

## Corporate Credit & Issue Rating

☐ New ☒ Update

Sector: Banking

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Senior Chief Analyst

Gökhan İYİĞÜN

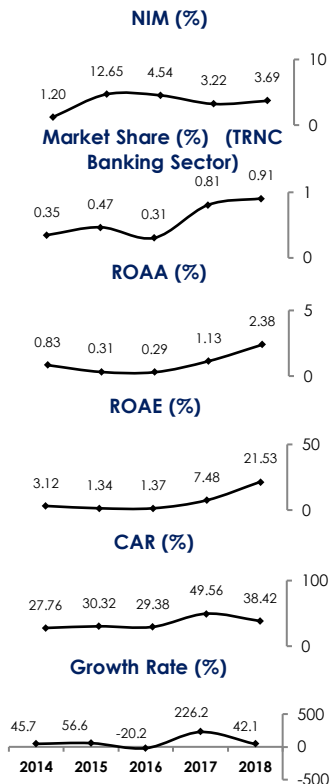
+90 212 352 56 73

gokhan.iyigun@jcrer.com.tr

## RATINGS

		Long	Short
International	Foreign Currency	BBB-	A-3
	Local Currency	BBB-	A-3
	Outlook	FC	Neg.
		LC	Neg.
National	Local Rating	BBB+ (Trk)	A-2 (Trk)
	Outlook	Stable	Stable
Sponsor Support		2	-
Stand-Alone		BC	-
Sovereign *	Foreign Currency	BBB-	-
	Local Currency	BBB-	-
	Outlook	FC	Neg.
		LC	Neg.

\*Affirmed by JCR on November 27, 2018



## Kıbrıs Faisal İslam Bankası Ltd.

### Company Overview

Financial Data	1H2019***	2018*	2017*	2016*	2015*	2014*
Total Assets (000 USD)	31,724	56,824	55,791	18,267	27,807	22,264
Total Assets (000 TRY)	182,577	298,948	210,438	64,515	80,852	51,629
Total Deposit (000 TRY)	141,202	265,702	183,225	47,948	63,192	35,379
Total Net Loans (000 TRY)	45,187	47,472	38,543	34,828	32,536	25,285
Equity (000 TRY)	33,196	30,454	25,921	15,638	15,512	15,292
Net Profit (000 TRY)	2,742	4,532	1,099	126	173	281
Market Share (%) **	n.a.	0.91	0.81	0.31	0.47	0.35
ROAA (%)	n.a.	2.38	1.13	0.29	0.31	0.83
ROAE (%)	n.a.	21.53	7.48	1.37	1.34	3.12
Equity/Assets (%)	18.18	10.19	12.32	24.24	19.19	29.62
CAR - Capital Adequacy Ratio (%)	43.14	38.42	49.56	29.38	30.32	27.76
Asset Growth Rate (Annual) (%)	n.a.	42.06	226.19	-20.21	56.60	45.66

\* End of year \*\* On solo basis among the TRNC Banking Sector \*\*\*

Unaudited

**Kıbrıs Faisal İslam Bankası Ltd.** (hereinafter referred to as Kıbrıs Faisal İslam Bank (FIB) or the Bank), the very first bank capitalised by foreign investors in Turkish Republic of Northern Cyprus (TRNC), was founded in October 1982 and commenced operations in March 1983. The Bank offers conventional banking services to the individual and corporate customers to the extent that the TRNC's internationally isolated economic and political position permits. The Bank offers services through its 4 branches in the cities of Nicosia (Lefkoşa), Taşkinköy, Famagusta (Magosa) and Kyrenia (Girne) and had a staff force of 39 as of FYE2018.

The multi-shareholder structure positions the Bank as a 'public company' within the framework of legal regulations. On the other hand, Mr. Bensen SAFA is the majority shareholder since 2013 and held an 85.02% stake as of FYE2018. Following 2013, the Bank underwent a comprehensive restructuring process to enhance the effectiveness of operational, audit and risk management processes. The Bank had an inactive and unconsolidated affiliate, Faisal İslam Yatırım Şirketi Ltd., with a 26.91% stake as of FYE2018, through which cost-plus financing services were provided before 2014.

The Company's Long-Term National grade was upgraded one notch to 'BBB+ (Trk)' mainly due to improvement in profit generation capacity attaining to equity supportive levels.

### Strengths

- Remarkably above sector average CAR, enabling room for future growths
- High quality equity composition consisting mostly of paid-in capital
- Profit generation capacity attaining to equity supportive levels
- Increased income generation capacity together with decreased interest expenses, contributing positively to profitability indicators
- Sufficient collateral and high liquidity levels partially compensating the adverse effects of above sector NPL ratio on asset quality
- Comparatively small-scaled organization structure, enabling comfort in adaption to changing market conditions

### Constraints

- Improved but below sector average profitability indicators
- Above sector average NPL ratio
- Low provisioning ratio, generating suppression potential on future profitability figures together with high collateral level and satisfactory collection performance
- Short-term weighted and concentrated structure of deposits leading to volatility in deposit base
- TRNC's economic and politically isolated international position and relatively limited island economy
- Continuing need for improvement in corporate governance practices

## 1. Rating Rationale

The Banking Sector of the TRNC comprised of 21 banks (2 of which are public, 14 private and 5 foreign bank branches) with a total of 229 branches and 3,148 employees as of FYE2018. It constitutes the largest part of the TRNC's financial sector and held an asset size of TRY 32,980mn as at FYE2018. The regulatory authority of the sector is the TRNC Central Bank and it holds the responsibility of policy making regarding credit, monetary, and exchange processes.

Ratings provided by JCR Eurasia Rating for **Kıbrıs Faisal İslam Bank Ltd.** are based principally on (i) the Bank's year-end solo independent audit reports, (ii) JCR Eurasia Rating's own studies and records, (iii) information provided by the Bank, and (iv) non-financial figures. Additionally, audited financial statements which were submitted to the Central Bank of TRNC were utilized in comparisons with the banking sector.

The Bank's 2018 audit report has been prepared in conformity with the TRNC Central Bank's communiqué of 'Principles Regarding the Companies to Make Independent Audit in Banks' and the 'International Auditing Standards'. The report includes the determinations of; the Bank has an effective control system, internal systems are used adequately and the infrastructure and the systems used are suitable for the Bank's structure. Additionally, it states that the financial statements, which constitute base in data entry of rating process, show the Bank's year-end financial condition and activity results in a real and reasonable manner.

The quantitative and qualitative assessments concerning asset quality, profitability and performance figures, liquidity profile, capital adequacy, corporate governance and risk management practices, main shareholders' financial and non-financial positions and expected support, growth strategy, market shares, and operating environment constituted the basic framework of the issues taken into consideration in the assignment of Kıbrıs Faisal İslam Bank's ratings.

Prominent Rating Considerations are;

### **Remarkably above Sector Average CAR**

The Bank's Capital Adequacy Ratio (CAR) continuously positioned above the sector average over the review period. It decreased from 49.56% to 38.42% in the last year due to a higher increase (55.34%) in total risk weighted assets than that of the increase (20.43%) in equity. On the other hand, it still maintained its remarkably above sector average positioning, exceeding two-fold of sector figure (17.86%)

and enabling room for future growths and empowering achievability of projected growth. Additionally, the Bank's CAR stayed remarkably above the minimum CAR requirements set by the Basel Accord (8%) and legal requirement of 10%, as well as the TRNC Banking's recommended level (12%).

### **High Quality Equity Composition**

Own fund structure of the Bank exhibited a composition consisting above 100% core capital, principally including paid-in capital, reserves, profit/loss for the period and previous years retained earnings, over the review period. Paid-in capital and profit, which are the most important items of the Bank's core capital, constituted 83.42% and 14.88% of the total shareholders' equity, respectively, indicating that the Bank operates with a high-quality capital.

### **Profit Generation Capacity Attaining to Equity Supportive Levels**

Faisal İslam Bank began to generate positive year-end net profit figures since 2014. The net interest income, with shares in total income that has increased from 12.48% in 2014 to 83.11% in 2018, became the Bank's main income generating source particularly in the last two years thanks to progress in NIM and decrease in interest expenses. The Bank recorded a remarkable increase of 312.41% in its annual net profit figure from TRY 1.1mn to TRY 4.53mn as of FY2018. Accordingly, the profitability indicators, ROAA and ROAE, of the Bank remarkably improved to equity supportive levels for the first time in review period and increased from 1.13% to 2.18% and 7.48% to 21.53%, respectively, despite the increased operating expenses and provisions. On the other hand, they were still positioned below the sector averages with a diminished spread.

### **Increased Income Generation Capacity and Decreased Interest Expenses**

All the components of total income, net interest, net fee and commission, FX gain and other operating income, increased in the last year. The main component providing the highest contribution with an 83.11% share in total income, namely the net interest income, increased by 114.24% thanks to a 5.11% decrease in interest expenses together with an 81.01% increase in gross interest income. Accordingly, the Bank's total income increased by 94.99% from TRY 5.6mn to TRY 11mn as of FYE2018.

### **Sufficient Collateral and High Liquidity Levels**

The Bank had a sufficient collateral level incorporating mortgages and vehicle pledges. 71.33% of TRY 3.46mn over-due loans were collateralized with mortgage and vehicle pledge and 31.1% of TRY 42.45mn active loans

with mortgage as of FYE2018, diminishing the adverse effects of credit risk exposure.

Additionally, the Bank had no borrowings and its main funding sources are deposits and its own funds. Its liquid assets increased from TRY 149.97mn to TRY 217.92mn as of FYE2018. The liquid assets were comprised of TRY 145.97mn in TRNC Central Bank accounts (FYE2017: 135.81mn), TRY 42.51mn in domestic banks (FYE2017: 3.59mn) and TRY 29.44mn in overseas banks (FYE2017: 10.57mn), all of which are increased and generated a comfortable liquidity management.

### **Comparatively High Adaption Level to Changing Market Conditions**

The issues such as; comparatively small scale, shareholding structure with high support appetite leading to high equity level and high liquidity position and recently changed organization structure together with increased efficiency of operational and risk management processes furnished the Bank with rapid responding capability to changing market conditions.

### **Above Sector Average NPL Ratio and Low Provisioning Ratio together with High Collateral Level and Satisfactory Collection Performance**

The increasing lending activities resulted in an upward trend in NPL ratio from below sector average values to above sector average value in 2016 and maintained its above sector standing over the last three years. Additionally, while the sector figure improved, the Bank's NPL ratio deteriorated and suppressed the asset quality in the last year. Moreover, in relation with the enhanced lending activities and increased NPL, the ratio of 'loans loss reserves to non-performing loans' decreased from 100% in 2013 to 29.09% in 2018, remarkably below the sector average of 68.31%, also suppressing the asset quality and generating suppression potential on future profitability indicators through loss reserves that would probably increase.

On the other hand, 71.33% of TRY 3.46mn over-due loans were collateralized with mortgage and vehicle pledge and 31.1% of TRY 42.45mn active loans with mortgage as of FYE2018, and the Bank realized TRY 625k collection, TRY 343.8k of which from loss nature group overdue loans, from 2017 year-end non-performing loans of TRY 2.62mn, corresponding to 23.86% collection performance from non-performing loans. Both the issues diminished the adverse effects of issues suppressing asset quality.

### **Short-term Weighted and Concentrated Structure of Deposits**

The share of deposits covered by the Savings Deposit Insurance Fund decreased to 18.13% in 2018 (FYE2017: 24.90%, FYE2016: 74.86%), indicating a relatively high and deteriorating customer concentration in deposits and generating a high volatility potential on deposit base for upcoming periods. Another factor that increasing the volatility potential on deposit base is the short-term weighted maturity structure of deposits. According to the contractual maturities of total deposits, 97.62% of deposits fell into one-month maturity brackets including demand accounts, indicating a short maturity profile of deposits with its negative effect on risk level and liquidity management and positive on funding cost, interest expenses and profitability. The stated ratio was 65.96% for the TRNC Banking Sector as of FYE2018 (FYE2017: 66.01%); indicating short maturity funding structure prevalent in the sector.

### **Isolated Economic and Political Structure of the TRNC together with the Limitations of Island Economy**

The sustained existence of the political and economic isolation against the TRNC has a double-sided effect with positive side as a factor that safeguards the TRNC's economy and banking system from external risks and volatility in the global economy, limiting contagion potential. On the other hand, TRNC remains highly dependent on social, economic and political developments in Turkey. Additionally, the inability to access global financial markets prevents the country from obtaining the funds necessary to drive the TRNC's development. Moreover, the island economy mostly dependent on tourism, education and chance games signifying a major complication for the sector.

### **Need for Improvement in Corporate Government Practices**

Kıbrıs Faisal İslam Bankası is not a publicly traded company. Accordingly, the execution of best practices of corporate governance principles is not obligatory for the Bank. On the other hand, its status of 'public company' stemming from its multi-shareholder structure and its operating field which is regulated by the Central Bank of TRNC creates the necessity of implementing corporate governance related practices. The Bank's Board of Directors consisted of 5 members, none of whom are independent.

The Committees (corporate governance, audit and early detection of risk) prescribed by the 'Corporate Governance Principals' (CGP) have not yet been established in the Company. On the other hand, the Bank has a separate

Internal Audit Presidency including Inspection with subunit of Internal Audit, Risk Management and Compliance Units structured under the Board of Directors reporting to the board member responsible for internal systems.

Although the periodic independent audit reports, organization chart, senior management titles and names, articles of association, rating reports and vision & mission are provided in detail and disclosed to the public via its web site, shareholder structure, the personal backgrounds and CVs of Board of Directors and senior management, annual activity reports, ethic principles, dividend and disclosure policies, remuneration policy regarding board members and executive managers should be disclosed to the public via the website to increase the compliance level with the corporate governance principles.

With respect to above-mentioned factors, JCR Eurasia Rating has affirmed the long term international foreign currency and local currency ratings as **'BBB-'**, the same as that of the sovereign ratings of the Republic of Turkey, JCR Eurasia Rating recognizes that the sovereign risk of the TRNC is the same as that of the Republic of Turkey, and the Long Term National Local rating was upgraded one notch to **'BBB+ (Trk)'** in JCR Eurasia Rating's notation system, which denotes a high level satisfactory investment grade.

## 2. Outlook

JCR Eurasia Rating has assigned a **'Stable'** outlook on the National Short and Long Term Rating perspectives of Kıbrıs Faisal Islam Bank within the considerations of its improved but still below sector average profitability indicators, above sector average NPL and below sector average provisioning ratios, volatility potential on deposit base stemming from its short-term weighted and highly concentrated deposits' composition and highly volatile and challenging market conditions.

The main driving forces that can call forth a revision in the current outlook status include Bank related issues affecting asset quality, liability profile and profitability, along with possible revision in Turkey's sovereign ratings, management performance of additional risks that may arise from the country risks of Turkey and the TRNC, continuing volatility in the global financial climate and political tension in the region.

## 3. Sponsor Support and Stand-Alone Assessment

Sponsor Support notes and risk assessments mainly reflect the financial and non-financial positions and assistance capability of the controlling shareholder, Mr. Bensen SAFA, of the Kıbrıs Faisal Islam Bank Ltd., and the systematic support level of the TRNC Banking Sector through sectoral regulations, associations and public institutions. In the light of registered capital increases in 2014 and 2017, a 266.67% paid-capital increase from TRY 6.93mn in 2013 to TRY 25.41mn in 2018, fulfilling the minimum equity requirement of TRNC Banking Law Draft, and the reorganization and restructuring processes that has been started in 2014 following the change in shareholding structure in which Mr. Bensen SAFA became majority shareholder, it is considered that the Bensen SAFA has the propensity and adequate experience to offer efficient operational and financial support within its financial capacity when liquidity needs arise in the short or long-term perspective. In this regard, JCR Eurasia Rating has affirmed the Sponsor Support Grade as **'2'**, denoting a moderate external support possibility.

The Stand Alone Note of the Bank has been upgraded to **'BC'** from 'C' within the considerations of its improved internal resource generation capacity that has been attained to equity supportive levels for the first time in review period, increased and exceeding paid-capital equity figure as of FYE2018 and remarkably above sector average CAR. This Stand Alone note indicates a company between moderate and strong levels in the issue that the Bank is expected to honor outstanding financial commitments without any external support.

## 4. Company Profile

### a) History & Activities

The very first bank capitalised by foreign investors in Turkish Republic of Northern Cyprus (TRNC) is Kıbrıs Faisal Islam Bankası Ltd.. The Bank was founded in October 1982 and commenced operations in March 1983. The Bank provides conventional banking services to individual and corporate customers to the extent that the isolated economic and political structure of the TRNC allows.

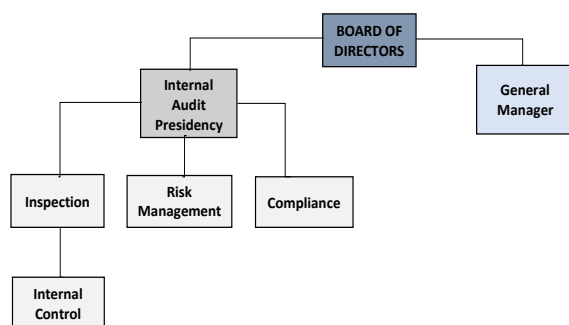
### b) Organization & Employees

As of FYE2018, the Bank employed a total staff force of 39, 19 of which in headquarters, and carried out its

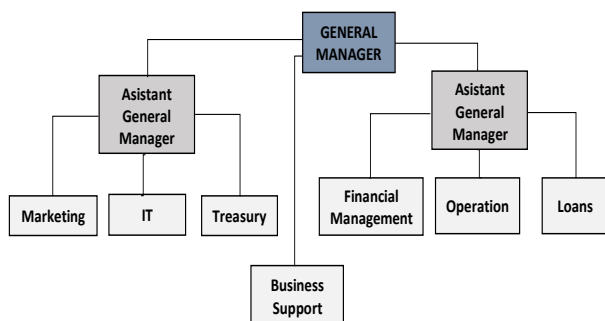


operations through 4 branches in the cities of Nicosia, Taşkınköy, Famagusta and Kyrenia. In addition to the conventional services stream offered through the branch network, the Bank also provides services through online banking facilities.

The organizational chart of the Bank is illustrated below. The Bank has Inspection with subunit of Internal Control, Risk Management and Compliance Units structured under the Board of Directors reporting to the Internal Audit Presidency.



The organizational structure under the general manager incorporates seven main units (marketing, IT, treasury, business support, financial management, operation and loans), one of which (business support) reporting directly to the general manager and the others to two assistant general managers.



### c) Shareholders, Subsidiaries & Affiliates

The shareholder structure of the Bank, showing shareholders with a share over 1%, is given in the table below. There has been no change in the Bank's shareholding structure in 2018 compared to the previous year. As the Bank has a multi-shareholder structure, it has the status of 'public company'. The increase of Bensen SAFA's shares of 9.45% to over 10% in 2012 was approved by the TRNC Central Bank's decision dated 12 April 2012. Accordingly, Mr. Bensen SAFA was the majority

shareholder of the Bank over the last six years, with an 85.02% stake as of FYE2018. The 'others' item in the shareholding structure consists of 129 real or legal persons.

Shareholders	FYE2018	
	TRY	%
Bensen SAFA	21,600,747	85.02
Algosaibi Investment Holdings	1,054,270	4.15
Raja Ashman Shah Bin Raja Azlan Shah	609,868	2.40
Nageep Ishaq Abdulrahim Al Kooheji	541,851	2.13
Abdul Rahim Ishak Al Kooheji	482,347	1.90
Tariq Ishaq Abdulrahim Al Kooheji	481,146	1.89
Others	635,501	2.50
<b>Paid Capital (TRY)</b>	<b>25,405,730</b>	<b>100.00</b>

Faisal Islam Yatırım Şirketi Ltd., offering investment services, was an affiliate of the Bank with a 29.61% stake. The Bank's majority shareholder, Mr. Bensen SAFA, was also the majority shareholder of it with a 65.4% as of FYE2018. It also has a 'public company' status stemming from its multi-shareholder structure composed of 122 shareholders including the Bank and Mr. Bansen SAFA. The 2018 year-end shareholding structure showing shareholders with shares over 1% and 2018 year-end main financial figures of it is illustrated below.

Shareholders	FYE2018	
	TRY	%
Bensen SAFA	6,613,710	65.40
Faisal Islamic Bank Of Kıbrıs	2,721,056	26.91
Rayan Investment Co.	138,826	1.37
Abdulla Abduljabbar M. El Kooheji	120,262	1.19
Others	518,917	5.13
<b>Paid Capital (TRY)</b>	<b>10,112,771</b>	<b>100.00</b>
<b>Main Financial Figures (TRY) FYE2018</b>		
Total Assets	6,949,193	
Equity	8,449,208	
Net Profit	- 2,751,473	

### d) Corporate Governance

Kıbrıs Faisal Islam Bank is not a publicly traded company and as such fulfillment of best practices of corporate governance principles is not obligatory. On the other hand, its status of 'public company' stemming from its multi-shareholder structure and its operating field which is regulated by the Central Bank of TRNC creates the necessity of implementing corporate governance related practices. Moreover, implementation of corporate governance related practices and higher compliance levels to the principles contribute to market risk perception of the company.

The Bank's Board of Directors is comprised of 5 members, none of whom are independent, and remained unchanged compared to the previous year as of FYE2018. It is stated

in the audit report that three of the board members have the qualifications stipulated in articles 19.3. of TRNC Banking Law No. 62/2017. Additionally, it is concluded that the Board Members have the required qualifications, experience and proof to administer their duties and that the Board sufficiently performs its duties of leading, supervising and inspecting. No changes were made in the management staff at the General Assembly Meeting on April 19, 2019.

#### Board of Directors

Bensen <b>SAFA</b>	Chairman
Rüştü Erol <b>ARABACIOĞLU</b>	Member, Internal Systems Officer
Özgür <b>ERKER</b>	Member, General Manager
Hasan <b>BABALIİKİ</b>	Member, Secretary
Mehmet Kemal <b>BARUT</b>	Member

The Committees (corporate governance, audit and early detection of risk) prescribed by the 'Corporate Governance Principals' (CGP) have not yet been established in the Company. On the other hand, the Bank has a separate Internal Audit Presidency including Inspection with subunit of Internal Audit, Risk Management and Compliance Units structured under the Board of Directors reporting to the board member responsible for internal systems. Accordingly, the tasks of the committees outlined in the CGP, particularly the audit and early detection of risk, are performed by the stated units.

Periodic independent audit reports, organization chart, senior management titles and names, articles of association, rating reports and vision & mission are provided in detail under 'Our Bank' heading and are disclosed to the public via its web site. On the other hand, shareholder structure, the personal backgrounds and CVs of Board of Directors and senior management, annual activity reports, ethic principles, dividend and disclosure policies, remuneration policy regarding board members and executive managers should be disclosed to the public via the website to increase the compliance level with the corporate governance principles. The Bank does not have any contribution to any social responsibility project.

#### e) The Bank Strategy

The main strategy of the Bank is being a leading financing provider to investment opportunities of all individual and corporate customers in TRNC. The Bank aims to continuously improve its product range and service quality, to maintain the satisfaction of its customers and employees at the highest level, to be a pioneer in world-class banking

services with its technological banking products and to be the first bank to offer innovative services to customers in the way of its strategy.

## 5. Sector Overview & Operational Environment

The Central Bank of the Turkish Republic of Northern Cyprus (TRNC) acts as the regulator of the banking sector and holds responsibility for credit, monetary and exchange rate policies with a broad range of authorities and responsibilities defined in the sub-regulations related to the Banking Law No. 62/2017. As of FYE2018, 21 banks (2 public, 14 private and 5 foreign banks' branches) operate in the sector with their 229 branches and 3,148 employees in total. The banking sector, as the largest part of the financial sector in the TRNC, has continued its growth during 2018 and reached an asset size level of TRY 32,980mn as of FYE2018, which points out a growth rate of 26.29% in comparison to FYE2017.

Since the depreciation of the Turkish Lira accelerated in 2018 and it hit its all-time low levels by August when USD/TRY parity exceeded TRY 7, the overall asset size, deposit and loan portfolio of the sector reached its peak by 3Q2018 but then started to shrink together with the slight recovery of the Turkish Lira during the last quarter of the year. This tight causal relationship between the exchange rates and the growth trend of assets/liabilities of the sector is due to the high share of loans and deposits denominated in USD in the composition of the balance sheets of the banks operating in the TRNC. Regarding the sector averages, 56.61% of gross loans and 63.81% of total deposits are denominated in foreign currencies as of 3Q2018, which reduced to 51.61% and 59.9% respectively as of FYE2018. The general outlook of the banking sector in the TRNC as of FYE2018 is as follows.

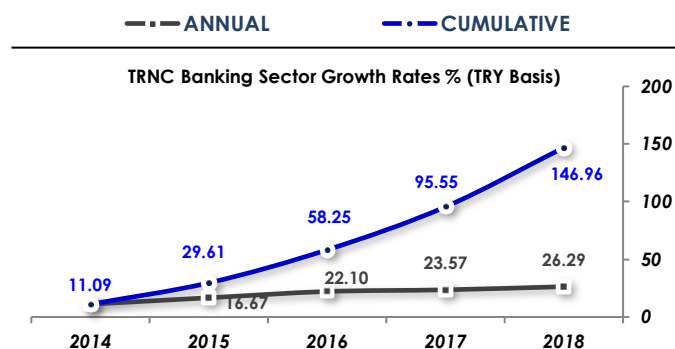
TRNC Banking Sector as of FYE2018

	Number of Banks	Number of Branches	Number of Staff	Total Assets (TRY mn)	Gross Loans (TRY mn)	Deposits (TRY mn)	CAR (%)
Public Banks	2	33	546	7,868.9	4,954.7	6,817	16.49
Private Banks	14	157	2,075	14,734.3	9,199.4	12,191.9	15.28
Branch Banks	5	39	527	10,377	4,752	7,432.9	21.93
<b>TOTAL</b>	<b>21</b>	<b>229</b>	<b>3,148</b>	<b>32,980.2</b>	<b>18,906.1</b>	<b>26,441.8</b>	<b>17.86</b>

Regarding the concentration in the TRNC banking sector, the five major banks constitute 55.07%, 56.9%, 56.54% and 51.9% of total assets, gross loans, deposits and equity respectively as of FYE2018 (FYE2017: 55.15%, 57.01%, 56.8% and 50.38%). In general, the concentration

indicators have followed a stable trend in the last three years. Regarding the penetration of the banking sector in the overall economy of the TRNC, we continued to observe an improvement in 2018. Total banking assets to GDP ratio increased to 227.2% from 179.6% between FYE2017 and FYE2018, as total deposits to GDP ratio and gross loans to GDP ratio reached 182.1% and 130.2% respectively in the same time period.

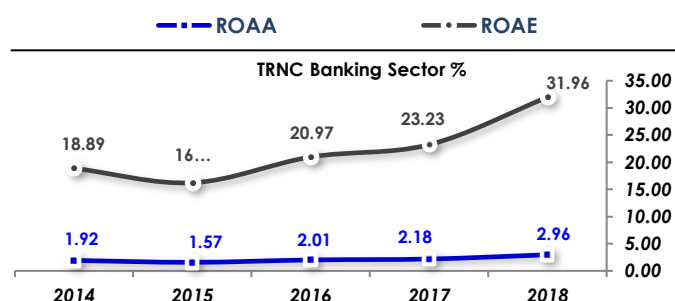
The sector maintained its continuous growth trend in an accelerated manner in 2018. In parallel with the increase in gross loans and deposits, total asset size of the sector grew by 26.29% in 2018, which led to a cumulative growth rate of 146.96% over the last 5 years. As mentioned above, total asset size of the sector has mainly been driven by the trends in the exchange rates which triggered the enlargement in both gross loans and deposits. Together with the hike in the USD/TRY parity, total assets amounted to TRY 34,956.5mn as of 3Q2018 and decreased to TRY 32,980.2mn by FYE2018, which still secured a 26.29% growth rate that exceeded all previous performances in the last 5 years. Gross loans which amounted to TRY 18,906.1mn as of FYE2018, constituted 57.33% of total assets and has been the main driver of the asset growth over the last 6 years. The growth trend of the sector, both annually and cumulatively, is depicted below.



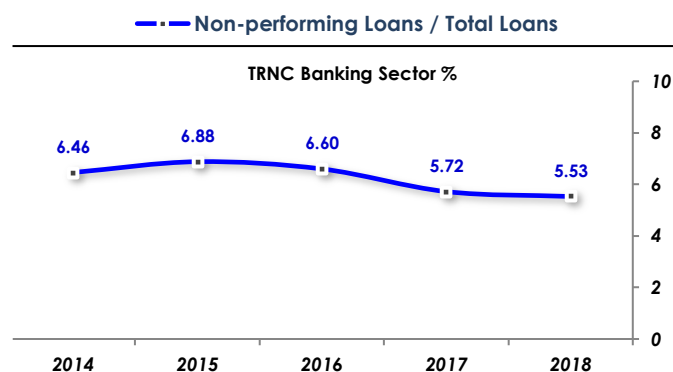
The main constituent of liabilities is deposits which makes up 80.17% of the right hand-side of the balance-sheet of the sector as of FYE2018. The sector's deposit base has grown by 25.33% between FYE2017 and FYE2018 and reached TRY 26,441.8mn. The main driver of this growth was the hike in exchange rates during 2018 since 59.9% of all deposits is denominated in foreign currencies as of FYE2018. Regarding the maturity structure of the deposits, by FYE2018, 65.96% of the sector's total deposits had less than or equal to one-month maturity including 13.99% demand deposits. The short-term structure of the deposits leads to a pressure on the liquidity management of the sector (FYE2017: 66.01% including 14.78% demand deposits). Apart from the liquidity structure, loan-to-

deposit ratio of the sector was 71.5% as of FYE2018, showing that deposits could well cover loans in the previous year.

The sector has demonstrated a remarkable performance regarding the improvement in profitability that net profit reached TRY 689.8mn, showing a growth by 69.28% in comparison to the previous year's figure of TRY 407.5mn. Additionally, the Return on Average Assets (ROAA) and Return on Average Equity (ROAE) reached their peaks in the last 5 years as they increased to 2.96% and 31.96% respectively by FYE2018 in parallel with the growth in net profit of the sector. The trend of ROAA and ROAE is depicted in the graph below.

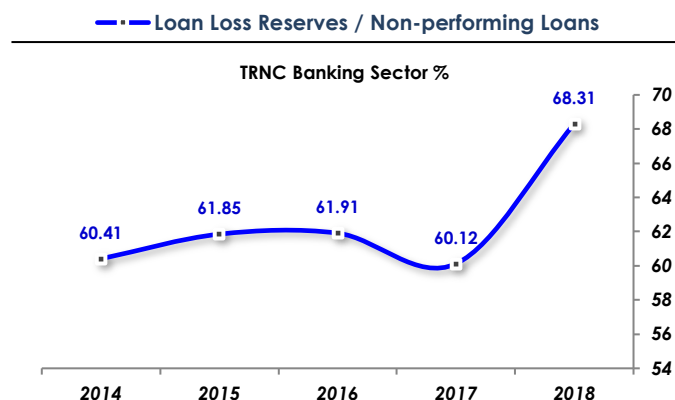


Although the amount of non-performing loans reached TRY 1,044.6mn as of FYE2018, the sector's NPL to gross loans ratio reduced to 5.53% by FYE2018 which was 5.72% as of FYE2017, indicating a decrease of 3.32% in comparison to the previous year. This decrease was mainly due to the lower rise in NPL which was 19.41% in comparison to the increase of 23.52% in total gross loans in the same period. As a result, the downward trend of the NPL ratio continued which started by the third quarter of 2016. The trend of NPL to total loans ratio in the last 5 years is shown below.

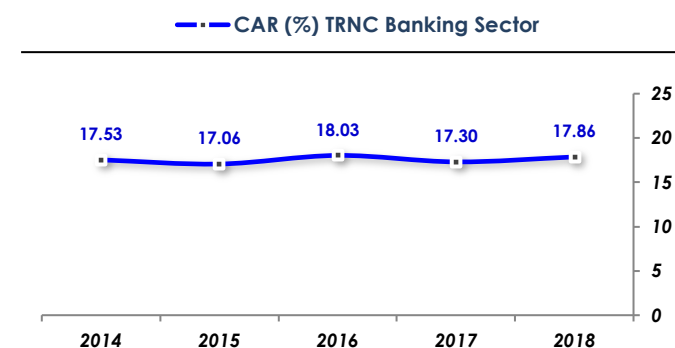


During FY2018, the amount of loan loss reserves (specific provisions) kept to cover NPL increased to TRY 713.6mn which was TRY 526mn as of FYE2017. Loan loss reserves

to NPL ratio rose from 60.12% to 68.31% in the same time period, demonstrating a more prudential stance adopted by the banks in the TRNC. This level of the ratio by FYE2018 is the highest among all figures in the last 6 years. Loan loss reserves to NPL ratio followed the pattern below.



As mentioned above, as total assets increased by 26.29% between FYE2017 and FYE2018, the amount of gross loans grew by 23.52% in the same period. This led to a 26.61% hike in risk-weighted assets as it reached TRY 847.5mn by FYE2018. On the other hand, in the same period the ratio of equity to total assets rose from 9.1% to 9.38% mainly due to raising net profits, which gave way to a parallel increase in Tier 1 and Tier 2 capital. As a result, despite the accelerated growth of the loan portfolio, the average Capital Adequacy Ratio (CAR) of the sector has shown a slight increase between FYE2017 and FYE2018 that it rose from 17.3% to 17.86%, which is still by far above the legally required level of 10%. The trend of CAR in the last 5 years is as follows.



The Central Bank of the Turkish Republic of Northern Cyprus is not autonomous in its monetary policy since the Turkish Lira is in use in the TRNC. Therefore, the sector in the TRNC is directly affected by the macroeconomic developments in Turkey and the monetary policy of the Central Bank of Republic of Turkey. During FY2018, the major impact of the Turkish economy on the TRNC

banking sector was the hike in foreign exchange rates, which triggered an accelerated growth in the overall asset size, deposit and loan portfolio of the sector due to the high share of assets and liabilities denominated in foreign currencies. Under these circumstances, the banks operating in the TRNC faced similar difficulties as the Turkish banks such as the management of the CAR against the fast credit growth which forced the banks to slow down the issue of new loans. The USD/TRY parity hit its all-time highs by 3Q2018 but then we observed a slight recovery of the Turkish Lira in the last quarter of the year. This, more or less, helped the banking sector to stabilize. Apart from the monetary dependency of the TRNC banking sector on the Turkish monetary policy and the macroeconomic developments in Turkey, the TRNC and Turkey maintain strong political relations as well, and the TRNC receives economic assistance from Turkey each year.

Regarding the constraints that the TRNC banking sector faces, the lack of international recognition of the TRNC creates many difficulties for the sector and the overall economy in having access to diversified financial resources and opportunities. As a result, international isolation is still a significant obstacle against the island's further economic development and the improvement in its banking sector. For instance, the provision of credit cards, POS and swift services in the TRNC are carried out by Turkish banks as the TRNC currently lacks sovereign status. On the other hand, regarding the digitalization of the banking activities in parallel with the global trends, the use of alternative distribution channels including the internet, mobile banking services and ATMs for banking transactions are rapidly getting wider and wider in addition to the conventional banking activities.

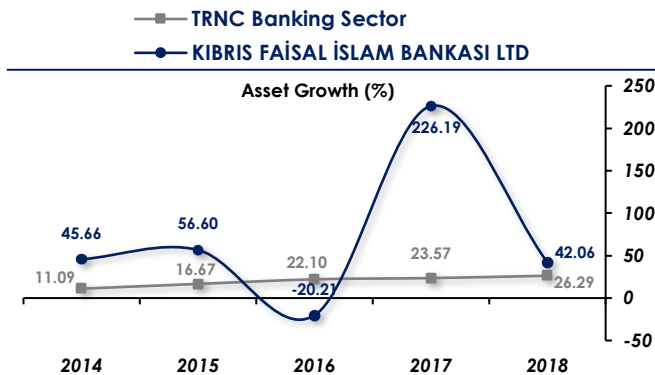
During 2018, the main focus of the TRNC's economic policy-makers has been on aiming a secure and steady banking sector growth in line with the developments in international standards, the implementation of the policies and procedures addressed to enable the country's economic development and the protection of the rights and interests of the depositors. The major legal development in the TRNC banking sector in 2018 was the enactment of the "Communiqué for Net Foreign Exchange Position Rates" which was issued on 27 December, 2018. The communiqué aims to regulate the limits of the short/long foreign exchange position that the TRNC banks take and sets 20% as the legal upper limit for the ratio of the amount of short/long foreign exchange position to shareholder's equity, as opposed to the risky impacts of the high volatility in the foreign exchange markets.



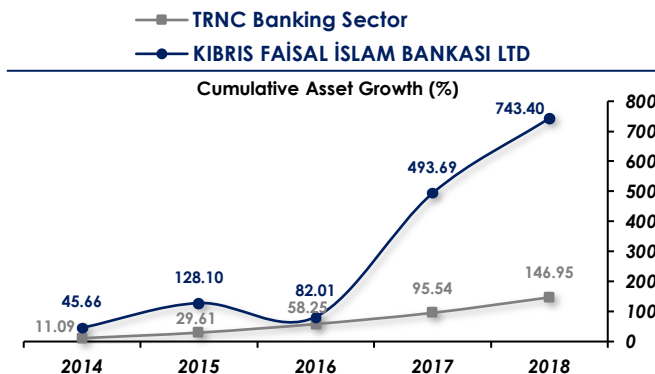
## 6. Financial Foundation

### a) Financial Indicators & Performance i. Indices relating to size

The Bank displayed above sector average assets growths over the review period, except 2016. Faisal Islam Bank's total assets increased by 42.06% to TRY 298.95mn as of FYE2018 (FYE2017: TRY 210.44mn). The increases in the items of 'domestic banks' and 'foreign banks' were the main factors of the stated asset growth. In the liabilities side, mainly the deposits, in particular the deposits of commercial institutions, was the source of asset growth. While the deposits increased by 45.01%, the loans increased by 21% as of FYE2018.

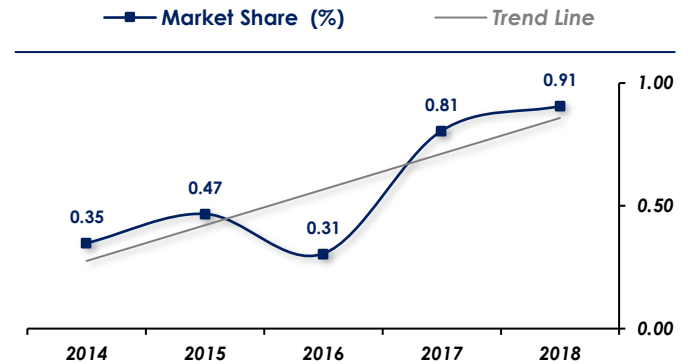


The Bank's above sector average four-year annual assets growths over the last five years, except 2016, resulted in a remarkably above sector average growth performance in cumulative terms with a figure of 743.4% as of FYE2018, approximately five-fold of the sector figure.



The Bank's market share regarding asset size in the TRNC Banking Sector exhibited an increasing trend over the review period and improved from 0.81% to 0.91% as of FYE2018.

According to 2018 year-end results, Faisal Islam Bank recorded the third highest percentage assets growth in the sector, but maintained its ranking of 19<sup>th</sup> regarding market share in terms of asset size amongst the 21 banks in TRNC banking sector due to TRY 88.51mn asset growth that ranks 17<sup>th</sup> place in nominal value. Having a comparatively low but improving market share is perceived as quite acceptable within the considerations of relatively small scale, recently completed reorganization processes and cautious management approach.

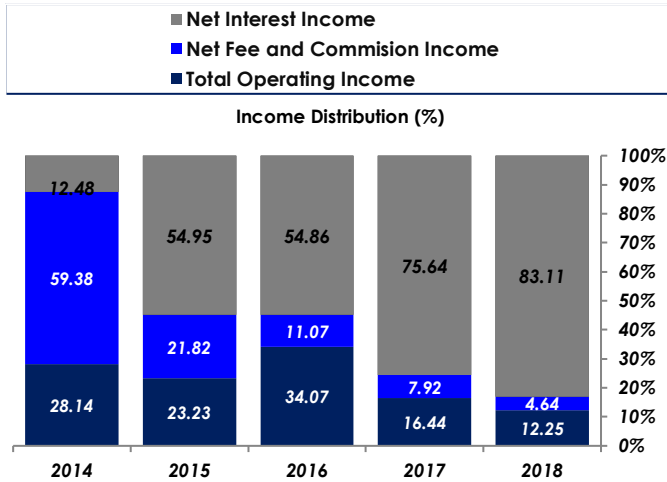


On the other hand, the Bank realized a remarkable deposit decrease in the current year and completed the 1H2019 with an asset size of TRY 182.6mn, corresponding to a 38.93% decrease compared to 2018 year-end asset size of TRY 298.95mn. Moreover, the Faisal Islam Bank projected a 2019 year-end asset size of TRY 230mn, corresponding to a YoY contraction of 23.06%, indicating a probable downward pressure on its market share regarding asset size in the upcoming period.

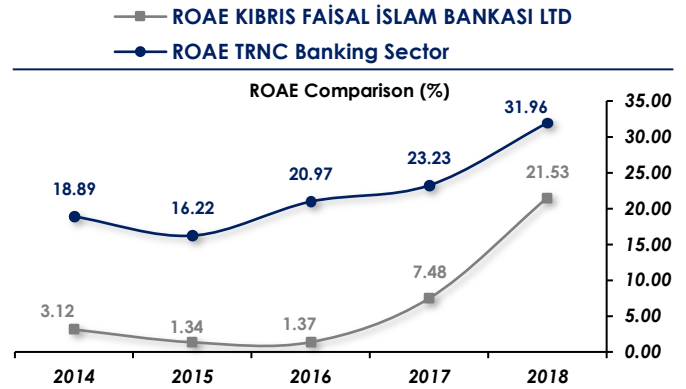
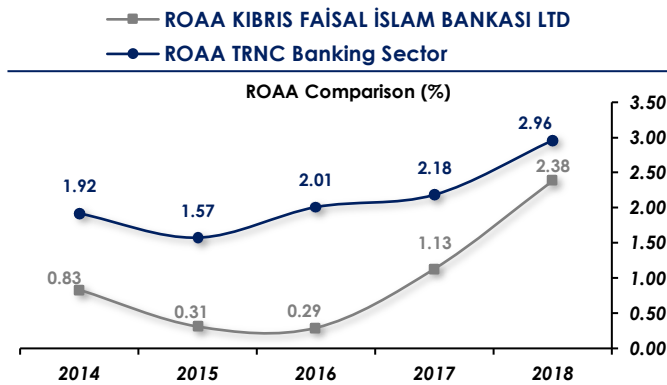
### ii. Indices relating to profitability

Faisal Islam Bank recorded a remarkable increase of 312.41% from TRY 1.1mn to TRY 4.53mn in its annual net profit figure as of FY2018. The Bank began to generate positive year-end net profit figures since 2014 mainly through the remarkable increases in net interest income. Accordingly, the share of net interest income in total income increased from 75.64% to 83.11% by the end of 2018.

In line with the Banking Sector as a general, the net interest income became the Bank's primary income generating source particularly in the last two years thanks to progress in NIM and decrease in interest expenses in the last year. Moreover, the share of operating income, mostly composed of FX gains and income from other operations, decreased to 12.25% and continued to contribute positively to the volatility potential of future total income figures.



The Bank recorded positive profitability indicators over the review period and achieved remarkable improvements in the last two years. On the other hand, they stayed below the sector averages with diminishing spread over the review period. Although the operating expenses and provisions increased by 12.12% and 117.8%, respectively, a 81% increase in interest income from TRY 5.9mn to TRY 10.7mn together with a 5.11% decrease in interest expenses resulted in a 114.2% increase in net interest income and an improvement in the profitability indicators of ROAA and ROAE in the last year.

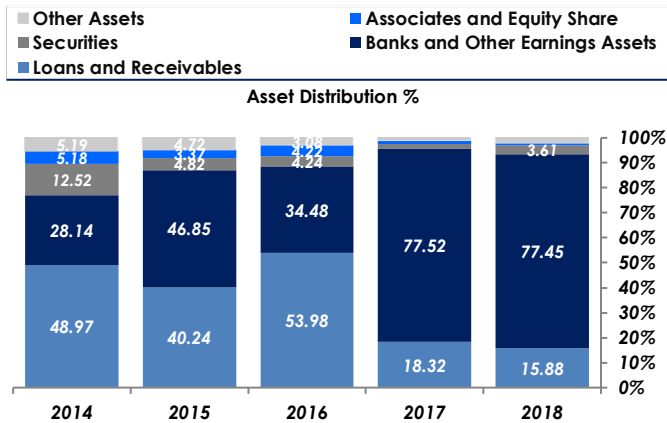


The Bank's net profit margin continued to increase and realized a remarkable improvement from 19.47% to 41.19% in 2018 mainly due to increased net interest income, leading to a remarkable growth in the Bank's 2018 year-end profit figure.

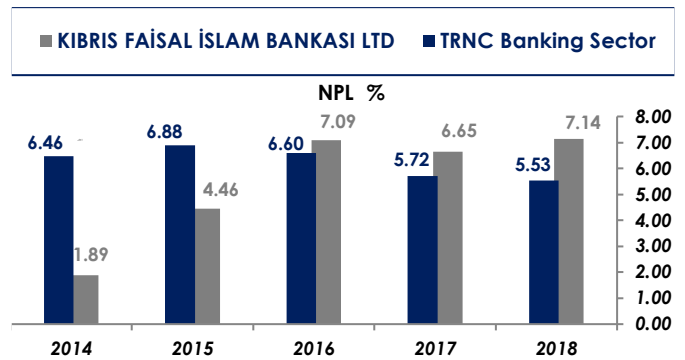
#### b) Asset quality

The assets dispersion of the Bank is shown in the graph below. The share of loans decreased from 18.32% to 15.88% in the last year despite a 23.16% annual increase in loans from TRY 38.5mn to TRY 47.5mn. On the other hand, A higher increase of 41.94% in 'banks and other earning assets' from TRY 163mn to TRY 232mn, which was derived mainly from the increase in the balance of deposits in domestic and overseas banks, was the main factor of the diminished share of loans.

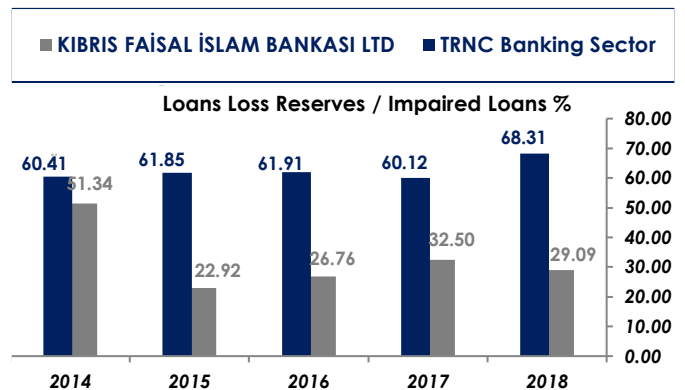
The Bank's ratio of 'loans to asset' displayed a remarkably below TRNC banking sector average trend over the review period and stood at 15.88% with a sector average figure of 55.16% as of FYE2018. As of FYE2018, all the Bank loans were private sector based as in the previous two years, and 99.6% of it were domestic. Cash loans constituted 99.22% of total, and lending to affiliate held a 3.11% share in total. The bank loans were composed of consumer loans with a 77.23% share and followed by commercial loans with 9.4% and other loans with 12.44% shares.



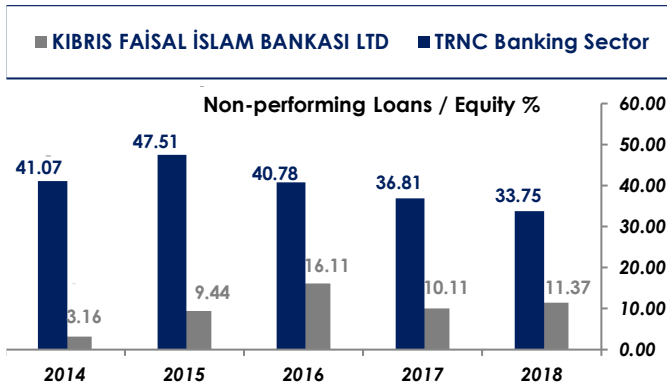
The non-performing loans of the Bank exercised an above sector average (19.41%) increase of 32.07% and amounted to TRY 3.46mn as of FYE2018 (FYE2017: 4.06% and TRY 2.62mn). On the other hand, while the average NPL ratio of the sector improved, the Bank figure deteriorated in the last year due to higher increase of 23.52% in sector's gross loans and lower increase of 23.06% in the Bank's gross loans. Accordingly, the Bank's NPL ratio of 7.14% maintained its above sector average (5.53%) standing, generating a higher suppression on the asset quality than that of the sector average. Moreover, the gross non-performing loans amount of TRY 2.46mn had a dispersion of 31.39% in limited collectability (3<sup>rd</sup> group) (FYE2017: 12.26%), 11.64% in doubtful collectability (4<sup>th</sup> group) (FYE2017: 5.47%) and 56.97% in loss nature (5<sup>th</sup> group) (FYE2017: 82.26%). The decrease in the ratio of 5<sup>th</sup> group mainly derived from the addition of TRY 1.47mn to 3<sup>rd</sup> group and the collection of TRY 344k from 5<sup>th</sup> group. The Bank realized TRY 625k collection, TRY 343.8k of which from 5<sup>th</sup> group, from 2017 year-end non-performing loans of TRY 2.62mn, corresponding to 23.86% collection performance from non-performing loans. On the other hand, within the consideration of 37.09% provisioning level of non-performing loans in loss nature, the probable future provisions regarding to this segment, which will be allocated depending on the collection performance, have potential to exert pressure on profit figures in the upcoming periods.



The ratio of 'loans loss reserves to non-performing loans' decreased between 2013 and 2015 due to increased lending activities and NPL, displayed an improvement trend between 2015 and 2017 through non-performing loans provisioned following the clarification that they have limited collectability, and decrease in the last year due to higher increases of 23.16% and 32.07% in loans and overdue loans, respectively, than that of the 18.20% increase provisioned overdue loans. While the sector's ratio increased, the Bank figure decreased in the last year, suppressing the asset quality and generating suppression potential on future profitability indicators as stated above.



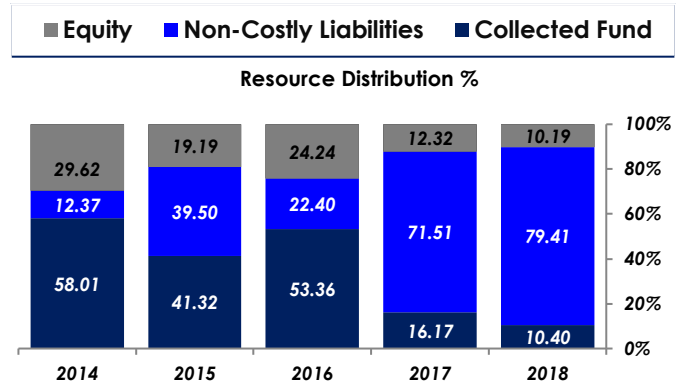
As the gross non-performing loans increased by 32.07% against the 17.48% increase in equity, the ratio of 'non-performing loans to equity' increased to 11.37% but maintained its remarkably below sector average standing, corresponding approx. 1/3 of the sector figure, and contributed positively to asset quality and risk level.



### c) Funding & Adequacy of Capital

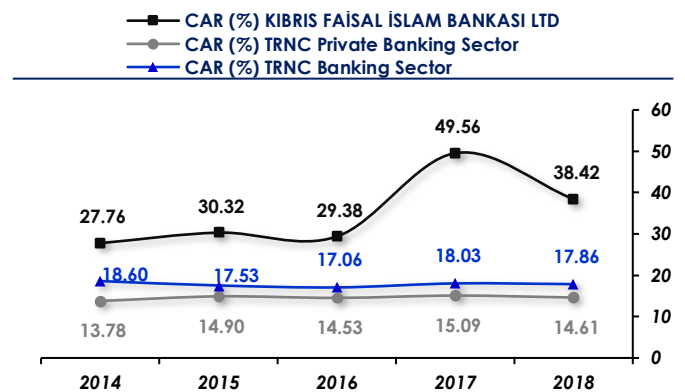
Deposits, conventional external funding source of banking sector, held the largest share (88.88%) of the Bank's funding base (FYE2017: 87.07%). The stated growth in the share of deposits derived from the total deposits (including bank's) that have been increased to TRY 265.7mn from TRY 183.2mn in the last year. The demand deposits, corresponding to approximately 88% (FYE2017: 81%) of total deposits, was included in non-costly liabilities in the graph below. Accordingly, the increasing share of demand deposits from 28% in 2016 to 81% in 2017 and to 88% in 2018 resulted in a remarkable increase in of non-costly liabilities' share in resource distribution, contributing positively to profit generation capacity of the Bank through decreased level of costly funds. Like the previous year, as the deposits exercised a higher increase than the equity, the share of equity in resource distribution decreased to 10.19% as of FYE2018 despite a 17.48% increase in equity supported through TRY 4.5mn year-end net profit.

The share of deposits covered by the Savings Deposits Insurance Fund decreased steadily from 74.86% in 2016 to 24.90% in 2017 and 18.13% in 2018, indicating a deterioration in granularity of deposit base and generating a high volatility potential on it. According to the contractual maturities of total deposits, 97.62% of deposits fell into one-month maturity brackets including demand accounts, indicating a short maturity profile of funding mix with its adverse effects on risk level and liquidity management. The stated ratio was 65.96% for the TRNC Banking Sector as of FYE2018 (FYE2017: 66.01%); indicating short maturity funding structure prevalent in the sector.



It should be noticed that the Bank had no borrowings from international markets through securitization, syndication loans nor direct loans due to the isolated economic and political structure of the TRNC.

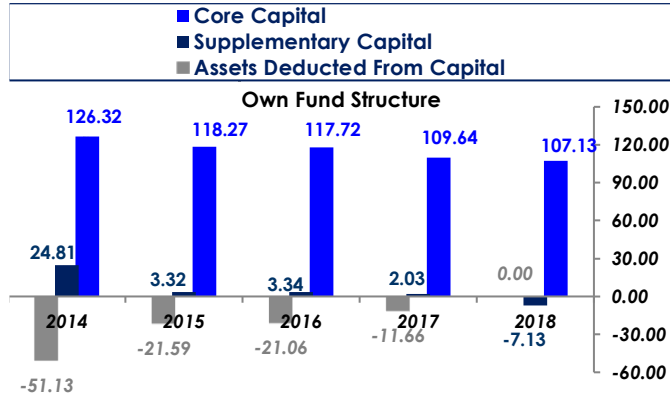
By the end of FY2018, the Capital Adequacy Ratio (CAR) of the Bank decreased to 38.42% from the FYE2017 figure of 49.56%. The CAR ratio remained remarkably above the minimum CAR requirements set by the Basel Accord (8%) and legal requirement of 10%, as well as the TRNC Banking's recommended level (12%). Moreover, throughout the reviewed period, the Bank's CAR ratios stayed above the averages of the TRNC Banking and the Private Banking Sectors. We, as JCR Eurasia Rating, assume that the current CAR ratio provides a highly acceptable shield against potential incidental losses given that the minimum equity requirement of the Banking Law is fulfilled.



Own fund structure of the Bank exhibited a composition consisting above 100% core capital, principally including paid-in capital, reserves, profit/loss for the period and previous years retained earnings, over the review period. Paid-in capital and profit, which are the most important items of the Bank's core capital, constitute 83.42% and 14.88% of the total shareholders' equity, respectively, indicating that the Bank operates with high quality capital.



Supplementary capital recorded a TRY 2mn negative contribution to the Bank's own fund structure for the first time in review period due to the TRY 2.7mn supplementary capital discount item, corresponding to the 26.91% of the equity of unconsolidated affiliate, Faisal İslâm Yatırım Şirketi Ltd..



## 7. Risk Profile and Management

### a) Risk Management Organization & its Function – General Information

The TRNC Central Bank revised and put into practice the Internal Audit, Risk Management, Internal Control and Management Systems Communique on December 18, 2014. Accordingly, the Bank established Internal Systems Department and Internal systems regulation started to be implemented in 2014 both to comply with the communique and to enhance the reliability and effectiveness of the Bank's internal control system and risk management processes. In September 2015, an Internal Audit unit manager was appointed. Accordingly, the risk management, audit and compliance activities were separated, become independent from an organizational standpoint and performed by the units of Risk Management, Compliance, and Inspection with subunit of Internal Control, which were all structured under the Internal Audit Presidency on the responsibility of a certain board member and reporting directly to the Board of Directors. The regulations regarding the above stated units have been prepared and unit supervisors have been appointed. There has been no change in the risk management processes and organization of the Bank since the previous report date. The stated units continued their activities under the supervision of Board Member responsible for internal systems in 2018 and regularly reported to the Board of Directors. On the other hand, it is stated in the audit report that the banking system used by

the Bank needs efficiency increasing and improvement studies on this direction continues.

Kıbrıs Faisal İslam Bankası is mainly exposed to credit, liquidity, operational and market risks. The identification, assessment, monitoring and reporting of these risks are carried out by the Risk Management Unit. The Risk Management Unit continues its activities with one manager. The senior management of the bank does not regard the risk management system as a legal reporting requirement and regards this system as one of the indispensable elements of corporate governance. The Risk Management Department reports the results of risk measurement and monitoring processes to the Board of Directors on a regular and timely basis over board member responsible for internal systems. It has undertaken the mission of increasing the risk culture in the organization and adoption of a risk-oriented management approach in decision-making processes. Within this context, internal risks of the Bank were defined under the 7 main topics of credit, market, interest rate, foreign exchange rate, liquidity, operational and legislation, and limits, which will activate the early warning systems, were determined.

### b) Credit Risk

The Bank tries to manage and reduce its credit risk by limiting its lending activities with banks, institutions and individuals having high credibility and requests additional collateral where necessary. Increasing the number of credit customers and selection of credit customers with different fields of activity are the other methods used by the Bank to reduce credit risk exposure.

The Bank has followed and made the necessary evaluation regarding to its loans in a way that is appropriate with the matrix deemed by the communique, and reporting on loans was submitted to the Central Bank of the TRNC.

The Company's top 20 customers constituted 49.39% (FYE2017: 38.75%) and the top 100 80.32% (FYE2017: 77.71%) of the total cash loans as of FYE2018. Additionally, 50% of the total cash loans was composed of 22 credit customers (FYE2017: 29), all of which were deteriorated and still above the acceptable levels of national reference indices. Similarly, as in the previous year, the ratios for non-cash loans were also above the reference indices with 1 customer for 44.62% of total non-cash loans, indicating a comparatively high credit risk exposure. On the other side, taking into account the isolated economic and political structure of the TRNC together with the limitations of island economy, the above stated ratios may be perceived as reasonable. Additionally, relatively limited

number of customers both in cash and non-cash loans of 735 and 56, respectively, and 52.03% and 55.38% concentrations in 1-250k cash loan bracket and 1-100k non-cash loan bracket, respectively, reduces the adverse effect of above stated comparatively high credit risk exposure.

Moreover, as the Bank's loans volume increased by 45.91% over the last three years, the overdue loans increased by 136.28% in the same period, resulting in a below sector average NPL ratio of 4.46% in 2015 to above sector average NPL of 7.14% in 2018, indicating a continuing improvement need in credit risk management processes. On the other hand, it should also be noted that the 71.33% of TRY 3.46mn over-due loans were collateralized with mortgage and vehicle pledge and 31.1% of TRY 42.45mn with mortgage, diminishing the adverse effects of credit risk exposure.

### c) Liquidity Risk

The Bank's liquidity risk is managed by Risk Management Unit in line with risk management policies and risk appetite approved by the BoD in order to take appropriate and timely measures against possible liquidity shortages that may outcome from market conditions and balance sheet profile of the Bank. Within the scope of market risk management, the Risk Management Unit defines, measures, monitors and controls liquidity risk, monitors cash flows and liquid asset composition, performs scenario analysis and stress tests when necessary and controls compliance with limitations and limits imposed on liquidity risk.

The Bank had no borrowings and its main funding sources are deposits and its own funds. The Bank manages the liquidity risk by maintaining adequate level cash and cash equivalents. As of FYE2018, the Bank had TRY 217.92mn available liquid assets increased from 2017 year-end figure of TRY 149.97mn. The liquid assets were comprised of TRY 145.97mn in TRNC Central Bank accounts (FYE2017: 135.81mn), TRY 42.51mn in domestic banks (FYE2017: 3.59mn) and TRY 29.44mn in overseas banks (FYE2017: 10.57mn), all of which are increased and generated a comfortable liquidity management.

### d) Market Risk

The Bank's Risk Management Unit performs the following activities within the scope of market risk management; to monitor positions subject to market risk, to measure, monitor and control of the market risk using standard and/or risk exposure value methods, to evaluate the limits

for interest rate, exchange rate and share price risk within the framework of capital adequacy and profitability criteria, to define and measure the interest rate, foreign exchange rate and share price risks and to perform retrospective test, scenario analysis and stress tests regarding stated risks when necessary.

The Bank exposed to interest rate risk due to its interest sensitive assets and liabilities, particularly loan receivables and deposits, respectively. The Bank manages its interest risk exposure through matching efforts of interest rate sensitive assets and liabilities. The Bank is basically exposed to foreign currency fluctuations risk. As of FYE2017, the Bank's total foreign currency position to assets and equity ratios were 0.14% and 1.42% (FYE2016: 0.03% and 0.29%), respectively, and materialized noteworthy decrease over the last four years from 2014 year-end figures of 13.08% and 44.16%, respectively, contributing positively to risk level.

### e) Operational, Legal Regulatory & Other Risks

The Bank's Risk Management Unit performs the following activities within the scope of operational risk management; evaluating the suitability of operational risk limits, establishment of the database for the loss caused by operational risk incidents, monitoring and controlling the security and risk level of the Bank's transaction processes in cooperation with the Internal Audit Unit, to make suggestions to minimize the risks that may arise from human resources and technology, controlling the policy suitability of the actions taken by the Executive Board and the Bank's Executive Management on operational risk.

The Bank attaches importance to standardizing operations and business, segregating duties, applying pre-determined limits of transactions, monitoring transactions, training employees, improving technological infrastructure & network security and compliance with regulatory and other legal requirements in order to diminish operational risk and its potential adverse effects. Internal audit & internal control and risk management departments assist the BoD in the determination, evaluation and measurement of operational risks and along with implementation of policies for avoiding and mitigating risks. In addition, the Compliance Unit constantly monitors the legal legislation and examines the money movements within the framework of the legal legislation.

## 8. Budget

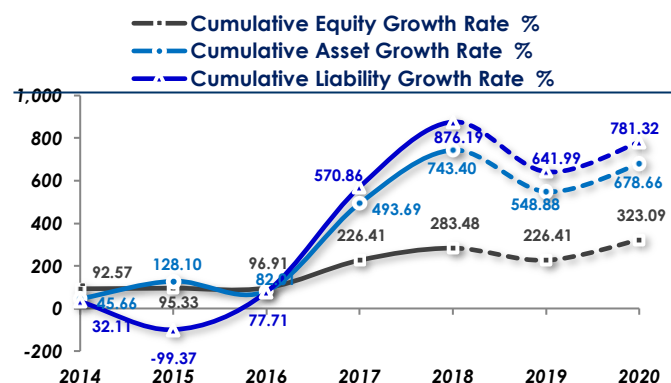
The 2019 and 2020 year-end projections submitted by the Bank regarding its basic financial indicators are as follows:

Basic Balance Sheet Figures TRY (000)

	Budgeted 2018	Actual 2018	Realization %	Budgeted 2019	Budgeted 2020
Total Assets	230,000	298,948	129.98	230,000	276,000
Loans	45,000	42,454	94.34	55,087	66,104
Deposits/Participate Accounts	200,000	265,702	132.85	153,865	161,559
Equity	25,921	25,921	100.00	25,921	33,599
Paid Capital	25,406	25,406	100.00	25,406	25,406
Net Profit	2,800	4,532	161.86	7,678	9,213
Annual Asset Growth %	9.30	42.06		-23.06	20.00
Equity/Total Asset %	11.27	8.67		11.27	12.17

The Bank realized a remarkable deposit decrease in the current year and completed the 1H2019 with an asset size of TRY 182.6mn, corresponding to a 38.93% decrease compared to 2018 year-end asset size of TRY 298.95mn. Accordingly, Faisal Islam Bank projected a YoY contraction of 23.06% and a semiannual growth of 25.97% in its assets size as of FYE2019. Moreover, the Bank projected 4.43% and 69.42% growths in its equity and net profit, respectively, as of FYE2019. Within the consideration of the previous year's high realization ratios, the projections are perceived as quite achievable. On the other hand, 2019 semi-annual net profit figure of TRY 2.74mn, corresponding to 60.5% and 35.71% of the last year figure and 2019 year-end projection, respectively, indicates that the Bank will probably complete the current year with a profit figure above last year but may have difficulties in realization of 2019 year-end projection.

Integrating the above stated projection with the last four years' growth series resulted in cumulative assets, equity and liability growth rates of 678.66%, 323.09% and 781.32% compared to FYE2014 as of FYE2020.



KIBRIS FAİSAL İSLAM BANKASI LTD	FYE	FYE	FYE	FYE	FYE	FYE	FYE	FYE	As % of	As % of	As % of	FYE	FYE	FYE
BALANCE SHEET - ASSET	2018	2018	2018	2017	2017	2016	2016	2015	2018	2017	2016	2018	2017	2016
(000)	USD	TRY	TRY	TRY	TRY	TRY	TRY	TRY	Assets	Assets	Assets	Growth	Growth	Growth
	(Converted)	(Original)	(Average)	(Original)	(Average)	(Original)	(Average)	(Original)	(Original)	(Original)	(Original)	Rate %	Rate %	Rate %
<b>A- TOTAL EARNING ASSETS ( I+II+III )</b>	<b>55,085.08</b>	<b>289,797.10</b>	<b>247,639.75</b>	<b>205,482.40</b>	<b>132,645.45</b>	<b>59,808.50</b>	<b>67,062.58</b>	<b>74,316.66</b>	<b>96.94</b>	<b>97.65</b>	<b>92.71</b>	<b>41.03</b>	<b>243.57</b>	<b>-19.52</b>
<b>I- LOANS AND LEASING RECEIVABLES (net)</b>	<b>9,023.52</b>	<b>47,471.86</b>	<b>43,007.63</b>	<b>38,543.39</b>	<b>36,685.59</b>	<b>34,827.79</b>	<b>33,681.73</b>	<b>32,535.67</b>	<b>15.88</b>	<b>18.32</b>	<b>53.98</b>	<b>23.16</b>	<b>10.67</b>	<b>7.04</b>
a) Short Term Loans	1,708.75	8,989.54	9,279.99	9,570.45	10,014.96	10,459.46	11,129.37	11,799.27	3.01	4.55	16.21	-6.07	-8.50	-11.35
b) Lease Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
c) Medium & Long Term Loans	6,361.04	33,464.77	29,490.06	25,515.35	23,341.35	21,167.36	19,836.22	18,505.08	11.19	12.12	32.81	31.16	20.54	14.39
d) Over Due Loans	657.95	3,461.42	3,041.14	2,620.87	2,569.74	2,518.62	1,991.78	1,464.94	1.16	1.25	3.90	32.07	4.06	71.93
e) Others	487.18	2,563.02	2,125.79	1,688.55	1,522.40	1,356.24	1,229.20	1,102.16	0.86	0.80	2.10	51.79	24.50	23.05
f) Receivable from Customer due to Brokerage Activities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
g) Allowance for Loan and Receivables Losses (-)	-191.39	-1,006.89	-929.35	-851.82	-762.86	-673.90	-504.84	-335.77	-0.34	-0.40	-1.04	18.20	26.40	100.70
<b>II- OTHER EARNING ASSETS</b>	<b>44,012.69</b>	<b>231,546.36</b>	<b>197,337.25</b>	<b>163,128.14</b>	<b>92,686.24</b>	<b>22,244.34</b>	<b>30,063.14</b>	<b>37,881.95</b>	<b>77.45</b>	<b>77.52</b>	<b>34.48</b>	<b>41.94</b>	<b>633.35</b>	<b>-41.28</b>
a) Balance With Banks -Time Deposits	13,676.55	71,950.98	43,053.80	14,156.62	12,951.58	11,746.55	8,978.56	6,210.58	24.07	6.73	18.21	408.25	20.52	89.14
b) Money Market Placements	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
c) Reserve Deposits at CB (*)	3,581.20	18,840.32	16,589.14	14,337.96	9,018.31	3,698.65	4,610.58	5,522.50	6.30	6.81	5.73	31.40	287.65	-33.03
d) Balance With CB- Demand Deposits	26,754.94	140,755.07	137,694.31	134,633.56	70,716.35	6,799.15	16,474.01	26,148.86	47.08	63.98	10.54	4.55	1,880.15	-74.00
<b>III- SECURITIES AT FAIR VALUE THROUGH P/L</b>	<b>2,048.87</b>	<b>10,778.88</b>	<b>7,294.87</b>	<b>3,810.87</b>	<b>3,273.62</b>	<b>2,736.37</b>	<b>3,317.70</b>	<b>3,899.04</b>	<b>3.61</b>	<b>1.81</b>	<b>4.24</b>	<b>182.85</b>	<b>39.27</b>	<b>-29.82</b>
a) Treasury Bills and Government Bonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
b) Other Investment	2,048.87	10,778.88	7,294.87	3,810.87	3,273.62	2,736.37	3,317.70	3,899.04	3.61	1.81	4.24	182.85	39.27	-29.82
c) Repurchase Agreement	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
<b>B- INVESTMENTS IN ASSOCIATES (NET) + EQUITY SHARE</b>	<b>517.22</b>	<b>2,721.06</b>	<b>2,721.06</b>	<b>2,721.06</b>	<b>2,721.06</b>	<b>2,721.06</b>	<b>2,721.06</b>	<b>2,721.06</b>	<b>0.91</b>	<b>1.29</b>	<b>4.22</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
a) Investments in Associates (Net)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
b) Equity Share	517.22	2,721.06	2,721.06	2,721.06	2,721.06	2,721.06	2,721.06	2,721.06	0.91	1.29	4.22	0.00	0.00	0.00
<b>C- NON-EARNING ASSETS</b>	<b>1,222.16</b>	<b>6,429.64</b>	<b>4,332.05</b>	<b>2,234.47</b>	<b>2,109.81</b>	<b>1,985.16</b>	<b>2,899.93</b>	<b>3,814.70</b>	<b>2.15</b>	<b>1.06</b>	<b>3.08</b>	<b>187.75</b>	<b>12.56</b>	<b>-47.96</b>
a) Cash and Cash Equivalents	991.94	5,218.52	3,197.61	1,176.70	935.64	694.58	921.10	1,147.63	1.75	0.56	1.08	343.49	69.41	-39.48
b) Balance With Banks - Current Accounts	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
c) Financial Assets at Fair Value through P/L	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
d) Accrued Interest from Loans and Lease	70.45	370.61	290.84	211.08	162.27	113.46	631.16	1,148.87	0.12	0.10	0.18	75.58	86.04	-90.12
e) Other	159.77	840.51	843.60	846.69	1,011.91	1,177.12	1,347.66	1,518.21	0.28	0.40	1.82	-0.73	-28.07	-22.47
- Intangible Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
- Property and Equipment	94.00	494.53	572.41	650.29	720.80	791.30	893.19	995.07	0.17	0.31	1.23	-23.95	-17.82	-20.48
- Deferred Tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
- Other	65.76	345.98	271.19	196.41	291.11	385.81	454.48	523.14	0.12	0.09	0.60	76.15	-49.09	-26.25
<b>TOTAL ASSETS</b>	<b>56,824.46</b>	<b>298,947.79</b>	<b>254,692.86</b>	<b>210,437.93</b>	<b>137,476.32</b>	<b>64,514.71</b>	<b>72,683.56</b>	<b>80,852.42</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>42.06</b>	<b>226.19</b>	<b>-20.21</b>



KIBRIS FAİSAL İSLAM BANKASI LTD	FYE	FYE	FYE	FYE	FYE	FYE	FYE	FYE	As % of	As % of	As % of	FYE	FYE	FYE
BALANCE SHEET LIABILITIES & SHAREHOLDERS' EQUITY (000)	2018	2018	2018	2017	2017	2016	2016	2015	2018	2017	2016	2018	2017	2016
	USD	TRY	TRY	TRY	TRY	TRY	TRY	TRY	Assets	Assets	Assets	Growth	Growth	Growth
	(Converted)	(Original)	(Average)	(Original)	(Average)	(Original)	(Average)	(Original)	(Original)	(Original)	(Original)	Rate %	Rate %	Rate %
<b>A- COST BEARING RESOURCES ( I+II )</b>	<b>5,912.36</b>	<b>31,104.35</b>	<b>32,564.50</b>	<b>34,024.66</b>	<b>34,225.83</b>	<b>34,427.01</b>	<b>33,915.70</b>	<b>33,404.39</b>	<b>10.40</b>	<b>16.17</b>	<b>53.36</b>	<b>-8.58</b>	<b>-1.17</b>	<b>3.06</b>
<b>I- DEPOSIT</b>	<b>5,912.36</b>	<b>31,104.35</b>	<b>32,564.50</b>	<b>34,024.66</b>	<b>34,225.83</b>	<b>34,427.01</b>	<b>33,915.70</b>	<b>33,404.39</b>	<b>10.40</b>	<b>16.17</b>	<b>53.36</b>	<b>-8.58</b>	<b>-1.17</b>	<b>3.06</b>
a) TL Deposit	1,163.08	6,118.86	8,695.55	11,272.23	11,194.71	11,117.20	11,080.10	11,043.01	2.05	5.36	17.23	-45.72	1.39	0.67
b) FC Deposit	4,749.28	24,985.49	23,868.95	22,752.42	23,031.12	23,309.81	22,835.60	22,361.38	8.36	10.81	36.13	9.81	-2.39	4.24
c) FC & LC Banks Deposits	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
<b>II- BORROWING FUNDING LOANS &amp; OTHER</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
a) Borrowing From Domestic Market	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
b) Borrowing From Overseas Markets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
c) Borrowing from Interbank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
d) Securities Sold Under Repurchase Agreements	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
e) Subordinated Loans & Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	n.a	n.a	n.a	n.a	n.a	n.a
<b>B- NON-COST BEARING RESOURCES</b>	<b>45,123.42</b>	<b>237,389.78</b>	<b>193,940.83</b>	<b>150,491.87</b>	<b>82,470.98</b>	<b>14,450.09</b>	<b>23,193.25</b>	<b>31,936.41</b>	<b>79.41</b>	<b>71.51</b>	<b>22.40</b>	<b>57.74</b>	<b>941.46</b>	<b>-54.75</b>
a) Provisions	360.64	1,897.32	1,256.66	616.00	500.21	384.42	379.90	375.38	0.63	0.29	0.60	208.01	60.24	2.41
b) Current & Deferred Tax Liabilities (including demand deposits)	44,632.56	234,807.45	192,060.21	149,312.97	81,493.56	13,674.14	21,803.19	29,932.24	78.54	70.95	21.20	57.26	991.94	-54.32
c) Trading Liabilities (Derivatives)	41.74	219.61	190.29	160.98	143.88	126.79	98.27	69.74	0.07	0.08	0.20	36.42	26.96	81.80
d) Other Liabilities	88.46	465.40	433.66	401.92	333.33	264.74	911.89	1,559.04	0.16	0.19	0.41	15.79	51.82	-83.02
<b>C- TOTAL LIABILITIES</b>	<b>51,035.78</b>	<b>268,494.13</b>	<b>226,505.33</b>	<b>184,516.53</b>	<b>116,696.81</b>	<b>48,877.09</b>	<b>57,108.95</b>	<b>65,340.80</b>	<b>89.81</b>	<b>87.68</b>	<b>75.76</b>	<b>45.51</b>	<b>277.51</b>	<b>-25.20</b>
<b>D- MINORITY INTEREST</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>	<b>n.a</b>
<b>E- EQUITY</b>	<b>5,788.68</b>	<b>30,453.67</b>	<b>28,187.53</b>	<b>25,921.40</b>	<b>20,779.51</b>	<b>15,637.62</b>	<b>15,574.62</b>	<b>15,511.62</b>	<b>10.19</b>	<b>12.32</b>	<b>24.24</b>	<b>17.48</b>	<b>65.76</b>	<b>0.81</b>
a) Prior Year's Equity	4,927.18	25,921.40	20,779.51	15,637.62	15,574.62	15,511.62	15,402.00	15,292.38	8.67	7.43	24.04	65.76	0.81	1.43
b) Equity (Added From Internall & External Resources At This Year)	0.00	0.00	4,592.40	9,184.80	4,592.40	-0.00	23.27	46.55	n.a	4.36	-0.00	-100.00	n.a	-100.00
c) Profit & Loss	861.50	4,532.27	2,815.63	1,098.98	612.49	126.00	149.35	172.69	1.52	0.52	0.20	312.41	772.18	-27.03
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>56,824.46</b>	<b>298,947.79</b>	<b>254,692.86</b>	<b>210,437.93</b>	<b>137,476.32</b>	<b>64,514.71</b>	<b>72,683.56</b>	<b>80,852.42</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>42.06</b>	<b>226.19</b>	<b>-20.21</b>
<b>USD 1 = TRY</b>		<b>5.2609</b>		<b>3.7719</b>		<b>3.5318</b>		<b>2.9076</b>						

**KIBRIS FAİSAL İSLAM BANKASI LTD**  
**INCOME STATEMENT**  
**(000) TRY**

	2018	2017	2016
<b>Net Interest Income</b>	<b>9,146</b>	<b>4,269</b>	<b>3,043</b>
a) Interest Income	10,709	5,916	4,918
b) Interest Expense	1,563	1,647	1,875
<b>Net Fee and Commission Income</b>	<b>510</b>	<b>447</b>	<b>614</b>
a) Fee and Commission Income	618	538	672
b) Fee and Commission Expense	108	91	58
<b>Total Operating Income</b>	<b>1,349</b>	<b>928</b>	<b>1,890</b>
Net trading income (+/-)	0	0	0
Foreign Exchange Gain or Loss (net) (+/-)	399	213	42
Gross Profit from Retail Business	0	0	0
Premium income from insurance business	0	0	0
Income on Sale of Equity Participations and Consolidated Affiliates	0	0	0
Gains from Investment Securities (Net)	0	0	0
Other Operating Income	950	715	1,848
Taxes other than Income	0	0	0
Dividend	0	0	0
<b>Provisions</b>	<b>721</b>	<b>331</b>	<b>488</b>
Provision for Impairment of Loan and Trade Receivables	274	229	392
Other Provision	447	102	96
<b>Total Operating Expense</b>	<b>4,214</b>	<b>3,758</b>	<b>4,847</b>
Salaries and Employee Benefits	2,841	2,495	2,573
Depreciation and Amortization	216	248	249
Other Expenses	1,157	1,015	2,025
<b>Profit from Operating Activities before Income Tax</b>	<b>6,070</b>	<b>1,554</b>	<b>213</b>
Income Tax – Current	30	111	18
Income Tax – Deferred	1,508	345	69
<b>Net Profit for the Period</b>	<b>4,532</b>	<b>1,099</b>	<b>126</b>
<b>Total Income</b>	<b>11,004.38</b>	<b>5,643.60</b>	<b>5,547.78</b>
<b>Total Expense</b>	<b>4,213.95</b>	<b>3,758.43</b>	<b>4,846.60</b>
<b>Provision</b>	<b>720.61</b>	<b>330.86</b>	<b>488.45</b>
<b>Pre-tax Profit</b>	<b>6,069.83</b>	<b>1,554.31</b>	<b>212.74</b>

## KIBRIS FAİSAL İSLAM BANKASI LTD

### FINANCIAL RATIOS %

**2018    2017    2016**

#### **I. PROFITABILITY & PERFORMANCE**

1. ROA - Pretax Profit / Total Assets (avg.)	2.38	1.13	0.29
2. ROE - Pretax Profit / Equity (avg.)	21.53	7.48	1.37
3. Total Income / Equity (avg.)	39.04	27.16	35.62
4. Total income / Total Assets (avg.)	4.32	4.11	7.63
5. Provisions / Total Income	6.55	5.86	8.80
6. Total Expense / Total Liabilities (avg.)	1.86	3.22	8.49
7. Net Profit for the Period / Total Assets (avg.)	1.78	0.80	0.17
8. Total Income / Total Expenses	261.14	150.16	114.47
9. Non Cost Bearing Liabilities + Equity- Non Earning Assets / Total Assets	87.44	82.77	43.56
10. Non Cost Bearing Liabilities - Non Earning Assets / Total Assets	77.26	70.45	19.32
11. Total Operating Expenses / Total Income	38.29	66.60	87.36
12. Net Interest Margin	3.69	3.22	4.54
13. Operating ROAA (avg.)	3.00	2.33	2.87
14. Operating ROAE (avg.)	27.08	15.41	13.40
15. Interest Coverage – EBIT / Interest Expenses	488.34	194.36	111.35
16. Net Profit Margin	41.19	19.47	2.27
17. Gross Profit Margin	55.16	27.54	3.83
18. Market Share in TRNC Banking Sector	0.91	0.81	0.31
19. Market Share in Entire Banking System	0.91	0.81	0.31
20. Growth Rate	42.06	226.19	-20.21

#### **II. CAPITAL ADEQUACY (year end)**

1. Equity Generation / Prior Year's Equity	0.00	58.74	-0.00
2. Internal Equity Generation / Previous Year's Equity	17.48	7.03	0.81
3. Equity / Total Assets	10.19	12.32	24.24
4. Core Capital / Total Assets	10.09	12.18	23.74
5. Supplementary Capital / Total Assets	-0.67	0.23	0.67
6. Tier 1 / Risk Waighted Asset	59.20	75.40	45.79
7. Capital / Total Assets	9.42	12.52	24.83
8. Own Fund / Total Assets	9.42	11.11	20.16
9. Standard Capital Adequacy Ratio	38.42	49.56	29.38
10. Surplus Own Fund	79.18	83.86	72.77
11. Free Equity / Total Assets	9.11	10.72	18.79
12. Equity / Total Guarantees and Commitments + Equity	91.58	91.60	87.03


#### **III. LIQUIDITY (year end)**

1. Liquidity Management Success (On Demand)	91.79	98.19	84.07
2. Liquidity Management Success (Up to 1 Month)	100.00	100.00	100.00
3. Liquidity Management Success (1 to 3 Months)	92.37	97.65	98.41
4. Liquidity Management Success (3 to 6 Months )	99.55	99.92	99.90
5. Liquidity Management Success (6 to 12 Months)	99.29	99.34	98.48
6. Liquidity Management Success (Over 1 Year & Unallocated)	99.16	99.80	96.90

#### **IV. ASSET QUALITY**

1. Loan and Receivable's Loss Provisions / Total Loans and Receivables	2.08	2.16	1.90
2. Total Provisions / Profit Before Provision and Tax	10.61	17.55	69.66
3. Impaired Loans / Gross Loans	7.14	6.65	7.09
4. Impaired Loans / Equity	11.37	10.11	16.11
5. Loss Reserves for Loans / Impaired Loans	29.09	32.50	26.76
6. Total FX Position / Total Assets	0.14	0.03	0.34
7. Total FX Position / Equity	1.42	0.28	1.40
8. Assets / Total Guarantees and Commitments + Assets	99.07	98.88	96.51

### The Historical Development of the Company's Credit Rating Notes

		July 31, 2017		July 27, 2018		August 17, 2018		August 26, 2019	
		Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
 <b>International</b> <b>National</b>	Foreign Currency	BBB-	A-3	BBB-	A-3	BBB-	A-3	BBB-	A-3
	Local Currency	BBB-	A-3	BBB-	A-3	BBB-	A-3	BBB-	A-3
	Outlook	FC	Stable	Stable	Stable	Negative	Negative	Negative	Negative
		LC	Stable	Stable	Stable	Negative	Negative	Negative	Negative
	Local Rating	<b>BBB- (Trk)</b>	A-3 (Trk)	<b>BBB (Trk)</b>	A-3 (Trk)	<b>BBB (Trk)</b>	A-3 (Trk)	<b>BBB+ (Trk)</b>	A-2 (Trk)
Sponsor Support	Outlook	<b>Positive</b>	Stable	<b>Positive</b>	Stable	<b>Positive</b>	Stable	<b>Stable</b>	Stable
	Stand Alone	2	-	2	-	2	-	2	-
Sovereign*	Foreign Currency	BBB-	-	BBB-	-	BBB-	-	BBB-	-
	Local Currency	BBB-	-	BBB-	-	BBB-	-	BBB-	-
	Outlook	FC	Stable	Stable	-	Negative	-	Negative	-
		LC	Stable	Stable	-	Negative	-	Negative	-
		(*) : Affirmed by JCR on October 07, 2016		(*) : Affirmed by JCR on November 10, 2017		(*) : Assigned by JCR on August 14, 2018		(*) : Affirmed by JCR on November 27, 2018	