.Ş.
Turkey’s Leading Bank
For More Than
90 Years

AT A GLANCE

TÜRKİYE İŞ BANKASI A.Ş.

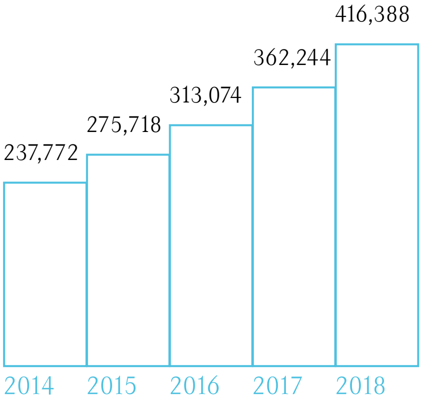
İşbank AG is a wholly-owned subsidiary of Türkiye İş Bankası A.Ş., which is the largest private bank of Turkey in terms of total assets, total loans and total deposits by the end of 2018. Türkiye İş Bankası A.Ş. maintains its solid financial structure with its capital adequacy ratio, which is comfortably above the regulatory minimum limits. In 2018, Türkiye İş Bankası A.Ş. has been the highest ranked private Turkish bank in the Banker magazine's "Top 1000 World Banks" list based on Tier 1 capital.

The bank's strategy is achieving sustainable and profitable growth based on "the bank closest to customers" philosophy. In this regard, Türkiye İş Bankası A.Ş. 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 1,333 domestic branches and more than 6,500 ATMs, Türkiye İş Bankası A.Ş. also strongly focuses on digitalization through its mobile applications and internet banking. The number of the bank's digital customers reached more than 7.2 million by the end of 2018.

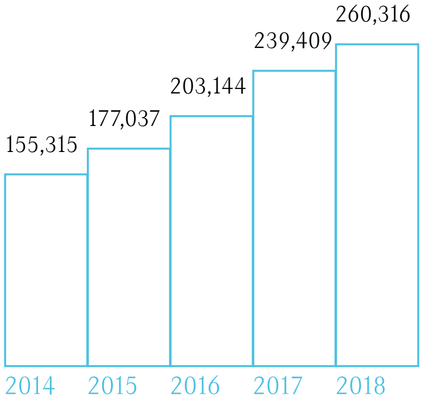
Besides İşbank AG, Türkiye İş Bankası A.Ş. operates abroad through its 22 foreign branches (15 in Northern Cyprus, 2 in London, 1 in Bahrain, 2 in Iraq, 2 in Kosovo) and 2 representative offices in China and Egypt as well as 2 wholly- owned subsidiaries in Russia (İşbank Russia) and Georgia (İşbank Georgia). As a highly trusted financial institution, Türkiye İş Bankası A.Ş. also maintains its pioneering position in foreign trade through its extensive correspondent network of banks based in 123 countries.

Türkiye İş Bankası A.Ş. is the largest private bank of Turkey in terms of total assets, total loans and total deposits by the end of 2018.

BALANCE-SHEET TOTAL
IN TL MILLION



LOANS
IN TL MILLION

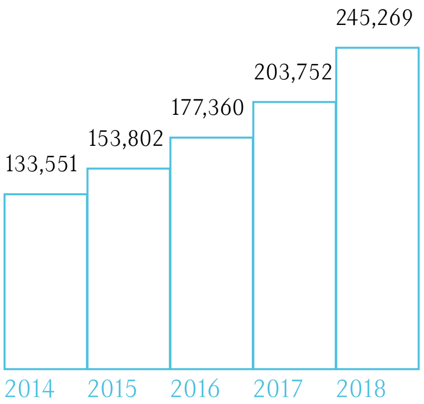


KEY FINANCIAL FIGURES [1]	MARKET SHARE (%) [1]	RANKING [2]
Total assets	11.4	1
Total loans	11.3	1
Loans in TL	10.5	2
Loans in foreign currency	12.3	1
Consumer loans [3]	11.7	2
Corporate loans	11.1	1
Total deposits	12.1	1
Deposits in TL	11.0	1
Deposits in foreign currency	13.4	1
Demand deposit	13.7	1

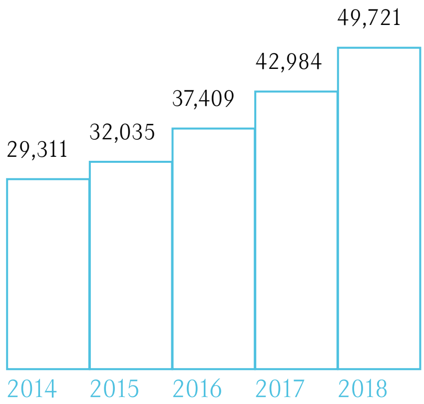
OTHER PRODUCTS & MARKETING CHANNELS	MARKET SHARE (%)	RANKING
POS - number [4]	11.5	3
POS - sales [4]	17.5	3
No. of credit cards [4]	11.7	3
Usage volume credit cards [4]	14.4	3
Usage volume debit cards [4]	9.6	2
No. of branches	12.9	1
No. of ATMs	12.6	1

[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] Market share calculations are based on Interbank Card Center (BKM) data

DEPOSITS
IN TL MILLION



EQUITY
IN TL MILLION



MESSAGE FROM THE CHAIRMAN OF SUPERVISORY BOARD

2018 turned out to be a brighter year for us, especially in terms of profitability, built on the foundation of the courageous efforts in restructuring and cost reduction in the preceding years.

Yılmaz ERTÜRK
Chairman of the Supervisory Board

There is no doubt that the year 2018 will be remembered as a year of turbulent events globally. While ongoing Brexit saga dominates the headlines in Europe, the emergence of so called “trade wars” between the US and China is the main issue to come under the spotlight. Negotiations between countries are ongoing, albeit with seemingly no hope of a final solution in the short-term. Citing spreading protectionism, a slowdown in some emerging markets, tightening financial conditions, geopolitical tensions and rising oil prices, IMF lowered its growth expectations for the global economy in 2018 and 2019 in its recent issue of the World Economic Outlook.

Whether the era of unconventional monetary policy worldwide will unwind or not is also a matter of debate, especially after the US Fed’s change of stance, indicating that a hawkish wave of rate hikes are no longer on the agenda. Nevertheless, mounting economic uncertainty and downward risks, coming at the same time as record levels of indebtedness in the corporate sector globally, has triggered warnings from numerous institutions. The OECD recently reported that non-financial corporates will have to refinance a record USD 4 trillion of debt in the next three years – something which will probably prove much more difficult than before, in an environment of declining growth. It is safe to say that as we are a quarter into 2019, the global economy is haunted by elevated risks.

As well as being an election year in Turkey, 2018 was a year of massive volatility and increasing risks in the Turkish economy and finance. After several quarters of uninterrupted growth, data started to indicate a slowdown in the Turkish economy starting from the second quarter of 2018. The loss of growth momentum in the economy became more conspicuous with the turbulence in financial markets in the third quarter, and the fall in the value of the currency precipitated a deterioration in domestic demand. On the other hand the Current Account Deficit/GDP (3.5%) and Budget Deficit/GDP (2.0%) ratios still indicate a reasonable picture, and these ratios are projected to be realized at 2.1% and 1.8% in 2019.

Clearly, these indicators may well be the harbinger of an economic downturn in the short-term on both a global and domestic scale. 2019 is also expected to be a year of challenges both globally and also for Turkey, one of our main markets. On the other hand, we expect the Turkish economy to return to path of moderate growth starting from the second half of the year.

Our parent company, Türkiye İş Bankası, as well as İşbank AG are institutions of tradition. Türkiye İş Bankası, as one of the pillars of the Turkish economy, is celebrating its 95th anniversary this year. Empowered by its historical mission, it is important to underline that the Türkiye İş Bankası Group is experienced, strong and resilient enough to navigate economic downturns and support economic growth.

İşbank AG's mission in this context is to continue our hard work with determination, a course guided by our parent company's historical mission and values. Germany has historically been Turkey's most important trading partner with its strong economic and social ties and remains our main market and base of operations for İşbank AG. However our vision includes the European Union as a whole in terms of facilitating the economic exchange between Turkey and Europe, which we have been successfully integrating into our strategies.

As we had promised in our remarks last year, 2018 turned out to be a brighter year for us, especially in terms of profitability, built on the foundation of the courageous efforts in restructuring and cost reduction in the preceding years. We are confident that we are going to surpass this performance in 2019. On behalf of the Supervisory Board of İşbank AG, I would like to express my gratitude to everyone who has contributed to this long but successful journey so far.

Finally, I would like to inform you that our accounts, annual financial statements for the financial year from January 1 to December 31, 2018 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 the financial statements as of December 31, 2018 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's mission is to continue our hard work with determination, a course guided by our parent company's historical mission and values.

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 2018 the Supervisory Board held four meetings, which took place on March 8, 2018 in Istanbul/Turkey, on June 8, 2018 in Frankfurt am Main/ Germany, on September 14, 2018 in Frankfurt am Main/Germany and on December 13, 2018 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 and credit committees each convened twice, while the audit and remunerations control committees each met once.

Annual audit

Auditors Ernst & Young GmbH, Eschborn, who were appointed as auditors by the 2018 Annual General Meeting 2018, 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 2018 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 June 14, 2019 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 June 14, 2019, 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

Business 2018 saw two main changes to the membership of the Management Board. Hasan Cahit Çınar resigned his mandate as Chief Executive Officer effective November 4, 2018. Ünal Tolga Esgin, previously a member of the Management Board, has filled the role of Chief Executive Officer since November 5, 2018. Due to the end of tenure of Robert McCormack as of July 31, 2018, he was succeeded by Franz Hakan Elman with effect from August 1, 2018.

Changes in the supervisory Board

Effective from June 8, 2018, in order to replace the former Supervisory Board members who retired on June 7, 2018, four members have been elected. In addition, Mr. Yılmaz Ertürk has been appointed as the Chairman of the Supervisory Board after Mr. Adnan Bali's resignation and Mrs. Gamze Yalçın, as the Deputy Chairman of the Supervisory Board following the resignation of Mr. Hakan Aran.

Resigned members:

Adnan Bali (Chief Executive Officer and Director of Türkiye İş Bankası A.Ş.)
Hakan Aran (Deputy Chief Executive, Türkiye İş Bankası A.Ş.)
Yalçın Sezen (Deputy Chief Executive, Türkiye İş Bankası A.Ş.)
Murat Bilgiç (Deputy Chief Executive, Türkiye İş Bankası A.Ş.)

Newly appointed members:

Gamze Yalçın (Deputy Chief Executive, Türkiye İş Bankası A.Ş.)
Sabri Gökmenler (Division Head, Türkiye İş Bankası A.Ş.)
Mete Uluyurt (Division Head, Türkiye İş Bankası A.Ş.)
Murat Demircioğlu (Division Head, Türkiye İş Bankası A.Ş.)

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 2018.

On behalf of the Supervisory Board

Yılmaz ERTÜRK
Chairman of the Supervisory Board

"In 2018, the Supervisory Board monitored the work of the Management Board on an ongoing basis and regularly supported it in managing the company.

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: Your Top Choice Management in Trade Finance!

MESSAGE FROM THE CEO OF MANAGING BOARD

We rounded off the year with net income of EUR 8.2 million – more than five times the net profit we recorded in 2017.

Ünal Tolga Esgin
CEO

Dear Clients and Business Partners,

Our shareholder and parent company, Türkiye İş Bankası A.Ş., has had a presence in Europe going back nearly 90 years. After its first years, our Group's presence in Germany and throughout Europe was assured with the establishment of İşbank GmbH in 1992. In 2012, İşbank GmbH took another step forward and changed its legal status to İşbank AG. Today, İşbank AG is a reputable and credible member of the German and European Banking Community, fully reflecting our Group's deep rooted and long established values.

For İşbank AG, 2017 was a year of restructuring and investment in the future. We have sown the seeds of long term and sustainable growth and profitability through the modernization of our IT infrastructure. It was also a year where our Bank underwent a major strategy shift, whereby the center of gravity of our operations shifted from retail banking to the corporate segment.

Based on this background, 2018 has been a year where we began to harvest the results of these investments as planned. I am glad to note that our efforts have so far borne fruit, as our results testify; we rounded off the year with net income of EUR 8.2 million – more than five times the net profit we recorded in 2017.

It should also be noted that through effective cost management measures, we were able to significantly improve our cost/income ratio, which diminished from 85% in 2017 to 68% in 2018. We expect further improvement in this measure in 2019 as our cost management measures continue to deliver. Overall, our Bank's profitability measured by return on equity increased from 1.1% in 2017 to 4.3% in the last year.

Our asset size has expanded by 6% while our total customer credit volume recorded an increase of 9% in 2018. Asset growth and higher profitability was achieved together with improved asset quality. Our non-performing loans ratio decreased from 3.1% in 2017 to 2.6% in 2018.

On the liabilities side, our customer deposits recorded a 10% increase in 2018. Furthermore, in the context of our strategic goal of further diversifying our Bank's liabilities, the renewal of our syndicated loan was of significant importance for us, just as in previous years. In March 2018, we were able to raise our fourth syndicated loan facility, involving 14 financial institutions in eight different countries. The roll-over ratio was 100% with a volume of EUR 100 million; furthermore, thanks to the increase in demand when compared to the previous year, İşbank AG was able to provide lenders with a scale back to their commitments while still closing the facility at the same level raised in 2017. This is a sign of trust in İşbank AG's intrinsic financial strength and future performance.

Last but not least, our shareholder's equity reached EUR 201 million at the end of 2018 which improved our capital adequacy and which will provide İşbank AG with further opportunities for growth underpinned by a stronger capital structure. Our capital adequacy ratio has reached 12.46%.

These figures are encouraging. However, we are aware that they are just the initial steps on the road to a long-term sustainable and profitable operation of our Bank. As we have already successfully completed an important transformation process, we now only need to focus on improvements in the ongoing system and continue to work tirelessly, systematically and with devotion by sticking to the core values of our Group.

In this sense, despite the expectation of a difficult year both in Europe and in Turkey, we maintain our cautious optimism towards 2019. İşbank AG will continue to improve its financial performance this year. We plan to moderately increase both our asset size and net income. On the cost side, we will continue to reap the fruits of our restructuring efforts in 2019, paving the way for further improvement in our cost to income ratio. Qualitatively, İşbank AG will achieve further growth in the corporate segment throughout Europe while deepening its existing relations.

Furthermore, in the 2019 financial year, we will achieve everything by sticking to our strong institutional values and through our unrelenting compliance with international risk management principles and internationally accepted best practices. We will also maintain our emphasis on providing high-quality products and services to support and strengthen the economic and trade relations between Turkey and the European Union by also serving our customers in niche areas of expertise. We have the advantage of being able to rely on the know-how and resources of our parent company at any time.

On behalf of the Management Board, I would like to express my thanks to all of my staff for their continuous commitment and achievements in 2018, 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 the support and the trust they have shown us.

With my best wishes,

Ünal Tolga Esgin
CEO

“In 2019, İşbank AG will achieve further growth in the corporate segment throughout Europe while deepening its existing relations.

MANAGEMENT REPORT

A) GENERAL INFORMATION ABOUT İŞBANK AG

Basic information

İşbank AG, a subsidiary of Turkey›s largest private bank Türkiye İş Bankası A.Ş., has been engaged in promoting trade and business relationships between Europe and Turkey since it was founded in the year 1992. It operates as a full-service bank that offers customers in Turkey and Europe a selected product and service portfolio in the corporate and retail client business, and also functions as a special bank in the corporate segment, where it specializes in foreign trade financing. The parent company Türkiye İş Bankası A.Ş., which has played in important role in the Turkish economy since its founding, already opened its first foreign branches in Hamburg and Alexandria in 1932. The bank's vision is to continue to defend its leading and trustful role based on its strategy of sustainable and profitable growth.

Countries and segments

The business area of İşbank AG is mainly confined to Europe, with a special focus on Germany and Turkey. In its main sales market for the local retail and corporate client business in Germany, the bank is represented with ten branches that are distributed over major centers with large Turkish populations. The German branches offer classic bank services. In the 2018 financial year, the closure of the Paris branch was initiated for efficiency reasons, which means that starting in 2019, one foreign branch in Amsterdam will be continued that focuses mainly on the institutional market.

In addition to the classic bank services in the retail and corporate client business, İşbank AG is also heavily involved in the trade financing business. The product spectrum in this segment ranges from classic trade financing all the way to tailored and structured financing concepts. In the context of the foreign trade financing business, the core competencies of İşbank AG include forfaiting and secondary market transactions, as well as the purchase of short- to medium-term export receivables.

Organizational structure

Major changes were made to the Management Board during the 2018 financial year. Hasan Cahit Çınar resigned his mandate as Chief Executive Officer effective November 4, 2018. Ünal Tolga Esgin, previously a member of the Management Board, has filled the role of Chief Executive Officer since November 5, 2018. Robert McCormack left the Management Board on July 31, 2018. He was succeeded by Franz Hakan Elman, who joined İşbank AG on August 1, 2018. Ayşe Doğan was appointed as Deputy CEO, General Counsel on September 14, 2018. The Front Office segment continues to report to the Chief Executive Officer, while the Back Office segment reports to the member of the Management Board.

Controlling

Overall bank controlling at İşbank AG continues to be based on maintaining a healthy balance between the financial performance indicators annual result, equity position and liquidity. Instruments in this regard include the balance sheet and the income statement, the liquidity calculation as well as the risk bearing capacity calculation for risk management purposes (see section on the risk report).

Another key element of İşbank AG's controlling system are the reports of the internal management committee, e.g. risk, credit or the asset/liability, which are used by the Management Board to report on important developments and to initiate the required resolutions.

Objectives and strategies

In the context of implementing the long-term strategy of sustained profitable growth, İşbank AG has defined the following short- and medium-term focus areas:

- **Market strategy**: Increase in risk controlling and operational efficiency by focusing on niche products / segments
- **Branch strategy:** Focus on profitability through better use of resources, optimized process flows and centralization of operational/administrative tasks, simplification of work organizations and product portfolio
- **Product strategy:** Adjust product portfolio to the needs of target customers, digitization of products and concentration on main sources of earnings

B) ECONOMIC REPORT

Overall economic and industry environment

The growth rate of the global economy weakened in 2018, particularly in the context of global trade activity. According to the economic report of the German government and the IMF, there are a series of indicators, such as those of the OECD or the global purchasing manager's indices from the manufacturing and services sector, which point to a steady weakening of the global economic upturn since the beginning of the year. Particularly political issues, such as the escalating trade conflicts between the US and China and other industrial nations, the hitherto unregulated exit of the UK from the EU and a greater-than-expected economic slow-down in China, had a negative effect and remain major sources of risk. These factors put a major damper on corporate and private household sentiment and led to weaker investment growth and a drop in exports and private consumption. Most industrial nations and emerging markets are now affected by these developments.

As global economic activity weakened at the beginning of 2018, so did economic growth in the Eurozone last year. All larger states recorded lower rates of expansion than in the previous year. At the same time, industrial production in the Eurozone, also weakened and is now dangerously close to stagnation. The deterioration in sentiment is partly due to global developments (including the uncertainty surrounding the trade conflict between the US and its major partners, as well as Brexit), along with the developments within the Eurozone, such as in Italy (dispute with the EU Commission), France (yellow vests) and Germany (diesel scandal).

While Germany once again recorded the world's highest current account surplus in 2018 (EUR 294 billion), the German economy only grew by 1.5% in that year according to the Federal Statistics Office. This figure is in line with the average for the period starting in 2012 but is well below the values for the 2016-2017 period, which was characterized by strong growth (2.2% each). The weakness is due to a slow-down in global economic activity and sales problems in the automotive industry due to the WLTP problem, among others. As the global economy cooled, Germany's GDP only grew by 1.4%. At the end of the year, the economy was actually in stagnation mode and almost slid into a (technical) recession. Nevertheless, 2018 was still the ninth growth year in a row, although at a much slower pace. According to the Federal Statistics Office, most of the momentum in the fourth quarter of 2018 came from the domestic economy.

"While Germany once again recorded the world's highest current account surplus in 2018, its economy only grew by 1.5%.

The year 2018 was a year of many crises in different emerging markets, with Turkey being among the countries that came under pressure. Despite the turbulence encountered during the reporting year, it is worth noting that the country's economy is currently the 17th largest in the world and the sixth largest in Europe. Economic growth in 2018 can be described as "overheated"; the high growth rates of the last few years (approx. 6% in the last five years) gave way to an increase in the current account deficit and higher inflation rates. It is important to note, however, that the change-over to a presidential system was a fairly major political transformation for the country, which also held five elections during the past four years. Economic growth in the US and the resulting increase in interest rates and reduction in liquidity (and, in this context, a general weakening in risk appetite for emerging markets) also put pressure on the Turkish economy. In September 2018, the Turkish government immediately responded to the over-heating noted above and lowered expectations for economic growth to a moderate level. The Turkish central bank also initiated countermeasures to address inflationary developments. Increasing interest rates turned out to be the correct response and led to renewed confidence. As measured by the Maastricht criteria, the country's economic performance is stable, as both the budget deficit (1.9%) and government debt (31.1%) are well below the noted limits during the reporting year thanks to the strict fiscal policy. While Turkish imports of goods have declined since the middle of 2018, Turkish exports are rising, helped by the country's weak currency. In 2018, Turkey's exports rose by 7.1% to USD 168 billion, reaching an all-time high. At the same time, export markets also became increasingly diversified. This development had a positive effect on the trade and current account balance.

In 2018, the German banking sector was characterized by regulatory tasks, cost reductions through fewer branches, new digital services, but also obligations, implementing the requirements for the reporting system or the MiFID II regulations. Particularly the payment service provider directive PSD2 has created new dynamics among financial institutions. The year 2018 was dominated by digitization and improving the difficult earnings position. It is expected that the integration of digital products into existing advisory processes will generate cost savings over the medium term. Feeling the pressure from declining interest income, increased competition and digitization, almost all banks in Germany continued to reduce the number of branches while simultaneously upgrading selected locations.

The Turkish banking sector has grown into one of the most robust economic sectors of the country, particularly after the local financial crisis of 2001. The sector's strong equity capital structure and strict supervision mean that the sector is very resistant to possible crisis situations. The average equity ratio is a very satisfactory 17.3%. To avert the dangers of a lack of refinancing in crisis situations, the institutions have greatly diversified their financing sources and have already proven their resistance to crises during 2018. While the sector has previously concentrated on growth, the focus shifted towards a high quality of assets and stable financing structures during the reporting year. A critical development, on the other hand, was the fact that in the past, many Turkish companies and households took on enormous debt in the form of loans denominated in dollars and euros. According to the Turkish supervisory authority, almost a third of all loans are denominated in foreign currency. As the value of the Turkish lira declined, it became more likely that these loans would go into default. However, at this time the number of loans that are no longer serviced is 3.2%, which is below the European average (NPL ratio of 3.4%). The banks continue to be able - and possess enough of a buffer - to manage further defaults. Here too, the Turkish government has already implemented measures and greatly limited the provision of loans denominated in foreign currency to private households and the SME sector. In Turkey, a total of 50 banks with 11,493 branches and 206,974 employees generated total assets of TL 3.867 trillion (EUR 646 billion) for the 2018 financial year, which represents a growth of 18.7% compared to the previous year. The profits in the sector amounted to TL 53.5 billion (2017: TL 49.1 billion) at the end of the year. An examination of the deposit and lending business shows that the loans grew by 14.1% and the deposits by 19.0% compared to the previous year.

As the oldest Turkish bank in Europe, and as a subsidiary of the largest Turkish private bank in Turkey, İşbank AG enjoys the trust of its customers. In addition, as a bank with a full-service bank character, it has taken on a leading role among banks with Turkish origin with regard to the brand image, the existing branch network as well as the product and service portfolio. Because of the affiliation with the group of the parent company, the bank is able to seize synergy effects and pass them on as benefits for its customers.

Business developments

The year 2018 was an important year for the bank, as the effects and results from the extensive organizational changes of the previous year became more noticeable. The closure of various locations, the streamlining of work processes and the optimization of resource utilization started to bear fruit in the 2018 financial year and led to a much better annual result than in previous years.

A syndicated loan for EUR 100 million with a term of one year was signed during the 2018 financial year for the fourth time in a row, with the involvement of 14 financial institutions from eight countries. As a result, new participants were acquired in addition to the existing correspondent bank relationships, which once again confirmed the confidence of international markets in the İşbank Group and in the long-term business strategy of İşbank AG.

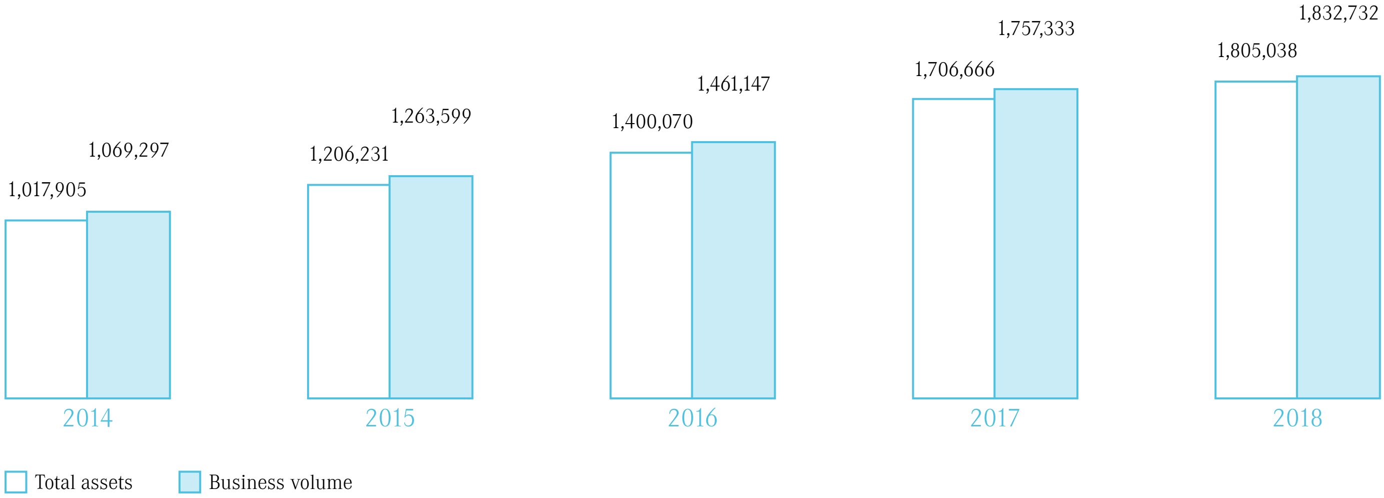
During the reporting year, the bank continued to focus on implementing the regulatory requirements with the goal of reducing risks and maintaining them at manageable levels, while also increasing work efficiency. Process optimizations were promoted through new collaborations with external service providers, and the results of operations were raised to a new level not least due to the utilization of synergy effects with the parent company Türkiye İş Bankası A.Ş. Despite global crises and uncertainties (e.g. Brexit, global trade conflicts and geo-political tensions in the target regions) in the environment of İşbank AG, the bank reached a historically high level of assets and achieved its highest profit for the year.

Earnings, assets and financial position

Assets and financial position

In line with the consistent and target-oriented approach, the planning and implementation of marketing activities and a high transaction volume in the trade finance and corporate client segment, the bank was able to increase total assets by 5.8%. The expansion in total assets was mainly achieved with the increase in the corporate client portfolio, while the portfolio of retail and commercial customers declined in line with the business strategy. In the corporate client segment, business increased by EUR 139 million at both the bilateral level and at the level of international syndicated loans and promissory note transactions by European firms.

TOTAL ASSETS AND BUSINESS VOLUME
IN EUR THOUSAND

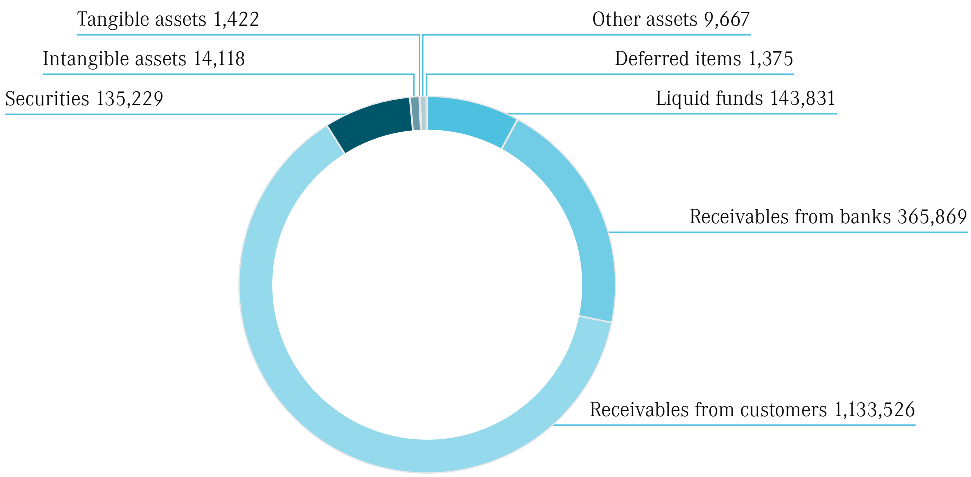


As a result, the 2018 financial year closed with total assets of over EUR 1.8 billion.

The planned expansion in the balance sheet was achieved with a 12% increase in loans and advances to credit institutions, and a 9% increase in loans and advances to customers. Consistent controlling by management in accordance with the strategic plan resulted in EUR 1.13 billion in loans and advances to customers, and a EUR 366 million in receivables from banks. Compared to the previous year, credit balances at central banks decreased from EUR 205 million to EUR 140 million (-32%).

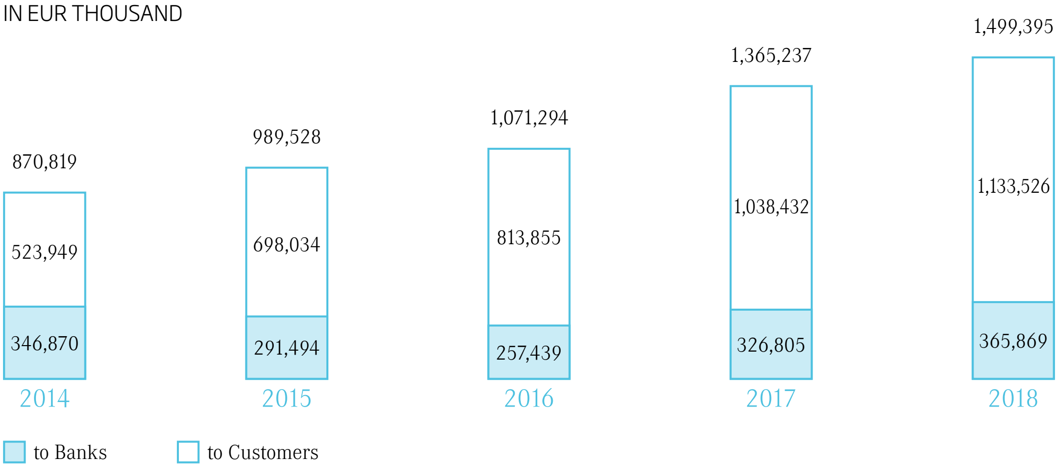
ASSETS, DECEMBER 31, 2018

IN EUR THOUSAND



LOANS

IN EUR THOUSAND

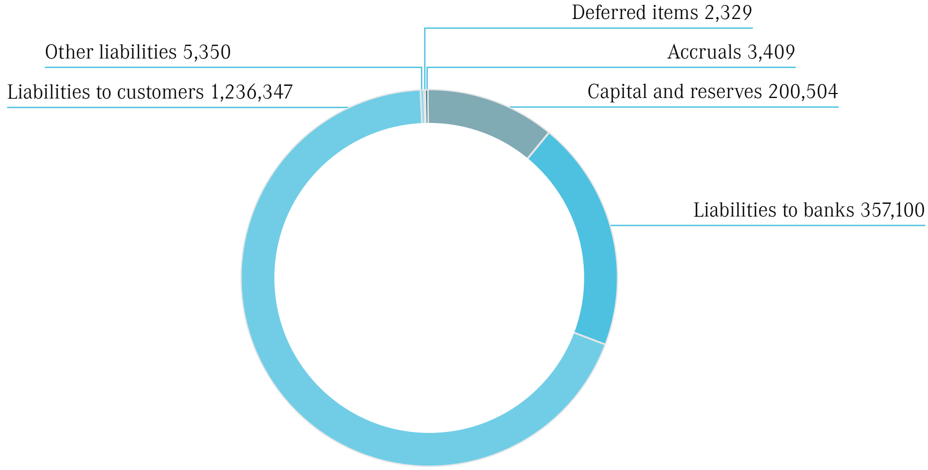


Debentures and other fixed-interest securities amounted to EUR 135 million at the end of the reporting year. In the previous year, the value of the entire securities portfolio was EUR 110 million.

On the liabilities side, liabilities to credit institutions declined by 3% to EUR 357 million, while liabilities to customers increased by 9.8% to EUR 1.24 billion. Other liabilities declined from EUR 13 million to EUR 5 million compared to the previous year. Deferred income totaled EUR 2.329 million (previous year: EUR 1.003 million), while provisions totaled EUR 3.408 million (previous year: EUR 5.746 million). Provisions declined mainly due to the restructuring measures that were completed in 2018.

LIABILITIES, DECEMBER 31, 2018

IN EUR THOUSAND



With the resolution adopted by the Annual General Meeting on May 24, 2018, İşbank AG decided to implement a capital increase for EUR 15.0 million and (concurrently) the proportionate buy-back of the subordinate bearer note (so-called Contingent Convertible Bonds - CoCo Bonds) in the amount of EUR 15 million. The bond was bought back at the market value, which at EUR 2.821 million was below the nominal value. Following the corresponding appropriation of profits, the bank intends to use the net (after-tax) amount to build up the reserves. In this sense, the equity capital has increased by over EUR 15 million. The capital increase was entered in the commercial register on June 12, 2018. Overall, the financial year closed with equity capital of EUR 201 million. It represents a solid and strong capital base for future growth in accordance with the bank's strategy.

Contingent liabilities changed as follows compared to the previous year:

	Dec. 31, 2018 in TEUR	Dec. 31, 2017 in TEUR
Liabilities from guarantees and warranties	27,720	50,706
Irrevocable loan commitments	0	12

Results of operations

In the course of the increase in loans and advances to customers, particularly in the corporate client segment, the bank reported a 22% in the net interest income and thus generated an interest result of EUR 35.8 million. Interest income grew by 39% to EUR 58.65 million. In the same vein, interest expenses increased by 79% to EUR 22.8 million. The increase in interest income is mainly due to the corporate segment, with transactions both at the bilateral level and at the level of international syndicated loans and promissory note transactions with European firms. Refinancing requirements have increased alongside the business expansion, which led to higher interest expenses, mainly the result of customer deposits, liabilities to credit institutions, the bearer note and the swaps.

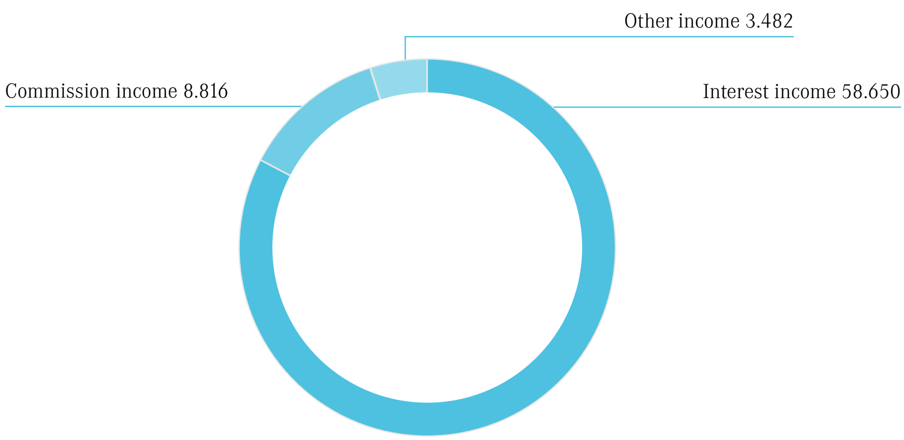
Earnings are broken down as follows (by location):

TEUR	Germany	Netherlands	France	Switzerland	Total
Interest income	54,174	4,202	273	2	58,651
Commission income	8,099	557	160	0	8,816
Net profit	8,625	812	-1,204	9	8,243

The commission result declined from EUR 9.5 million to EUR 8.4 million compared to the previous year. The decrease is mainly due to the reduction in customer transactions as a result of the branch closures, and the negative development of transfers to Turkey. The consistent negative trend in these transfers and the associated decline in commission income are expected to continue into the next few years.

INCOME, JANUARY 1 - DECEMBER 31, 2018

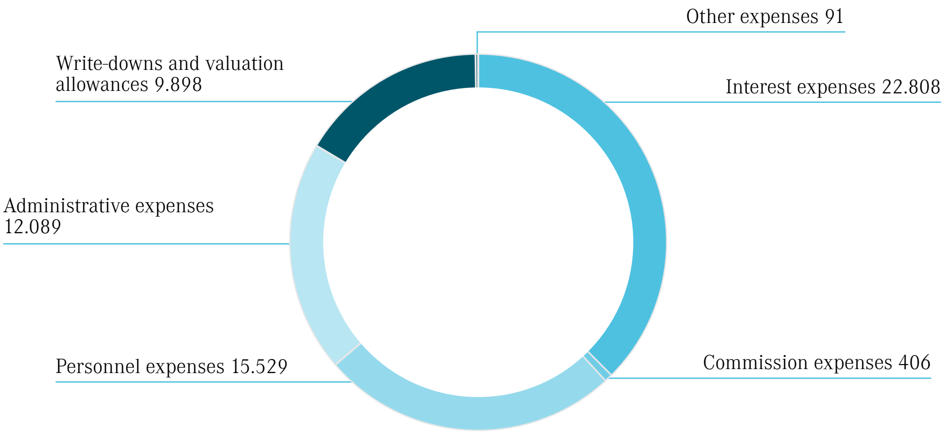
IN EUR THOUSAND



General administration expenses declined by 18% over the previous year and totaled EUR 27.6 million at the end of the year. Of this decrease, 36% is due to the results from the cost reduction measures, and 64% from the reduction in personnel costs. In addition, costs of EUR 1.2 million resulting from the restructuring measures were entered as extraordinary expenses as of the closure date of the Paris location. These expenses consist mainly of severance payments, payments for the earlier termination of existing service contracts and a provision for other financial obligations (contractual obligations for rent, legal and other advisory services and external support etc.), as well as a special impairment for fixed assets. A net risk provision of EUR 5.848 million was created during the reporting year.

“Interest income grew by 39% to EUR 58.65 million. The increase in interest income is mainly due to the Corporate segment.

EXPENSES, JANUARY 1 - DECEMBER 31, 2018
IN EUR THOUSAND



After taking into account provisions and taxes, the 2018 financial year closed with a net profit of EUR 8.2 million.

This means that the target set for the annual result was achieved with a target attainment rate of 98%.

Liquidity situation

On the basis of a planned and balanced liquidity provision, the solvency of İşbank AG was guaranteed at all times during the 2018 financial year, and the mandatory, regulatory liquidity indicator "Liquidity Coverage Ratio" was also adhered to.

As at December 31, 2018, non-utilized credit lines included revocable loan commitments of EUR 44 million. There were no irrevocable loan commitments.

In the past financial year, İşbank AG was once again able to rely on the deposit business, syndicated loans, covered loans, repo transactions, money market transactions and bilateral loans for refinancing purposes in order to engage in new business transactions.

Important financial indicators

The main indicators are noted below (three-year comparison):

Indicators	2018	2017	2016
Total capital ratio [1] on December 31, 2018	12.46%	11.92%	13.19%
LCR [2]	163.97%	173.24%	110.70%
Return on Average Equity (ROAE) [3]	4.34%	0.96%	-4.44%
Cost-Income Ratio (CIR) [4]	68.37%	80.33%	108.87%
Result for the year in TEUR	8,243	1,631	-7,655

(1) The regulatory total capital ratio, which describes the relationship between the bank's own resources (pursuant to Article 92 Regulation (EU) No. 575/2013) and its weighted risk assets.

(2) The regulatory Liquidity Coverage Ratio is calculated in accordance with the Delegated Regulation (EU) 2015/61 in connection with Article 411 et seq. Regulation (EU) No. 575/2013.

(3) The after-tax profit as a percentage of the average equity capital (ROAE) is calculated from the after-tax result for the relevant year according to commercial law divided by the average equity capital at the month-ends of the relevant year.

(4) The Cost-Income Ratio (CIR) is the ratio from dividing operating expenses by operating income. Specifically, the margin is calculated from the sum of administrative costs and depreciation/amortization divided by the sum of the net interest income, net commission income, other net result and income from write-ups for securities held as assets.

Overall statement

Taking into account the regulatory requirements and the volatile market environment, İşbank AG was definitely able to meet its targets in terms of expanding the business volume. The increase in total assets has had a positive effect on the results of operations. From the viewpoint of İşbank AG, business developments have been positive overall. The bank has sufficient liquidity reserves. The financial and liquidity situation is fully consistent with the regulatory and operating requirements.

C) RISK REPORT

According to sec. 25a (1) KWG (German Banking Act), institutions must have an orderly business Organisation that includes the definition of a long-term business strategy as well as an appropriate and effective risk management system on the basis of which the risk bearing capacity must be continuously secured. Specifically, it requires procedures for calculating and ensuring the risk bearing capacity as an element of the risk management system. The risk bearing capacity is effective if all of the significant risks of an institution are continuously addressed with the risk coverage potential, taking into account risk concentrations.

Key changes within the risk bearing capacity compared to the previous year:

in TEUR	Q4 2018			Q4 2017		
	Utilization	**Limit**	**Limit utilization**	**Utilization**	**Limit**	**Limit utilization**
Counterparty default risk	39,177	78,083	*50.20%*	39,694	67,886	*58.50%*
expected loss	*7,382*			*7,028*		
unexpected loss	*31,795*			*32,666*		
Market price risks	*267*	3,486	*7.7%*	*497*	*8,082*	6.10%
Interest rate risk	252			497		
Foreign exchange risks	16			N/A		
Operational risks	999	1,743	57.30%	156	808	19.30%
Business risk	1,526	3,486	43.80%	1,822	3,233	56.40%
Reputation risk	153	349	43.80%	182	808	22.50%
Total risk position	**42,122**	**87,146**	**48.30%**	**42,350**	**80,817**	**52.40%**
Risk coverage capital	87,146			80,817		
Utilization	**48.30%**			**52.40%**		

Due to the increase in the net profit and the planned result, the risk coverage capital has increased from EUR 80.817 million to EUR 87.146 million (+8%). The total risk position has remained virtually unchanged. Overall, risk utilization declined from 52.4% to 48.3%.

In 2018, the operational risk increased by EUR 808,000 to EUR 999,000 as a result of physical damages. Based on the actually incurred damages, the maximum annual gross loss from the last six years is applied for operational risks in the context of the risk bearing capacity.

In addition, the bank has classified the foreign exchange risk as a significant risk since 2018; the risk has been calculated on a quarterly basis since that time. The foreign exchange risk as at December 31, 2018 was EUR 16,000.

There were no major changes in the remaining risk bearing capacity items compared to the previous year.

According to sec. 94 (1) CRR (Capital Requirement Regulation) and the Minimum Requirements for Risk Management (MaRisk), İşbank AG is defined as a *non trading* *book institution'*, and the scope of its on- and off-balance sheet trading book activity is limited to EUR 20 million. The risks from the use of financial instruments are considered minor, since İşbank AG only uses financial instruments for reducing or hedging against risks. All derivative transactions are concluded solely with top-rated credit institutions under ISDA and CSA agreements. For this reason, the counterparty default risk is considered a minor risk.

The internal control system of İşbank AG

The Management Board of İşbank AG is responsible for establishing a suitable internal control system (ICS). Such a system was established in accordance with the regulatory requirements; it comprises the provisions for the operational and organizational structure and for risk management and controlling processes. The ICS ensures process-dependent monitoring and is based on the type, scope, complexity and risk content of İşbank AG's business activities.

The ICS and the internal audit department, together with compliance and risk management, represent the internal controlling process at İşbank AG.

Total risk profile

According to Section 2.2 item 1 MaRisk, institutions must obtain an overview of the overall risk profile on a regular or ad-hoc basis. The risk management system and the processes for identifying, measuring, assessing, managing, monitoring and communicating the various risk types are outlined in the risk handbook for İşbank AG and the supplementary work instructions. A materiality assessment has been documented for all risk types and, where relevant, for the characteristics of these risk types. The key risk types that have been identified are the counterparty default risk, the market price risk (Interest rate risk and foreign exchange risk), the liquidity risk, the business and earnings risk, the operational risks and the reputation risk. All of the risks that have been defined by the institution as significant risks, and which can be quantified, are taken into account in İşbank AG's risk bearing capacity calculation. One exception is the liquidity risk. Since the liquidity risk (in a more narrow sense: insolvency risk) cannot be reasonably limited with the risk coverage potential, this risk is not considered separately during the risk bearing capacity calculation; rather, the risk (including the refinancing risk) is managed with stress tests and is subject to special monitoring (as described in more detail below in the section on the liquidity risk).

The risk map containing the significant risks is created in three steps:

- The general risk universe represents an overview of the general risks that are associated with undertaking banking transactions and offering financial services.
- Starting with this general risk universe, the risk map for İşbank AG is created with the risk types that are actually relevant based on the bank's business activities and strategy.
- The risks that are of significance to İşbank AG are determined on the basis of the relevant risks. If the risk is quantified, the following materiality threshold applies: a risk is deemed significant if - in the event the risk actually materializes - it reduces the risk coverage capital by more than 3% within one year. If the risk is not quantified, materiality will be assessed based on expert estimates / damage histories or qualitative criteria.

Organization of risk management

The Management Board of İşbank AG is responsible for ensuring appropriate risk management and compliance with the regulatory requirements. In terms of the operational implementation process, it is supported by the risk management department, the risk committee, the asset/liabilities committee and the internal audit department.

The possible impact of the Interest rate risk on the bank's assets and liabilities is discussed in the asset/liabilities committee against the background of current market developments as well as the general and expected economic situation. Risk reduction measures are implemented if necessary.

The risk management department is responsible for the centralized management, monitoring and controlling of the bank's risk areas in Germany and abroad.

Keeping the Management Board informed is one of the key tasks of risk management. Consistent information about all of the bank's significant risk positions enables the Management Board to fully assume its overall responsibility for all risk areas and initiate the measures required to manage and minimize these risks in a timely manner.

Risk reports are regularly submitted at the overall bank level (risk-related and cross-risk). Every quarter, the risk management department prepares a comprehensive risk report. This report is supplemented with monthly reporting on the significant risks and the risk bearing capacity. In addition, provision has also been made for ad-hoc reporting.

The credit department is responsible for monitoring the lending business with regard to compliance with the statutory requirements and the internal authorities regulation. It reports to the member of the Management Board for the Back Office. The credit department monitors the bank's trading activities on the basis of EDP-supported instruments and warrants compliance with the specified trading limits.

Business and risk strategy

The retail and corporate client business represents the main business segment for İşbank AG. Within these segments, İşbank AG is active in the lending and deposit business and also offers forfaiting and foreign trade credits in the context of the corporate client business.

Effective risk strategies are required to achieve sustained, smooth and profitable growth. The risk management system of İşbank AG is subject to a continuous optimization process and regularly reviews the applied methods and management approaches for their efficiency and suitability against the background of current business developments.

Risk types

The business activities of İşbank AG give rise to different risks that have been systematically identified and assessed by the Management Board together with the departments in charge. Those risks that have been identified as significant and that are assessed in the context of the risk assessment process are shown below after the implementation of risk limitation measures (net representation):

- Counterparty default risks,
- Market price risks (Interest rate risk, foreign exchange risk),
- Liquidity risks,
- Operational risks,
- Business risk
- Reputation risk

For each significant risk type, an investigation was also carried out whether the risk type has an effect on net assets (including capital resources), the results of operations and/or the liquidity situation.

Counterparty default risks

The counterparty default risk denotes the risk that an external counterparty incurs a loss due to a default or a deterioration in creditworthiness. In the case of cross-border capital services, the counterparty default risk is also joined by the country risk.

The counterparty default risk at İşbank AG consists of the following significant risk types:

- Default risk
- Issuer risk
- Country risk

İşbank AG uses the average default probabilities per rating class to determine the counterparty default risks. Using average default probabilities ensures that both positive and negative migration effects are taken into account.

İşbank AG considers the counterparty default risks at the level of individual borrowers and also in the context of the portfolio. The goal is to identify, limit or avoid unreasonably high individual risks and the development of concentration and portfolio risks.

Managing and monitoring counterparty default risks

Counterparty default risks are managed at both the individual loan and portfolio level. To this end, İşbank AG draws on limit systems for the individual credit risk, the country risk and the industry risk. In addition, the country risk Turkey is also monitored and limited in close coordination with the voluntary deposit guarantee fund. Other limits are set through the entire portfolio and in the context of the risk bearing capacity calculation. At the individual credit level, İşbank AG uses risk classification system to categories risks.

Counterparty default risks are continuously monitored with limit monitoring, risk development and analyses of limit utilizations and the creation of individual and lump-sum value adjustments. İşbank AG checks industry and country limits in accordance with the business developments and makes adjustments to the limit system if required.

Counterparty default risks are included in the risk limit on the basis of the risk coverage capital.

Instruments and sources of risk detection

There are essentially two instruments for detecting risk:

1. Monitoring overdrafts
2. Risk classification

Monitoring overdrafts for the existing limits is performed daily by the credit department or by the branches. In addition, overdrafts are also reported to the Management Board and the affected areas / departments using the appropriate reports.

Risk measurement method / process

Both expected and unexpected losses are included in the risk bearing capacity calculation. A value-at-risk approach is used as a basis, which is calculated using an asset value model that is generally known by the name of "CreditMetrics". The various model parameters are designed in consideration of the regulatory standards and on the basis of conservative internal estimates. Using a Monte Carlo simulation, which also takes into account collateral and the planned growth according to the business strategy, the credit risk is determined as follows: in the context of the going concern approach, on the basis of the 97% quantile and, in the context of the liquidation approach, on the basis of the 99.9% quantile, for a one-year horizon. This calculation also addresses the country risk as customers based outside of the Eurozone cannot obtain an individual rating better than that of their home country.

Loan engagements are also reviewed regularly to see if there is a need to create risk provisions. Based on the implemented methods, organizational provisions and IT systems, we are in a position to detect risks at an early stage and initiate the appropriate management measures at both the group level and at the level of the individual management units. An extraordinary audit is performed if the bank receives information indicating a deterioration in the financial situation.

Market price risks

İşbank AG considers market price risks to be the potential losses that can result from changes in market parameters.

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

- Interest rate risk
- Foreign exchange risk

The interest rate risk arises from the differences in the fixed interest periods and the interest rate adjustment options between asset and liabilities positions, while the foreign exchange risk denotes the risk that the value of a position will respond to changes in the exchange rate of one or more foreign currencies, and thus changes in exchange rates could lead to a reduction in the position's value.

Managing and monitoring market price risks

General

Market price risks are managed with specific measures on the basis of the specific risk characteristics. The Management Board, risk committee and the operating units must monitor the market price risk and utilization of the risk limits and must intervene if required. The Management Board uses accounting analyses to decide on the measures to be implemented, e.g. acquisition of financing resources with the same maturities, swap transactions to hedge interest rates, or the use of derivatives to hedge currency positions.

a) Interest rate risk

In the context of the regulatory reporting process, İşbank AG calculates the net present value of the interest rate risk at minimum every quarterly along the lines of the regulatory requirement pursuant to Circular 9/2018 issued by the German Federal Financial Supervisory Agency.

Moreover, in the context of the risk bearing capacity calculation, the interest rate risks are also determined on the basis of the fixed interest balance using an income statement-oriented historic simulation with absolute changes. The interest rate risk is determined on the basis of the 97% quantile in the context of the going concern approach, and on the basis of the 99.9% quantile in the context of the liquidation approach, for a one-year horizon.

b) Foreign exchange risk

Foreign exchange risks arise in the context of the daily revaluation of asset and liability overhangs and derivatives in foreign currency, and the associated impact on the income statement.

The reporting form “C 22.00 - Market Risk: Standardized Approaches for Foreign Exchange Risk”, which shows the open foreign currency positions for each currency, serves as a basis in this context. Building on the open currency position, the foreign exchange risk is subsequently determined using a historic simulation on the basis of the 97% quantile in the context of the going concern approach, and on the basis of the 99.9% quantile in the context of the liquidation approach, for a one-year horizon.

Risk detection instruments

a) Interest rate risk

The instrument for monitoring the interest rate risk consists of the fixed interest balance and (building on the former) the calculation of the interest rate risk using a historic simulation with absolute changes.

b) Foreign exchange risk

Market price risks are mainly monitored with the daily analysis of open positions.

Operational risks

İşbank AG defines the operational risk as the risk of damages due to human error, inadequate internal processes and systems, and external events.

The operational risk consists of the following significant risk types:

- Legal risk,
- Compliance risk,
- Fraud risk,
- Information technology risk,
- Outsourcing risk.

Risk detection, measurement and management instruments for operational risks

The wide variety of possible risk factors makes it more difficult to detect and in particular measure the operational risk. İşbank AG assesses the existing operational risks every year using self-assessments. These are qualitative instruments.

In terms of risk management, İşbank AG draws on the following instruments, depending on the specific risk factors:

- Insuring risks,
- Inspections and four-eyes principle for key activities, up-to-date work guidelines,
- Employee training
- Emergency planning and contingency contracts with service providers,
- Personnel planning.
- Involvement of the legal department for uncertain legal situations
- Assessment of risks through outsourcing with risk analysis and on-going monitoring in the outsourcing committee
- Monitoring of IT risks by the “IT Security & Process Management” group, and in the context of the IT risk committee
- On-going monitoring of compliance with regulatory and legal requirements, by the Compliance department

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

In addition, the risk management department also maintains a loss database to measure the (already occurred) operational risk.

İşbank AG uses the basic indicator approach pursuant to the CRR to measure the operational risk in the context of adhering to the CRR and calculating the required equity capital to back the operational risks.

Management and monitoring of operational risks

Operational risks are monitored and managed in the context of the quarterly risk report. In addition, all employees of İşbank AG are involved in the monitoring and management process to ensure the prompt identification of materializing operational risks, new or changing risk factors, and the deduction of measures. On the basis of past damage cases and the insights gained from the same, the methods for measuring and managing the operational risks are deemed appropriate.

Other risks

İşbank AG has identified the following other significant risks:

- Business and earnings risk
- Reputation risks
- Sales risk

Business and earnings risk

The business and earnings risk is defined as the risk of deviating from the sales plan (planning before risk).

Managing and monitoring the business and earnings risk

The business and earnings risk is determined on the basis of a time series of the annual historic development of results. Specifically, it involves the calculation of the so-called standard error, namely the maximum deviation from a long-term trend that is calculated with a regression analysis, which is expected to occur with a certain level of probability. Afterwards, the result is multiplied with the corresponding z value of the standard normal distribution, which will depend on the desired confidence level. In this way, a value-at-risk is calculated for the observation horizon of one year with a confidence level of 97% in the going concern approach, and with a confidence level of 99.9% in the liquidation approach.

Reputation risks

Reputation risk denotes the risk of events that reduce confidence in İşbank AG in the public or in the media, among employees or customers / business partners. In the context of their business activities, the operating units and branches are directly responsible for the reputation risks that result from their respective business activities.

Through the name and connection to the parent company Türkiye İş Bankası A.Ş., İşbank AG benefits particularly from a transfer of trust among those customers who are already familiar with the bank from Turkey. Even today, many customers want to know who stands behind İşbank AG as a shareholder and the performance that is represented by the Türkiye İş Bankası A.Ş. Group. In addition, the good reputation of İşbank AG was also continuously developed over several decades.

Besides enjoying a good reputation within the Turkish population in Europe, İşbank AG, through its risk strategy, also addresses the reputation risk by defining fair dealings with all business partners and excluding transactions with questionable counterparties.

Risk bearing capacity and stress testing

According to sec. 25a (1) KWG, credit institutions are required to establish appropriate and effective methods for determining their risk bearing capacity and securing the same over the long term. The risk bearing capacity calculation of İşbank AG is primarily based on the values in the balance sheet and income statement. The risk bearing capacity is effective if all significant risk types are continuously covered by the risk coverage potential. Limits for the significant risks are defined on this basis. For the purpose of determining the limits, an allocation formula is defined / reviewed each year, after the available risk coverage capital has been allocated to the various risk positions. It depends on the risk appetite of İşbank AG and distributes the available risk coverage capital over the various risk positions (relative). At this time, the warning threshold for the total upper loss limit is 90% of the risk coverage capital. İşbank AG calculates the risk bearing capacity according to the going concern and also the gone concern approach, in order to meet the requirements of AT 4.1 item 8 MaRisk.

In order to comply with the regulatory requirements pursuant to the CRR, İşbank AG uses the credit risk standard approach (KSA) for the lending business, and the basis indicator approach for the operational risks.

The going concern approach used by İşbank AG meets the requirements of the Circular “Regulatory assessment of banks’ internal risk bearing capacity concepts”, which was released by the BaFin on October 7, 2017.

The risk bearing capacity is effective if the total risk position is covered by the risk coverage capital. As at December 31, 2018, the ratio between the total risk position and the risk coverage capital is 48.3%. Hence the risk bearing capacity was effective. For additional details regarding the various risk positions and the risk coverage capital, please consult the overview of the risk bearing capacity at the beginning of this section.

Taking into account the risk concentrations, İşbank AG, in the context of the risk bearing capacity calculation, provides for the implementation of regular stress tests for the risks that the bank has deemed material risks. To this end, the bank draws on suitable historical and hypothetical scenarios, taking into account the strategic focus.

To ensure the consistency of the various risk-specific stress scenarios, the bank developed a total bank stress test (starting with a higher-level macro-economic scenario), which is used to derive individual stress tests for the different risk types.

İşbank AG uses two different stress test methods: cross-risk type and risk type-specific stress tests. Cross-risk type stress tests simulate the impact of an extreme deterioration in the overall economic situation (worsening GDP, increased unemployment) and a price collapse in real estate markets. Also, in the context of the risk type-specific stress tests, the scenario for the cross-risk type stress is supplemented with additional scenarios.

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

- A one-level deterioration in all ratings and a lump-sum 20% reduction in the recovery rate,
- A two-level deterioration in the rating for all customers based in Turkey, and a lump-sum 20% reduction in the recovery rate,
- Default of the group/customer with the greatest utilization (without banks and financial institutions),
- Default of the Turkish bank with the highest utilization.

With respect to the market price risk, synthetic as well as historic scenarios are used to gauge the possible economic impact of changes in interest rates against the background of the current fixed interest balance. In the case of FX scenarios, the open currency position is used as a basis for the stress test.

Since an expansion in the credit spreads in the bond portfolio could have a negative effect on the bank's risk bearing capacity within the risk coverage capital through the consideration of hidden charges and reserves, the bank incorporated a corresponding stress test in the regular reporting process in 2018.

In addition, the scenarios IT loss and bank robbery are also examined for the operational risks.

Taking into account the strategic direction, the bank draws on suitable historical and hypothetical scenarios. The assessment of the risk bearing capacity in a stress case is also carried out on the basis of the utilized risk coverage potential.

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

Liquidity risk

In terms of the liquidity risk, İşbank AG makes a distinction between the liquidity risk in a narrower sense (that the bank is no longer able to meet its payment obligations) and the refinancing risk (the risk that the bank is not able to maintain the desired refinancing level).

Risk detection, measurement and management instruments for the liquidity risk

In this context, the bank has access to the following instruments:

Managing and monitoring the liquidity risk

- Liquidity calculation pursuant to the LiqV (Liquidity Regulation) calculation (calculation of the liquidity indicator on the basis of remaining maturities, and calculation of observation indicators).
- "Liquidity Report" list (prepared by the treasury department) A liquidity report on the term profiles for all receivables and liabilities is prepared and published on the Portal on a regular basis. Every quarter, the department prepares a liquidity contingency plan. Based on this plan, the department also conducts a stress test on the basis of three different scenarios and compares the results with those of the previous quarter. The money and forex trading department is responsible for the current liquidity situation and must report the significant inflows and outflows of each week in the asset/liabilities committee or in the asset/liabilities management committee, with the involvement of the risk management, credit, financial management, retail and commercial banking and corporate banking departments.
- The Liquidity Coverage Ratio is calculated daily by the reporting department and communicated to the relevant departments.
- Liquidity stress tests for the insolvency and refinancing risk
- Weekly ALMU and monthly ALCO committees, and the FTP price system.

İşbank AG manages and monitors the liquidity risks on the basis of the liquidity indicator, observation indicators, the liquidity report and the Liquidity Coverage Ratio. Depending on the development of the indicators, specific measures will be implemented, such as:

- early external procurement of funds,
- procurement of funds through the parent company
- liquidation of deposits at the German Bundesbank or the disposal/lending of securities.

Liquidity risk tolerance

İşbank AG determines suitable risk tolerances for liquidity risks and ensures compliance by implementing the appropriate measures. In this vein, it defines the maximum tolerable amount for the liquidity risks.

The liquidity risk tolerances cover:

- the liquidity reserve (liquidity buffer),
- the maturity bands, and
- the definition of the survival period.

Liquidity reserve

To warrant the bank's solvency, particularly in the case of short-term liquidity bottlenecks, the bank maintains a liquidity reserve consisting of liquid and high-quality securities, which can be used to generate additional liquidity in a stress case through repo transactions with the German Bundesbank.

Definition of maturity bands

The bank's solvency and optimization of payment flows in the refinancing structure are secured on the basis of a liquidity indicator. To this end, the bank implemented a traffic light system based on risk tolerance indicators, which ensures the early detection of risks and initiation of measures.

Minimum liquidity coverage ("survival period")

The minimum liquidity coverage refers to the period of time that İşbank AG is able to survive if liquidity is removed and no new liquidity is added. The cash flow overview, which is prepared and continuously updated by the money and forex department, is used as the basis for calculating the minimum liquidity coverage.

Refinancing risk

The refinancing risk generally denotes the risk that the bank is no longer able to maintain the desired refinancing level.

Market liquidity risk

The market liquidity risk is indirectly addressed in the context of the risk management for İşbank AG's liquidity risk.

Concentration risks

In general, a concentration risk could materialize at İşbank AG with respect to the counterparty default risks. A concentration in the counterparty default risk occurs if the risk becomes more concentrated due to certain factors and this limits the diversification of the portfolio. According to our risk strategy, the credit portfolio is diversified on the basis of defined limits for industry/country and size class limits, which mostly limits the occurrence of concentrations. Concentration risks at İşbank AG exist mainly with respect to Turkey, the home market of our parent company. This risk concentration is acknowledged by reducing individual customer ratings to the rating of the country, if they would otherwise have a better rating than the country rating for Turkey. This modification leads to a significant increase in the credit risk position within the risk bearing capacity, and therefore allocates additional resources to back this risk. In addition, the credit volume with customers in Turkey is also limited through an absolute limit in close coordination with the voluntary deposit guarantee fund. Moreover, when providing loans to Turkish companies and banks, the bank also works closely with the credit department of the parent company. Based on its extensive experience in the Turkish credit market, the parent company has developed the corresponding expertise and is particularly able to effectively assess such credit risks.

D) OPPORTUNITIES AND RISKS OF FUTURE DEVELOPMENT

Macroeconomic situation

Based on the IMF forecasts for the year 2019, economic growth (price-adjusted) is expected to reach 3.5%, compared to 3.7% in the year 2018. Overall, the most recent forecasts issued by international organizations anticipate a less dynamic but nevertheless positive development for the global economy.

Economic activity in the 19 countries of the Eurozone slowed down considerably in 2018. For example, the export sector, which is extremely important to the Eurozone economy, has already weakened considerably. Still, employment continues to increase. Unemployment declined once more in 2018 and is at the lowest level since the financial crisis. Similarly, capacity utilization in industry has almost returned to pre-crisis levels. The risks to growth in the Eurozone continue to include Brexit and its impact, as well as the unsustainable budget policies of some countries. Experts anticipate a growth rate of 1.5% for 2019.

The German government expects the price-adjusted GDP to increase by 1.0% in 2019. Hence economic growth will be weaker than in the previous year. The German economy is experiencing only a slightly over-utilization of production capacities, hence there is no reason to fear an abrupt break in the economic upturn from the viewpoint of the domestic market. The momentum created by the domestic market continues into the current year. At the same time, the global economy and the economy of the Eurozone will probably grow at a slightly slower rate in 2019.

With regard to the Turkish economy, the European Commission expects that private consumption will decline significantly in 2019 (-3.7%). The Turkish government, on the other hand, is more optimistic and anticipates a slight increase of 2% for the current year. At the same time, the indications for the economic downturn consist of variable factors, which means that the situation could be very different at the end of the year. There are also several positive factors. For example, the tourism industry has fared very well recently. Last year, the number of tourists almost returned to the previous highs. Other industrial sectors such as the armament, automotive and textile industries are relatively immune to crises. Nevertheless, there are many indications that the Turkish economic engine will slow down considerably in 2019.

Many institutions regard 2019 as a year in which they will continue to experiment with new products, customer innovations and marketing structures. They will have to continue to digitize, close branches, reduce costs and adapt their marketing activities. But all that does not change the continued weakness in returns for the continually declining number of banks. Besides a continued tough competitive environment - and the increased capital buffers required by regulators - it is particularly the continued low-interest policy pursued by the European Central Bank that is the main reason in this context. In view of the weak returns, banks must act - at three levels. For one, they have to continue to make every effort to leverage the full potential of their business models. Second, the disruptive forces of digitization force them to embrace new partnerships to an extent that was hitherto unknown. Finally, they have to give increased attention to the issue of mergers.

İşbank AG performance

In the next financial year, the bank intends to focus on securing long-term profitability and healthy growth from the organizational changes that were initiated at the end of 2013. The 2019 financial year will be a year in which the management of liabilities will be at the forefront and the quality of assets is maintained taking into account economic sensitivities, and in which risk controls and operational efficiency are increased by focusing on niche products / business segments.

In accordance with the bank's medium-term strategy of sustainable and profitable growth, the bank anticipates that the result for the 2019 financial year will be at least as good as in the last 2018 financial year. It is expected that business activities will be expanded primarily through increased trade finance transactions, corporate banking transactions and increased profitability in the retail and corporate client segment.

This year will once again be characterized by the implementation of regulatory requirements, the effects of the low-interest environment, investments in digitization and the implementation of an enhanced business model. In the course of these developments, the bank faces another challenging year.

E) DEPENDENT COMPANIES REPORT

The Management Board of İşbank AG declares:

"We hereby declare that İşbank AG in Frankfurt am Main received appropriate compensation in all transactions made in keeping with the circumstances known to us at the respective point in time when the legal transactions were effected. No measures or other legal transactions with third parties instigated by or in the interest of an associate company were taken or not taken during the period under review, meaning that any disadvantaging can be excluded."

F) MEMBERSHIP OF ASSOCIATIONS

The bank is a member of the Association of German Banks and of various regional banking associations. Moreover, 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 guarantee fund of private banks.

Ünal Tolga Esgin Chief Executive Officer	**Franz Hakan Elman** Member of the Management Board

SERVICES AT A GLANCE

RETAIL BANKING

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

CORPORATE BANKING

- Corporate Loans
- Accounts and Cash Management
- Deposit
- Trade Finance
- Payments and Transfers

FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2018 WITH INDEPENDENT AUDITOR’S REPORT THEREON

BALANCE SHEET AS OF DECEMBER 31, 2018

Assets		Dec. 31, 2018 in EUR	Previous year in EUR
1. Liquid funds			
a) Cash		3,962,788.79	4,127,050.83
b) Balances with central banks		139,868,168.37	205,358,621.94
thereof with Deutsche Bundesbank:	EUR 139,270,260.29		
	(Previous year: EUR 200,751,425.72)		
		143,830,957.16	**209,485,672.77**
2. Receivables from banks			
a) Due at sight		18,164,971.32	5,011,748.76
b) Other receivables		347,704,007.88	321,793,534.06
		365,868,979.20	**326,805,282.82**
3. Receivables from customers		**1,133,526,068.24**	**1,038,431,920.07**
thereof: secured by mortgages:	EUR 45,567,865.34		
	(Previous year: EUR 57,174,833.53)		
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		28,297,101.57	28,506,465.47
thereof: eligible as collateral with Deutsche Bundesbank	EUR 15,034,290.79		
	(Previous year: EUR 15,048,578.61)		
bb) By other issuers		106,931,928.55	81,023,533.69
thereof: eligible as collateral with Deutsche Bundesbank	EUR 73,528,055.33		
	(Previous year: EUR 73,617,888.82)		
		135,229,030.12	**109,529,983.41**
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		14,118,152.96	15,893,275.37
		14,118,152.96	**15,893,275.37**
7. Tangible fixed assets		**1,422,353.85**	**1,930,183.50**
8. Other assets		**9,667,381.14**	**3,107,586.35**
9. Prepaid and deferred assets		**1,375,241.00**	**1,481,625.53**
Total assets		**1,805,038,163.67**	**1,706,665,529.82**

Liabilities		
	Dec. 31, 2018	Previous year
	in EUR	in EUR
1. Liabilities to banks		
a) Payable on demand	22,150,882.55	6,570,685.76
b) With an agreed term of notice period	334,949,553.31	361,532,250.63
	357,100,435.86	**368,102,936.39**
2. Liabilities to customers		
a) Saving depots		
aa) With an agreed notice period of up to three months	28,748,366.67	28,240,425.11
ab) With an agreed notice period of more than three months	2,370,628.25	2,498,158.76
b) Other liabilities		
ba) Payable on demand	244,187,687.47	244,994,308.29
bb) With an agreed term of notice period	961,039,882.75	850,411,560.63
	1,236,346,565.14	**1,126,144,452.79**
3. Other liabilities	**5,349,862.28**	**12,974,012.54**
4. Deferred expenses and accrued income	**2,328,681.42**	**1,002,807.81**
5. Accruals		
a) Tax accruals	269,785.00	643,320.79
b) Other accruals	3,138,798.31	5,102,823.66
	3,408,583.31	**5,746,144.45**
6. Instruments of additional regulatory core capital	**0.00**	**15,433,645.83**
7. Equity		
a) Subscribed capital	185,000,000.00	170,000,000.00
b) Capital reserves	315,292.40	315,292.40
c) Revenue reserves		
ca) Statutory reserves	1,029,785.14	617,659.86
cb) Other revenue reserves	6,328,577.75	4,779,515.88
d) Net retained profit	7,830,380.37	1,549,061.87
	200,504,035.66	**177,261,530.01**
Total liabilities and equity	**1,805,038,163.67**	**1,706,665,529.82**
1. Contingent liabilities		
Contingent liabilities from guarantees and indemnity agreements	27,694,257.33	50,655,364.56
2. Other liabilities		
Irrevocable credit commitments	0.00	11,959.27
	27,694,257,33	**50,667,323,83**

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2018

		Dec. 31, 2018 in EUR		Previous year in EUR
1. Interest income from				
a) Loans and money market transactions minus	56,065,782.05			39,711,880.98
negative interest on money market transactions	-586,150.80			-563,572.53
		55,479,631.25		
b) Fixed-interest securities and debentures		3,170,698.77		3,026,205.54
		58,650,330.02		**42,174,513.99**
2. Interest Expense		22,807,984.06		12,727,018.83
			35,842,345.96	**29,447,495.16**
3. Commission Income		8,815,708.68		10,078,165.00
4. Commission Expense		405,680.25		535,745.39
			8,410,028.43	**9,542,419.61**
5. Other operating income			**3,482,436.40**	**5,411,718.39**
6. General administrative expense				
a) Personnel expenses				
aa) Wages and salaries (with accruals)	13,442,516.20			16,713,197.88
ab) Social security contributions, pensions and welfare expense	2,086,970.33			2,685,086.48
thereof: pension expenses EUR 168,444.82				
(Previous year: EUR 141,523.94)				
		15,529,486.53		**19,398,284.36**
b) Other administrative expenses		12,089,325.51		14,274,825.10
			27,618,812.04	**33,673,109.46**
7. Write-downs and value adjustments on intangible and tangible fixed assets			**2,760,218.62**	**2,890,755.61**
8. Other operating expenses			**90,515.94**	**373,931.75**
9. Write-downs and value adjustments on receivables and certain securities, as well as allocations to provisions in the lending business		**7,137,651.03**		**5,606,037.67**
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		1,289,489.48		3,703,169.25
			5,848,161.55	**1,902,868.42**
11. Depreciation and value adjustments on participations, shares in affiliated companies and securities held as fixed assets			**806.45**	**0.00**
12. Income from participations, shares in affiliated companies and securities held as fixed assets			624,151.36	1,579,139.30
13. Result from ordinary operations			**12,040,447.54**	**7,140,107.22**
14. Extraordinary expenses			**1,156,944.06**	**3,814,592.77**
15. Taxes on income and earnings		**3,094,891.17**		**1,116,168.90**
16. Other taxes, unless shown under item 8		-453,893.34		578,754.11
			2,640,997.83	**1,694,923.01**
17. Net Income for the year			**8,242,505.65**	**1,630,591.44**
18. Allocations to the revenue reserves				
a) to the statutory reserves	412,125.28			81,529.57
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
			412,125.28	**81,529.57**
19. Net Retained Profit			7,830,380.37	1,549,061.87

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR FINANCIAL YEAR 2018

A. Introduction

İşbank AG has its registered office in Frankfurt am Main and is registered in the Commercial Register at Frankfurt Local Court (Amtsgericht) (HRB 94361). The Annual Financial Statements of İşbank AG for the 2018 financial year were prepared in accordance with the provisions of the German Commercial Code (HGB) set forth in Sections 242 et seq. and Sections 340 et seq. of the HGB as well as in accordance with the Regulation Regarding Accounting Requirements for Financial institutions (Verordnung über die Rechnungslegung der Kreditinstitute) (RechKredV) and the German Stock Corporation Act (Aktiengesetz) (AktG).

As part of the restructuring measures, the Management Board resolved on June 1, 2018 to close the Paris branch. Based on this decision, the Paris branch ceased its operations as of July 31, 2018.

Furthermore, the share capital of İşbank AG was increased by EUR 15 million through a resolution of the General Meeting on May 24, 2018, effective as of December 31, 2018. The capital increase was entered into the Commercial Register on June 12, 2018.

B. General accounting policies

The receivables included in the individual items, including accrued interest, are stated at their nominal amount. For identifiable credit risks in the lending business, İşbank AG has established specific loan loss provisions or provisions as well as general loan loss provisions.

As regards the transfer of credit exposures to distressed loans, classification criteria have been defined, including within the framework of the early warning system, which make it mandatory to transfer the loans to settlement. Generally, credit exposures which have been non-performing between 60 and 90 days, and instalment loans in default of 3 instalments are reviewed by the reorganization department. In order to determine the required specific valuation allowance, the existing collateral is revalued when the loans are transferred to settlement. The addition to and release of the related provision is calculated and booked quarterly at an appropriate and sufficient amount.

Bonds and notes have been allocated to the capital assets. The total portfolio is valued according to the mitigated lower of cost or market principle. At the balance sheet date, there are undisclosed reserves and undisclosed liabilities. No write-downs were conducted since it is assumed that there is an impairment which is unrelated to creditworthiness and thus not permanent. Fixed-income securities acquired at a price below the nominal value are written up to the nominal value as accrued. Fixed-income securities acquired at a price above the nominal value are reduced to the nominal value as accrued.

Property, plant and equipment and intangible assets with limited useful lives are depreciated over their expected useful lives. The useful life of the new core banking system was set at 10 years in the 2016 financial year. Low-value assets up to EUR 150 are fully depreciated in the year of acquisition. Assets with acquisition costs between EUR 150 and EUR 1,000 are capitalized and depreciated on a straight-line basis over five years.

Liabilities are recognized at the settlement value plus accrued interest. If the settlement amount of a liability is higher than the issuing amount, the difference is included in the prepaid expenses pursuant to Section 250 (3) of the HGB in connection with Section 340e (2) sentence 3 of the HGB. The prepaid expenses are released on a straight-line basis over the term of the liability.

Tax provisions and other provisions take into account all identifiable risks and have been recognized in accordance with Section 253 (1) of the HGB at the settlement amount required in accordance with reasonable commercial judgment.

The subscribed capital of EUR 185,000 thousand is carried at its nominal value.

Contingent liabilities and irrevocable loan commitments are stated at their nominal value less cash collateral and provisions recognized in the balance sheet. Provisions with a term of more than one year must be discounted at an average market interest rate for the last seven years based on the remaining term in accordance with Section 253 (2) of the HGB. The provisions for archiving are also discounted at the average market interest rate in accordance with their remaining term.

Expenses and income are recognized as accrued. Account management fees are collected quarterly and permissible processing fees are collected immediately when due.

All expenses incurred as a result of the restructuring measures after the date upon which the branches were closed or the business activities were discontinued as well as all provisions and payment obligations in connection with the restructuring measures were recorded under extraordinary expenses.

Assets and liabilities denominated in foreign currencies are translated into EUR at the exchange rate set by the European Central Bank on the balance sheet date pursuant to Section 256a of the HGB in connection with Section 340 of the HGB.

Expenses and income from foreign currency translation are recorded under other operating expenses and income.

The translation results from transactions included in the separate coverage pursuant to Section 340h of the HGB are netted out under other operating income or shown under other operating expenses.

The periodic (income statement oriented) method was applied to the loss-free valuation of interest-related transactions in the banking book (BFA3). The net present value of interest-related transactions for the period determined by Financial Management was compared with the administrative expenses for the portfolio business, which were determined on the basis of the income statement for the past financial year, and the risk costs to be expected until the final maturity of the transactions based on the expected payment defaults. According to IDW RS BFA 3, no provisions for contingent losses are to be recognized as at December 31, 2018.

Negative interest from money market transactions is recognized in interest income as a reduction in income.

C. Notes to the balance sheet

Liquid assets are stated at nominal value. In accordance with Section 11 sentence 3 of the RechKredV, the pro rata interest is not included in the breakdown of residual maturities but shown separately.

	Dec. 31, 2018 in TEUR	Previous year in TEUR
Receivables from banks		
- On demand	18,165	5,012
- Up to three months	124,386	45,800
- Three months to one year	223,843	261,467
- One to five years	0	14,182
Accrued interest	642	345
General loan loss provisions	1,167 (*)	0
Receivables from customers		
- Up to three months	120,534	79,330
- Three months to one year	342,334	169,245
- One to five years	541,736	593,266
- more than five years	26,847	38,347
- indefinite maturity	98,488	151,823
Accrued interest	6,365	7,129
General loan loss provisions	2,778 (**)	708
Receivables from affiliated companies are contained in the following line items		
Receivables from banks	17,914	6,186
- thereof toward sole shareholder	17,914	6,186
Receivables from customers	40,157	10,045
Notes and other fixed-income securities	7,055	0
Bonds and notes in portfolio		
Money market instruments		
- of other issuers	0	0
Notes (carrying amounts)		
- of public issuers	28,078	28,287
- of other issuers	106,172	80,320
- thereof given for safekeeping	12,944	33,767
- maturing in the following year	26,705	4,997
Accrued interest	979	923

(*) thereof attributable to country valuation allowances EUR 1,167 thousand

(**) thereof attributable to country valuation allowances EUR 2,038 thousand

All bonds and notes are marketable and listed.

As of the balance sheet date, undisclosed reserves of EUR 2,060 thousand (previous year: EUR 2,437 thousand) and undisclosed liabilities of EUR 2,350 thousand (previous year: EUR 3 thousand) existed from bonds and notes.

The amount of marketable securities not valued at the lower of cost or market in the bonds and notes portfolio is EUR 35,224 thousand (previous year: EUR 416 thousand).

Receivables from customers in the amount of EUR 45,568 thousand (previous year: EUR 57,175 thousand) are secured by mortgages.

Intangible assets mainly include capitalized expenses for the core banking system of İşbank AG acquired in 2016.

The total amount of other assets is EUR 9,667 thousand (previous year: EUR 3,107 thousand). Of this amount, EUR 433 thousand is contained in tax receivables from the tax authorities for value-added tax and EUR 366 thousand in tax refund claims for trade tax and corporation tax as well as solidarity surcharge, and EUR 8,481 thousand (previous year: EUR 2,200 thousand) in receivables from derivative transactions due to currency valuation. In addition, EUR 203 thousand (previous year: EUR 294 thousand) relates to customer orders not yet released and EUR 59 thousand (previous year: EUR 289 thousand) to the Bank's interim accounts. Deposits in the amount of EUR 125 thousand (previous year: EUR 125 thousand) are also included.

Advance payments under the rental agreement for the head office alone account for EUR 1,042 thousand (previous year: EUR 1,135 thousand) of the prepaid expenses of EUR 1,375 thousand (previous year: EUR 1,482 thousand). In addition, there are EUR 110 thousand (previous year: EUR 123 thousand) from premium payments and EUR 187 thousand (previous year: EUR 52 thousand) from invoices paid in advance. It also includes advance payments of EUR 33 thousand (previous year: EUR 36 thousand) in rent payments for the Amsterdam branch.

Statement of changes in fixed assets as of December 31, 2018 in EUR thousand

	Acquisition/ manufacturing costs				Acquisition/ manufacturing costs	Cumulative Depreciation	Cumulative Depreciation	Additions in the business year	Write-downs in the business year	Book values	Book values
	Status Jan. 1, 2018	Additions	Disposals	Reclass.	Status Dec. 31, 2018	Status Jan. 1, 2018	Status Dec. 31, 2018	Dec. 31, 2018	Dec. 31, 2018	Status Dec. 31, 2017	Status Dec. 31, 2018
I. Intangible assets											
1. Software (****)	23,587	514	129	0	23,972	7,694	9,854 (*)	0	2,289 (*)	15,893	14,118
	23,587	514	129	0	23,972	7,694	9,854 (*)	0	2,289 (*)	15,893	14,118
II. Property, plant and equipment											
1. Operating and equipment	7,035	14	1,901	0	5,148	5,105	3,725 (*)	0	522 (*)	1,930	1,422
	30,622	528	2,030	0	29,120	12,799	13,579 (*)	0	2,811 (*)	17,823	15,541
III. Securities (***)	108,659	47,857	21,639	0	134,878	53	329	31	307	109,530 (**)	135,229 (**)
Total	139,281	48,386	23,670	0	163,997	12,852	13,909	31	3,118	127,353	150,770

(*) The write-downs includes corrections from previous fiscal years in the amount of EUR 22 thousand.

Additions and reclassifications in the fiscal year in the amount of EUR 57 thousand (software and operating and office equipment) are included in the depreciation and amortization. The depreciation and amortization also includes EUR 51 thousand in extraordinary expenses.

(**) Including accrued interest of EUR 979 thousand as of 12/31/2018.

(***) Notes and other fixed-income securities, shares and other variable-income securities

(****) Concessions, industrial property rights and similar rights and assets, and licenses in such rights and assets acquired for valuable consideration

	Dec. 31. 2018 in TEUR	Previous year in TEUR
Liabilities to banks		
- On demand	22,151	6,571
- Up to three months	180,678	210,932
- Three months to one year	70,388	6,503
- One to five years	83,000	143,387
- Accrued interest	884	710
Liabilities to customers (savings deposits)		
- Up to three months	28,748	28,240
- Three months to one year	1,345	1,493
- One to five years	201	191
- more than five years	825	814
Liabilities to customers (other liabilities)		
- On demand	244,188	244,994
- up to three months	414,870	276,352
- Three months to one year	338,145	326,631
- One to five years	176,715	226,592
- more than five years	28,125	17,965
- Accrued interest	3,185	2,871
Liabilities towards affiliated companies are contained in the following line items		
Liabilities to banks	11,228	28,614
- thereof toward sole shareholder	11,228	28,614
Liabilities to customers	1,520	6,634
Regulatory additional Tier 1 capital instruments	0	15,434

Liabilities to banks include EUR 83,000 thousand (previous year: EUR 83,000 thousand) in open-market transactions with the Deutsche Bundesbank, which are secured by securities deposited in the safe custody account of the Deutsche Bundesbank. EUR 10,465 thousand (previous year: EUR 29,081 thousand) relates to repurchase agreements and EUR 100,645 thousand (previous year: EUR 99,358 thousand) to a syndicated loan taken out and a covered loan of EUR 50,125 thousand (previous year: EUR 50,125 thousand).

Other liabilities in the amount of EUR 5,350 thousand (previous year: EUR 12,974 thousand) include outstanding payments (customer orders not yet processed by the clearing office) in the amount of EUR 3,914 thousand (previous year: EUR 11,046 thousand), liabilities from derivative transactions due to foreign exchange valuation in the amount of EUR 399 thousand (previous year: EUR 1,123 thousand), dormant accounts in the amount of EUR 677 thousand, liabilities to the tax authorities on grounds of outstanding payroll/church/sales taxes in the amount of EUR 229 thousand (previous year: EUR 421 thousand), repayments from non-deliverable remittances to Turkey in the amount of EUR 97 thousand (previous year: EUR 25 thousand), outstanding corporate income taxes and solidarity surcharges in the amount of EUR 33 thousand (previous year: EUR 66 thousand) as well as payroll accounting liabilities in the amount of EUR 25 thousand (previous year: EUR 137 thousand).

Deferred income of EUR 2,329 thousand (previous year: EUR 1,003 thousand) consists of deferred upfront fee payments, purchased syndicated loans in the amount of EUR 2,321 thousand (previous year: EUR 995 thousand) and income from commissions received in advance in the amount of EUR 7 thousand (previous year: EUR 7 thousand).

The tax provisions of EUR 270 thousand (previous year: EUR 643 thousand) consist solely of corporation tax arrears of EUR 270 thousand (previous year: EUR 1 thousand) for the Amsterdam branch.

Other provisions amounting to EUR 3,139 thousand (previous year: EUR 5,102 thousand) were formed as of the end of the year. These mainly consist of provisions for bonuses of EUR 1,408 thousand (previous year: EUR 1,463 thousand), provisions for severance payments of EUR 470 thousand (previous year: EUR 960 thousand) and provisions for branch closures of EUR 297 (previous year: EUR 555 thousand). Additionally, other payment obligations include EUR 339 thousand (previous year: EUR 797 thousand), provisions for auditing costs of EUR 113 thousand (previous year: EUR 451 thousand) and provisions for consulting costs of EUR 125 thousand (previous year: EUR 115 thousand). Furthermore, these items include provisions for contributions of EUR 121 thousand (previous year: EUR 192 thousand), provisions for litigation costs of EUR 96 thousand, holiday accruals of EUR 38 thousand (previous year: EUR 113 thousand), provisions for archiving of EUR 104 thousand (previous year: EUR 103 thousand) and provisions for guarantees of EUR 26 thousand (previous year: EUR 51 thousand).

The subscribed capital was increased by EUR 15,000 thousand from EUR 170,000 thousand to a total of EUR 185,000 thousand during the financial year. The capital increase was achieved through a cash contribution by the parent company in the amount of EUR 15,000 thousand as of May 24, 2018. The new paid-up capital was issued at nominal value and was entered in the commercial register at the local court.

The share capital of İşbank AG amounts to EUR 185,000 thousand and is divided into 18,500,000 no-par value individual bearer shares. There are no other classes of shares.

The equity is structured as follows:

	Dec. 31, 2018	**Previous year**
	in TEUR	**in TEUR**
Subscribed capital	185,000	170,000
Capital reserves	315	315
Legal reserves	1,030	618
Retained earnings	6,329	4,779
Net profit	7,830	1,549
	200,504	177,261

Pursuant to Section 150 (2) of the AktG, the legal reserves are to be adjusted by 5% of the net income on a yearly basis. Consequently, the legal reserve was increased by EUR 412 thousand.

The valuation allowance for country risks of receivables from customers and banks totals EUR 3,205 thousand.

Total risk provisions for country risks are allocated to the individual balance sheet items as follows:

	Dec. 31, 2018	**Previous year**
	in TEUR	**in TEUR**
Receivables from banks	1,167	0
Receivables from customers	2,038	0

Items denominated in foreign currency:

	Dec. 31, 2018	**Previous year**
	in TEUR	**in TEUR**
Assets	281,330	281,488
Debts	237,693	250,948

After deducting general loan loss provisions, liabilities from guarantees and indemnity agreements are broken down as follows:

	Dec. 31, 2018	**Previous year**
	in TEUR	**in TEUR**
Guarantees and indemnity agreements	10,509	15,995
Letters of credit	17,211	34,711
	27,720	50,706

Of the guarantees and indemnity agreements, EUR 4,155 thousand (previous year: EUR 1,525 thousand) are attributable to the sole shareholder.

The guarantees secured by cash collateral amounted to EUR 4,938 thousand during the financial year (previous year: EUR 5,876 thousand). The irrevocable loan commitments amounted to EUR 0 thousand in the financial year (previous year: EUR 12 thousand).

The risks arising from the utilization of contingent liabilities and other obligations are, on the basis of the existing collateral, assessed by İşbank AG as low.

D. Notes to the Income Statement

The income statement is presented in the single-column form.

The Management Board of İşbank AG proposes to the Supervisory Board in accordance with Section 170 (2) of the AktG that the 2018 annual financial statements in the amount of EUR 7,830,380.37 be retained in full, carried forward to the next financial year and immediately transferred to retained earnings.

The Income breakdown according to business locations is as follows:

	Germany in TEUR	The Netherlands in TEUR	France in TEUR	Switzerland in TEUR	Total in TEUR
Interest income	54,174	4,202	273	2	58,651
Commission income	8,099	557	160	0	8,816
Net income	8,625	812	-1,204	9	8,243

Interest income includes negative interest of EUR 546 thousand (previous year: EUR 556 thousand).

These result from the reserve balances at the Deutsche Bundesbank exceeding the minimum reserve requirement of İşbank AG.

Other operating income of EUR 3,482 thousand (previous year: EUR 5,412 thousand) mainly results from the repurchase of the subordinated bearer bond (contingent convertible bond - CoCo Bond) in the amount of EUR 2,821 thousand, income from foreign currency translation in the amount of EUR 106 thousand (previous year: EUR 731 thousand), the release of other provisions in the amount of EUR 284 thousand (previous year: EUR 767 thousand) and from interest income relating to other periods in the amount of EUR 99 thousand.

The other operating expenses of EUR 91 thousand (previous year: EUR 374 thousand) result primarily from restructuring expenses of EUR 30 thousand, payment transaction losses of EUR 29 thousand resulting from system migration to the core banking system and reimbursement fees of EUR 23 thousand.

Extraordinary expenses of EUR 1,157 thousand (previous year: EUR 3,815 thousand) mainly result from personnel expenses of EUR 418 thousand (previous year: EUR 2,218 thousand), other administrative expenses of EUR 373 thousand (previous year: EUR 165 thousand), depreciation of EUR 51 thousand (previous year: EUR 502 thousand) and other expenses of EUR 315 thousand (previous year: EUR 908 thousand) of the branches to be closed.

For the financial year, fees of EUR 212 thousand (previous year: EUR 199 thousand) were charged for auditing services for Germany, EUR 4 thousand (previous year: EUR 48 thousand) for other services and EUR 6 thousand (previous year: EUR 12 thousand) for other assurance services.

During the financial year, income taxes in the amount of EUR 3,095 thousand (previous year: EUR 1,116 thousand) were incurred.

Allocation of the unappropriated profits for the previous year:

By resolution of the Annual General Meeting on June 26, 2018, it was resolved to fully retain the net profit from 2017 in the amount of EUR 1,549 thousand, to carry it forward to the next financial year and to transfer it immediately to retained earnings.

E. Other disclosures

Bearer bond

As of December 31, 2017, İşbank AG had issued an unlimited, unsecured, subordinated bearer bond (so-called Contingent Convertible Bond - CoCo Bond) in the amount of EUR 15,000 thousand, which conformed to the Model Terms and Conditions for the Write-down of Bonds published by the Association of German Banks (Bundesverband deutscher Banken e.V.). The bond, which was represented by a certificate without interest coupons, was issued to the bearer. The sole creditor was the parent company of İşbank AG, Türkiye İşbank A.Ş, İstanbul.

The bond bears interest on its nominal amount at an annual interest rate of 5.75%, whereby the interest payment could be suspended. The interest payment date was June 30 of each year. The bond was reported in the balance sheet as of December 31, 2017 under the special item “Regulatory additional Tier 1 capital instruments” and the ongoing servicing of this bond was reported in the income statement under interest expenses due to its debt nature.

By way of resolution of the Annual General Meeting on May 24, 2018, İşbank AG decided to perform a capital increase in the amount of EUR 15 million and at the same time to repurchase a proportion of the subordinated bearer bond (so-called Contingent Convertible Bonds - CoCo Bonds) in the amount of EUR 15 million. The repurchase was made at market value, which was EUR 2,821 thousand below the nominal value. Therefore, İşbank AG no longer has any “Regulatory additional Tier 1 capital instruments” in its balance sheet as at December 31, 2018.

Country-by-country reporting of İşbank AG pursuant to Section 26 of the German Banking Act (KWG) as at December 31, 2018

The information on country-by-country reporting under Article 89 of the EU Directive 2013/36/EU and Section 26a of the KWG is presented in detail in our “Country by country reporting as at 31 December 2018”. After approval of the annual financial statements, the country-by-country reporting is published together with the annual financial statements and the management report in the Federal Gazette (Bundesanzeiger).

Disclosure report

İşbank AG is subject to the disclosure requirements pursuant to Articles 431 et seq. of Regulation (EU) No. 575/2013. A corresponding disclosure report is published on the website of İşbank AG (www.isbank.de).

Other financial commitments

The total amount of other financial commitments is broken down as follows:

	2019 in TEUR	2020-2021 in TEUR	From 2022 in TEUR	Total in TEUR
Rental agreements	2,335	3,749	10,663	16,747
Leasing agreements	230	315	54	599
Other agreements	251	226	216	692

To cover loans granted in USD and TRL, the bank had three currency swap transactions (nominal value: EUR 71,600 thousand) and four cross-currency swap transactions (nominal value: EUR 26,078 thousand) in its portfolio at the end of the year. At the balance sheet date, these currency swaps resulted in a negative amount of EUR 399 thousand and a positive amount of EUR 8,481 thousand.

The following table shows the nominal amounts of foreign currency swaps entered into to cover foreign currency risks arising from its customer business:

Residual maturity	Nominal (in TEUR)	- Market value (in TEUR)	+ Market value (in TEUR)
Up to 1 year	91,736	399	6,651
Over 1 year	5,942		1,830

On grounds of its membership in the Deposit Protection Fund of the Association of German Banks (Bundesverband deutscher Banken e.V.), İşbank AG is obliged under certain circumstances to make additional contributions. Currently, there is no such obligation to make additional contributions.

Employees

The average number of employees at İşbank AG during the year was 181.

	2018	Previous year
Authorized signatories	3	4
Salaried employees	169	211
Total	172	215

The breakdown of headcount reductions per branch is as follows:

Branches	Disposals	Previous year
Berlin	0	3
Düsseldorf	0	3
Frankfurt	1	1
Gelsenkirchen	1	1
Hamburg	0	9
Karlsruhe	0	4
Cologne	0	4
Kreuzberg	1	3
Mannheim	1	1
Munich	1	4
Nuremberg	0	2
Stuttgart	3	4
Amsterdam	1	2
Sofia	2	5
Zürich	3	3
Paris	5	3

The remuneration of the members of the Management Board amounted to EUR 874 thousand in the past financial year (previous year: EUR 793 thousand). No pension commitments were made to the members of the Management Board. For this reason, İşbank AG does not form any pension provisions for members of the Management Board. During the financial year, a consumer loan in the amount of EUR 8 thousand (4.5% p.a.) was granted to a member of the Management Board.

During the 2018 financial year, the members of the Supervisory Board received expense allowances in the amount of EUR 162 thousand (previous year: EUR 162 thousand) pursuant to Section 285 No. 9a of the HGB.

Company executive bodies

Management Board:

Ünal Tolga Esgin, Chairman of the Management Board (as of Nov. 05, 2018 - previously Member of the Management Board from Oct. 01, 2017), Frankfurt am Main

Franz Hakan Elman, Member of the Management Board (as of Aug. 01, 2018), Frankfurt am Main

Hasan Cahit Çınar, Chairman of the Management Board (up to Nov. 04, 2018), Frankfurt am Main

Robert McCormack, Member of the Management Board (up to July 31, 2018), Frankfurt am Main

Supervisory Board

Yılmaz Ertürk, Chairman (as of June 08, 2018), Deputy Chief Executive at Türkiye İş Bankası A.Ş., İstanbul/Turkey

Gamze Yalçın, Deputy Chairman (as of June 08, 2018), Deputy Chief Executive at Türkiye İş Bankası A.Ş., İstanbul/Turkey

Yavuz Ergin, Member (Independent), Consultant at Türkiye İş Bankası A.Ş., İstanbul/Turkey

Ali Tolga Ünal, Member, Divisional Director Financial Management at Türkiye İş Bankası A.Ş., İstanbul/Turkey

Can Yücel, Member, Divisional Director Corporate Loans at Türkiye İş Bankası A.Ş., İstanbul/Turkey

Mustafa Tankut Tabak, Member, Divisional Director Human Resources at Türkiye İş Bankası A.Ş., İstanbul/Turkey

Sabri Gökmenler, Member (as of June 08, 2018), Divisional Director IT at Türkiye İş Bankası A.Ş., İstanbul/Turkey

Mete Uluyurt, Member (as of June 08, 2018), Divisional Director Strategy and Corporate Performance Management at Türkiye İş Bankası A.Ş., İstanbul/Turkey,

Murat Demircioğlu, Member (as of June 08, 2018), Divisional Director Commercial Loans at Türkiye İş Bankası A.Ş., İstanbul/Turkey

Adnan Bali, Chairman (until June 07, 2018), Chief Executive Officer at Türkiye İş Bankası A.Ş., İstanbul/Turkey

Hakan Aran, Deputy Chairman (until June 07, 2018), Deputy Chief Executive at Türkiye İş Bankası A.Ş., İstanbul/Turkey

Yalçın Sezen, Member (until June 07, 2018), Deputy Chief Executive at Türkiye İş Bankası A.Ş., İstanbul/Turkey

Murat Bilgiç, Member (until June 07, 2018), Divisional Director at Türkiye İş Bankası A.Ş., İstanbul/Turkey

Group relationships

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 of December 31, 2018, which are also available at the registered office of the company.

Frankfurt am Main, May 24, 2019

Ünal Tolga Esgin
Chairman of the Management Board

Franz Hakan Elman
Member of the Management Board

REPRODUCTION OF THE AUDITOR'S REPORT

We have issued the following auditor's report for the annual financial statement and management report:

"Independent auditor's report

To İşbank AG

Statement on examination of the annual financial statement and management report

Examination decisions

We have examined the annual financial statement of İşbank AG, Frankfurt am Main – comprising the balance sheet at 31st December 2018 and the profit and loss account for the financial year from 1st January 2018 to 31st December 2018 as well as the notes including the presentation of the accounting and valuation methods. Furthermore we have examined the management report of lsbank AG for the financial year from 1st January 2018 to 31st December 2018.

According to our assessment on the basis of the findings gained in the examination:

- The enclosed annual financial statement complies in all material respects with the provisions of German commercial law applicable for corporations and conveys an image of the asset and financial situation of the company at 31st December 2018 and of its profit situation for the financial year from 1st January 2018 to 31st December 2018 which corresponds to the actual facts in consideration of the German generally accepted accounting principles and
- The enclosed management report conveys an accurate overall image of the situation of the company. In all material respects this management report is in line with the annual financial statement, complies with the German statutory provisions and accurately represents the opportunities and risks of future development.

In accordance with § 322 par. 3 clause 1 HGB (German commercial code) we declare that our examination gave rise to no objections to the correctness of the annual financial statement and management report.

Basis for the examination decisions

We have conducted our examination of the annual financial statement and management report in compliance with § 317 HGB and the EU audit regulation (no. 537/2014; hereafter "EU-AR") in consideration of the German generally accepted auditing principles established by the German institute of auditors (IDW). Our responsibility under these regulations and principles is described further in the section of our audit report on "responsibility of the auditor for examination of the annual financial statement and management report". We are independent of the company in line with the provisions of European and German commercial law and we have performed our other German professional duties in line with these requirements. Moreover in accordance with article 10 par. 2 letter f) EU-AR we declare that we have provided no non-audit services in accordance with article 5 par 1 EU-AR. We believe that the examination evidence obtained by us is adequate and appropriate to serve as the basis for our examination decisions concerning the annual financial statement and management report.

Especially important examination facts in the examination of the annual financial statement

Especially important examination facts are such facts as were most significant in our examination of the annual financial statement for the financial year from 1st January to 31st December 2018 in our professional judgement. These facts were taken into account in connection with our examination of the annual financial statement as a whole and in the formation of our examination decision concerning the same; we submit no separate examination decision concerning these facts.

Below we describe the examination facts that are especially important in our opinion:

- Identification and valuation of depreciated loans to customers from the loan portfolio of corporate customers.
- Grounds for identification as especially important examination facts

The identification and valuation of depreciated loans to customers is an essential area in which the management makes discretionary decisions.

The identification of depreciated loans to customers and the valuation of depreciated loans to customers are associated with uncertainty and include various assumptions and influencing factors which allow room for discretion or require estimates. Expectations of future payment flows must be made on the basis of assessment of the economic circumstances of the customers or the securities provided. For depreciated loans these discretionary decisions may have a significant impact on the amount of the value adjustment to be made.

We have identified the identification and valuation of depreciated loans to customers from the loan portfolio of corporate customers as especially important examination facts in the light of the business model of İşbank AG focusing on the corporate lending business which constitutes a substantial part of the assets of the bank.

Auditing approach

We analysed the arrangement and effectiveness of selected controls with respect to the identification and valuation of depreciated loans to customers and tested these controls. The focus of our audit activities here was the process for regular evaluation of the economic circumstances of the borrowers with the application of internal risk classification procedures as well as monitoring of early warning indicators.

Furthermore we undertook substantive audit activities on a sample basis and investigated as part of our individual credit assessment whether there is a need for value depreciation for the loan commitments in our sample or existing value depreciation was represented appropriately according to the amount. We selected the sample with a focus on risk and specifically on the basis of criteria such as the level of commitment and/or the holding of loans on monitoring lists for latent and acute default risks as well as rating class.

No objections arose from our audit activities with respect to the identification and valuation of depreciated loans to customers from the loan portfolio of corporate customers.

Reference to related information

The information from the company for the identification and valuation of depreciated loans to customers is contained in section B “generally accepted accounting and valuation principles” of the annex.

Responsibility of the legal representatives and supervisory board for the annual financial statement and management report

The legal representatives are responsible for preparation of the annual financial statement which complies in all material respects with the provisions of German commercial law applicable for corporations and for the annual financial statement conveying an image of the asset, financial and profit situation of the company which corresponds to the actual facts in consideration of the German generally accepted accounting principles. Furthermore the legal representatives are responsible for the internal controls that they have established as necessary in compliance with the German generally accepted accounting principles in order to facilitate preparation of an annual financial statement that is free of significant – intended or unintended – material misstatements.

In the preparation of the annual financial statement the legal representatives are responsible for assessing the ability of the company to continue the business activity. Moreover they are responsible for declaring interests where relevant in connection with continuation of the business activity. Furthermore they are responsible for accounting for continuation of the business activity on the basis of the accounting principles unless this is prevented by actual or legal conditions.

In addition the legal representatives are responsible for preparation of the management report which conveys an accurate overall image of the situation of the company and is in line with the annual financial statement in all material respects, complies with the German statutory provisions and accurately represents the opportunities and risks of future development. Moreover the legal representatives are responsible for the precautions and measures (systems) that they have deemed to be necessary in order to facilitate preparation of a management report in compliance with the applicable German statutory provisions and to be able to provide adequate appropriate evidence of the statements in the management report.

The supervisory board is responsible for monitoring of the accounting process of the company for preparation of the annual financial statement and management report.

Responsibility of the auditor for examining the annual financial statement and management report

Our objective is to gain adequate certainty of whether the annual financial statement as a whole is free of significant – intended or unintended – material misstatements and whether the management report conveys an accurate overall image of the situation of the company and is in line with the annual financial statement in all material respects as well as the findings gained in the examination, complies with the German statutory provisions and accurately represents the opportunities and risks of future development and to issue an audit report that includes our examination decisions concerning the annual financial statement and management report.

Adequate certainty is a high level of certainty but no guarantee that an examination conducted in compliance with § 317 HGB and EU-AR in consideration of the German generally accepted auditing principles established by the German institute of auditors (IDW) always covers a significant material misstatement. Material misstatements may arise from violations or inaccuracies and are regarded as significant if it could be reasonably expected that individually or overall they affect the economic decisions of addressees made on the basis of this annual financial statement and management report.

During the examination we exercise due discretion and maintain a critical basic approach. Furthermore:

- We identify and assess risks of significant – intended or unintended – material misstatements in the annual financial statement and management report, plan and execute audit activities in response to these risks and obtain examination evidence that is adequate and appropriate to serve as the basis for our examination decision. The risk of significant material misstatements not being detected is higher in the case of violations than in the case of inaccuracies as violations can involve fraudulent collaboration, counterfeiting, intended incompleteness, misleading statements or the disabling of internal controls;
- We gain an understanding of the internal control systems relevant for examination of the annual financial statement and of the precautions and measures relevant for examination of the management report in order to plan audit activities that are appropriate to make an examination decision on the effectiveness of these systems of the company in the present circumstances but do not have this as their objective;
- We assess the appropriateness of the accounting methods applied by the legal representatives as well as the acceptability of the estimated values and related information presented by the legal representatives;
- We draw conclusions about the appropriateness of the accounting principle applied by the legal representatives for continuation of the business activity as well as whether significant uncertainty exists in connection with events or circumstances that could raise significant doubts of the ability of the company to continue the business

activity on the basis of the examination evidence obtained. If we conclude that significant uncertainty exists we are obliged in the audit report to draw attention to the related information in the annual financial statement and management report or to amend our examination decision respectively if this information is inappropriate. We draw our conclusions on the basis of the examination evidence obtained by the date of our audit report. Future events or circumstances may however result in the company no longer being able to continue its business activity;

- We assess the overall image, structure and content of the annual financial statement including the information as well as whether the annual financial statement represents the underlying transactions and events such that the annual financial statement conveys an image of the asset, financial and profit situation of the company which corresponds to the actual facts in consideration of the German generally accepted accounting principles;
- We assess the consistency of the management report with the annual financial statement, its compliance with the law and the image it conveys of the situation of the company;
- We undertake audit activities concerning the future-focused information presented by the legal representatives in the management report. On the basis of adequate appropriate examination evidence we trace the significant assumptions underlying the future-focused information from the legal representatives and assess the proper derivation of the future-focused information from these assumptions. We do not submit an independent examination decision concerning the future-focused information and the underlying assumptions. There is a substantial unavoidable risk that future events will deviate significantly from the future-focused information.

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Among other things with the people responsible for the monitoring we discuss the planned scope and timing of the examination as well as significant examination findings including any deficiencies in the internal control system that we identify during our examination.

We submit a statement to the people responsible for the monitoring that we have complied with the relevant independence requirements and we discuss with them all relationships and other facts from which an impact on our independence may reasonably be assumed as well as the safeguarding measures taken with respect to these.

From the facts that we have discussed with the people responsible for the monitoring we identify those facts that were most significant in the examination of the annual financial statement for the current reporting period and therefore constitute especially important examination facts. We describe these facts in the audit report unless laws or other legal provisions preclude public disclosure of the fact.

Other statutory and different legal requirements

Remaining information in accordance with article 10 EU-AR

We were appointed as auditors by the general meeting on 25th June 2018. We were instructed by the supervisory board on 20th September 2018. We have acted as auditor of İşbank AG without interruption since the financial year 2017.

We declare that the examination decisions contained in this audit report are consistent with the additional report to the audit committee in accordance with article 11 EU-AR (examination report).

Auditor responsible

The auditor responsible for the examination is Mr Marcus Binder.”

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