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A RESEARCH ON GENERAL PRESENTATION AND DISCLOSURE IN THE FINANCIAL STATEMENTS OF ISLAMIC FINANCIAL INSTITUTIONS: A COMPARATIVE STUDY BETWEEN IAS1 AND FAS1

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ABSTRACT

A RESEARCH ON GENERAL PRESENTATION AND DISCLOSURE IN THE FINANCIAL STATEMENTS OF ISLAMIC FINANCIAL INSTITUTIONS: A COMPARATIVE STUDY BETWEEN IAS1 AND FAS1

ZAKARIA ELEYAN

The Islamic banking sector has become a very important sector not only in Turkey but in the whole world. Islamic banking has also developed, as the Islamic societies in the past worked to develop the Islamic system without the need to pay interest on lending money, which made it a special system different from the traditional system. For example, Financial instruments such as checks and other services in previous Islamic civilizations. After that, Islamic banking began to appear in modern forms to become not a competitor to traditional banks, but to complement traditional banking and become suitable and appropriate for Islamic banks instead of those standards that are no longer appropriate with what Islamic banking constitutes a special case. Islamic banks in Turkey still at the meantime using the International standards instead of the Islamic standards, however, after 2020 the participation banks in Turkey will be given the choice to use Islamic standards, though, there is notable difference between both standards.

There are some standards for the Islamic institutions which were published by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).The thesis focuses on clarifying the differences between International Accounting Standards 1 and Financial Accounting Standards 1 in related to Al Baraka Bank in Bahrain and Al Baraka Turk Bank in Turkey, where the comparison with respect to, purposes and items of financial statements, accounting policies consisting of the basis of preparation, statement of complacence, foreign currencies, financial contracts, fair value, credit risk, liquidity risk, and zakat.

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First of all, the history of Islamic banking in Turkey will be presented, and then the regulations and financial reporting standards related to Islamic banking in Turkey and in the world will be explained. In the last part, for selected standards the presentation and disclosures of the banks according to IAS1 and FAS1 will be examined, the differences between them will be determined and recommendations will be made.

Keywords: AAOIFI, Participation Banks, Islamic Accounting, Islamic Banks, Accounting Practices

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ÖZ

İSLAMİ FİNANS KURULUŞLARININ FİNANSAL TABLOLARINDAKİ GENEL SUNUM VE AÇIKLAMALAR ÜZERİNE BİR ARAŞTIRMA: IAS1 VE FAS1 ARASINDA KARŞILAŞTIRMALI BİR ARAŞTIRMA

İslami bankacılık sektörü sadece Türkiye'de değil tüm dünyada çok önemli bir sektör haline geldi. Geçmişte İslam toplumları, faiz ödemeye gerek kalmadan İslami sistemi geliştirmeye çalıştılar, bu yüzden İslami bankacılık te gelişti, bu da İslami bankacılığı geleneksel sistemden farklı oalarak özel bir sistem haline getirmişti. Örneğin, önceki İslam medeniyetlerinde çek ve diğer hizmetler gibi finansal araçlar. Bundan sonra İslami bankacılık, geleneksel bankalara rakip değil, geleneksel bankacılığı tamamlamak ve İslami bankacılığın özel bir durum teşkil ettiği şeylere artık uygun olmayan standartlar yerine İslami bankalara uygun hale gelmek için modern biçimlerde ortaya çıkmaya başladı.Türkiye'deki İslami bankalar bu arada hala İslami standartlar yerine Uluslararası standartları kullanıyorlar, 2020'den sonra ise Türkiye'deki katılım bankalarına İslami standartları kullanma seçeneği sunulacaktır, ancak her iki standart arasında önemli bir fark var.

İslami Finansal Kurumlar Muhasebe ve Denetim Kurumu (AAOIFI) tarafından yayınlanan İslami kurumlar için bazı standartlar bulunmaktadır. Tez, Bahreyn'deki Al Baraka Banksı ve Türkiye'deki al Baraka Türk Banksı ile ilgili olarak Uluslararası Muhasebe Standartları 1 ile Finansal Muhasebe Standartları 1 arasındaki farklılıkların açıklığa kavuşturulmasına odaklanmaktadır. Mali tabloların amaçları, kalemleri, hazırlanma esasları, uygunluk beyanı, yabancı para birimleri, mali sözleşmeler, gerçeğe uygun değer, kredi riski, likidite riski ve zekattan oluşan muhasebe politikaları bakımından karşılaştırma yapıldığı durumlarda.

Öncelikle Türkiye'de İslami bankacılığın tarihçesi sunulacak, ardından Türkiye'de ve dünyada İslami bankacılıkla ilgili düzenlemeler ve finansal raporlama

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standartları anlatılacaktır. Son bölümde ise seçilen standartlar için bankaların UMS1 ve FAS1'e göre sunum ve açıklamaları incelenecek, aralarındaki farklar belirlenecek ve önerilerde bulunulacaktır.

Anahtar Kelimeler: AAOIFI, Katılım Bankaları, İslami Muhasebe, İslami Bankalar, Muhasebe Uygulamaları

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PREFACE

The aim of this research is to study the Islamic Accounting sector in Turkey, during the literature parts in the thesis, it’s been noticed that there many studies focused only on general concepts and did not enter into the core of the financial statements of the Islamic Banks and compared them with their counterparts, especially those lists of the Turkish participating Banks

However, first of all, this study has studied Islamic banking from a theoretical point of view and includes all the stages it has gone through, as well as introducing Islamic banking tools through which banks collect money instead of traditional methods after all, the thesis is conducting a comparison between the Islamic and International Standards that adopted by Islamic banks in Turkey and Bahrain, as Bahrain is the main player in the Islamic financial arena Internationally.

I would like to thank my advisor, Assoc.Prof.Dr**. Nergis Nalan Yakar**, for the help she provided during this journey, in addition, I would like to express my heartfelt gratitude to my mother and family for their unwavering support throughout my education.

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Zakaria Eleyan

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LIST OF ABBREVIATIONS

AOSSG **:** Asian-Oceanian Standard-Setters Group

MASB **:** The Malaysian Accounting Standards Board

IDB **:** The Islamic Development Bank

AAOIFI **:** Accounting and Auditing Organization for Islamic Financial Institutions

IIFM **:** International Islamic Financial Market

IIRA **:** The Islamic International Rating Agency

MENA **:** Middle East and North Africa

NCB **:** The National Commercial Bank

TKKB **:** Participation Banks Association of Turkey

IFIs **:** Islamic Financial Institutions

IASB **:** International Accounting Standards Board

IFSB **:** The Islamic Financial Services Board

LMC **:** The Liquidity Management Center

OIC **:** Organization of Islamic Countries

IILM **:** International Islamic Liquidity Management Corporation

ICAP **:** According to the Institute of Chartered Accountants of Pakistan

TAS **:** Turkish Accounting Standard

TFRSs **:** Turkish Financial Reporting Standards

PIEs **:** Public Interest Entities

PBAT **:** Participation Banks Association

KGK **:** Kamu Gözetimi, Muhasebe ve Denetim Standartları Kurumu

IFAC **:** International Federation of Accountants

BRSA **:** Banking Regulation and Supervision Agency

LMC **:** Liquidity Management Center

GCC **:** Gulf Cooperation Council

FFK **:** Faizsiz Finans Kuruluşları

TMS **:** Türkiye Muhasebe Standartları

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INTRODUCTION

Islamic banking has always been a subject of controversy in recent years, as it has grown significantly and remarkably in recent years, especially in Middle Eastern countries such as Bahrain, Turkey, Qatar, and other countries in the Middle East, which have become an essential part of the financial system in those countries and also in other countries not Islamic in general.

It is not fair to say that Islamic banking started recently, but it turns out that it has a long history dating back to 1400 years ago, where it was also dealt with in a very long time. In fact, there are many definitions of modern Islamic banking, but it can summarize most of the definitions, which are that Islamic banking depends on interest prevention, that is, there is no interest in Islamic banks, which is an essential thing in traditional banks, so this is what makes banking a special system that needs standards her own.

The current study explains Islamic banks in Turkey historically and studies the changes that occurred in the concept of Islamic banking during the past years, as many changes occurred during the past era concerning this. many Islamic banks were established from the eighties of the last century to the present day, where there are now 5 Islamic banks in Turkey. It is worth noting that the description of these banks so far is not Islamic, but they are called Participation Banks.

The rapid development of Islamic banking over the past few years has led to the emergence of many institutions interested in issuing special standards for these banks, including Accounting and Auditing Organization for Islamic Financial Institutions(AAOIFI), Islamic Financial Services Board (IFSB), Islamic International Rating Agency (IIRA), The General Council for Islamic Banks and Financial Institutions (CIBAFI), The International Islamic Liquidity Management Corporation (IILM), International Islamic Financial Market (IIFM) and Liquidity Management Center (LMC).

Islamic banks depend on the collection of funds on many methods, which is considered in contrast to conventional banks, as traditional banks rely mainly on

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loans or on depositing money, the money deposited by investors or customers. Islamic banking depends on the method of participation and speculation and the method of collecting money through Sukuk, leasing, and good loan. All of these contracts are called financial contracts and they are basic principles of Islamic banking.

In this study, consisting of four parts, the first chapter is divided into six-part, starting from the background of Islamic banking, a detailed history about Islamic banking since its first establishment either in Turkey and the world, moreover, the principles of this industry also has been mentioned whereas the Islamic sector is unique in terms of its used instrument and the prohibition of interest and other elements that are not allowed to be used by an Islamic bank.

In the second chapter, the financial reports and rules of Islamic banks and definitions of Islamic accounting were discussed, and also mentioned the institutions that have a direct relationship with Islamic banking internationally and in Turkey. It's also discussed the regulations and standards of financial reporting in Turkey and in the world. However, a debatable issue that could result from the differences between the AAOIFI and the international financial reporting standards has examined.

In the third chapter, it's mentioned in detail the international accounting standards and the accounting standards for Islamic banks, in any case, discussed the development of these standards and also a special part of the comparison between the first standard of international standards and the first standard of the standards for Islamic banks introduced, a comparison has been made between The two standards are according to the objectives and items of the financial statements. The comparison was also made according to the accounting policies and comparative information.

In the fourth chapter, the researcher made a comparison section between the two banks, Al Baraka Bank in Bahrain and Al Baraka Turk Bank, where they were compared according to the first criterion in terms of the objectives of the financial statements, the items of those statements for all the two banks, as well as comparing the accounting policies in terms of the level of commitment and terms of the basis of

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numbers and foreign currencies and financial contracts, fair value, credit risk, liquidity risk, and zakat.

CHAPTER ONE

OVERVIEW OF ISLAMIC BANKS

Islamic banks are defined and discussed from a historical perspective in this section of the research, starting from their creation to the present day. From its inception to the present day, the Turkish Islamic banking industry will also be covered in depth, however, the Islamic tools of fund also will be discussed during the chapter.

The aim of this study is to get know the Islamic banking function in Turkey and the world and compare the Islamic and conventional standards and analyze the results differences.

1.1 Background of Islamic Banking

The history of Islamic finance dates back to the beginnings of Islam 1,400 years ago. Outdated historical books of Islam's early years indicate that during the first century (600 AD) of Islam, Certain sorts of banking operations were comparable to current banking transactions. However, some of these writings indicated that Al-Zubair ibn Al-Awam, one of Islam's most prominent figures, received deposits as credit and reinvested the money (Alharbi, 2016:1).

Islamic communities were able to develop a financial system without charging interest in pooling capital for the purpose of fund development and consumer needs. The system was very effective during and for centuries in Islamic society. Indeed, staff from Islamic countries has used documents such as checks and services at their branch offices and agents in various regions similar to the western banking system throughout history. However, Islamic civilization's historical materials may be considered the background of the present Islamic Banking System (Taner, 2011:10).

Nevertheless, Islamic banking began to emerge in modern forms, particularly in the late 19th century. The emergence of Islamic banking and finance was due to several reasons vary from country to country, to name few, the appearance of oil in the Islamic Gulf countries in the 1970s was one of the significant causes, besides saving money for a pilgrimage to the holy places in Malaysia, generated a need for an interest-free system in the last decades, also rural landlords in Pakistan created an interest-free network to loan money to the farmers in need which generated the demand for creating an Islamic bank to serve them in that goal (Egresi and Belge, 2015: 5).

Islamic finance has emerged as one of the fastest growing components of the financial market over the last decade and has gained further momentum in the wake of the financial crisis. This has led investors to perceive Islamic finance as a safe haven during global economic downturns (Ozaltinkol, 2015).

Mit Ghamr bank founded in Egypt, in 1963, the first local bank with free-interest in Islamic society. Later, for political reasons, this bank merged with the government bank, a few years later in 1975, in Jeddah-Saudi Arabia, another Islamic Bank was set up, followed by the establishment of several Islamic banks worldwide arena, particularly in the Middle East (Alharbi, 2015:14).

The new concept of Islamic banking continued to expand on a theoretical level until 1975 when the Islamic Development Bank (IDB) was established to increase economic and social cooperation in its member states and enhance economic cooperation between them. However, several Islamic financial institutions all across the world, particularly in the Middle East area, were established since then. Interest-free banking has been an alternative to traditional banking in the financial world arena (Yazar, 2018:3).

1.2 The Concept of Islamic Banking

There is a multitude of definitions of Islamic banking in Islamic research; all of which can agree on some basic principles as follows:

1. Islamic banking is the institution which, as opposed to traditional banks, prohibits charging (RIBA) and calls for the sharing of profit and losses as a key

principle of Islamic law (Sharia). Islamic banks must also avoid over-risk transactions (e.g., risky investments or gambling) or transactions for goods and services prohibited by Islam (Egresi, & Belge, 2017:31).

2. An Islamic bank is an institution that acquires deposits from clients, creditors, companies, etc., and its activities in conjunction with any financial banking activity except those transactions which are based on the interest-loan system and which do not adhere to the Sharia principles (Baldwin, 1988:127).

3. According to the research carried out by Mohammad Bitar and others, It is a financial institution that offers Islamic banking services. that must follow certain principles (Bitar, Hassan, Pukthuanthong, and Walker, 2018:1005):

I. In all its transactions and activities, the Islamic Bank should be committed to the principles of Sharia law and the law behaving financially as an intermediary for both savers and investors.
II. Introduce a legal structure for its financial services based on the principles of Islamic law.
III. To strike a balance between social and economic benefits.

4. Islamic banks can be identified as a religious-based and social-related path, thus it's honestly service provider for all faiths and backgrounds. However, the Islamic banking system is not designed to rent money at a price known as the interest rate, but rather to rent a real asset including households, vehicles, and supplies (Rahman, 2010:211).

As concluded from the definitions that Islamic banking's desirable purpose is the provision of products and services in transactions based on Sharia law. Thus Islamic banking has shown advance and expansion since it is first established to meet the needs of companies and individuals and to the increasing demands on Islamic banking services.

1.3 The Principles of Islamic Banking

Islamic Banking's principle framework is not a new term, yet it goes back to Arabia's early days of Islam as it supervised the behavior and content of Islamic banking commercial transactions. However, the steps were taken by Islamic scholars in establishing basic financial and commercial principles in the middle Ages. These are controlling Muslims in today's economic activity. The key principle is the prohibition of Riba “usury or interest”, any predetermined or set financial transaction return are not acceptable (Aggarwal and Yousef, 2000:93).

Several characteristics of Islamic banks that make it distinct in comparison to traditional banks according to the Islamic sharia law are explained below.

1.3.1 Sharing Profit and Loss

Since Islamic banks have some unique requirements and are expected to carry out their transactions based on Sharia principles, profit and loss principle is one of the most important components of Islamic banking in terms of the conduct of business. Nonetheless, it is an approach that has long been used by Islamic banks, that generally proposes equal treatment between all parties involved in the operation and providing no fixed rate. Profit and loss sharing is a contract that allows two or more parties to participate on a project. The principle of profit and share loss consists, however, of Musharakah “joint partnership” and Mudarabah “profit sharing” contracts. Nevertheless, while it's not clearly present in Islam's primary texts, this approach was criticized, where relies entirely on a legitimate interpretation that highlights the need for an interest-based alternative (AI-Abdullatif, 2007:16).

1.3.2 Prohibition of the Collection and Payment of Interest by Lenders and Investors

The prohibition of the interest rate (Riba) is another feature of Islamic Banking, whereas, Islamic law prohibits all transactions based on interest rates in the form of a fixed or pre-determined rate. Moreover, Islam has instead introduced several alternative approaches, Qard al Hasan (literally a good loan) in Islamic banks represents the loan in conventional banks, whereas in Islamic banks the lender does not add any additional amount above the original Qard (loan) value (Islam, 2015: 34).

1.3.3 Prohibition of Gharar

The term “Gharar” is an Arabic word literally means uncertainty or risk; indeed, Gharar can be described as a contract with the uncertainty of the outcomes. Gambling is a clear example of Gharar, which means wagering money or something has value in an action with uncertain result with the aim of earning money or material goods, which emphasizes the element of chance (Mihajat, 2016:4).

Seemingly, concerning the concept of Gharar, it is noticed that such transactions hold a high executive risk leading dealers of such, to unfavorable results besides it creates the tension amid people (Al-Suwailem, 2000:62).

1.3.4 Accounting for Zakat

Zakat is an Arabic word derived from "Zakah," which is basically means to increase or grow and it’s a religious obligation for all Muslims, who fulfill the requisite rich-minded criteria besides considered one of the five “pillars” of Islam. However, the term ' al-Zakah ' was stated in the Holy Quran about thirty times according to Qaradawi (1999). Zakat, from an Islamic legal perspective, means that it is a redistribution of fortunes specified by God to the people in difficulty, as well as the elimination of grinding poverty and the purifying of souls through the elimination of greed amidst all Muslims, and for certain, also has social goals. In addition, the payment of zakat purifies the income of zakat's payer (Nadzri, Rahman, & Rashidah & Omar, 2012:64).

In Islamic jurisdiction, there are two forms of zakat (Ab Rahman, 2012:258).

1. Zakat al fitir (a few days before the end of fasting in the Islamic holy month of Ramadan)

2. Zakat of property: In addition to commercial zakat, there's also the gold and silver zakat and the zakat of crops and animals and mineral zakat.
3. Eligible requests for Zakat are (Moharrampour, Esfandiyari, & Asg, 2014).

1. People in difficulty
2. The needy
3. Personnel in charge of collecting and distributing Zakat
4. New converts to Islam
5. To buy slaves and free them
6. Debtors
7. In the way of Allah
8. The traveler

1.4 Credit –Related Practices of Islamic Banking Worldwide– Modes of Financing

The widespread of Islamic finance has granted Islamic finance institutions several advantages that differentiate them from conventional financial institutions. For instance, in regard to the financial crisis that hit the international financial sector in 2008 and others, it's debated that these institutions weathered such crisis, as a result of the distinguishing features of risk-sharing which became, in turn, reduces leverage and promote better risk management, not to mention the stability of Islamic finance because of (Kammer, Norat, Prasad, Towe, and Zeidane, 2015:6):

(i) Islamic finance involves prohibitions against speculation.
(ii) Islamic finance is asset-backed hence completely secured.
(iii) It has powerful ethical precepts as its basis.

However, it is well known that governments require constant liquidity due to the management of large stock and borrowing for investments and meeting expenditures. Typically, these needs are fulfilled by bonds, promissory, mutual assets and privileged partnerships in liberal capitalist economies. In contrast to Muslim societies which oppose using these instruments on the basis that interest is prohibited in trade transactions (Keles, 2019:80).

The following are the most used Islamic finance modes used to finance commercial transactions.

1.4.1 Profit-and-Loss Sharing Partnership (Mudarabah)

Mudarabah is a two-party financial agreement, the initial party comprises those who have the capital to invest in a venture but without the expertise to run such a profitable business, whereas in the other part of the contract, those who are skilled and qualified in management experience and labor, such as banks (Taner, 2011:30).

Therefore, each party complements the other by concluding a contract of Mudarabah, enabling a business undertaking to be funded, and also share benefits among the participating parties of the contract; hence, the loss is admitted to the capital provider (Aström, 2015:44).

Broadly speaking, such a contract was created for the purpose of obtaining halal (lawful) profit on the grounds of contracts that comply with the sharia principles (Taner, 2011: 29).

1.4.2 Murabaha (Cost-Plus Financing)

Murabaha is simply a particular type of sale based on a sale order. In particular, this mode of finance is primarily used for ware and commerce financing in which payment takes place sometime after delivery. One party signs an agreement with a bank agreeing to buy a certain product from it by signing commercial contract promising to purchase a specific good from the bank. After the contract, the bank buys the aforementioned good in cash from the seller and resells it to its customer under the conditions agreed upon before (Sayım,2012:5).

Murabaha is considered to be one of the most commonly used Islamic finance instruments with a rate of 79.85 % of all transactions, while PLS “Profit-and-Loss

Sharing” contracts (i.e., Mudarabah and Musharaka) constitute just 5.39 % of the total Sharia-based transactions of Islamic banks (Bitar,2014:11).

Murabaha contract can be divided into two forms (Al-baraka Bank, 2020)

1. Murabaha connected with a promise:

This form involves three parties: the seller, the buyer, and the bank; as an intermediary between the seller and the buyer. However, the bank buys a particular asset from a seller in cash to resell that asset to the consumer (buyer) at an agreed price, including the amount of financing and profit margin in in agreed-upon monthly payments.

2. Ordinary Murabaha sale:

Another form of Murabaha consists of two parties: the seller (bank) and the buyer (client). In this case, the bank buys goods irrespective of whether or not there is a written request from a client for a particular good.

Here is the summary of the steps taken to implement the partnership agreement (Rahman, 2010:55):

1. The client directs the Islamic bank or the financial institution to purchase a product at the request of the customer.

2. The Islamic bank first buys the desired product with its title first, then the seller transfers the ownership of this product to the IB “Investment Bank” finance institution.

3. The bank sells the item to the consumer at an agreed price for a period that is sufficient to pay the sale price back on monthly-based or based on the agreement, noting that the sale price consists of the original cost plus the profit margin.

1.4.3 Profit-and-Loss Sharing Joint Venture (Musharaka)

The name Musharakah comes from the Arabic word Sharikah, which means cooperation (Al-baraka Bank, 2020).It is, therefore, a contract involving two or more parties participating in a joint project in order to share the profit and losses based on each member's share of the joint business (Arshad, & Ismail, 2010:147).

Musharakah contract can be performed for a short or long duration, therefore, the capital involved in the Musharakah contract could be constant as long as the Musharakah contract is still ongoing and that is however called the “constant Musharakah”, otherwise, the capital is being transferred to the other party (Musharik) in terms of transfer the ownership of the venture and that's called “diminishing Musharakah” (Al-Baraka Bank, 2020).

The Musharaka contract leads to a joint project, as this joint investment has an independent legal entity. This successively allows the issuance of shares and sold to the general public, and likewise permits the bank to sell its shares after a particular period. In some cases, it may be believed that the Musharaka contract carries some risks, which may now and then result from shortcoming in administration from the company that oversees the business. At the same time, it may be attractive in case the management personnel have long involvement in administration field. For illustration, in 1991 a company called Sarawak Shell gained $ 300 US million for her investment in a joint project in Tamweel (financing) Oil Boring (unctad secretariat, 2006:13).

1.4.4 Sukuk

The Arabic word Sukuk is the plural of the word Sakk, which represents the Right to participate in a venture. Sukuk has been used in the Middle Ages for the first time in history by the Muslim merchants, thus, it has been practiced as a valuable paper in order to represent the commitments resulted from the commerce activities. Further, the issuance of the first Sukuk in modern era in accordance with the Islamic Principles dates back to the 80s. Moreover, Sukuk can be also issued by banks, government, companies, etc. to investors at an agreed value, with a promise to buy it later in future. Sukuk is an Islamic version alternative to a conventional bond. The most things that makes the Sukuk different from the conventional bonds is that the

Sukuk holds no interest rate in a way that represents the Islamic perspective and does not have excessive uncertainty (Erkan & Altınay, 2019: 677).

The major differences between Islamic sukuk and traditional bonds is that Sukuk is a declaration concerning real assets where earnings are directly obtained from sukuk-backed assets. There is, however, no assets connected to the bond in the case of traditional bond that justifying the owner's profit (Naim, Isa, & Hamid, 2013: 8).

Along with the issuance of Sukuk, the liabilities of Islamic banks are increasing notably, however, the acceptance of Sukuk is rapidly gaining a foot in the market globally, whereas, Malaysia is considering as the first country in terms of issuance Sukuk, followed by Saudi Arabia and the UAE. Turkey is ranking the 6th of the Sukuk issuance in 2013, whilst Turkey has issued its first Sukuk in the market in 2010 showing a good performance in the market. Though the Sukuk also has gained acceptance even in the non-Muslim countries, however, Singapore and the US produced a vital growth in Sukuk issuance (The Participation Banks Association of Turkey, 2015:36).

Between 2012 and March 2020, Turkey's total Sukuk issuance totaled 120.634 million Turkish liras domestically and 10990 million US dollars overseas (Participation Banks, 2019:62).

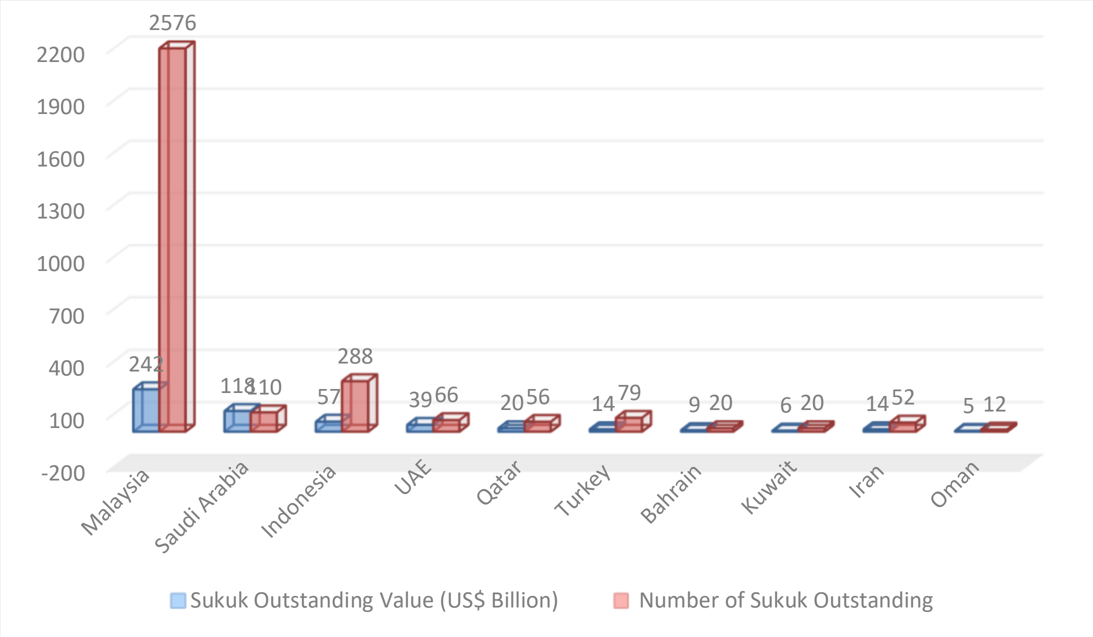

Figure 1.1: Top Countries in Sukuk Outstanding 2019

(Source: Islamic Finance Development Report, 2020: 41)

From US$124.8 billion in 2018, the issuance value of sukuks increased by 30% to US$162.1 billion in 2019. The sukuk market has seen double-digit growth for five years in a row.

As the Covid-19 pandemic impacted hard on economies of Malaysia, Indonesia and Saudi Arabia. As a result, sovereign issuers in these countries turned to Sukuk to cover budget deficits and to preserve liquidity levels. (Islamic Finance Development Report, 2020:40).

1.4.5. Leasing (Ijarah) and Ijarah Muntahia Bittamleek (Lease to Own)

According to sharia, “Ijarah or lease” is a contract which capitalizes on renting the right to use an asset, besides, the leased asset should have the right to use, for instance, a car or house can be leased while the owner still exists, unlike exchangeable stuff like fruits once it is eaten, it will not exist and one would have broken on its ownership. It’s a contract between banks and their clients’ states that the bank buys an asset (construction, machinery, etc.) and leases it to a client for a specified duration, with the predetermined rate, and eventually the ownership of asset transfers to or stays with the client based on the agreement (Egresi & Belge, 2015:10).

The lease contract is subdivided into two kinds (unctad secretariat, 2006):

1. The operational lease

According to this manner, the bank maintains various assets in purpose to serve the customers' needs to use an asset for a predetermined period, and then at the end of the lease the assets move back to the bank (lessor) whereas the bank looks for new customers

2. Ijarah Muntohia Bittamleek (lease to own)

It is a contract in which an Islamic bank leases a property or equipment for a mutually agreed-upon rental payment that includes profit and principal, with profit being fixed or floating (variable) as negotiated. Lease ownership is transferred to a client after lease's conclusion, with the last payment as agreed upon. The application of Ijarah Muntohia Bittamleek contract differs from country to country, for example, in terms of the management, insurance, and maintenance more conservative Shari'a boards tend to uphold that these are the responsibility of the lessor (the bank) not the clients depending on the fact that the ownership will transfer to the client at the end of the duration of contract.

1.4.6 Qard-Al Hasan (Future Markets and Sales)

Qard is an altogether Arabic word, literally means" to lend" and the terminology “Qard al-Hasan” points to a sound loan. However, to somewhat its quite different from conventional bank loans whereas it's free of interest in which eventually represents the Islamic perspective (Bitar, M. 2014: 78).

As part of its contract with the seller, the bank buys a commodity for cash, then will be given to bank, and resells it to its clients at the original price with a margin profit over agreed upon installments. (Sayım, 2012:3).

In the near past, Qard al-Hasan has been applied for serving several objectives, besides its basic objective which is being as a loan for the people in difficulty, investors for their projects, etc. This loan thus serves marriage occasions, medical treatment, and tuition for students. The principal eligibility criterion, however, differs between countries and from one bank to another (Yussof, Ismail, Ahmad, & Ahmad, 2015: 15).

Generally speaking, such a loan allows banks to charge solely administrative fees to borrowers to cover managerial expenses, with no financial gains (Bitar, M. 2014:78).

1.5 Islamic Banking Worldwide

The growth of a country's economy is associated with several special fields, in particular, the most significant of which is the financial sector, more specifically the performance of the banking segment, which is considered now as the backbone of every country's economy regardless of the form the bank uses to run its business (Duisenberg, 2001:68).

Admittedly, Islamic banks have been grown up in an environment in which the conventional banks were dominated over the global financial system even in the biggest Islamic countries. However, with the momentum of the financial crises that hit the financial banking industry years before, it seems that Islamic banking has weathered this recession (Elsiefy, 2013: 13).

In the 1990s, the number of IFIs increased rapidly alongside the formation of investment-managing companies and Islamic brokers and dealers, such institutions have grown rapidly, offering new goods and services in line with the principle of Islamic sharia, such as mutual funds, Sukuk (bonds) and stocks. In the late 1990s, the IFIs also managed to enter European and American markets offering new chances for those wishing to invest in Islamic finance(Nadzri, & Aida, 2009:1).

However, Bahrain is regarded as a hub for different financial institutions concerned with Islamic finance, with the goal of advancing Islamic banking and finance including the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), International Islamic Financial Market (IIFM), the Islamic International Rating Agency (IIRA) and the General Council for Islamic Banks and Financial Institutions Islamic International Rating Agency (IIRA) and the General Council for Islamic Banks and Financial Institutions. (Ernst & Young, 2011). Moreover, Islamic Development Bank(IDB), the first international Islamic bank established in Jeddah (Saudi Arabia) in 1974 and affiliated with the Islamic Conference Organization (ICO) (Egresi & Belge, 2015:31).

Furthermore, the demand is growing at a fast pace on the products and services correlated with the Islamic banks, whereas it has become the fastest segment in the market on the growth base (Egresi & Belge, 2017: 1). Besides, Islamic banking is acquiring more comprehensive approval among the financial world since its emergence and establishment of the first Islamic bank (Baldwin, 1988:1).

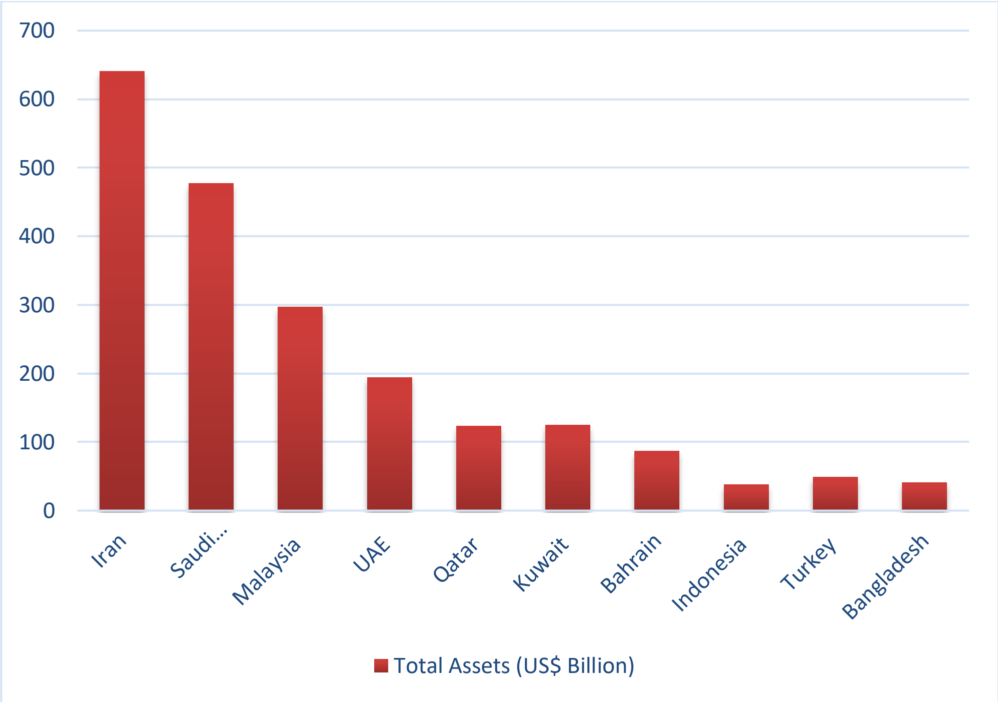

Figure 1.2: Top Countries in Islamic Finance Assets 2019 by country (US$ Billion)

(Source: Islamic Finance Development Report, 2020: 27)

According to Research and Market website, in 2017, there were about 505 Islamic banks in the world contributing to 71%, or USD 1.72 trillion, of the total Islamic finance assets (Research and Markets, 2019),operating not only in Muslim countries but also in non-Muslim majority nations like the United Kingdom, the United States of America, and Australia. Later, the United Kingdom emerged as the European financial hub for Islamic finance. Concerning the volume of Islamic banks ' assets it indicates that, when address such issue, the number of Islamic banks must be indicated (The Participation Banks Association of Turkey, 2015: 34).

Islamic banking appears to be the largest contributor of industry's assets, with global assets grew 14% in 2019 to US$1.99 trillion, however, in comparison to 2018 the percentage was 1% and annual average growth of 5% between 2015 and 2018. In 2020, there were 428 Islamic commercial banks worldwide. In 2019 the global Islamic Banking's total assets were approximately US$ 1,993 million representing nearly 6% of the world's total banking assets (Islamic Finance Development Report, 2020:26).

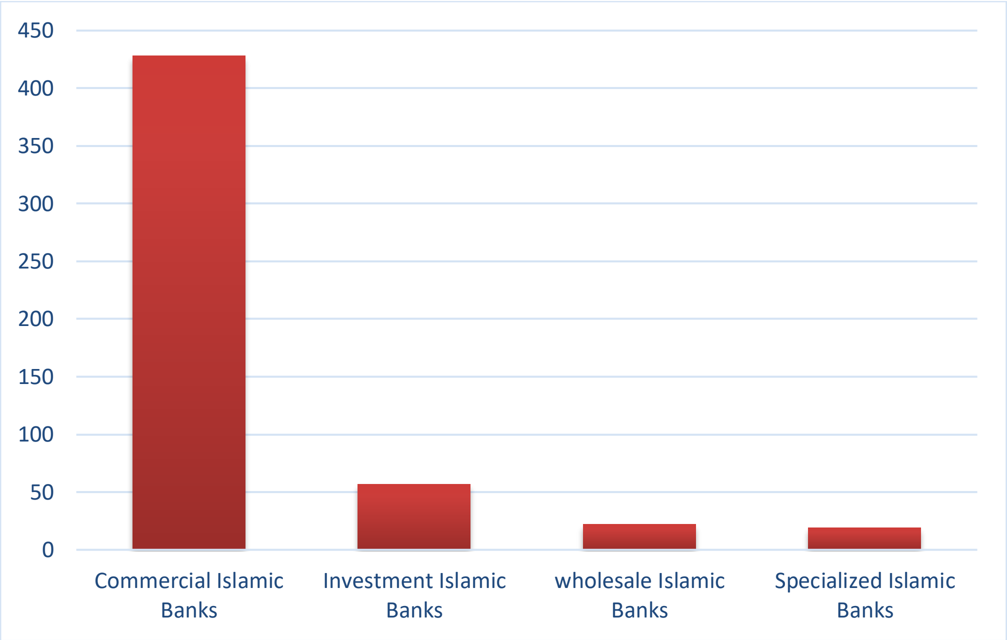

Figure 1.3: Numbers of Islamic banks all over the world

(Source: Islamic Finance Development Report, 2020:26)

1.6 Islamic Banking in Turkey

Turkey is a secular republic in which Muslims are the majority. However, after the first participation bank was established, the growth of Islamic banks or participation took place in various stages of development.

1.6.1 Background of Islamic Banks

Turkey's financial history tends to be shorter than the Western countries; the financial transactions, especially those linked to interest-bearing loans, were primarily conducted by Christians and Jews given the adherence to the Shari'a principle during the Ottoman Empire. Furthermore, at that time the Empire had neither a national central bank nor sufficient laws for governing the Empire's banking system. This was not greatly improved until the Republic was proclaimed at the beginning of the 1920s (Egresi & Belge, 2015:11).

The outset of the emergence of Islamic banks in Turkey dates back to 1983 with the name of "Special Financial House". However, the factors behind the efforts that Turkey made in this regard are attracting foreign investment, particularly from the Middle East and North Africa (MENA), in order to strengthen the economy and bring new clients willing to engage the new Islamic system based on religious beliefs. It's believed that these attempts to establish Islamic financial institutions presented by the government into Turkish financial markets at that time were for political reasons rather than an economic or religious intent. In the 1980s and 90s, the Islamic Finance sector continued to grow with investors from the Arab Gulf creating and initiating credit activities which mainly provided for religious customers. Although at that time, the Special Finance Houses were controlled by a secular government, whereas the Islamic term had not been given as the identity of the bank, in addition to the fact that the Central Bank of Turkey did not cover these Special Finance Houses with its insurance scheme just like its counterparts, besides they were unable to invest in government securities (Okumus, 2005:51).

1.6.2 Islamic Banks in Turkey

Conventional banks had 88 percent of the banking sector's assets, while development and investment banks and participation banks each held 7 percent and 5 percent. As of April 2019, there were 53 banks functioning in Turkey's banking sector: 33 were conventional banks, 13 were development and investment banks, and six were participation (Islamic) banks. (the European Banking Federation, 2019).

As of April, 2020 six participation banks operating in Turkey, there are, two public-capital banks; these are Ziraat Participation Bank A.S. and Vakıf Participation bank A.S, however, there are three banks with private capital established in Turkey, these banks are Albaraka Turk Participation Bank Inc., Kuveyt Türk Participation Bank Inc., and Turkey Finans Participation Bank Inc. and the Emlak participation bank (Participations Bank, 2019:29).

The history of Participation Banks in Turkey is reviewed below:

1. Albaraka Turk Participation Bank: It has been established in 1985 and starts to operate as the first private finance institution in Turkey (AL Baraka Turk website, About Us, 2019).

2. Faisal Finance Institution Inc.: Faisal bank went through many stages since its establishment in 1985, the bank has been taken by Ulker Group in 2001, and later on in 2005 the bank merged with the Anadolu Bank under the name (Participation Banks Association of Turkey, 2015:68).

3. İhlas Finance Institution: Ihlas finance established in 1995, later, because of the economic crisis in 2001, the bank went through bankrupt and its official authorization has been canceled. However, the bankruptcy of this finance bank negatively influenced the other participation banks at that time (Sayım, 2012:4).

4. Kuveyt Türk Finance Institution Inc.: Kuveyt Türk Katılım Bankası Inc. has been working in the field of non-interest financing. Since 31 March 1989, with its diverse corporate management strategy, creative products offered to its customers and international expansion, Kuveyt Türk also promotes the growth of participation banking. Kuveyt Türk however, is a regional market leader in the Islamic finance

industry with its customer-oriented approach, technology-innovation studies, and efforts for digital transformation, effectively powerfully financial products and services with savers and investors. In terms of collected funds, used funds and asset size Kuveyt Türk ranks first among the participation banks. The Bank also holds first place among gold banking and third position in the whole banking sector (Kuveyt Türk, about us, 2010).

5. Anadolu Finance Institution Inc.: It began its activities in 1991, with domestic capital, the bank started its operations with three branches under the umbrella of HABAŞ Group, however, the Bank maintains to grow and improve with forwarding informatics technologies supporting businesses processes (Anadolu bank website, history).

6. Asya Finance House Inc.: Established on October 24th, 1996. On December 20th, 2005 its name has been converted to Bank Asya Participation Bank (Participation Banks Association of Turkey, 2015:53).

7. Turkey Finance Participation: Turkey Finance; It was founded in 2005 as a result of the merger of the "Anadolu Finans", which was established as the first private financial institution with 100% domestic capital in 1991 and Family Finance institutions, which offered participation banking services between 1985 and 2001, under the name of "Faisal Finans Kurum". The merger took place under one roof in 2005 to accommodate additional value for the banking sector in Turkey and join forces to strengthen its competitive advantage. The merger has given a new motive to the growth of the participation banking; Turkey Finance in a short time has become one of Turkey's largest participation banks. However, the most significant change in Turkey Finance’s life is that at 31 April 2008, about 60% of stocks were sold out to the National Commercial Bank (NCB) (Participation Banks Association of Turkey, 2015:67).

8. Ziraat Participation Bank: Ziraat Participation Bank A.Ş. T.C. was established with the approval of the Banking Regulation and Supervision Agency with the capital of 675.000.000 TL, which was paid by the Treasury, dated 10.10.2014 and numbered 6046. With the decision of the Banking Regulation and

Supervision Agency dated 12.5.2015 and numbered 6302, published in the Official Gazette dated 14.5.2015 and numbered 29355, it has acquired an operating permission. Based on a resolution made during the 2018 Extraordinary General Assembly, the capital of the Ziraat Participation Bank was increased to TL 1.750.000.000. (Ziraat participation Bank website, about us).

9. Vakıf Participation Bank: “Vakıf Katılım Bankası A.S”, established on 25.06.2015 as a joint-stock with the approval of the Banking Regulation and Supervision Agency dated 27. 2.2015 And numbered 6205, published on the official gazette on 3.3.2015 with a number 29284. Therefore, the bank obtained an occupancy permit from the Banking Regulation and Supervision Agency on 17. 2.2016. The bank belongs to several endowment institutions, such as the General Directorate of Turkish Endowments and Murad Pasha for Endowment and others, where paid-in capital three billion two hundred and twenty million Turkish liras (Vakıf Katılım website, about us).

Turkey's government has consistently supported and encouraged the movement toward Islamic banking, which is evident in the several creations of State-Islamic banks. Furthermore, the government’s plan to expand the share of participation banking assets to 15 percent of the country’s total banking in Turkey by 2025. However, at the end of December 2018, the total assets of the participation banks ranked 206.8 billion Turkish liras ($38.9 billion) with a share of 5.3 % from overall the banking sector in Turkey while in 2017 the share was 4.9%, according to data from the Participation Banks Association of Turkey (TKKB) (World Bank, 2019).

1.6.4 Credit –Related Practices of Islamic Banking in Turkey

The credit-related practices of Islamic banks have drawn much attention, as one of the contentious issues, however, Bank Asya issued in 2002 (Bank Asya 2013) the first Islamic credit card to allow the holder to pay for the purchases of installments. As is the case with Islamic banks all over the world, Turkey's participation banks are doing their part of free of interest-free banking (Çokgezen, M., & Kuran, T., 2015:8).

The following are the new products that participation banking introduced to the Turkish financial market (Participations Bank, 2019:58):

1. Murabaha (Cost-Plus Financing)
2. Mudaraba (Labor-Capital Partnership)
3. Musharaka (Profit/Loss Partnership)
4. Qard Hasan (Benevolent Loan)
5. Interest-Free Loan
6. Salam (Forward Financing Transaction)
7. Istisna (Work Contract)
8. Interest-Free BES Sukuk (Lease Certificate)
9. Participation Indices and Exchange
10. Traded Funds Based on Participation Indices
11. Participation Insurance (Takaful)
12. Investment Agency

Here are the Fund Collection Methods in Participation Banks related credit practices:

1. Collecting Funds through Current Accounts

Current accounts are the types of accounts that can be opened without maturity and income returns in either Turkish Liras (TL) or foreign currency (FX). The current interest-free account in conventional banking is the same as the current account. Depending on deposits deposited in the accounts, the participating bank is treated as a "debt" (Varsak, 2017).

2. Collecting Funds through Participation Accounts

Participation Account is a form of account which is opened with a minimum maturity of 1 month with profits and losses in the context of a relationship between profit and loss. Participation Accounts, however, are based on the principle that the bank's funded projects are under profit or loss principle. No committed and predetermined returns are available. According to Yildirim (2015), there were three different funding methods for participating banks: first based on trade, and this includes; Leasing (Ijarah), Murabaha (cost-plus financing), Bai Salam, İstisna. The second is based on the System of Partnership, and that includes profit-and-loss sharing partnership (Mudarabah) and Profit-and-loss sharing joint venture (Musharaka), the third is from Non-Production Financial Support (Yıldırım, 2015:1).

Money gathered from participating accounts is carried in different accounts independent from other accounts. The key methods of using the funds of the participating banks can be described in two titles: (Sayım, 2012: 1).

1. Fund Utilization Methods based on Commerce

2. Fund Utilization through Profit and Loss Partnership Method

The issuing of Sukuk was legalized in 2013, based on the construction contract (Istisna), trading (Murabaha), and partnership (Musharakah), and management agreement (Ijara) (Sayım, 2012: 1).

When the Treasury issued Sukuk to the market in 2014, both in domestic and foreign currency, the banks were also issuing Sukuk. The demand for the issuances of Treasury and participation banking remained high given the uncertainty on world financial markets. As the Islamic banking industry has expanded, so have Sukuk issuances that offer great potential for development in Turkey. The absence of the appropriate legislation until 2010 and the price disadvantages with tax problems have prevented Sukuk issuance from growing in years before 2010 (The Participation Banks Association of Turkey, 2015:45).

Kuwait Turk bank is the first bank in both Europe and Turkey to issued Sukuk whereby, the issuance took place in 2010, both domestically and abroad either. The total Sukuk issuance was 10 billion Turkish liras, 1 billion 800 million US dollars, and 1800 million Malaysian ringgit (currency of Malaysia) (Kuveyt Türk official website, about us, from Past to Present).

In October 2017, intending to decrease the financing costs, the Turkish government released the first gold-backed sovereign Sukuk. Before-mentioned Sukuk reduced government funding costs to 1-1.2%. It also helped in the introduction of gold assets into the financial system and the expansion of government reserves. (Islamic Finance Development Report sifting dynamics 2019: 43).

1.6.5 Current Status of Financial Reporting Standards for Islamic Banks

In 2019, there were 46 countries with Islamic Finance Regulations which grew by two from 2018. There remained six countries with a complete regulatory framework that covers all aspects of the Islamic Banking business - accounting, Islamic banking, Shariah governance, takaful, Sukuk, and Islamic funds – with other nations addressing certain aspects of the industry. (Islamic Finance Development Report 2020:17).

In the next chapter Financial Reporting Standards will be explained in details.

CHAPTER TWO

OVERVIEW OF REGULATIONS AND FINANCIAL REPORTING STANDARDS OF ISLAMIC BANKS

Any organizational process needs regulations, standards and laws that govern the progress of these steps & partial operations of the process, including the operations within financial institutions, must control of the financial operations also the banking services that provided. Therefore, Islamic banks & financial institutions are subject to the regulations, standards and laws that regulate the financial reports of institutions specially in Islamic Finance.

Where appropriate corporate governance practices in financial institutions add a value by enhancing protection measurements rights of depositors & investors both, facilitating provision of financing & financial services, reducing the capital cost, improving the performance of operations, & increasing the safety of these institutions in facing of external shocks (Deniz, Anginer ,2018:1).

Among the principles of which Islamic finance and banking are based on two basic principles, namely, that the element of risk sharing must be taken into account in all transactions, in addition to the presence of a cover that represents real assets for all transactions. The first principle requires that the parties involved in the transactions bear relative risks associated with the business or asset to be financed; The second principle avoids the risk of establishing a relationship based on the existence of indebtedness, where only the exchange of money for money takes place. In this way, equity-based finance is encouraged, and finance becomes an activity to support a real economic activity (Yusuf,2020:1,2).

Bank liquidity means the bank's ability to meet its financial obligations towards customers & investors, which largely consists of meeting depositors' requests to withdraw from deposits, also meeting borrowers' requests to meet the needs of society or availability of quickly convertible assets into cash without losses in their value to meet the debts due on time. Without delay, and to provide this liquidity, there are multiple sources that differ according to the policies and laws of the country (Chodorow-Reich, Gabriel and Darmouni, 2021: 1)

Islamic banks do financial intermediation & create financial instruments for gain a profit in accordance with the rules of Islamic Sharia. This feature is known as Islamic financial system (IFS) (Yudhi, Herliansyah and Putra, 2020:2).

Three methods of financing are used by these banks and organizations; direct financing through Mudaraba & good loan, indirect financing through the sale (delayed sale or Murabaha sale), and leasing in all its variants, the most renowned of which is lease ending with ownership. These Islamic banks and institutions offer services such as Istisna and others, and the most significant thing about them is that they do not give a set return in the sense that there are no fixed interests, but instead they share in profit and loss with their customers.

2.1 Regulations and Financial Reporting Standards for Islamic Financial Institutions Worldwide

The expanding demand toward Islamic banking and financial products in up-to-date years has led to the existence of an ever-widening number of Islamic Financial Institutions (IFIs) offering different products in concern of Islamic Financial Banking. To keep in line with development, Islamic Financial Institutions appeal more overall reporting framework consistent with the heart of sharia, as well as the disclosure of information which is considering as a priority for investors and stakeholders whenever it comes to making economic decisions (Hussain, Shahmoradi and Turk, 2016: 5).

Substantially, the reasons behind the call for reporting framework for Islamic banks are to provide proper information for investors, ensure the integrity of the financial system and improving monetary policy supervision (AI-Abdullatif, 2007: 27).

In recent decades, there has been a fast growth and development in the Islamic finance sector that in turn has become a global phenomenon competing with the well-known conventional system dominating the international financial system. Interest-free loans have long been linked with Islamic banking, which is part of the Islamic economic model and is controlled by particular laws of loss and profit-sharing based on Islamic law (Shari'ah) (Egresi, 2014:689).

The regulatory framework can be characterized as a governance mechanism for Islamic Financial Institutions while its head priority must be to regulate and supervise Islamic Financial Institutions operating in the sector that ensure compliance with Islamic sharia laws (Elasrag,2014:8).

Some scholars are splitting the regulatory framework for Islamic Financial Institutions into three groups, completely Islamic, twofold frameworks, and neutral or restricted coverage. However, fully Islamic systems only accept financial institutions based on Islamic values and ban conventional financial institutes, however, in a dual framework, countries enable conventional financial institutions to operate with Islamic partners, Bahrain and Malaysia for example, this system is appropriate in a country where the population of a country is a non-Muslim majority, the last one the neutral framework which is reasonable and unbiased in addition that Islamic finance is not favored (Syarif, 2019:80).

There was a controversy between Islamic and conventional finance over whether conventional accounting standards provide adequate disclosure in the annual financial statements of Islamic financial institutions (IFIs). A very common question is why are the IFI's need distinct financial accounting and reporting standards? (Ebrahim, 2019:6).

1. One thing is so critical to know is that when a bank label as an Islamic bank, it should be obvious if that bank is Islamic sharia-compliant legally as well as its commercial substance in all of its transactions, for ensuring so, unique and different standards should be utilized.

2. The linkage between the Islamic financial institution and their clients vary from those in conventional banks, basically, the reasons behind this, are the conventional banks mobilize their funds and also all of its business transaction,

wholly rely on interest based on time, and amount, while in contrast, the Islamic financial institution adopt different contracts of funding their business and mobilizing their funds such Musharaka, Murabaha, Ijara, salam, Istisna, Mudaraba, etc.

3. The clients' needs for further explanations in the annual financial reports of the Islamic financial institutions are unique as the gist of the relationships that have been formed are based on equity-based, trade-based and lease-based, consisting of complying with Islamic principles. However, the annual financial reports of IFI's should reflect these relationships, their effects and ensure the compatibly of Islamic values and legal regulation.

As an Islamic financial institution requires more financial reports, in the annual financial report of an Islamic Financial Institution, the financial reports are usually provided as follows (Ebrahim, 2019:2):

- Balance sheet showing the financial position at a given date
- Profit and loss account showing the comprehensive income for the period
- A statement that shows the transactions with the owners, and their claims on the business, including profit rate risk reserve and unrestricted investment account risk reserve
- Statement showing the flow of cash and funds inwards and outwards during the period
- Independent Auditors' Report
- Shariah Audit Committee (Shariah Board Audit) Report on compliance with Shariah Principles
- An account of the inflows and outflows in the Zakat and Sadaqah funds account
- An account of the inward flow and outward flow of funds in the Qardan Hassanah fund

2.1.1 Islamic Accounting

The need for Islamic accounting arose with the emergence of the economics and Financial Islamic system and its swing of several stages of development during the past decades commencing from the flourished Islamic state till the fall and weakening. Moreover, Islamic accounting is not new parlance, where it has been used long ago in the Islamic state particularly the era of the second caliph, Omar, not to mention that the Quran provides many pieces of evidence for demanding accounting practices to be implemented in the Islamic society (Trokic, 2015:1).

The Quran points to the need for accounting in daily activities whatever transaction it involves. The Holy Qur'an has been made clear "...Never get bored with recording it, however small or large, up to its maturity date, for this is seen by Allah closer to justice, more supportive to testimony, and more resolving to doubt..." (Al-Baqarah: 2 82) (Sarea, & Hanefah, 2013:51).

Sultan Abdullah (2007) elucidates in his research that with a view to getting a better understanding of the Islamic accounting it is concluded not to overlook at the conventional accounting(AI-Abdullatif, 2007:12) whereas, it involves recognition, registration, classification, analyzing and reporting economic events in order to allow users to make rational decisions (American Accounting Association,1977:217).

Furthermore, Islamic and conventional banks have different goals for some reasons, first, Islamic banks operate within the scope of the Sharia law which reflects the difference in the nature of the transactions between Islamic and conventional banks, and the needs of financial information users are different (Khan, 1994:36).

2.1.2. Islamic Leading Organizations Sharia Boards

Islamic finance is regulating its financial transaction under the sharia compliance framework in which it endeavors in accordance with Islamic Shari'a and its notions of justice, compassion, and ethical values, it defines the rights and responsibilities of all interested parties, including those rights and obligations deriving from unfinished transactions and other occurrences (AAOIFI, official website, 2008).

Generally speaking, the main goal of the setters of is to assist the users of the financial statements to get a better understanding of the final statements in which they would make significant decisions based on it regarding corporates financial performance (Uddin & Rosman, 2015:53).

For this purpose, Institutions have been established notably the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the International Islamic Rating Agency (IIRA), the Islamic Financial Services Board (IFSB), and the Liquidity Management Center (LMC) (Grais, & Pellegrini,2006:4).

In this section brief information about the Islamic leading organizations will be given.

2.1.2.1 Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

AAOIFI is one of the most prominent international non-profit organizations in terms of support of Islamic financial institutions. It was established in 1991 and is

headquartered in the Kingdom of Bahrain. The need of special Islamic standards was urgent to fulfill the loopholes that the international standards have left in the accounting field related Islamic banking; however, the AAOIFI had taken the responsibility to produce standards for sharia, accounting, and auditing of IFIs. Many countries have been adopted the standards set out by the AAOIFI as the mandatory regulatory requirement standards for its banks, such as Bahrain and Jordan and while other countries including Brunei and Malaysia, AAOIFI accounting standards have been used voluntarily as the basis of internal guidelines (Kadri & Ibrahim:46).

Below are a list of countries and jurisdictions that follow Standards of the Accounting and Auditing Organization for Islamic Financial Institutions in whole or in part or as a guide (AAOIFI website):

- Afghanistan
- Bahrain

- Islamic Development Bank
- Iraq
- Jordan
- Krygyz Republic
- Lebanon
- Libya
- Mauritius
- Nigeria
- Qatar
- Qatar International Financial Centre (QIFC)
- Oman
- Pakistan
- Palestine
- Sudan
- Syria
- Yemen

The objectives of the AAOIFI are (AAOIFI official website, about us):

1. Promote accounting, auditing, governance and ethical thought related to the activities of Islamic financial institutions.

2. Spread the thought of accounting, auditing, governance and ethics linked to the activities of Islamic financial institutions and its applications throughout courses of training, holding seminars, issuing periodic bulletins, preparing researches and reports, and other means.

3. Issuance of accounting standards for the Islamic institutions and enhancing the quality of auditing and governance practices linked up to Islamic financial institutions.

4. Working on achieving convergence or convergence - as possible - in perceptions and applications among Sharia supervisory bodies of Islamic financial institutions to evade disagreements between fatwas and applications for those institutions.

5. Confirmation of use and apply the standards, data, and guidelines announced by AAOIFI by each of the relevant Islamic financial institutions.

6. Providing educational and training programs, including professional development programs related to accounting, auditing, ethics, governance, and Sharia principles

7. Standards setting body, AAOIFI, has till now issued 26 Accounting Standards, 48 Shari'a Standards, 5 Auditing Standards, 7 Governance Standards & 2 Ethics Standards (The Accounting and Auditing Organization for Islamic Financial Institutions).

The Islamic Financial Accounting and Auditing Organization have published 26 accounting standards for a variety of Islamic financial instruments. The accounting standards developed by the Islamic Financial Institutions Accounting and Auditing Organization are based on Sharia principles and address the differences between Islamic financial instruments. Therefore, the disclosure requirements set forth in the standards of the Accounting and Auditing Organization for Islamic Financial Institutions are unique to Islamic financial institutions and their tools and not addressed by International Financial Reporting Standards for Islamic financial institutions (Uddin & Rosman, 2015:53).

The Accounting and Auditing Organization for Islamic Financial Institutions is by far considered the most reliable institution to issue Islamic banking and financial standards to most Islamic countries around the world. However, most Islamic banks and financial institutions have made use of the Sharia Contemporary Book prepared by AAOIFI and in some cases; the book has also been used by Islamic organizations as an official reference guide (Taner, 2011:53).

A conceptual framework has sophisticated by AAOFI where illustrates the purpose and value-based principles for accounting of financial information and reporting by institutions that claim to abide by Sharia principles and jurisprudence, known as Islamic Financial Institutions ("IFIs"), however, the key priority of the framework was concentrated upon the financial reporting and accounting by the IFI's to the interested parties (Ebrahim, 2019:6).

2.1.2.2 Islamic Financial Services Board (IFSB)

The IFSB was established in 2002 in Malaysia's capital, Kuala Lumpur. It officially began its operations on 10 March 2003. However, the IFSB has set out to guarantee the soundness and stability of the Islamic financial services industry, which has recently progressed to include all Islamic banking, stock market, and insurance industries. Hence, by incorporating more new international standards in adhering to the spirit of Sharia and Islamic values, the IFSB encourages the growth of a prudently open Muslim financial services industry. Since the IASB was established, 32 Standards, Guidelines and Technical notes have been issued to the Islamic financial services industry in several fields (IFSB official website, about us).

The Islamic Financial Services Board's key objectives (IFSB official website, about us):

1. To provide guidelines on the appropriate supervision and regulation of Islamic financial institutions and to develop advanced standards for the recognition, assessment, control, and detection of risk for Islamic financial services;

2. Constant collaboration with relevant organizations developing guidelines for ensuring the stability and security of international monetary and financial systems;

3. Enriching research and publishing studies and surveys on everything related to the Islamic financial services industry.

2.1.2.3 Islamic International Rating Agency (IIRA)

The IIRA was established to provide unbiased assessments of issuers and matters associated with the concepts of Islamic finance. In particular, the focus of IIRA is on improving local capital markets, mainly in the field of the Organization of Islamic Countries (OIC), and on enhancing their ethical finance ranks globally. In 2005, the Authority began its activities in the Kingdom of Bahrain and initiated a range of outstanding methodologies, in theory, starting in 2011. IIRA believes that its dedication to justice is the core of Islamic finance and a powerful element for the success of the sector globally (IIRA official website, about us).

2.1.2.4 The General Council for Islamic Banks and Financial Institutions (CIBAFI)

The General Council of Islamic Banks and Financial Institutions is an international organization established in 2001 by the Royal Decree of the Government of the Kingdom of Bahrain and headquartered in Bahrain. The General Council is the official body of the Islamic financial industry worldwide to promote and expand the Islamic finance industry and to promote collaboration between members and other financial institutions of interest and mutual interests. CIBAFI is guided by its strategic objectives, which are (CIBAFI official website, about us):

1. Advocacy of Islamic Finance Principles and associated policies and legislation.

2. Research and creativity.

3. Training and Professional empowerment.

However, the General Council publishes annually the global questionnaire of Islamic bankers, this work is one of the Islamic finance industry's leading market research to be conducted, which annually analyses Islamic bankers' viewpoints regarding the Islamic financial services industry, besides provide highly relevant annual recommendations on the wants of the industry. (CIBAFI official website, about us).

2.1.2.5 The International Islamic Liquidity Management Corporation (IILM)

The International Islamic Liquidity Management was established in 2010, the International Islamic Liquidity Management Corporation (IILM) is a collaborative endeavor with 11 central banks or pecuniary agencies from countries including Malaysia, Indonesia, Iran, Luxembourg, and the United Arab Emirates, in addition to many-sided institutions to assist Islamic financial services institutions to handle liquidity management (Shabbir, Rehman& Akhtar, 2016).

The IILM aims, however, to promote investment flows worldwide, besides bring stability to the financial industry and international connections, to fulfill this requirement, the IILM is laboring to create liquid Shari'ah-compliant financial markets by offering Islamic financial services for institutions (IILM official website, about IILM).

2.1.2.6 International Islamic Financial Market (IIFM)

The International Islamic Financial Market (IIFM) was established in submission with Royal Decree No. (23), in 2002 in the capital of Bahrain, Al Manama, as a new autonomous and non-profit infrastructure development organization. IIFM's founding members include the Islamic Development Bank, representatives of, the Bank of Indonesia, Negara Bank of Malaysia, the Central Bank of Bahrain and the Central Bank of Sudan (IIFM official website, about us).

The objectives of IIFM are (Shabbir, Rehman & Akhtar, 2016):

1. A worldwide financial market based on Islamic principles and laws should be established and developed.

2. Tackling liquidity management issues in international financial Islamic institutions

3. Develop an active secondary market

4. Building an atmosphere that promotes Islamic and non-Islamic financial institutions to engage actively in the secondary market and to provide information that can be attracted.

2.1.2.7 Liquidity Management Center (LMC)

The LMC is a wholesale Islamic Bank, founded in July 2002 and supervised by the Central Bank of Bahrain. LMC is an institution of wholesale Islamic Bank. It seeks to provide optimal Islamic Finance and Investment strategies to help the Islamic capital market development. LMC is committed to play a key role in building the successful and regional extension of the Islamic inter-bank market (LMC official website, about us).

2.1.3 Debatable Issues between AAOIFI and International Financial Reporting Standards (IFRS)

There are some issues with the conventional system's methods that must be revisited from an Islamic point of view. Many of these problems, also within the modern system, were not resolved (Khan, 1991:35).

When it comes to Islamic financial instruments, two fundamental accounting concepts have been highlighted in a 2010 study paper published by the Asian-Oceanian Standard-Setters Group's Islamic Finance Working Group (AOSSG) (Financial Reporting Issues relating to Islamic Finance, 2010:5):

(i) Substance over form.

(ii) Time value of money.

2.1.3.1 Substance over Form

There are certain principles that must be applied so that financial results are accurate and one of which is the substance over forms principle. However, in preparing financial reports, the concept of substance over forms states that the substance and economic reality of a certain transaction will take precedence over its legal form (Suprayogi, 2017:355).

Indeed, regarding the IFRS based financial reporting institutions; transactions are being recorded with consideration of substance and their economic reality. However, as it is stated in the conceptual framework of IASB, to recognize an item either as an asset, liability or equity it should give attention to the substance and economic reality of that item rather than its legal form. Accordingly, the cornerstone of the differences is emanating from such a premise. Particularly, it's been argued that if this assumption is applying in the Islamic financial transactions, then it would be no doubt that there no likely differences in the way of recording in both of Islamic and conventional financial transactions (Uddin & Rosman,2015:52).

According to the Institute of Chartered Accountants of Pakistan ("ICAP"), the transactions of instruments of Islamic finance must be actual transactions, if this is not the case, then transactions of instruments of Islamic finance cannot be permitted in Islamic financial transactions (Financial Reporting Issues relating to Islamic Finance, 2010:9).

Mohammed Amin (2012) stated that, since the IFRS focuses on the business substances instead of the legal type of transactions, IFI users may not be provided with adequate details to form a well-informed point of view as to if the transactions of the IFI comply with Shariah (Amin, 2018)

Substantially, after these discussions of the substance over form assumption, the substance must be in line with the form with no contradict, however, if that's not the case, the Islamic entity should concentrate more on the substance rather than the form (Shafii & Zakaria, 2013:43).

2.1.3.2 Time Value of Money

Islamic and conventional financial systems are very different, one of these differences and the most important is how they look at money when carrying out their financial transactions. Because Islam treats money as nothing more than a tools of exchange and as not of value in itself, more money (fixed interest payments) cannot be generated simply by being put in a bank or being loaned for another person (Ahmad, & Hassan, 2006:66).

Money must be real money, and to be a base commodity, like gold or basic food staple, etc. paper money (fiat) can be used as a practical instrument for exchange, and trading, however, this money must be related to these essential commodities as a real value (Abdurrahman, 2010:102).

The time value of money is an investment concept in which money is seen as both a tool for investment and an integral element of conventional finance theory. However, Sharia does not reject this consideration, as it does not prohibit any increase in the loan offered to cover the price of the commodity in any sale that guarantees payment of the agreed-upon contract at a later date in the sale. However, The Sharia forbids the money's time value from being an aspect of the credit relationship under which a pre-determined value is named. Besides, Sharia requires payment of the loan in the same currency it was given (Ahmad, & Hassan, 2006:67).

2.2 Regulations and Financial Reporting Standards for Islamic Banks in Turkey

Since this research is about the practices of Islamic banks in Turkey, background information on Islamic Financial Regulation and Reporting practices in Turkey and other developments that are expected to happen in the near future, will be presented in this section.

2.2.1 Framework of Participation Banks Regulation in Turkey

A debate is whether Islamic Financial Institutions (IFIs) should use International Financial Reporting Standards (IFRS) or the accounting standards produced by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).IFIs, in particular, do not have the option of adopting the financial reporting standards that have been established; consequently, the accounting standards that an IFI must use will be guided by the legislation of the nation in which it is incorporated. For instance, Bahraini and Qatari IFIs are required mandatory to account under AAOIFI, not IFRS; In contrast, European Union legislation compels all EU firms with publicly traded shares to prepare consolidated accounts in accordance with International Financial Reporting Standards (IFRS).

Except for a few countries such as the USA which uses its standards with some other countries that use AAOIFI, IFRS still dominated the accounting standards field (Amin,2018).

Turkey has implemented IFRS standards for all public interest entities PIEs, listed businesses, intermediaries and permissible Portfolio Management, Voluntary as of 2003 but two years later, IFRS has been required to apply (mandatory). Nevertheless, IFRSs are required since 2006 to be used by all banks and financial institutions. IFRSs are integrated into the Turkish Accounting Standard (TAS) and Turkish Financial Reporting Standards (TFRSs) laws and regulations (Public Oversight Authority of Turkey, 2017:20).

However, all firms classified as "public interest companies" must utilize TFRSs in their financial statements. The official English version of IFRSs produced by the IASB can be used by a company, in this case, there should be a clear report of the basis of presentation and audit. However, due to the delay in translation, the audit report and footnote on the basis of the presentation declare that the financial statements are compliant with IFRSs as accepted for use in Turkey." (Deloitte Global, n.d.).

As a result of the insolvency of large companies in developed economies, many developed countries have set up public monitoring bodies that are separate from the profession, in order to safeguard creditors and improve the transparency of financial statements, by giving them legislation and oversight powers to do so) Public Oversight Authority of Turkey, 2017:13).

In parallel with these developments and to ensure more effective auditing and public oversight system, “The Public Oversight, Accounting and Auditing Standards Authority” (KGK) was established in Turkey in accordance with “Public Oversight, Accounting and Auditing Standards Authority’s Organization and Responsibilities Decree Law” numbered 660, issued on November 2, 2011 (Public Oversight Authority of Turkey, 2017:20).

2.2.2 Leading Financial Institutions in Turkey

The presence of stable financial markets and a well-designed regulatory system is very essential for developing countries and can be seen from the major economic burdens due to the global economic crisis (Alpay, S., & Hassan, M. K. 2007:2).

In this section leading Islamic Financial institutions in Turkey will be explained.

2.2.2.1 Participation Banks Association of Turkey

The PBAT, a public professional body with legal status set up under the Banking Act, has its headquarters in Istanbul in 2001; the PBAT considers the umbrella of the participation banks operating in Turkey. However, the title of the Association was changed to the Participation Banks Association of Turkey in 2005. In the light of a free-market economy, the PBAT aims, in compliance with bank laws and legislation, to protect the rights and interests of banks concerned as well as the concept of complete competition, Increased competitiveness, ensuring necessary decisions are adopted to create a competitive atmosphere and avoid unfair competition, implementing and requiring the implementation of the banking system in addition to enabling the development of the bank system. In particular, within one month following the initial operating license issued by the legislation, the Participating Banks become members of the Association of Turkish Participating Banks (The Participation Banks Association of Turkey, 2015:1).

2.2.2.2 Public Oversight, Accounting and Auditing Standards Authority

(Kamu Gözetimi, Muhasebe ve Denetim Standartları Kurumu, KGK) is a non-profit regulatory oversight body it was established in 2011, and it's the sole ultimate authority to set accounting and audit standards and ethical guidelines, and the registration process for independent auditors and their entities, all in the sense of general oversight and regulation of all financial operations to ensure quality control

(Public Oversight, Accounting and Auditing Standards Authority of Turkey, 2017:10).

The KGK has the following four primary functions (Public Oversight, Accounting and Auditing Standards Authority of Turkey, 2017:10):

1. Setting accounting standards

2. Setting auditing standards

3. Authorizing and registering auditors and audit firms

4. Overseeing, inspecting and applying legal enforcement to auditors and audit firms

On January 1, 2013, the International Federation of Accountants (IFAC) and KGK signed an agreement to ensure that the audit is recognized in Turkey. The auditing standard-setting process was established under IFAC's for Translating Reproducing Standards and consultative commissions and the review committee was set up for the adaption of the standards. The KGK's primary goal is to develop accounting standards that are fully compliant with International Financial Reporting Standards. In March 2017 Financial Reporting Conceptual Structure, 43 Turkish Financial Reporting Criteria TASs/TFRSs, 25 TAS/TFRS Interpretations have been published in the Official Gazette. Indeed, such standards are regularly updated with the effective dates as originally specified by IASB, in compliance with adjustments made by the IASB (Public Oversight, Accounting and Auditing Standards Authority of Turkey, 2017:22).

2.2.2.3 Banking Regulation and Supervision Agency

According to Banking Law No. 4389 of 1999, the Authority was established as a public entity of administrative and financial independence. A new Banking Law No. 5411 was released in 2005 to improve its independence and productivity. In the Turkish economy, BRSA is playing a pivotal role in increasing competitiveness and efficiency by maintaining financial stability and simplifying financial intermediation, nonetheless, nearly 74% of the overall financial sector and almost 95% of the indirect financing industry is covered by the BRSA (Banking Regulation and Supervision Agency, about us).

2.2.4 Recent Development of Islamic Banking in Turkey

The Turkish financial system has been generally considered to be strongly marginalized the years leading up to 1980s such marginalization and weakness in the financial sector composed of, setting a certain limit on deposit and lending rates, codifying credit, unreasonable taxes on income and financial transactions; high liquidity requirements, reserves, and intermediation costs; overlapping in ownership between banks and non-financial companies, utter dependence of the public sector on the central bank to finance the deficit; strike limits to entry to foreign banks; restrictions on external financial operations, and foreign assets. Those are broadly thought to have contributed to inefficiencies and inequalities in the distribution of resources, with growth consequences (Akyüz, 1990:1).

In 1983, the Turkish government approved a law allowing the formation of Islamic banks, which are financial organizations that function in accordance with Islamic principles and beliefs. When Islamic banking was introduced into the Turkish financial system, it replaced a Western-style banking system. A strictly state-controlled economy was transformed into an open market economy under Turgut Ozal's leadership throughout the 1980s. There has been a significant push to get national savings into the actual economy and increased foreign direct investment from Muslims thanks to these years of change. "Special Finance Houses" was the designation given to Islamic banks by government order in 1983, with no mention of Islam or other religious-based terminology. It was superseded by Banking Law No.5411, which clarified the ambiguity. (Abdurrahman, 2010: 194).

Since the launching of the economic scheme in 2001, the Turkish economy has been in a continuous state of development in line with the purpose of bringing stability to the financial market. Therefore, steps have come into force to shore the regulatory and supervisory institutions. Not to mention that the rules that regulate the market is being worked in with international standards. Nevertheless, a variety of procedures were implemented within a sound framework, aims to (The Banks Association of Turkey, 2005:9).

1. Decrease the public sector deficit
2. Declining in the public sector debt
3. Keeping the price stability
4. Empowering the financial sector

The government, however, has shown its commitment to creating permanent balance in the public sector through the structural reforms.

Turkey now takes an active part in Islamic organizations such as the Islamic Development Bank and the Organization of Islamic Countries. In recent years it has strengthened political ties with most Middle Eastern countries (Ozkan, 2007:160).

The banking sector in Turkey is contributing a significant part of the total financial system, however, the Turkish dynamic economic laboring the efforts to create a great environment for this sector, whereas most of the financial transaction is carried out by banks (The Financial Services Sector in Turkey, 2015:8).

Special Finance House was renamed "Participation bank" in 2006. These changes led to Islamic banks being regarded as legitimate "banks" on par with their conventional counterparts. As a result of these improvements, Islamic banking organizations are now more readily recognized in the worldwide financial sector. As of right now, both Islamic and conventional banks in Turkey are governed by the same regulations, and there are currently 5 participation banks functioning in the country. (Kansoy, & Karlioglu, 2013:134).

However, as AAOIFI accounting standards have not been implemented yet, whereas in 2020 changes will be made in terms of adoption of standards for Islamic banks in Turkey. This study however, aims to explore the awareness of the AAOIFI accounting standards midst of the Islamic bank's staff along with the external auditors.

CHAPTER THREE

DIFFERENCES BETWEEN INTERNATIONAL ACCOUNTING STANDARDS 1 AND FINANCIAL ACCOUNTING STANDARDS 1

International Financial Reporting Consist of a lot of Standard from IFRS1 to IFRS 17 Financial Reporting Standard, all of which will be mentioned in this chapter.

International Accounting Standards (IASs) are the accounting standards that were approved by the previous International Accounting Standards Board (IASC), and approved and amended by the International Accounting Standards Board (IASB) that govern the conduct of international financial accounting transactions. The highest are 41 accounting standards beginning with IAS 1 Presentation of Financial Statements& ending with IAS 41 Agriculture, all of which will also be mentioned in this chapter.

As a result of the rapid development of accounting standards and the resulting need for high-quality standards that can be understood, applied, and help shareholders in the global capital market make sound economic decisions, international financial reporting standards, rules and laws have become indispensable for its application and knowledge.

In this paper, the researcher seeks to clarify the importance of these items & paradox between them, either for international and Islamic standards, trace the stages also procedures of their development in Turkish banks & financial institutions, the mechanism of their application, moreover knowing the local vs. international application procedures also the consequences of these financial & accounting restrictions by comparing the tow standards IAS1 and FAS1.

3.1. International Financial Reporting Standards 1 (IFRS) and International Accounting Standards 1 (IAS)

The need for a common financial reporting system comes as a result of the growth and development of businesses and capital movements, however, it requires joint financial reporting in order to understand and compare the financial status of the countries and enterprises in which they invest. Each country has a reporting system of its own, but it is difficult to compare them with each other since the laws and practices of each country differ. The differences between countries were subsequently reduced or eliminated and information on the financial situation easily compared and understood about the financial situation by standardizing accounting and financial reporting procedures (Serçemeli and Muammer:4).

3.1.1 Formation and Development of International Accounting Standards

During the last years, the international monetary transactions increased along with the growth in international investments, as a natural result, several risks faced those who are investing, questions have been raised such as what are the accounting principles in the country of investment? What is the legal functioning? It has become important to answer these types of questions. However, investors want to be sure whether the financial statements reflect the real situation and question the countries' own practices and standards. In parallel with international investments that notably growing at a rapid pace around the world, the need for an accounting language that expresses the same meaning everywhere, reflects the truth and enables comparison was needed. Developments have paved the way for the formation of accounting standards worldwide and accelerated the adaptation and harmonization processes (Kocamaz, 2012: 6).

First, each country established its own accounting methods to report the outcomes of commercial operations to the relevant interest groups. The establishment of a Uniform Accounting System makes it easier for businesses since various accounting systems from one country to another make international money movement more difficult. However, improved speed of international trade and transparency, as well as financial statement oversight and transactions, are made easier in the presence of a single accounting system that all businesses must use. (Sabuncu, 2019:3,4).

There are some principles for accounting standards to be followed and meet with (Sağlam, Şengel & Öztürk, 2008:6).

1. Accounting standards should provide proper and meaningful information.

2. Concerning financial position and performance, accounting standards should provide prudent and objective measurements.

3. A theoretical foundation is not enough for the accounting standards to build upon, yet it should have a practical nature.

4. Complexity should not exist in the accounting standards overly regarding the subject being addressed.

5. In the event of comparable or related products, accounting rules should be sufficiently accurate.

6. Accounting standards should be detailed enough to prevent inconsistencies and guarantee appropriate enforcement.

7. Accounting standards should not permit other alternative means of treatment.

8. To evaluate an entity's financial position, performance, risk exposure, and risk management activities, the disclosure should be comprehensive sufficiently.

9. The accounting standards should be applicable in all markets including emerging markets.

3.1.2 International Financial Reporting Standards (IFRS)

IFRS is a non-profit public interest Foundation devoted to establishing a single set of high-quality, comprehensible, and enforceable accounting standards

(IFRS Standards), as well as promoting and supporting their implementation. (IFRS Official Website, about us).

IFRS was founded by the International Accounting Standards Board (Board), and is primarily utilized by publicly traded companies that are listed on a stock market, as well as financial institutions such as banks. There are nevertheless official interpretations of the Standards developed by the IFRS Interpretations Committee, referred to as IFRIC Interpretations, that provide further recommendations on how to implement them. (IFRS Official Website, Issued Standards).

Most nations and other organizations, such as the IMF, World Bank, and IOSCO, are considering adopting IFRS as the standard. However, the European Union has agreed that IFRS would go into force at the beginning of 2005, and in Turkey, banks and businesses that are listed on the Istanbul Stock Exchange have been preparing their financial statements in accordance with IFRS since January 1, 2005.In addition, the Turkish Accounting Standards Board, which has the authority and ability to determine and apply Turkish Accounting Standards, has agreed harmonise with IFRS in order to get worldwide recognition. TASB (Turkish Accounting Standards Board) is a one-of-a-kind body that has been approved to establish and apply accounting standards in Turkey. As a result, the adoption and implementation of these principles by other regulatory organizations will be unavoidable in the near terms (Yalkın, & Demir, 2006:1).

In the following table, the most important milestones for international accounting standards historically:

3.1.2.1 IFRS Foundation and Board Developments

Here are the most important Moves of IFRS (IFRS Official website, history)

- ❖ 1973 - It was decided by the International Accounting Standards Committee (IASC), a group of professional accounting bodies from countries such as the United Kingdom/Ireland, Canada, France, Germany, Japan, Mexico, the Netherlands and the United States, that companies cross-border listings should use International Accounting Standards.

- ❖ 1989 - issuing of the Framework for the Preparation and Presentation of Financial Statements by IASC which consider to be the first international conceptual framework.
- ❖ 1990 - It is with the publication of IAS 31 Financial Reporting of Interests in Joint Ventures that IASC completes its first systematic collection of 31 International Accounting Standards. As part of its Statement of Purpose on Comparability of Financial Statements, the International Accounting Standards Committee (IASC) announces its intention to limit the number of different accounting treatments permitted under International Accounting Standards.
- ❖ 1993 - IASC is also working on the 'comparability and enhancements initiative,' as well as revising its standards.
- ❖ 1996 - According to the International Accounting Standards Committee (IASC), a standing interpretation committee (SIC) has been established to produce interpretations of International Accounting Standards.
- ❖ 1999 - The IASC allows the public to observe its meetings.
- ❖ 2000 - IFRS Foundation is established and IASC agrees to restructure itself into a full-time International Accounting Standards Board, besides IASC completes its standard-setting.
- ❖ 2001 - The Board and the FASB sign the Norwalk Agreement,' which aims to strengthen and converge IFRS and US GAAP standards.
- ❖ 2003 - the first standard to be issued by the bored —IFRS 1 First-time Adoption of International Financial Reporting Standards.
- ❖ 2004 - The International Accounting Standards Board (IASB) has begun development on a distinct accounting system for small and medium-sized firms, IFRS2 Share-based Payment, in response to investors' worries about absence of expenditures deriving from stock options and similar transactions with workers (SMEs).

- ❖ 2005 - The Board issued IFRS 7 Financial Instruments: Disclosures to improve financial instrument and capital market disclosures.
- ❖ 2006 - To minimize gaps between IFRS Standards and US GAAP, the Board issues IFRS 8 Operating Segments.
- ❖ 2009 - The Board issues the IFRS for SMEs Standard the Board publishes the chapters of IFRS 9 Financial Instruments that deal with financial asset classification and estimation.
- ❖ 2010 - The Board amends IFRS 9 to include new conditions for the classification and calculation of financial obligations, such as embedded derivatives and "own credit risk."
- ❖ 2011 - Three IFRS Standards on accounting for and disclosures about rights in other companies are issued by the Board.
- ❖ 2014 - The FRS Foundation announces its mission: to develop IFRS Standards that add openness, integrity, and quality to financial markets all over the world.
- ❖ 2016 - Issuing of IFRS 16 Leases, requiring all leases to be listed as assets and liabilities on the balance sheet of the business.
- ❖ 2017 - A new standard IFRS 17 has been issued regarding Insurance Contracts representing a profound reform of the accounting of insurance.
- ❖ 2018 - Revised financial reporting framework defined the basic principles of financial reporting that underlie IFRS standards. A revised financial reporting framework has been published. The revised framework replaces the conceptual framework of 2010.
- ❖ 2020 - In response of Interest Rate Benchmark Reform, the Board continues standard-setting to achieve such goal.

3.1.2.2 IFRS Standards List

IFRS standards are the following (IFRS official website):

- ❖ IFRS 1 First-time Adoption of International Financial Reporting Standards

- ❖ IFRS 2 Share-based Payment
- ❖ IFRS 3 Business Combinations
- ❖ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- ❖ IFRS 6 Exploration for and Evaluation of Mineral Resources
- ❖ IFRS 7 Financial Instruments Disclosures
- ❖ IFRS 8 Operating Segments
- ❖ IFRS 9 Financial Instruments
- ❖ IFRS 10 Consolidated Financial Statements
- ❖ IFRS 11 Joint Arrangements
- ❖ IFRS 12 Disclosure of Interests in Other Entities
- ❖ IFRS 13 Fair Value Measurement
- ❖ IFRS 14 Regulatory Deferral Accounts
- ❖ IFRS 15 Revenue from Contracts with Customers
- ❖ IFRS 16 Leases
- ❖ IFRS 17 Insurance Contracts

3.1.3 IAS1

IAS Standards are standards established by the Board's predecessor organization, the International Accounting Standards Committee. These Standards have the same status standing as IFRS Standards. SIC Interpretations are authoritative interpretations of certain Standards established by the Standing Interpretations Committee (IFRS Official Website, Issued Standards).

List of IAS Standards are (Source: IFRS in your pocket, 2021):

- ❖ IAS 1: Presentation of Financial Statements
- ❖ IAS 2: Inventories
- ❖ IAS 7: Statement of cash flows
- ❖ IAS 8: Accounting policies, changes in accounting estimates and errors
- ❖ IAS 10: Events after the reporting date
- ❖ IAS 12: Income taxes

- IAS 16: Property, plant and equipment
- IAS 16: Property, plant and equipment
- IAS 19: Employee Benefits
- IAS 20: Accounting for Government Grants and Disclosure of Government Assistance
- IAS 21: The effects of changes in foreign exchange rates
- IAS 23: Borrowing costs
- IAS 24: Related party disclosures
- IAS 27: Accounting and Reporting by Retirement Benefit Plans
- IAS 28: Investments in Associates and Joint Ventures
- IAS 29: Financial reporting in hyperinflationary economies
- IAS 32: Financial instruments: presentation
- IAS 33: Earnings per share
- IAS 34: Interim financial reporting
- IAS 36: Impairment of assets
- IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- IAS 38: Intangible assets
- IAS 39: Financial instruments
- IAS 40: Investment property
- IAS 41: Agriculture

3.1.3.1 IAS 1 - Presentation of Financial Statements

The presentation defines the requirements for financial statements and how they might be arranged, as well as the minimal requirements for their content and overarching concepts such as going concern, accrual accounting, and the current/non-current distinction. However, IAS 1 aims to provide the framework for the presentation of financial statements with a general intent to ensure comparability both with the financial statements of the company from prior periods and with other companies' financial statements. IAS1 is applicable to all financial statements for general purposes prepared and submitted in compliance with the IFRS Standards (IFRSs). According to the standard, a statement of financial status, a statement of benefit or loss and other detailed profits, a statement of adjustments of equity, and a statement of cash flows must all be included in a complete set of financial statements (IAS 1 - Presentation of Financial Statements).

3.1.3.2 IAS 1 – Development of IAS1

IAS 1 Standard history (IAS 1 Presentation of Financial Statements):

- The International Accounting Standards Board (Board) accepted IAS 1 Presentation of Financial Statements in April 2001, This however, was first released in September 1997 by the International Accounting Standards Committee.
- As part of its initial agenda of technical tasks, the Board released a revised IAS 1 in December 2003.
- In September 2007, the Board published an amended IAS 1, which contained a modification in the presentation of owner changes in equity and comprehensive income, as well as a change in language in the titles of financial statements.
- The Board revised IAS 1 in June 2011 to enhance the presentation of components of other income comprehensive income.
- To address concerns about certain of IAS 1's existing presentation and disclosure obligations, the Disclosure Initiative (Amendments to IAS 1) was adopted in December 2014.
- October 2018 - Definition of Material issued by the board (Amendments to IAS 1 and IAS 8). Material was defined and how it should be applied with this change.
- Liabilities were classified as current or non-current in January 2020 by the Board (Amendments to IAS 1).

3.2. AAOIFI Standards , FAS1 , and TFRS for Participation Banks in Turkey

Following the presentation of AAOIFI in ch2, FAS1 will be presented (Financial Accounting Standards) (in this section of chapter3), which distinguishes Islamic accounting from conventional accounting.

3.2.1 AAOIFI Standards

In January 1996, AAOIFI established Financial Accounting Standard No. 1 on General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions, however, it applies particularly to financial statements published in Muslim banks, in accordance with the common AAOIFI (Rahman, A. R. A. 2012:72).

Generally, FAS concentrates on issues that are not addressed properly or effectively by traditional standards, based on AAOIFI. For some related transactions, certain AAOIFI identification and measuring requirements vary from IFRS requirements (AOSSG Islamic Finance Working Group, 2015: 4).

- FAS Standards (AAOIFI Website, Accounting Standards):

1. FAS No. (1) General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions
2. FAS No. (3) Mudaraba Financing
3. FAS No. (4) Musharaka Financing
4. FAS No. (7) Salam and Parallel Salam
5. FAS No. (8) Ijarah and Ijarah Muntahia Bittamleek
6. FAS No. (9) Zakat
7. FAS No. (10) Istisna’a and Parallel Istisna’a
8. FAS No. (12) General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies
9. FAS No. (13) Disclosure of Bases for Determining and Allocating Surplus or Deficit in Islamic Insurance Companies
10. FAS No. (14) Investment Funds
11. FAS No. (15) Provisions and Reserves in Islamic Insurance Companies
12. FAS No. (16) Foreign Currency Transactions and Foreign Operations
13. FAS No. (18) Islamic Financial Services Offered by Conventional Financial Institutions
14. FAS No. (19) Contributions in Islamic Insurance Companies
15. FAS No. (20) Deferred Payment Sale

16. FAS No. (21) Disclosure on Transfer of Assets
17. FAS No. (22) Segment Reporting
18. FAS No. (23) Consolidation
19. FAS No. (24) Investments in Associates
20. FAS No. (26) Investment in Real Estate
21. FAS No. (27) Investment accounts
22. FAS No. (28) Murabaha and Other Deferred Payment Sales
23. FAS No. (30) Impairment, credit losses and onerous commitments
24. FAS No. (31) Investment Agency (Al-Wakala Bi Al-Istithmar)
25. FAS No. (32) Ijarah
26. FAS No. (33) Investments in Sukuk, shares and similar instruments
27. FAS No. (34) Financial Reporting for Sukuk-holders
28. FAS No. (35) Risk Reserves
29. FAS (36) First Time Adoption of AAOIFI Financial Accounting Standards
30. FAS (37) Financial Reporting by Waqf Institutions
31. FAS (38) Wa'ad, Khiyar and Tahawwut

3.2.2 Development of Accounting Standards in Turkey

Starting from the 1990s, efforts have been made to adopt accounting guidelines and practices that are consistent with international norms that apply to all organizations in Turkey. In light of the European Union (EU) integration process and globalization, Turkey's compliance with IAS/IFRS and implementation of these requirements has been unavoidable. As a result, various boards have been created in Turkey, and numerous studies have been conducted in order to create national accounting standards that are compliant with IAS/IFRS. The Turkish Accounting and Auditing Standards Council was the first of these boards (TMUDESK) (Koç Yalkın, Y., Demir, V., & Demir, D. 2006:2).

Since 1994 the Uniform Accounting System and Uniform Chart of Accounts came into force in Turkey covering purposes of eliminating the differences in accounting practices to ensure that the financial statements are clear appropriate, understandable, objective, and comparable (Sabuncu, B., 2019:4).

The European Union, as stated before, has agreed since of 2005 IFRS will be active. However, IMF, World Bank, OSCO and other related organizations have determined their policies according to IFRS. In Turkey IFRS-based financial statements have been prepared by banks and companies registered at the Stock Exchange since 1 January 2005. Besides, to obtain international approval, the Turkish Board of Accounting Standards which is empowered to determine and apply Turkish Accounting Standards has approved harmonization (uniformity) with IFRS (Yalkın, Demir, & Demir, 2006: 4).

The development of TFRS, which was published and implemented by TASB (Turkish accounting standards board), is the culmination of a long-term harmonization process. TASB published and implemented this standard as part harmonization process. The creation of TFRS began with the translation of IFRS; these standards are based on a variety of legal structures and advancements. Though TFRS is being developed with the translation of IFRS, standards of TFRS are based on many legal measures and developments. Publication of The Law No: 3568 "The Law of Independent Accountancy, Certified Public Accountancy and Sworn-in Certified Public Accountancy" and the application of “Uniform Accounting System” are the most important among these arrangements (Yalkın, Demir, & Demir, 2006: 5).

3.2.3 The Turkish Financial Reporting Standards Related to the Presentation of Financial Statements

The Kamu Gözetimi, Muhasebe ve Denetim Standartları Kurumu (KGK) is responsible for the establishment of accounting standards in Turkey. The Turkish Financial Reporting Standards (TFRSs) are fully compliant with IFRS. New and revised requirements are published in the Official Gazette on a regular basis (Financial Reporting Framework in Turkey)

Turkish Financial Reporting Standards TFRSs are:

- TFRS 1: First-Time Adoption of TFRS
- TFRS 2: Share-Based Payment
- TFRS 3: Business Combinations
- TFRS 4: Insurance Contracts
- TFRS 5: Non-current Assets Held for Sale and Discontinued Operations
- TFRS 6: Exploration for and Evaluation of Mineral Resources
- TFRS 7: Financial Instruments: Interpretations
- TFRS 8: Operating Sections
- Profit or Loss for The Period, Fundamental Errors and Changes in Accounting Policies
- TFRS 9: Financial Instruments (2017 Edition)
- TFRS 10: Consolidated Financial Statements
- TFRS 11: Joint Agreements
- TFRS 12: Explanations about shares in other companies
- TFRS 13: Fair Value Measurement
- TFRS 14: Various Organizational Accounts
- TFRS 15: Revenue from Customer Contracts
- TFRS 16: Rentals

Turkish Accounting Standards (Türkiye Muhasebe Standartları TMS) are:

- TMS 1: Presentation of Financial Statements
- TMS 2: Inventories
- TMS 7: Cash Flow Statement
- TMS 8: Accounting policies, changes and errors in accounting estimates
- TMS 10: Events after the reporting period
- TMS 12: Income Taxes
- TMS 16: Tangible property
- TMS 19: Employee benefits
- TMS 20: Accounting government incentives and explaining government aid
- TMS 21: Currency exchange effects

- TMS 23: Borrowing costs
- TMS 24: Related Party Disclosures
- TMS 26: Accounting and Reporting in Pension Benefit Plans
- TMS 27: Individual financial statements
- TMS 28: Investments in subsidiaries and joint ventures
- TMS 29: Financial Reporting in Hyperinflationary Economies
- TMS 32: Financial Instruments: Presentation
- TMS 33: Earnings per share
- TMS 34: Preparing interim financial reports
- TMS 36: Asset optimization
- TMS 37: Provisions, potential responsibilities and potential assets
- TMS 38: Intangible assets
- TMS 39: Financial Instruments: Accounting and Measurement
- TMS 40: Real estate investment
- TMS 41: Agricultural activities

3.2.4 The Turkish Financial Reporting Standards for Participation Banks

To ensure that participation banks operating in Turkey present truthful and accurate information in their financial statements in connection with their operations, and to improve the comparability of these institutions' financial statements among themselves and with related international institutions, a copyright agreement was Signed with the Islamic Financial Institutions Accounting and Auditing Board (AAOIFI), on September 27, 2017, to translate the published accounting, auditing, ethics, and governance standards into Turkish and to include them in legislation(Hannoudi,2015:19).

The Conceptual Framework sets out the principal targets and principles on which the financial statements and accounting operations of interest-free financial institutions are based (IFIs). The purpose of financial accounting and reporting forms the basis of the Conceptual Framework. Concepts originate from objectives and are the framework of the principles that underpin financial reporting. There are many reasons for establishing separate standards for Islamic institutions from international standards, and one of the most important reasons is that the relationship between Interest Bearing Financial Institutions (Faizsiz Finans Kuruluşları “FFK”) and the parties that deal with them; differs from the relationship of those who do business with traditional firms, insurance companies, mutual funds, and other organizations. Unlike traditional companies, FFK is prohibited from using interest in investment and financing transactions, being a party to highly speculative transactions and transactions that are not permitted by statutory provisions of FFK (Faizsiz Finans Kuruluşlarının Finansal Raporlamasına İlişkin Kavramsal Çerçeve).

In order to bring into the legislation, the international standards published in the field of interest-free finance, to increase awareness about these transactions, they were translated into Turkish under the name of Interest-Free Finance Accounting Standards (Faizsiz Finans Muhasebe Standartları "FFMS") and the following standards were first published in the Official Gazette dated 29.05.2019 and numbered 30780 (Faizsiz Finans Kuruluşlarının Finansal Raporlamasına İlişkin Kavramsal Çerçeve).

• Conceptual Framework for Financial Reporting of Interest-Free Finance Institutions

• FFMS 1: General Presentation and Explanation in Financial Tables of Participation Banks and Interest-Free Finance Institutions

• FFMS 3: Deputy Financing

• FFMS 4: Consulting Financing

• FFMS 7: Salam

• FFMS 9: Zakat

• FFMS 10: İstisnâ

• FFMS 28: Murabaha and Other Forward Sales

KGK has included the following standards in the legislation by publishing in the Official Gazette dated 6. 9.2019 and numbered 30880 as a continuation of FFMS.

• FFMS 8: Financial Leasing

• FFMS 14: Mutual Funds

• FFMS 16: Foreign Currency Transactions and Businesses Abroad

• FFMS 18: Interest-Free Finance Services Offered by Traditional Financial Institutions

• FFMS 21: Disclosures on Transfer of Assets

• FFMS 22: Reporting According to Departments

• FFMS 23: Consolidation

• FFMS 24: Investments in Affiliates

• FFMS 26: Real Estate Investments

• FFMS 27: Investment Accounts

• FFMS 30: Impairment, Credit Losses and Economically Disadvantaged Commitments

• Interest-Free Finance Accounting Guideline 1: First Implementation of Interest-Free Finance Accounting Standards by Interest-Free Financial Institutions

Finally, KGK has published the following FFMS in the Official Gazette dated 20.11.2019 and numbered 30954:

• FFMS 31: Agency Investment (EI-Vekâle Bi'l İstithmar)

• FFMS 33: Investments in Sukuk, Shares and Similar Instruments

• FFMS 34: Financial Reporting for Sukuk Holders

• FFMS 35: Risk Substitutes

For accounting periods starting on or after January 1, 2020, these standards are optional (Çetin,2020:95).

3.3. The Differences between International Accounting Standards 1 and Financial Accounting Standards 1

In terms of the essence and the arrangements surrounding these transactions, the financial reporting of IFI in the industry differs from conventional organizations; the financial statements of IFI will have to represent the compliance with Shari'ah criteria. However, IAS1 and FAS1 will compared according to Purpose, financial statements, comparative information and accounting policies.

3.3.1 The Purpose of the Standards

Table 3.5: Purpose of the Standards

Standard	Purpose
IAS1	General purpose of financial statements are meant to satisfy the needs of persons who are unable to compel an organization to create reports customized to their specific information needs.
FAS1	This standard outlines the general criteria for financial statement presentation, the minimum requirement for financial statement content, and a recommended financial statement structure that facilitates truthful display in line with Shari'ah, however, sharia requires financial statements to be presented in a manner consistent with its principles and rules, and to be comparable with the institution's financial statements from previous periods.

(The Table Prepared by The researcher)

Taking into account the differences of the users who deal with those bodies, the conceptual framework purpose of both standards is emphasizing on meeting the users of the Financial Statements of an entity, and indicating what makes information material to the primary users of the financial statements.

3.3.2 Financial Statements

In the following table the Financial Statements that should be included either in the Islamic and traditional banks, however, the table explain the differences of accounts included in both systems according to IAS1 and FAS1.

Table 3.6: Financial Statements

Standard	Complete set of financial statements
IAS1	(a) A statement of financial position as at the end of the period; (b)A statement of profit or loss and other comprehensive income for the period; (c)A statement of changes in equity for the period; (d) statement of cash flows for the period; e) Notes, comprising significant accounting policies and other explanatory information; (f) A statement of financial position as at the beginning of the preceding period
FAS1	a) Statement of financial position, b) An income statement, c) Statement Cash flow, d) A statement of changes in owners' equity or a statement of retained earnings; e) A statement of changes in restricted investment, f) A statement of sources and uses of funds in the Zakat and charity fund g) statement of sources and uses of funds in the Qard fund,

	h) Notes to the financial statements; i) Any statements, reports and other data which assist in providing information required by users of financial statements as specified in the Conceptual Framework for Financial Reporting by Islamic Financial Institutions.

(The Table Prepared by The researcher)

In FAS1, the whole set of financial statements is made up of traditional IAS 1 statements such as a statement of financial position (balance sheet); income statement, cash flows statement; statement of changes in owners' equity, or a statement of retained earnings; and notes to the financial statements The standard, however, introduced three (3) additional statements which could be useful for Islamic banks and financial users:

- Statement of changes in restricted investment;
- Statement of sources and uses of funds in the Zakat and charity fund and
- Statement of sources and uses of funds in the Qard fund

3.3.2.1 Statement of Financial Position

The accounts included in the Statements of financial position will differ among IAS1 and FAS1, below is the table that compares these accounts.

Table 3.7: Statement of Financial Position

Standard	Statement of Financial Position
IAS1	In a statement of financial position or in a statement of adjustments in the equity, the company shall disclose the following: (a) property, plant and equipment; (b) investment property; (c) intangible assets; (d) financial assets (excluding amounts shown under (e),

	(h) and (i)); (e)investments accounted for using the equity method; (f) biological assets within the scope of IAS 41 Agriculture; (g) inventories; (h) trade and other receivables; (i) cash and cash equivalents; (j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale (k) trade and other payables; (l) provisions; (m) financial liabilities (excluding amounts shown under (k) and (l)); (n) liabilities and assets for current tax, (o) deferred tax liabilities and deferred tax assets (p) liabilities included in disposal groups classified as held for sale (q) non-controlling interests, presented within equity; and (r) issued capital and reserves attributable to owners of the parent
FAS1	The assets section: In the statement of financial position; Separate totals are presented for assets, liabilities, unrestricted investment accounts and Owners 'equity. Providing separate explanations for the assets co-financed by the Islamic bank and unrestricted investment account holders and individually financed by the Islamic bank, explanations are made in the statement of financial position or in the footnotes of the financial statements

	for the following assets: Cash and cash equivalent, Receivables Mudaraba financing, Salam receivables, Musharaka financing, Exception receivables, Investments in other entities, Inventories, Assets acquired for leasing, Other investments with disclosure of their types, Fixed assets with disclosure of significant types, other assets with disclosure significant types. The liabilities section: Current accounts, saving accounts and other accounts, with, separate disclosure of each category of accounts, deposits of other banks , Salam payables , Istisna'a payables, Declared but undistributed profits , Zakah and taxes payable , Other accounts payable

(The Table Prepared by The researcher)

However, it is noticed that FAS1 indicates more financial statements than IAS1, its normally for Islamic standards to be more conservative, However, in the statement of financial position, FAS1 require to disclose the receivables from Mudarabah contracts and the stocks including goods purchased for Murabaha customers and zakat that not exist in the conventional financial statement.

According to FAS1, Assets and liabilities should be combined into groupings in accordance with their nature and those groupings should be presented in the statement of financial position in the order of the relative liquidity of each group. Furthermore, with regard to some current and non-current assets, there are exceptions according to FAS1. For example, there may be an exception to the presentation of assets and liabilities according to their liquidity and not according to current or non-current classifications, because they give more reliable and more relevant information. The statement of financial position should present separate totals for assets, liabilities, unrestricted investment accounts and their equivalent, and owners' equity (para. 35), and Assets and liabilities should not be classified between current and non-current (para. 36), however, the following assets should be disclosed on the face of the statement of financial position or in the notes to the financial statements, with separate disclosures for those jointly financed by the Islamic bank and unrestricted investment accountholders and those exclusively financed by the Islamic bank:

- ❖ Cash and cash equivalent, Receivables (Murabaha receivables Salam receivables, Istisna'a receivables)Investment securities, Mudaraba financing, Musharaka financing, Investments in other entities, Inventories (including goods purchased for Murabaha customers, prior to consummation of Murabaha agreement, Investment in real estate, Assets acquired for leasing, Other investments with disclosure of their types, Fixed assets with disclosure of significant types and the related accumulated depreciation.

Disclosure should be made in the statement of financial position or the notes to the financial statements of the following liabilities:

- ❖ Current accounts, saving accounts and other accounts, Deposits of other banks, Salam payables, Istisna'a payables, Declared but undistributed profits, Zakah and taxes payable, Other accounts payable. (para. 41)

With regard to FASI 1, The order and format of items are not specified in this Standard. Paragraph 54 includes items that are fundamentally different in nature or function to warrant separate inclusion in the statement of financial status, in addition: the inclusion of line items is justified by the fact that a distinct presentation of the item or aggregation of comparable items is necessary to comprehend the financial condition and Depending on the nature of the business and its activities, the descriptions used and the ordering of items or aggregation of related things may be modified to give information that is important to an understanding of the entity's financial situation.

Consolidated Statement of Financial Position

Assets	Previous Year	Current Year
Cash and Cash Equivalents	xx	xx
Sales Receivable	xx	xx
Investments:	-	-
Investment securities	xx	xx
Mudarabah financing	xx	xx
Musharaka investments	xx	xx
Participations	xx	xx
Inventories	xx	xx
Investments in Real estate	xx	xx
Assets for rent	xx	xx
İstisnâ	xx	xx
Other investments	xx	xx
Total Investment	xxx	xxx
Other Assets	xx	xx
Fixed Assets (net)	xx	xx
Total Assets	xxx	xxx

Liabilities, Unrestricted Investment Accounts, Minority Shares and Shareholders' Equity		
Liabilities:	**Previous Year**	**Current Year**
Current accounts and savings accounts	xx	xx
Current accounts for banks and financial institutions	xx	xx
Payables	xx	xx
Proposed dividends	xx	xx
Other liabilities	xx	xx
Total liabilities	xxx	xxx
Equity of Unrestricted Investment Account Holders	xx	xx
Minority interest	xx	xx
Total Liabilities, Unrestricted Investment Accounts and Minority Interest	xxx	xxx
Owners’ Equity	xx	xx
Paid-in capital	xx	xx
Reserves	xx	xx
Retained earnings	xx	xx

Total Owners' Equity	xx	xx
Total Liabilities, Unrestricted Investment Accounts, Minority Shares and Owners' Equity	xxx	xxx

Figure 3.1: Example Statement of Financial Position according to FAS1

(Source: Financial Accounting Standard No. (1))

Statement of Financial Position

Assets		
Current assets:	**Previous Year**	**Current Year**
Inventories	xx	xx
Trade and other receivables	xx	xx
Cash and cash equivalents	xx	xx
Total current assets	xxx	xxx
Fixed assets:	Previous Year	Current Year
Intangible assets Goodwill	xx	xx
Property, plant & equipment	xx	xx
Total fixed assets	xx	xx
Total assets	xxx	xxx

Liabilities and owner's equity		
EQUITY & LIABILITIES	Previous Year	Current Year
Equity	xx	xx
Issued capital	xx	xx
Share premium	xx	xx
General reserve	xx	xx
Retained earnings	xx	xx
Total equity	xxx	xxx
Non-current liabilities	Previous Year	Current Year
Bank loan	xx	xx
Current liabilities		
Trade and other payables	xx	xx
Tax liabilities	xx	xx
Total liabilities	xxx	xxx
Total equity and liabilities	xxx	xxx
Total liabilities and owner's equity	xxxx	xxxx

Figure 3.2: Statement of Financial Position of according to IAS 1

(Source: IAS 1 - Presentation of Financial Statements)

3.3.2.2 Statement of Profit or Loss and Other Comprehensive Income

A company's financial statements, such as its profit and loss statement and comprehensive income statement, are intended to show the company's financial performance and how it operates, as well as its net cash flows, in order to assist investors and customers of the company or bank in understanding the financial statements and comparing them to one another. In the following table items of income statements according to IAS1 and FAS1 will be examined.

Table 3.8: Statement of Profit or Loss and Other Comprehensive Income

Standard	Statement of profit or loss and other comprehensive income
IAS1	The statement of profit or loss shall include line items that present the following amounts for the period: (a)revenue, (b) finance costs; (c)share of the profit or loss of associates and joint ventures accounted for using the equity method; (d)tax expense; (e)a single amount for the total of discontinued operations
FAS1	The following information should be disclosed in the income statement: a) Revenue and gains from investments. b) Expenses and losses from investments. c) Income (loss) from investments. d) Share of unrestricted investment accountholders in income (loss) from investments before the bank's share as a Mudarib.

	f) The Islamic bank’s share in income (loss) from investments. g) The Islamic bank’s share in unrestricted investment income as a Mudarib. h) The Islamic bank’s share in restricted investment profits as a Mudarib. i) The Islamic bank’s fixed fee as an investment agent for restricted investments. j) Other revenues, expenses, gains, and losses. k) General and administrative expenses. l) Net income (loss) before Zakah and taxes. m) Zakah and taxes (to be separately disclosed). n) Net income (loss)

(The Table Prepared by The researcher)

In the income statements of IAS 1, there is no distinction in the form of income that is suitable in terms of Islam, however, the FAS1 requires from Islamic banks to disclose the amount of zakat basis if they paid it on behalf of partners, this process is not exist in the traditional standards.

According to IAS1, expenditures are classified based on their role as part of the cost of sales, such as distribution or administrative costs. Under this technique, a company must declare its cost of sales separately from other expenditures.

In paragraph A81 according to IAS1, the statement of profit or loss and other comprehensive income shall include, in addition to the profit or loss and other comprehensive income sections:

(a) profit or loss;

(b) total other comprehensive income;

(c) comprehensive income for the period, being the total of profit or loss and other comprehensive income.

The following information must be provided in the income statement, with distinct disclosures of investment revenues, costs, profits, and losses jointly financed by the Islamic bank and non-limited account holders from those solely financed by the Islamic bank, as appropriate:

Revenues and gains from investments, Expenses, and losses from investments, Income (loss) from investments, Share of unrestricted investment account holders in income (loss) from investments before the bank's share as a Mudarib, the Islamic bank's share in income (loss) from investments, the Islamic bank's share in unrestricted investment income as a Mudarib, the Islamic bank's share in restricted investment profits as a Mudarib, the Islamic bank's fixed fee as an investment agent for restricted investments, Other revenues, expenses, gains, and losses, General and administrative expenses, Net income (loss) before Zakah and taxes, Zakah and taxes (to be separately disclosed), Net income (loss). (para. 50)

The following examples indicate the form of income statement according to each system:

Income Statement

Income : Deferred sales	xx
Investments	xx
Less : Return on Unrestricted Return on Investment Accounts Before Bank's Share as Mudarib	xx
Bank's Share as Mudarib	xx
Return on Unrestricted Return on Investment Accounts Before Zakat	xx x
Bank's Share in Investment Income (as Mudarib and fund owner)	xx
Income of the Participation Bank from Own Investments	xx
Bank's Share in Restricted Investment Profit as Mudarib	xx
Fee of the Bank as an Investment Representative in Restricted Investments	xx
Revenue from Banking Services	xx
Total Revenues	xx
General and administrative expenses	xx
Depreciation	xx
Net Profit (Loss) Before Zakat and Tax	xx
Zakat Provision	xx

Net Profit Before Minority Interest	xx
Minority Interest	xx
Net profit	xxx

Figure 3.3: Income Statement According to FAS1

(Financial Accounting Standard No. (1))

Income Statement

Revenue	xx
Cost of Sales	xx
Gross Profit	xx
Distribution Costs	xx
Administrative Expenses	xx
Profit from Operations	xx
Finance Costs	xx
Profit before Tax	xx
Tax	xx
Profit for the Year	x

Figure 3.4: Income Statement According to IAS 1

(Source: IAS 1 - Presentation of Financial Statements)

3.3.2.3 Statement of Changes in Equity

The statement of changes in equity rights demonstrates, what changes have been made to equity rights throughout time such as Capital retained earnings, and reserves. In the table below the of statement of change in equity are given according to both IAS1 and FAS1.

Table 3.9: Statement of Changes in Equity

Standard	Statement of changes in equity
IAS1	The statement of changes in equity includes the following information: (a)total comprehensive income for the period, (b)for each component of equity, the effects of

	retrospective application or retrospective restatement recognized (d)for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from: (i) profit or loss; (ii) other comprehensive income; and (iii)Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.
FAS1	The following matters are explained in the statement of changes in equity of the partners: a) Paid-in capital at the beginning of the period, legal and optional reserves separately from each other, and undistributed profits. b) Shareholders' capital contributions during the period. c) Net profit (loss) for the period. d) Distributions made to partners during the period. e) Increases (decreases) in legal and optional reserves during the period. f) Paid-in capital at the end of the period, separate legal and other optional reserves and undistributed profits

(The Table Prepared by The researcher)

Description	Paid-up Capital	Reserves		Retained Earnings	Total
	Monetary Unit	Legal Monetary Unit	General Monetary Unit	Monetary Unit	
Balance as of 2021 (current period)	xx	-	-		xx
Issuance of shares	-	-	-		
Net profit	-	-	-	xx	xx
Distributed profits	-	-	-	(xx)	(xx)
Transfer to reserves	-	xx	xx	(xx)	-
- Balance as of 2021 (current period)	xx	xx	xx	xx	xx
Net profit	-	-	-	xx	xx
Distributed profits	-	-	-	(xx)	(xx)
Transfer to reserves	-	xx	xx	xx	
Balance at 2021(current period)	xxx	xxx	xxx	xxx	xxx

Figure 3.5: Income Statement According to FAS1

(General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions)

Statement of Changes in Equity

Balance at start of year	xx
Profit for the year	xx
Transfers from other reserves	xxx
Dividends paid	xx
Transfers to other reserves	xx
Balance at end of year	xxx

Figure 3.6: Statement of Changes in Equity according to IAS 1

(Source: IAS 1 - Presentation of Financial Statements)

3.3.2.4 Statement of Cash Flows

The statement of cash flows is a very important statement, and banks must include it in the financial statements. It measures the amount of cash at the institution and the amount of cash in and out. It assesses an institution's or bank's capacity to manage money and generates funds to meet its debts and commitments to investors and bank customers.

Table 3.10: Statement of Cash Flows

Standard	Statement of cash flows
IAS1	Users of financial statements can use cash flow information to analyze the entity's ability to create cash and cash equivalents, as well as the entity's need to utilise those cash flows. IAS 7 sets out requirements for the presentation and disclosure of cash flow information.
FAS1	In the cash flow statement, a distinction is made between cash flows arising from operating activities, investing activities and financing activities. In addition, the table describes the main components of each cash flow category. (paragraph 54) In the cash flow statement, the net increase (decrease) in cash and cash equivalents during the period and cash and cash equivalents balance at the beginning and end of the period are disclosed. (paragraph 55) Transactions and other transfers that do not require the payment or collection of cash and cash equivalents such as bonus shares or assets acquired by the participation bank in return for its equity shares are disclosed. (paragraph 56)

(The Table Prepared by The researcher)

According to FAS1, disclosure should be made of the Islamic bank's policy on the components of cash and cash equivalents used in the preparation of the statement of cash flows (para. 57)

Statement of Cash Flows

Cash Flow	Previous Year	Current Year
Cash flows from operating activities	-	-
Net Income (loss)	xx	xx
Adjustments for the reconciliation of net profit	xx	xx
Net cash from operating activities	xxx	xxx
Depreciation	xx	xx
Provisions of Doubtful Accounts	xx	xx
Provisions for Zakat money	xx	xx
Tax provision	xx	xx
Zakat Paid	(xx)	(xx)
Taxes paid	xx	xx
Return on unrestricted investment accounts	xx	xx
Earnings from the sale of fixed assets	xx	xx
Depreciation of leased assets	xx	xx
Provision for impairment of investment securities	xx	xx
Bad Receivables	(xx)	(xx)
Fixed assets purchased	(xx)	(xx)
Net cash flows from operating activities	xxx	xxx
Cash flows from investing activities	-	-
sale of rental Real estates	xx	xx
Purchased rental real estates	xx	xx
Real estate sale	xx	xx
Investment securities acquired	xx	xx
Increase in Mudaraba investments	(xx)	(xx)
Stock sale	xx	xx
Exception sale	xx	xx
Net increase in receivables	(xx)	(xx)
Net cash flows from investing activities (used in investing activities)	xxx	xxx
Cash flows from financing activities	-	-
Net increase in unrestricted investment accounts	xx	xx
Net increase in current accounts	xx	xx
Dividends paid	xx	xx

Increase in credit balances and expenses	xx	xx
(Decrease) in accrued expenses	(xx)	(xx)
Increase in minority interest	xx	xx
Decrease in other assets	xx	xx
Net cash flows from financing activities	xx	xx
Increase (decrease) in cash and cash equivalents	xx	xx
Cash and cash equivalents at the beginning of the period	xx	xx
Cash and cash equivalents at the end of the period	xxx	xxx

Figure 3.7: Cash Flows Statement According to FAS 1

(Financial Accounting Standard No. (1) General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions)

Statement of Cash Flows

Statement of cash flows for the year ended 31 December 2021	**$**	**$**
Net cash (used in)/from operating activities	-	xx
Cash flows from investing activities:	-	-
Purchase of non-current assets	(xx)	
Proceeds from the sale of non-current assets	xx	
Interest received	xx	
Dividends received	xx	
Net cash (used in)/from investing activities	-	xxx
Cash flows from financing activities:	-	xx
Proceeds from issue of share capital (this would 80 000 include both the share and share premium amounts)	xx	-
Repayment of long-term borrowings	xx	
Dividends paid	xx	
Net cash (used in)/from financing activities	-	xxx
Net increase/(decrease) in cash and cash equivalents	-	xx
Cash and cash equivalents at the beginning of the year	-	xx
Cash and cash equivalents at the end of the year	-	xx

Figure 3.8: Cash flows Statement IAS 1

3.3.2.5 Other Statements

According to FASI there are 3 more financial statements, namely Statement of changes in restricted investment; Statement of sources and uses of funds in the

Zakat and charity fund and Statement of sources and uses of funds in the Qard fund (Financial Accounting Standard No. (1)

Below are explain these statements in more detail.

3.3.2.5.1 Restricted Investments Change

In the below table Restricted Investments statement that's only exist in financial statements of an Islamic bank.

Restricted Investments Change

Description	Marketable equity SECURITIES PORTFOLIO		Real Estate Trading Portfolio		Murabaha Portfolio		Totals	
	XXX Monetary unit	XXX Monetary unit	XXX Monetary unit	XXX Monetary unit	XXX Monetary unit	XXX Monetary unit	XXX Monetary unit	XXX Monetary unit
Investment at the beginning of the period	XX		XX		XX		XXX	
Number of investment units at the beginning of the period	XX		XX		XX		-	
Unit value at the beginning of the period	XX		XX		XX		-	
Accounts and issues	XX		-		-		-	
Re-purchased and	-		-		(XX)		XXX	

withdrawn								
Investment profit (loss)	XX		XX		XX		-	
Management expenses	(XX)		(XX)		(XX)		(XXX)	
Bank's fee as a representative	(XX)		(XX)		(XX)		(XXX)	
Investment at the end of the period	XX		XX		XX		XXX	
Number of investment units at the end of the period	XX		XX		XX		-	
Unit value at the end of the period	XX		XX		XX		-	

Figure 3.9: Restricted Investments Change Statement according to FAS1

(Financial Accounting Standard No.1)

Investments funded by funds collected by the participation bank from owners of restricted investment accounts or as a result of the issuing of investment units in investment unit portfolios are included in the restricted investments change statement. The participation bank manages restricted investments, including investment unit portfolios, as a representative for a fixed fee and does not take a share of investment results. However, restricted investments, restricted investment accounts, or owners of investment units are not shown in the financial position statement of the participating bank.

For example, if the bank received cash from a limited investment account holder or issued new investment units in investment unit portfolios, it would be included in the summary of changes for restricted investments. Statement of financial position does not include restricted investments, restricted investment accounts, or investment unit owners.

3.3.2.5.2 Table of Sources and Uses of Zakat and Charity Fund

In the following figure the Sources and Uses of Zakat and Charity Fund according to FAS1 will be presented.

Sources and Uses Table of Zakat and Charity Fund	**Previous Year**	**Current year**
Sources of zakat and charity fund	-	-
Zakat to be paid by the Bank (institution)	xx	xx
Zakat that account holders must pay	xx	xx
Donations	xx	xx
Total sources	xxx	xxx
Zakat for the poor and needy	xx	xx
Zakat for passengers		
Zakat for heavily indebted and deprived of their liberty	xx	xx
Zakat for new converts to Islam	xx	xx
Zakat for those who work in the way of Allah	xx	xx
Zakat (general administrative expenses) for personnel that collect and distribute zakat	xx	xx
Total uses	xxx	xxx
Increase (decrease) of resources versus uses	xx	xx
Zakat and charity not distributed at the beginning of the term	xx	xx
Zakat and charity fund undistributed at the end of the term	xxxx	xxxx

Figure 3.10: Sources and Uses of Zakat and Charity Fund Statement FAS 1

(Financial Accounting Standard No. (1) General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions)

If the Islamic bank undertakes to collect and give Zakat on behalf of investment account holders who are not subject to the Zakat payment obligation, it will be declared. The Islamic bank also discloses the funds paid from the Zakat and charity funds during the period as well as the funds remaining at the end of the period. (Financial Accounting Standard No. (1)).

Issues related to the statement of sources and uses of funds in the Zakah and charity fund: period covered by the statement should be disclosed (para. 65), The responsibility of the Islamic bank in terms of paying zakat must be disclosed, and whether the bank collects it and pays it on behalf of the unrestricted investment account holders (para. 66), Other sources of funds in the Zakah and charity fund should be disclosed (para. 67) and Disclosure should be done on Zakah and charity fund payments made by the Islamic bank during the time and on remaining money at the conclusion of that period (para. 68).

3.3.2.5.3 Sources and Uses of Qard Fund

Below is the table of Sources and Uses of Qard Fund:

Sources and Uses of Qard Fund	**Previous Year**	**Current Year**
Opening balance	-	-
Qard al- Hasan (Good loan)	xx	xx
Funds available for loans	xx	xx
Sources of the Qard fund	-	-
Distributions made from current accounts	xx	xx
Distributions made from earnings prohibited by legal provisions	xx	xx
Sources outside the Bank	xx	xx
Total resources during the period	xxx	xxx
Uses of the Qard fund	(xx)	(xx)
Loans to students	(xx)	(xx)
Loans to tradesmen	(xx)	(xx)
Offsetting current accounts	xxx	xxx
Total uses during the period		
Balance at the end of the period Qard al-Hasan	xxx	xxx
Funds available for loans	xxx	xxx

Figure 3.11 Sources and Uses of Qard Fund

(Financial Accounting Standard No. (1))

Issues regarding to Qard Fund, Reporting the time covered by the Qard fund's account of sources and expenditures of money should be made public (para. 69)In the beginning of the term it should be made public, how much Qard was outstanding and how much money was available to spend. In the next paragraph (para. 70), The quantities and sources of contributions to the fund throughout the time should be stated by source. (para. 71), The amounts and uses of funds throughout the period should be stated by category. (para. 72), There should be a public disclosure of the Qard outstanding balances and monies available in the fund at the conclusion of the term. (para. 73)

3.3.3 Comparative Information

It is possible to improve and reinforce the decision-making process for investors by comparing the financial statements of a financial institution. The preparation of the financial statements on the basis of comparative information, as they cover two periods - the present period and the prior period - is therefore critical in order to assist decision-making processes.

Table 3.12: Comparative Information

Standard	comparative information
IAS1	For all amounts presented in the current period's financial accounts, all companies are required to give comparative information for the prior period. If it is necessary to comprehend the current period's financial statements, an organization must offer comparison information in narrative and descriptive material. An entity shall present, as a minimum, two statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity, and

	related notes (IAS1 , paragraph 38,38A) (IAS1 , paragraph 38,38A)
FAS1	An Islamic bank publishes comparative financial statements that include, at a minimum, the financial statements of the previous comparable period. Presentation methods and disclosures in published financial statements; enables the user to distinguish changes in the financial status of the participation bank, operating results, cash flows, restricted investments managed by the participation bank, Sources and Uses of Zakat and Charity Fund, and the sources and uses of the Qard fund from the accounting changes made as of the periods covered by the financial statements (FAS1 , 2/2)

(IAS 1 - Presentation of Financial Statements)

For all sums recorded in the financial statements, both in the face of financial statements and in the notes, IAS 1 requires comparative information, to be communicated in respect of the previous year, unless another standard requires otherwise. For the purpose of narrative and descriptive analysis, Comparative information is given when it comes to understanding the financial statements of the current period (IAS 1 - Presentation of Financial Statements).

IAS FAS1 requires at a minimum two of each Financial Statement to be provided by the entity to meet the before mentioned purposes, so with respect to comparative Financial Statements there's no different between tow standards.

3.3.4 Accounting Policies

Accounting policies consist of the basic identifications, evaluation, and methods, foundations, conventions, laws, processes, and activities implemented by the management of the organization for the preparation and presentation of the financial statements (Cambridge International AS & A Level Accounting 9706).

In the table below accounting policies according to IAS1 and FAS1 will be compared.

Table 3.13: Accounting Policies

Standard	Accounting policies
IAS1	a) The measurement basis (or bases) used in preparing the financial statements (for example, historical cost, current cost, net realizable value, fair value or recoverable amount); b)The other accounting policies used that are relevant to an understanding of the financial statements.
FAS1	It shall be deemed inappropriate if the following applies to the accounting policy: not in accordance with AAOIFI FAS1; or as a departure from Shari'ah principles and rules; or as not reflecting the economic nature of the transaction

(IAS 1 - Presentation of Financial Statements)

For an entity, the measuring base or bases used in the financial statements are essential to notify users (for example, historical cost, current cost, net realizable value, fair value), because the basis on which an entity prepares the financial statements impacts the interpretation of users (International Accounting Standard 1 Presentation of Financial Statements: 19).

3.3.5. Results

Reviewing the above tables prepared by the researcher shows that there are important variations in many respects between IAS1 and FAS1. However, they are not completely independent of one another. One of the factors behind the emergence of accounting standards for Islamic banks is that the International Accounting Standards accepts fund lending transactions, which Islamic financial institutions conduct on a different basis, namely partnerships.

First of all, the purpose of the two standards have been examined with respect to the different nature of both in which Islamic standards serve Islamic banks and international standards serve conventional banks, it seems that the two standards have the same purpose Which is represented in serving the needs customers of these financial statements. Secondly, all the financial statements that banks must follow in line with the standards adopted, as well as the item contained in each list, were reviewed and compared in terms of discrepancies in the presentation technique and even different names or the same items.

Special Finance House was renamed "Participation bank" in 2006. These changes led to Islamic banks being regarded as legitimate "banks" on par with their conventional counterparts. As a result of these improvements, Islamic banking organizations are now more readily recognized in the worldwide financial sector. As of right now, both Islamic and conventional banks in Turkey are governed by the same regulations, and there are currently 5 participating banks functioning in the country.

According to FASI its found that the Islamic banks shall have more statements than the conventional banks that adopted IAS1, however, based on the review has been made it can be concluded that the reason behind this is the unique treatment for Islamic banks that sharia requires.

3.4. Exposure draft of AAOIFI

Here is a Brief history of the preparation of the standard:

- ❖ The Board of Directors agreed to revise Financial Accounting Standard No. 1 “Public Presentation and Disclosure in the Financial Statements of Islamic Financial Institutions” issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) at their first meeting in 2016.
- ❖ However, given the potential impact of other standards on the FAS 1 reporting requirements, the Board of Directors suspended its review until the remaining standards set out in the Review and Revision Draft of the AAOIFI Financial Accounting standards have been completed.

- In order to assist Islamic financial institutions and other entities who wish to adopt AAOIFI Financial Accounting standard for accountable and accounting reasons, a revision of the Financial Accounting Standard 1 was developed.
- Later in August 2018, a second working group was held on the new standard as part of amending the conceptual framework of the Accounting and Auditing Organization for Islamic Financial Institutions, where it was agreed among the members that the review of both the conceptual framework and FAS 1 would be conducted simultaneously and in line with Sharia. However, both standards will be adopted to guarantee that the two standards match the presentation and disclosure requirements in any new financial accounting standards released by the Accounting and Auditing Organization for Islamic Financial Institutions.
- The new Financial Accounting Standard 1 intends to enhance the accounting treatments prescribed in accordance with worldwide best practices and replaces the present Financial Accounting Standard 1.In addition, the change is in keeping with the Authority's conceptual framework. Also on the agenda is a review of the IAS 1 illustrative financial statements. A separate set of illustrative financial statements will be released instead of being incorporated into the new standard.
- Later, it was agreed that the updated FAS 1 standard would adhere to the criteria of the new standard format and incorporate the new terminology as well as suggestions from the evaluation of AAOIFI FASs and revision project.
- The following year, the third meeting was held, which included the preliminary study that worked on a comprehensive comparison analysis of FAS 1 with all other globally accepted accounting standards. Later the Board also concluded that a draft presentation of both the revised Conceptual Framework and FAS 1 would be released at the same time.

- The working group had its fourth meeting on May 22, 2019, which included a discussion of the illustrative financial statements of the updated Financial Accounting Standard No. 1.
- On July 31, 2019, the fifth meeting of the working group was held and included a discussion of the illustrative financial statements of the revised Financial Accounting Standard No. 1. There was also discussion on Draft Updated Presentation No. 1 of the Next Financial Accounting Standard to Board Amendments.
- After incorporating the Board of Directors' and the working groups suggestions, a draft presentation was released in December of 2019.
- In 2019 and during the 18th meeting, he agreed to reissue the draft offer which replaces the previous draft issued in December 2019. The reason for reissuing the draft presentation is to highlight any subsequent amendments to certain standards and their effect on standards that have been issued, revised, or are currently under review.
- However, in December 2020 and after incorporating the comments of the Board of Directors and the Working Group, the draft proposal was reissued.
- It’s better to mention that in the exposure draft 2 financial statements, namely Statement of sources and uses of funds in the Zakat and charity fund and Statement of sources and uses of funds in the Qard fund are excluded, however, disclosures for Zakah, charity and Qard funds have been relocated to the notes to the financial statements and the wider term of off-balance-sheet assets under management’ is now being used, instead of restricted investment accounts.

CHAPTER FOUR

A COMPARATIVE STUDY ON THE FINANCAIL STATEMENTS OF ISLAMIC BANKS ACCORDING TO IFRS1 AND FAS1: AL BARAKA TURK EXAMPLE

The modern period of 2020 witnessed the launch of the march of Islamic banks and their spread all over the world. The local and international Islamic banking business has developed tremendously and expanded in Islamic banking operations due to the diversity of its investment fields. And the flexibility of its financing and investment formulas that meet the needs of diverse clients and different economic sectors (Aslam, Ejaz, and Haro, 2020: 2)

Islamic banks differ from conventional banks & from other Islamic banks in their establishment, inventory of profits, concept, nature of the role, basis of financing, character of the customer, loans, prohibited or permissible in transactions, personal financial resources, uses of money and bearing losses (Bashir, Fida and al,2020:2).

In this chapter, the researcher will discuss previous studies related to the subject of this research from different dimensions & a various angles in many environments, which aim to know the opinions of previous researchers also local and global studies on the subject of research the to identify the methods, methodologies & procedures that have been adopted. however, in the second part of the chapter, the comparative part between FAS1 and IAS1 will be analyzed from the point of researcher.

4.1. Previous Research

In the past few years, Islamic finance has gained momentum in the financial arena globally, however, lots of studies have been conducted and still, discussing mainly different aspects of Islamic finance and banking.

According to Nawi (2013), the goal of establishing Islamic banking is meeting the needs of Muslims in the rule that Islam prohibits interest and many transactions that are not acceptable to Islam, not only that, as a significant number of non-Muslims also participate in banking services is increasing (Nawi, F. A. M., 2013: 3).

On the other hand, Mejia (2014), in his research tried to give a broad understanding of the Islamic banking sector, however, the study identifies the similarities and differences of Islamic and conventional banking, and stress the need for legal and regulatory framework same as the conventional system. Furthermore, due to the unique features of Islamic contracts, there are challenges such as operational, liquidity, transparency, and legal risks that loom over Islamic banking, and these risks are greater than those faced by traditional banks (Mejia, et al., 2014: 5).

Research conducted by Taner (2011), examines the principles of Islamic banking and identifies the most commonly used instruments in Islamic banking - in particular "Murabaha," which is the most frequently used transaction in the Islamic Banks, and particularly in Turkey. Following the establishment of Islamic Banks, Islamic banks required committees and institutions to establish standards that clearly defined the legitimacy of Sharia-compliant Islamic banking transactions such as Murabaha, Good loans, Mudarabah (Islamic law and principles). This research also determines whether or not Murabaha transactions in Turkey comply with AAOIFI standards. Some issues regarding Islamic banking have been discussed in general, as well as the challenges of developing Islamic banking services in Turkey in particular. After that suggestions made to improve Islamic banking in Turkey and make it Sharia-compliant. Teaching the skills of Islamic banking personnel is the most important of these, and state-led initiatives and legislation that will improve the efficiency of Islamic banking services also contribute to the development of Islamic banking services in Turkey (Tanner,2011:3).

Yatbaz and Çatikkaş (2021) tried to provide solutions to those problems related to the method of Murabaha financing, which is one of the interest-free financing methods according to the Turkish Accounting Standards through a comparison between them in terms of suitability and fair presentation according to the Turkish Accounting Standards (TAS) and the interest-free finance accounting standards (FFMS) published from Before the General Supervision Authority (KGK). In this study, the Turkish accounting standards and interest-free financial accounting standards related to the method of financing Murabaha were examined, however, the results of the study show that there is a difference in priority between the face and the law between the two regulations, while the financial accounting standards are devoid of benefits give priority to the legal aspect of a transaction, Turkish accounting standards give priority to the economic essence of a transaction. This situation creates a difference between the two criteria in controlling goods subject to Murabaha as inventory. Accordingly, if the Murabaha financing is accounted for in accordance with interest-free financial accounting standards, then some updates are required in the aforementioned chart of accounts (Yatbaz, & Çatikkaş, 2021:3).

Hani & Murad (2019) examines and identify the extent to which the approved accounting system is able to meet the requirements of Islamic banking in Algerian, Al Baraka Bank in particular. As Al Baraka Bank Algeria is obligated to more than one party as the first party is the Algerian Bank, as Al Baraka Bank Committed to implementing the various Algerian legislative laws regarding the field of finance and accounting, it is obligated to apply the requirements of the banking accounting system derived from international accounting standards. As for the second party, and considering that the Algerian Bank Al Baraka is one of the branches of Al Baraka Banking Group, and the group controls the branch, the branch is obliged to apply the group’s standards, as the latter are apply the Islamic Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions AAOIFI. It has also been concluded that the rules of Algier banking, which do not include any texts governing the Islamic banking profession, are one of the most critical problems facing Al Baraka (Hani, & Murad :2019:1).

The research by Tombel and Ahmad (2008) addresses the impact that may be inflicted on financial institutions when using accounting standards for Islamic banks in Sudan, which in turn determine the adequacy of disclosure and the transparency of the information presented and disclosed by the financial statements published by banks in Sudan. However, the application of these standards contributes to

Improving the quality of accounting information provided to various categories of users, through appropriate, understandable, and highly reliable information that is comparable with other banks. The research problem is that the financial statements of Islamic banks in Sudan do not comply with the financial accounting standards for Islamic banks, and there is a great variation in their presentation between banks in the form and content and the insufficiency of the information they present. The researcher used a questionnaire to collect information and study the desired goal. One of the most important findings of the researcher is that the Islamic banking system in Sudan began in the absence of standards and without preparing professional policies and standards. Therefore, it is still facing problems of presentation, disclosure, and lack of transparency in its financial statements, and these results prove the validity of the assumptions. The study concluded with recommendations related to these results, including that the Central Bank of Sudan uses its power and powers to impose a fait accompli on banks and oblige them to apply Islamic standards, including the standard of presentation and general disclosure of financial statements (Tombel, Ahmad 2008:2).

The study of Ali Al-Zoubi (2013) seeks to study the requirements, whether internal or external, that are required for the conversion of Islamic banks to the application of Islamic financial accounting standards and to present the necessary proposals for that and to achieve this purpose, A questionnaire was used among the most important results that have been reached is that the requirements for the transition to the application of Islamic financial accounting standards are available in Islamic banks in Jordan and that the problem facing Jordanian Islamic banks to convert to the application of Islamic accounting standards is caused by external parties represented by the Central Bank of Jordan and the Jordan Securities Commission And the Jordanian Association of Certified Public Accountants. The study suggested that external authorities push Islamic banks to apply Islamic accounting standards in them. The study also recommended conducting more relevant academic studies (Al-Zoubi., 2013:4).

Mohammed & Ahmad (2015) study the controversy regarding the need for specific accounting standards for IFIs to examine so, seven semi-structured interviews conducted with IFIs officials who are heavily involved in preparing financial statements in Malaysia, to convince the public that they are providing Sharia-compliant products certified by the Sharia advisory board, specific guidelines or standards for IFIs within the framework of IFRSs are needed (Mohammed& Ahmad, 2015:4).

Yatbaz, & Çatikkaş (2019) research seeks to assess the degree of the adoption of accounting rules for interest-free institutions published by the AAOIFI in the participating Turkish banks. Employees of interest-free banks in Turkey who work in accounting and financial reporting felids were surveyed. According to the poll, it was revealed that 58 percent did not know what AAOIFI and Islamic accounting were. According to these findings, it is important to arrange accounting standards training activities in line with AAOIF standards and Islamic principles for personnel working in participating institutions' accounting and financial reporting divisions. (Yatbaz, & Çatikkaş, 2019: 6)

Kadri (2016) aims to examine whether Islamic Financial institutions in Malaysia comply with the requirements of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in presenting their financial statements to the public. To achieve this goal, the study chose to examine the annual financial statements of seventeen Islamic financial institutions. The basis on which the study was based, to show the results, compared the financial data of these institutions with the standards of the Accounting and Auditing Organization for Islamic Financial Institutions and gave a ratio as that percentage determines the extent of compliance. The results showed that IFI's presentation of the statement of financial position is 70.3% identical, the statement of profit or loss 45.6% is identical, the statement of changes in equity is 95% identical and the statement of cash flows is 100% in conformity with the proposed formula as per AAOIFI requirements (Kadri, 2016:3).

The study of Ersoy and Süner (2019) compares the accounting standards applied in Turkey with the accounting standards for Islamic banks after they were translated into Turkish by the General Supervision Authority and published in the Official Gazette in order to discuss the effects of the standards that can be voluntarily applied to the participating banks in Turkey as of 1. 1.2020. In any case, the financial statements of international banks that adopt the standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) are also compared with the participating banks in Turkey by comparing the main items in these financial statements. According to the researcher's study, no country applies the accounting standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and international financial reporting standards are not taken into consideration. International financial reporting standards are applied in cases where there are no accounting and auditing standards for Islamic financial institutions. Participating banks in Turkey organize and publish their financial data based on Turkish accounting standards and financial reports translated by KGK in a similar way to international standards, despite the presence of Islamic banks. Participation in Turkey However, the accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions have not yet been implemented, and the conceptual framework is being translated, financial data presentation and disclosure, speculation, sound, and its types, zakat, exceptions, and types, Murabaha and other issues. By the General Supervision Authority. Through its translation and presentation on the site to express an opinion, in any case, Turkish accounting and financial reporting standards are currently being applied in our country (Ersoy & Süner, 2019).

Varsak (2017) emphasize that the share of participation banking in the banking system is growing in Turkey and in the world. Participation banking, on the other hand, is not a competitor of the traditional banking system, but rather an integral part of it (Varsak, 2017:1).

On the other hand, Ata and Buğan (2016), showed that Islamic banks are known as participation banks, and they serve the same function as Islamic banks, which represent a system of interest-free financing based on Islamic values. The term "interest-free" comes from the Islamic ban on interest. Accordingly, participation banking is based on Islamic finance values (Ata, & Buğan, 2016:2).

The study of Yanikkaya (2017), deals with global Islamic banking practices and then compares them with those in Turkey, as well as compares the Turkish Islamic banking services sector with the traditional banking sector through the use of a large number of measures of efficiency and profitability. The institutional framework was an introduction to the Islamic banking practices in the world after the establishment of Islamic banks. After that, Islamic financing methods were developed, such as Takaful, Sukuk, and Islamic funds. An in-depth study of the various aspects surrounding Islamic banking and finance has begun, however, Turkey did not have a legal framework that brings together Islamic banks due to political reasons, as mentioned earlier in the first chapter. Later on, Turkey started developing a legal framework in 2005. After that, various institutions were established to study various aspects of Islamic banking and finance. Turkey has not been able to follow a similar pattern due to a lack of adequate political support. Turkey managed to put in place a reasonable legal framework for IBs relatively late, in 2005, and it introduced Takaful (2009), sukuk (2010), and participation index (2011) very late compared to other notable countries (Yanikkaya & Pabuçcu, 2017:3).

Erol et al (2014) studies the performance of the participating banks in Turkey and compares them with their counterparts from the traditional banks. In any case, Turkey is recently considered as a model for the world in interest-free banking systems, which makes us believe that this comparison is more distinctive and important in Turkey when compared to other countries. The researcher's findings indicate that Islamic banks in Turkey operate more efficiently in profitability ratios and asset management compared to traditional banks, but are late insensitive to the market risk standard. These results may be mainly since these banks allow less temporary losses compared to traditional banks and have some tax benefits (Aydoğan & Tunç, 2014:2).

The study of Özdemir, Ozan, Demirdöğen, and Oushar (2019) focuses on differences between conventional accounting standards (IAS/IFRS) and Islamic accounting standards (FASs) in financial statements (financial position and income statements). The key financial statements were compared in terms of presentation as part of the study's area of inquiry. It was found that worldwide accounting and reporting standards do not take into consideration the uniqueness, contracts and products of Islamic banks in their findings. (Faizsiz Finans Muhasebe Standartlarının Mali Tabloların Sunuluşuna Etkileri Üzerine Bir Araştırma)

4.2. Importance of Research Topic

The study conducted the IAS1 and FAS1 and illustrate the major differences between the two standards. The study however, aims to shade light into the Islamic banking sector in Turkey.

1. Explains the importance of adapting standards that comply with the spirit of sharia principles

2. Illuminate the differences between the AAOIFI standards and the international standards of IASB

3. Indicate the adverse outcomes that could encounter the Islamic banks as a result of adopting the international standards instead of the AAOIFI standards

4.3. Purpose , Scope, limitations and Methodology of the Research

The study is working to locate the loopholes that could be resulted in the financial statements of the Islamic banks in Turkey as a straightforward result of not adhering to the standards issued by AAOIFI for Islamic banks.

One Islamic banks which prepares Financial Statements according to IFRS, one Islamic Bank which prepares Financial Statements according AAOIFI standards are selected.

More banks can be selected to be compared and various standards may be studied in details.

The study depends on a descriptive research which counts mainly straight on the information derived from the previous studies, Annual Reports, research, references as well as magazines, periodicals, and articles related to the topic.

4.4. A Comparative Study

In this section, a comparative study on the Financial Statements of Islamic Banks according to IAS1 and FAS1 will be made, for this purpose, Islamic bank is selected from Bahrain and compare it with bank from Turkey.

4.4.1 Financial Statements

Financial statements or financial reports are a means of communication between the company or the bank and the outside world, which is represented by investors and the bank's customers, and it is a way to communicate financial information to these groups.

The financial report included a set of statements, which are the income statement, the statement of financial position, the statement of cash flows, the statement of retained earnings, and some other reports. Where these reports also help to evaluate the facility's ability to generate cash flows and sources of funds and their amount. In the below table are the financial statements in respect to two standards.

Table 4.1: Comparison of Financial Statements

Subject	Al Baraka Islamic Bank in Bahrain	Albaraka Turk in Turkey
Published Financial Statements	Statement of Financial Position Statement of Income Statement of Changes in Owners' Equity Statement of Cash Flows Statement of Changes in off-Balance Sheet Equity of	Statement of Financial position, Statement of Profit or Loss, Statement of Profit or Loss and other comprehensive income, Statement of changes in shareholders' equity statement of cash flows

	Investment Accountholders	Statement of profit appropriation

(The Table prepared by the researcher)

In the Table above comparison between Al Baraka Bank in Bahrain and Albaraka Turk in Turkey, as it was mentioned before that the participation banks in Turkey are required to present their Financial Statements according to Turkish standards that's already present the IFRS standards, However, first comparaison conducted in Chapter 3 the AAOIFI Standard of FAS1 with the IFRS Standard of IAS1, In cahpter 4 comparaison conducted first, the Financial Statements of both banks and found that there is no significant differnces in the presenting of financial statements except some difference in the naming , Moreover, in the Al Barka Bank Turk, there are two statements related to income, (profit or loss and other comprehensive income statment and profit or loss statment), while in Al Baraka Islamic Bank in Bahrain there is one statement which is the Income statement .

Its seen that, Al Baraka Islamic Bank in Bahrain did not include all required Statements according to FAS1 , Statement of changes in restricted investment, Statement of sources and uses of funds in the Zakat and charity fund and Statement of sources and uses of funds in the Qard fund, , however Al Baraka Bank in Bahrain has clarified that the responsibility for paying zakat belongs to the shareholders themselves and the rights of investment account holders, for other statements the banks did not give any disclosure about this issue.

4.4.1.1 Financial Position Statement

The items of Financial Position Statement of Al Baraka Bank in Bahrain includes Cash and balances with banks and financial institutions , Ijara Muntahia Bittamleek and Ijara receivables ,Musharakas ,Investment in joint venture, Investments in real estate Murabaha and other payables, Current accounts.

The items of Financial Position Statement of Al Baraka Bank Turk includes Cash and Balances with Central Bank ,Equity Securities ,Lease Receivables ,Joint Ventures,Loans ,Funds Borrowed ,Lease Payables

- After the comparion of financial statements in both banks , it was compared between the items of the main financial statements, however, important items were selected to be compare and it determined the following :
- With regard to assets and liabilities, there is a discrepancy in the items included in the statement of financial position. For exampleit is found that many assets registered with Al Baraka Bank in Bahrain are not present in Al Baraka Turk Bank, and this is due to the fact that the Turkish standards, which are a translation of international standards in, do not cover all the requirements of Islamic banks. For example, Musharaka and Mudaraba, as mentioned in the first chapters, are among the most important Islamic financing tools. It was found that they were not mentioned in the financial position statement of Al Baraka Turk Bank.

4.4.1.2 Income Statement

The items of Financial Income Statement of Al Baraka Bank in Bahrain includes Investments, Financings, Revenue from banking services, Income from jointly financed assets, Recovery from written off financing, Depreciation.

The items of Financial Income Statement of Al Baraka Bank Turk includes Finance Lease Income,Fees and Commissions Received ,Finance Lease Expense, Expense on Profit Sharing Accounts ,Profit Share Expense on Funds Borrowed

- As for the income statement, there is also a discrepancy in recording items in both financial statements. For example, Al Baraka Turk Bank in Turkey recognizes the investment profits and losses within the “profit on loans” share account, but in Al Baraka Islamic Bank in Bahrain it is recognized within the investment profit account, this difference may be important because an interpretation of these names may imply for the investor who is interested in the Islamic finance industry, as the naming of loans is considered a conventional as it is prohibited in Islamic banking.

4.4.1.3 Shareholders' Equity Statement

The items of Shareholders' equity Statment of Al Baraka Bank in Bahrain includes Translation of foreign currency operations, Dividends, Receipt of government grant, Changes in fair value of premises and equipment.

The items of Shareholders' equity Statment of Al Baraka Bank in Bahrain includes Effect of Corrections, Effect of Changes in Accounting Policies, Profit Distribution, Dividends.

- With regard to changes in shareholders' equity, there is some consistency between the two banks and there are not many differences.

4.4.1.4 Cash Flow Statement

The items of Cash Flow Statment of Al Baraka Bank in Bahrain includes Share of (loss) / income from investment in joint venture, Ijara Muntahia Bittamleek and Ijara receivables, Musharakas, Murabaha and other payables

The items of Cash Flow Statment of Al Baraka Bank in Bahrain includes Collections from Previously Written Off Loans, Issued Capital Instruments, Payments for Leases, Net Increase (Decrease) in Funds Borrowed.

- With regard to the statement of cash flows, on the level of the basic items, there is complete consistency with the mechanism of presentation, as both banks mentioned three main sections, which are operating activities, investment activities and financing activities, but it is important to mention that there is a difference in the items listed in the lists of both banks, in any case, it In the Operational Operations section, Al Baraka Islamic Bank in Bahrain mentioned the following items (shares, Murabaha and other payables, Ijarah Muntahia Bittamleek and Ijarah income), which are Islamic financing instruments that were not mentioned in Al Baraka Turk Bank in Turkey. It can be inferred here that the reason is that the latter uses international standards instead of Islamic standards.

4.4.1.5 Other Financial Statements

According to FAS1 Statements of financial position of an Islamic Bank shall have Statements that are not exist according to IAS1, the Al Baraka Bank of Bahrain did not take these Statements into account. However, they seemed to be follwed the draft of financial standards 1 as they published the Statement of Changes in off-Balance Sheet Equity of Investment Accountholders in terms of exposure draft and they excluded two other statements, Statement of sources and uses of funds in the Zakat and charity fund and Statement of sources and uses of funds in the Qard fund.

4.4.2 Accounting Polices

In chapter 3 the accounting policies by banks was discussed also explained the role of accounting policies, in this chapter 4, comparison will be conducted of the accounting policies in view of two Islamic banks. For this purpose, disclosures related to Basis of Preparation, Statement of Compliance, Foreign Currencies, Financial Contracts, Fair Values, Credit Risk, Liquidity Risk and Zakat, types of policies are compared.

4.4.2.1 Basis of Preparation

Inform users of financial statements about the measurement basis (for example, historical cost, current cost, net realizable value, fair value, or recoverable amount) is very important in which the entity prepares financial statements using one or more methods to do so, however, it significantly affects users' analysis.

In the below table the basis used for the preparation of financial statements for both banks will be examined.

Table 4.2: Comparison with respect to Basis of Preparation

Subject	Al Baraka Islamic Bank in Bahrain	Albaraka Turk in Turkey
Basis of preparation	Financial Statements of Al Baraka bank Turk have been prepared under the historical cost with some expiations.	Financial Statements are prepared on historical cost basis with some expiations.

(The table is prepared by the researcher)

- ❖ In the second part of the comparison, accounting policies have been discussed, However, in chapter 3 it was explained the meaning of accounting policies and their role in the financial statements. Moreover, in chapter 4, the annual reports of the mentioned banks were studied and found the following regarding the basis of presentation, Both banks use the same basis preparation under the historical cost, taking into account the difference of the standards that both banks are used, thus both banks are providing some exception for specific items that should be evaluated under the fair value principle such as land owned by the Bank and revalued real estates.

4.4.2.2 Statement of Compliance

While Al Baraka Bank (Bahrain) applied accounting policies with the local rules and regulations, those rules and regulations require, in particular, CBB Circular OG/226/2020 dated June 21, 2020, and the relevant CBB communications, to adopt all standards Financial Accounting (“FAS”) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).with two exceptions, in the contrast to Al Baraka bank (Turkey) the accounting policies and valuation principles applied in the preparation of financial statements are determined and applied in accordance with the regulations, notifications, interpretations, and circulars on accounting and financial reporting principles published by the BRSA and, in the absence of a special regulation of the BRSA, in accordance with the principles in the context of TAS and TFRS.

Table 4.3: Comparison with respect to Statement of Compliance

Subject	Al Baraka Islamic Bank in Bahrain	Albaraka Turk in Turkey
Statement of compliance	Turkish Financial Reporting Standards (TFRS)	Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

(The Table prepared by the researcher)

- ❖ At this point and according to the financial report of Al Baraka Bank in Bahrain, there are two exceptions that the bank did not adhere to during the preparation of these reports, in any case, the first exception includes that, due to the current Coronavirus that affects the whole world, it has resulted in adjustment losses on the current assets, which stipulates the postponement Payments made to customers affected by Corona without imposing any additional profits in the list of changes in rights instead of the list of profits or losses as required by the Financial Accounting Standard issued by the Accounting and Auditing Organization for Islamic Financial Institutions, while any gain or loss is recognized as another adjustment to the assets Finance in accordance with the requirements of the Financial Accounting Standard issued by the Accounting and Auditing Organization for Islamic Financial Institutions.
- ❖ The second exception also relates to the Corona pandemic, according to which some governments supported local banks to help them overcome the crisis. In any case, Al Baraka Bank in Bahrain stated that the financial assistance received from the government was proven

in rights rather than through profits or losses as a normal procedure for any expenditure or losses generated during the financial year, any other financial assistance is recognized in accordance with the relevant requirements of the financial accounting standard issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

- As for Al Baraka Turk, it specified an item in the clarifications explaining that there are no government grants received by the group, but it did not clarify the mechanism for recording them in the financial statements in the event of receiving such grants from the government.

4.4.2.3 Foreign Currencies

With regard to foreign currencies, each bank has transactions in currencies other than the currency of the nation in which the bank is situated because of the global development. Consequently, foreign-currency transactions are important. However, these transactions lead to disparities when translated into the country's currency.

Table 4.4: Comparison with respect to Foreign Currencies

Subject	Al Baraka Islamic Bank in Bahrain	Albaraka Turk in Turkey
Foreign currencies	The differences of foreign currency recorded in Shareholders equity Statement	The differences of foreign currency recorded in Income Statement

- In the case of Turkey, a large shift in Turkish domestic currency during the previous 2 years, these disparities may be the loss or profit for the bank, therefore it is necessary to recognize the two banks' policies to prove such discrepancies, which can be considerable and significant, from an accounting standpoint. There is agreement between the two banks in that the conversion of assets and liabilities in foreign currencies into the bank's currency at the exchange rates prevailing on the date of the balance sheet announced by the bank. As for those resulting losses or gains, Al Baraka Bank in Bahrain carries forward the foreign exchange differences resulting from transactions directly to a separate item in owners' equity. On the contrary, Al Baraka Bank left, the gains or losses resulting from transactions in foreign currencies and translation of assets and liabilities in foreign currencies in the income statement are reflected as gains or losses in foreign currencies.

4.4.2.4 Financial Contracts

Islamic finance requires special contracts that are Shariah compliant (Islamic law) such as Mudarabah (profit sharing), Wadih (safekeeping), Musharakah (joint venture), Murabaha (cost plus finance), Ijara (leasing).

In the below table financial contracts will be examined.

Table 4.5: Comparison with respect to Financial Contracts

Subject	Al Baraka Islamic Bank in Bahrain	Albaraka Turk in Turkey
Financial Contracts	Balances with banks and the Central Banks Due from banks, Sukuk, Murabaha financing (net of deferred profits), Ijarah Muntahia Bittamleek, Musharaka,	lease contracts Wakala contracts financial guarantee contracts.

	financial guarantee contracts.	

(The Table Prepared by The researcher)

- Al Baraka Bank in Bahrain has included in its financial statements an item for financial contracts that explains those contracts, which are an important thing in the Islamic financial industry, which is represented in the methods of collecting financing, as loans in conventional banks are prohibited by Islam because they deal with interest, which is prohibited by Islam. However, there are other sources of financing, of course, such as participation, speculation, Murabaha, and other tools, which are mentioned in detail in the first chapter.
- On the other hand, Al Baraka Bank Turk did not specify a paragraph with clarifications regarding financial contracts. It can be said that tracking these tools is difficult, not clear, despite that, it was foud that there are some contracts that were mentioned within paragraphs of clarifications in the financial statements, which were mentioned in the above Table 4.5 .

4.4.2.5 Fair Values

At the measurement date, fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. It is very important to know the fair value that was used in evaluating both assets and liabilities in the financial statements. Therefore, in the below table, comparison between the two banks in terms of fair value.

Table 4.6: Comparison with respect to Fair Values

Subject	Al Baraka Islamic Bank in Bahrain	Albaraka Turk in Turkey
Fair Values	The fair values of financial assets and liabilities are calculated based on the following principles: 1.According to market pricing, fair values of investments evaluated at amortized costs are calculated. 2.In order to calculate the fair value of a loan, discounting its future cash flows using current market profit share rates is used. 3. By calculating deferred cash flows using current market profit share rates, the fair worth of monies received from financial institutions may be estimated.	Each financial asset's fair value is calculated separately in accordance with the valuation rules outlined below: 1.Fair value is calculated for investments traded in organized financial markets by referencing the quoted market bid prices in effect on the reporting date. 2. For unquoted investments, fair value is calculated by referring to recent purchase or sell transactions with third parties that have either been completed or are now underway. 3. To assess fair value for assets with fixed or predictable cash flows, the Group uses current profit rates for investments with

		comparable terms and risk characteristics to calculate the net present value of projected future cash flows. 4. An investment's cost is reduced by the provision for impairment if it can't be revalued to fair value using any of the aforementioned approaches

(The Table Prepared by The researcher)

- ❖ With regard to the fair values of financial assets, there is no difference in the evidence of fair values, as Al Baraka Islamic Bank in Bahrain determines the fair value of each financial asset separately in accordance with the valuation policies. As for Al Baraka Bank in Bahrain, it uses the market prices announced on that date in evaluating the traded investments. As for Al Baraka Turk Bank, the fair value is calculated according to market pricing.
- ❖ Compared to Al Baraka Turk Bank, Al Baraka Islamic Bank in Bahrain performed an evaluation and allocated more based on fair value, which has also improved disclosures in the financial statements.

4.4.2.6 Credit Risk

The probability of a loss as a consequence of a borrower's inability to repay a loan or satisfy contractual commitments is referred to as credit risk. Below those risks are examined.

Table 4.7: Comparison with respect to of Credit Risk

Subject	Al Baraka Islamic Bank in Bahrain	Albaraka Turk in Turkey
Credit Risk	1. Credit risk is the failure of one of the parties to the financing contracts to fulfill its obligations, which results in the other party incurring a financial loss. The Group controls credit risk by monitoring credit exposures and continually assessing the creditworthiness of counterparties. Financing contracts are often secured by personal guarantees by third parties and in some cases by mortgage of the financed assets and other tangible assets. 2. Credit risk exposures 3. Credit Risk - Geographical Distribution 4. Credit risk - broken down by type of counterparty 5. Credit Risk - Related Party Transactions 6.Credit Risk - Concentration of Risk 7.Overdue and non-performing credit facilities	1. Credit risk represents the Parent Bank's risk or losses arising from corporate and individual loan customer who have cash or non-cash credit relations with the Parent Bank not fulfilling the terms of their agreements partially or in full. Limit assignment authority primarily belongs to the Board of Directors and based on the authority given by the Board of Directors, the risk limits of the Parent Bank are determined by Head-office Loan Committee, Loan Committee and Board of Directors. Head-office Loan Committee may exercise such authority partially through units of the Parent Bank or branches. Proposal for

	8.Other parties with high debt 9. Credit risk - credit quality of Islamic financing contracts by type of counterparty 10. Credit risk - provision against financing facilities according to the type of the counterparty 11. Credit risk - non-performing facilities and provisions 12. Credit Risk - Restructured Islamic Finance Contracts 13. Counterparty Credit Risk Exposure	loans are presented in a written format to the Loan Committee and Board of Directors. 2. Risk Categories 3. Profile on significant risks in significant regions 4. Distribution of risks with term structure according to remaining maturities 5. Credit ratings of borrowers 6. Amounts of impaired loans and past due receivables, value adjustments and provisions, current period value adjustments and provisions according to sectors or counterparties individually 7. Information related to value adjustments and credit provisions 8. Other descriptive and quantitative information.

(The Table is prepared by the researcher)

❖ It appears by reviewing the disclosure practices and comparing them between the two banks that they disclosed the credit risks quantitatively, descriptively, and with tables and auxiliary figures. As for the ratings, it is clear that Al Baraka Islamic Bank in Bahrain has classified more broadly the types of credit risks, their concentration and geographical distribution, and this does not detract from the quality of disclosure by Al Baraka Turk Bank in Turkey, but the increase in the clarification of the types of risks increases the quality of its disclosure.

- Both banks presented compared figures with previous years. Al Baraka Bank in Turkey distinguished itself from Al Baraka Islamic Bank in Bahrain by providing a detail on the credit ratings of borrowers, which helps users of financial statements in assessing the quality of debtors' debts. While Al Baraka Islamic Bank in Bahrain distinguished itself by its disclosure of the credit quality of Islamic financing contracts according to the type of the other party and restructured Islamic financing contracts. Both banks also made observations regarding the provision for credit losses. However, both banks did not disclose the monitoring tools used to assess credit risk management performance.
- In general, the two banks met high standards in the disclosure of credit risks, especially in light of the Corona pandemic, which led to an increase in credit risks globally, and provided an adequate description of the credit risks to which both of them are exposed, which can be built upon in the assessment of the users of the financial statements of the extent of the risks to which the two establishments are exposed.

4.4.2.7 Liquidity Risk

Liquidity is the capacity of a bank to satisfy its cash and collateral obligations given to customers of the bank and other related parties. In the below table Liquidity Risk is examined.

Table 4.8: Comparison with respect to of Liquidity Risk

Subject	Al Baraka Islamic Bank in Bahrain	Albaraka Turk in Turkey
Liquidity Risk	1. Liquidity risk is the risk that the Group will not be able to meet its obligations when they fall due under normal and stressful conditions. To reduce this risk, management has diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis. 2. Liquidity management policy. 3. Liquidity ratios 4. Quantitative indicators of financial position and financial performance 5. Other Disclosures	1. Liquidity Risk is managed by Asset and Liability Committee ("ALCO") in line with risk management policies and risk appetite approved by the Board of Directors in order to take the necessary measures in a timely and correct manner against possible liquidity shortages that may result from market conditions and balance sheet structure of the Parent Bank. Under stressed conditions, liquidity risk is managed within the Contingency Funding Plan framework. 2. Consolidated liquidity coverage ratio 3. Presentation of assets and liabilities according to their remaining maturities 4. Other Disclosures

(The Table is prepared by the researcher)

- Both banks disclosed the concept of liquidity risk and the objectives, policies and methods of managing liquidity risk and the methods used to measure it. They also provided quantitative data on the available sources of liquidity and cash and the like, with comparison work for previous years, and an overview of management plans for emergency financing was given to ensure availability of liquidity in the company. Both banks analyzed available liquidity ratios and some other quantitative indicators to measure liquidity risk, in addition to displaying assets and liabilities according to their due dates, showing surplus and deficit, and ways to deal with it.
- Al Baraka Turk in Turkey distinguished itself from the Al Baraka Islamic Bank in Bahrain by increasing the descriptive explanations of the policies and methods of managing liquidity risks and ways to deal with them through the Board of Mentors and the Asset and Liability Management Committee, as she indicated the possibilities of the impact of the Corona pandemic on the liquidity risk in the company.
- In general, the quality of disclosure by both banks with regard to liquidity risk can be considered at a good level, as they dealt with liquidity risks quantitatively and descriptively, with clarifications of policies, comparisons with previous years, and a statement of changes and their effects.

4.4.2.8 Zakat

Zakat is one of the most essential components of Islamic banking as a religious requirement in Islam. In Chapter 3, zakat IS discussed and contrasted it from the perspectives of two standards, the AAOIFI1 and the FASI.

Table 4.9: Comparison with respect to of Zakat

Subject	Al Baraka Islamic Bank in Bahrain	Albaraka Turk in Turkey
Zakat	The responsibility for payment of Zakat is on individual shareholders and investment accountholders.	There are no mention of zakat payment

(The Table is prepared by the researcher)

In chapter 4, it was conducted a comparison between two banks, it was hard to track zakat in al Baraka Bank Turkey yet it was found that the bank delivers a multi-language platform banking service by providing other features such as zakat calculator, sought by Muslims, however, in the other side, the management of the Al Baraka bank in Bahrain has been given authorization by the shareholders to pay zakat on their behalf, whereas the zakat per share equal to 0,34 USD that's could make it easier to track zakat payment.

4.4.3 Results

First of all, the researcher selected Islamic banks from Bahrain and Turkey as well, the reasons behind selecting banks from Bahrain to be compared with banks from Turkey is that as long as our thesis concerns the Islamic banking industry and its regulation system, Bahrain considers as the hub of this industry. The researcher decided that it is possible to compare the original bank in Bahrain with its branch in Turkey, as the bank's management in the country of origin stipulates that all its branches must comply with the standards of Islamic banks unless it contradicts the local standards. In any case, the local standards of Islamic banks in Turkey do not fully agree with those of Islamic banks, so it is advantageous to compare the criteria for both banks.

Nowadays, Islamic banking either in Turkey or in the world has an important place in the developing world and is going to increase, despite all crises that happened in the last few years that could affect the entire banking system especially the current pandemic of COVID-19, which created the need for alternative financial resources.

It is found that the financial statements of al Baraka Bahrain explain the Islamic products in a way that it can track it very easily in contrast to Al Baraka Turk, Classification of Islamic banking products is not included in the financial statements such, Musharaka and Ijara Muntahia Bittamleek & Ijara are not existing in the statement of financial position in Al Baraka Turk

It can also have concluded that the compatibility and consistency at the level of the conceptual framework is remarkably satisfactory, as the compatibility is consistent in the majority of banks, such as (lists and elements of financial statements, users of financial statements, and the measurement bases used).

However, it is believed that if Al Baraka Bank in Turkey applies its financial statement with the Islamic financial standards it would be easy to track all Islamic financial products and it will give more comprehensive information to the investors and all of the stakeholders.

CONCLUSION

Despite the fact that Islamic finance has been practiced since the dawn of Islam 1400 years ago, Islamic finance has gained popularity among investors in all countries of the world in recent years, especially in the Islamic countries of the Middle East. moreover, there are Many Non-Islamic countries have also begun to pay great attention to this sector of finance because of its impact and impact on the world, especially for Muslims. Islamic banking differs from traditional banking in the modern era, for example, it depends entirely on tools that are not prohibited by Islamic law. For example, it uses special financing contracts such as the Murabaha contract, Mudaraba, the Musharaka, the lease contract, and which are legally permissible in Islamic banking. For instance, it is not permissible for an Islamic bank to use interest in loans, instead, it can use Qard al Hasan.

There is no doubt that the banking sector in any country in the world is very important. It is one of the pillars of the economic development of countries. Specifically, the banking sector in Turkey is very important and indispensable in the Turkish economy, although the Islamic banking sector in Turkey constitutes only five percent of the banking sector in Turkey, it is undoubtedly increasing continuously day by day and it is one of the important sectors that attract Middle Eastern investments, especially the Gulf countries.

Participation Turkish banks have so far used international standards in preparing financial statements, however, AAOIFI standards are translated in Turkish and banks in Turkey are allowed to use these standards starting from this year. so these issued have studied and compared in the fourth chapter of Al Baraka Turk Bank in Turkey with the Bahraini Al Baraka Bank in Bahrain to find out the differences between them in terms of IAS1 and FAS1

Its mentioned in the previous studies of chapter 4 section that there are many studies that talked about Islamic banking in Turkey, but most of the existing studies discussed it in a little detail. Our study did more detail about Islamic banking, where a comparison was made between an Islamic bank in Turkey and another bank outside

Turkey to know the most important differences that exist as both banks use different criteria.

Below the most significant distinctions that found while comparing the two banks Based on analytical study :

- First, when comparing the financial statements between all the two banks, then noting that there is no significant difference in the financial statements that were separated from them in the financial reports for the fiscal year 2020, noting that Al Baraka Bank in Bahrain did not adhere to the financial accounting standard for Islamic banks and did not disclose three types from the financial statements as required based on the standard.
- When comparing the items of the financial statements between the two banks, it was noted that Al Baraka Turk does not clearly use or that it is difficult to track the Islamic financial tools used to obtain financings for the bank, such as Murabaha, Musharaka, and other tools.
- In the penultimate part of the comparison in the fourth chapter, many accounting practices were compared, which are considered to be very important in terms of comparison. The credit risk between both banks was compared. It became clear that Al Baraka Bank in Bahrain, uses broader forms in describing credit risk than Al Baraka Turk. which in turn increases the quality of disclosure in the financial statements.

In further research, the accounting and footnote differences between the two sets of standards for various specific transactions can be studied to shed light on the professional and academic needs.

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APPENDIX

Appendix 1: Financial Position of Al Baraka Bank in Bahrain

	Notes	2020 US$ '000	2019 US$ '000
ASSETS			
Cash and balances with banks and financial institutions	3	294,877	344,747
Receivables	4	557,436	449,729
Ijara Muntahia Bittamleek and Ijara receivables	5	321,510	282,709
Musharakas	6	350,280	237,493
Investments	7	988,091	744,069
Investment in joint venture	8	14,631	14,715
Investments in real estate	9	9,813	15,358
Premises and equipment	10	46,338	47,295
Goodwill	11	14,050	14,502
Other assets	12	54,949	63,617
TOTAL ASSETS		2,651,975	2,214,234

LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS SUBORDINATED DEBTS AND OWNERS' EQUITY			
LIABILITIES			
Current accounts		384,137	276,882
Murabaha and other payables		185,209	125,462
Other liabilities	13	105,411	94,005
TOTAL LIABILITIES		674,757	496,349
TOTAL EQUITY OF INVESTMENT ACCOUNTHOLDERS	14	1,696,907	1,436,847
SUBORDINATED DEBTS	15	12,883	14,667
OWNERS' EQUITY	16		
Share capital		136,458	136,458
Additional tier-1 capital		111,000	111,000
Reserves		(2,361)	(4,070)
Accumulated losses		(3,502)	(2,010)
EQUITY ATTRIBUTABLE TO PARENT'S SHAREHOLDERS		241,595	241,378
Non-controlling interest		25,833	24,993
TOTAL OWNERS' EQUITY		267,428	266,371
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBTS AND OWNERS' EQUITY		2,651,975	2,214,234
OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS		523,207	642,471
CONTINGENCIES AND COMMITMENTS	17	381,608	337,306

Appendix 2: Statement of Income Al Baraka Bank in Bahrain

OPERATING EXPENSES			
Staff expenses	10	(32,463)	(30,664)
Depreciation	22	(4,958)	(5,656)
Other operating expenses		(31,812)	(30,931)
TOTAL OPERATING EXPENSES		(69,233)	(67,251)
NET OPERATING INCOME		33,036	21,672
Allowances for impairment - net		(21,358)	(17,383)
Recovery from written off financing	23	101	2,012
INCOME BEFORE TAXATION		11,779	6,301
Taxation	24	(4,199)	(1,183)
INCOME FOR THE YEAR		7,580	5,118
Attributable to:			
Equity Shareholders of the parent		6,032	5,297
Non-controlling interest		1,548	(179)
		7,580	5,118

	Notes	2020 US$ '000	2019 US$ '000
INCOME FROM JOINTLY FINANCED ASSETS			
Financings	18	85,981	91,075
Investments	19	11,773	8,422
Income from jointly financed assets		97,754	99,497
Return on equity of investment accountholders before Group's share as a Mudarib		(87,437)	(82,458)
Group's share as a Mudarib	15	23,676	9,244
Return on equity of investment accountholders	17	(63,761)	(73,214)
Group's share as a Mudarib and Rabalmal		33,993	26,283
INCOME FROM SELF FINANCED ASSETS			
Financings	18	9,500	10,106
Investments	19	44,503	38,089
Income from self financed assets		54,003	48,195
INCOME FROM BANKING SERVICES AND OTHERS			
Revenue from banking services	20	8,723	8,660
Other income	21	7,206	6,420
Group's mudarib / agency fee from off-balance sheet equity of investment account holders		587	1,438
Income from banking services and others		16,516	16,518
TOTAL OPERATING INCOME BEFORE OTHER FINANCING COST		104,512	90,996
Other financing costs		(2,243)	(2,073)
TOTAL OPERATING INCOME		102,269	88,923

Appendix 3: Statement of Changes in Owners' Equity Al Baraka Bank in Bahrain

			Reserves									
	Share capital	Additional tier-1 capital	Statutory	General	Employee defined benefit plan	Cumulative changes in fair value of investments	Revaluation of premises and equipment	Foreign exchange	Accumulated losses	Total	Non-controlling interest	Total owners' equity
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Balance at 1 January 2020	136,458	111,000	23,228	8,687	(59)	(1,206)	-	(34,720)	(2,010)	241,378	24,993	266,371
Cumulative changes in fair value	-	-	-	-	-	2,766	-	-	-	2,766	181	2,947
Translation of foreign currency operations	-	-	-	-	-	-	-	(1,625)	-	(1,625)	(865)	(2,490)
Remeasurement loss on defined benefit plan	-	-	-	-	(35)	-	-	-	-	(35)	(24)	(59)
Recognition of modification loss	-	-	-	-		-	-	-	(8,835)	(8,835)	-	(8,835)
Receipt of government grant	-	-	-	-		-	-	-	1,914	1,914	-	1,914
Net income for the year	-	-	-	-	-	-	-	-	6,032	6,032	1,548	7,580
Allocation to statutory reserve	-	-	603	-	-	-	-	-	(603)	-	-	-
Balance at 31 December 2020	**136,458**	**111,000**	**23,831**	**8,687**	**(94)**	**1,560**	**-**	**(36,345)**	**(3,502)**	**241,595**	**25,833**	**267,428**
Balance at 1 January 2019	122,458	110,000	22,699	8,687	(31)	1,035	714	(28,313)	(21,778)	215,471	28,666	244,137
Cumulative changes in fair value	-	-	-	-	-	(2,241)	-	-	-	(2,241)	2	(2,239)
Translation of foreign currency operations	-	-	-	-	-	-	-	(6,407)	-	(6,407)	(3,477)	(9,884)
Issuance of ordinary shares	14,000	-	-	-	-	-	-	-	-	14,000	-	14,000
Issuance of additional tier 1 capital	-	30,000	-	-	-	-	-	-	-	30,000	-	30,000
Write down of additional tier 1 capital	-	(15,000)	-	-	-	-	-	-	15,000	-	-	-
Redemption of additional tier-1 capital	-	(14,000)	-	-	-	-	-	-	-	(14,000)	-	(14,000)
Changes in fair value of premises and equipment	-	-	-	-	-	-	(714)	-	-	(714)	-	(714)
Net income / (loss) for the year	-	-	-	-	-	-	-	-	5,297	5,297	(179)	5,118
Remeasurement loss on defined benefit plan	-	-	-	-	(28)	-	-	-	-	(28)	(19)	(47)
Allocation to statutory reserve	-	-	529	-	-	-	-	-	(529)	-	-	-
Balance at 31 December 2019	136,458	111,000	23,228	8,687	(59)	(1,206)	-	(34,720)	(2,010)	241,378	24,993	266,371

Appendix 4: Statement of Cash Flows Al Baraka Bank in Bahrain

	2020 US$ '000	2019 US$ '000
OPERATING ACTIVITIES		
Net income before taxation	11,779	6,301
Adjustments for:		
Depreciation	4,958	5,656
Allowances for impairment - net	21,358	17,383
Gain on sale of premises and equipment	(165)	(49)
Share of (loss) / income from investment in joint venture	84	(44)
Gain on sale of investments	(15,951)	(10,383)
Unrealized loss on revaluation of investment properties	990	-
Modification loss in lieu of payments moratorium	(8,835)	-
Operating profit before changes in operating assets and liabilities	14,218	18,864
Net changes in operating assets and liabilities:		
Balances with central banks in mandatory reserves	86,678	(64,452)
Receivables	26,008	76,676
Ijara Muntahia Bittamleek and Ijara receivables	(41,020)	395
Musharakas	(115,363)	33,484
Other assets	5,103	18,612
Other liabilities	11,291	(19,523)
Murabaha and other payables	59,746	6,762
Current accounts	107,255	1,294
Equity of investment accountholders	260,060	26,066
Taxation paid	(649)	(1,184)
Net cash generated from operating activities	413,327	96,994
INVESTING ACTIVITIES		
Purchase of investments	(1,069,684)	(592,604)
Investments sold / matured	848,241	430,771
Purchase of premises and equipment	(4,689)	(4,404)
Sale of premises and equipment	319	82
Net cash used in investing activities	(225,813)	(166,155)
FINANCING ACTIVITIES		
Repayment of subordinated debts	(1,784)	(2,811)
Receipt of government grant	1,914	-
Net cash from / (used) in financing activities	130	(2,811)
Foreign currency translation adjustments	(1,504)	(13,063)
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	186,140	(78,423)
Cash and cash equivalents at 1 January	196,646	275,069
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (NOTE 25)	382,786	196,646

Appendix 5: Statement of Changes in off-balance Sheet Equity of Investment Account Holders Al Baraka Bank in Bahrain

2020	Balance at 1 January 2020 US$ '000	Write offs US$ '000	Net deposits / withdrawals US$ '000	Gross income US$ '000	Mudarib's / agency fee US$ '000	Balance at 31 December 2020 US$ '000
Wakala Bi Al-Istithmar (note 27)						
Receivables	156,650	-	(156,709)	535	(476)	-
Investments	4,655	-	(4,659)	34	(30)	-
On balance sheet jointly financed assets	177,397	-	180,804	9,177	(3,234)	364,144
	338,702	-	19,436	9,746	(3,740)	364,144
Others						
Receivables	142,260	-	(13,231)	7,409	(81)	136,357
Investments	161,509	-	(138,803)	-	-	22,706
	303,769	-	(152,034)	7,409	(81)	159,063
	642,471	-	(132,598)	17,155	(3,821)	523,207

2019	Balance at 1 January 2019 US$ '000	Write offs US$ '000	Net deposits / withdrawals US$ '000	Gross income US$ '000	Mudarib's / agency fee US$ '000	Balance at 31 December 2019 US$ '000
Wakala Bi Al-Istithmar (note 27)						
Receivables	-	-	154,179	3,249	(778)	156,650
Investments	-	-	4,561	436	(342)	4,655
On balance sheet jointly financed assets	325,763	-	(155,664)	17,423	(10,125)	177,397
	325,763	-	3,076	21,108	(11,245)	338,702
Others						
Receivables	77,235	(1,392)	64,013	2,722	(318)	142,260
Investments	9,522	-	151,987	-	-	161,509
	86,757	(1,392)	216,000	2,722	(318)	303,769
	412,520	(1,392)	219,076	23,830	(11,563)	642,471

Appendix 6: Financial Position of Al Baraka Turk Bank

	ASSETS	Notes (Section Five-I)	Audited CURRENT PERIOD December 31, 2020			Audited PRIOR PERIOD December 31, 2019		
			TL	FC	Total	TL	FC	Total
I.	**FINANCIAL ASSETS (Net)**		**3.610.559**	**18.080.122**	**21.690.681**	**3.467.753**	**12.065.923**	**15.533.676**
1.1	**Cash and Cash Equivalents**	**(1)**	**2.117.138**	**14.507.009**	**16.624.147**	**2.519.444**	**10.453.621**	**12.973.065**
1.1.1	Cash and Balances with Central Bank		1.371.053	11.873.379	13.244.432	1.426.702	7.369.207	8.795.909
1.1.2	Banks		781.048	2.634.093	3.415.141	1.109.920	3.084.627	4.194.547
1.1.3	Money Market Placements		-	-	-	-	-	-
1.1.4.	**Expected Credit Losses (-)**		34.963	463	35.426	17.178	213	17.391
1.2	**Financial Assets Measured at Fair Value through Profit/Loss (FVTPL)**	**(2)**	**724.424**	**3.257.849**	**3.982.273**	**134.498**	**437.979**	**572.477**
1.2.1	Government Securities		552.653	3.236.130	3.788.783	99.148	435.174	534.322
1.2.2	Equity Securities		12.921	10.774	23.695	-	-	-
1.2.3	Other Financial Assets		158.850	10.945	169.795	35.350	2.805	38.155
1.3	**Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)**	**(3)**	**755.313**	**315.264**	**1.070.577**	**813.673**	**1.174.064**	**1.987.737**
1.3.1	Government Securities		745.044	306.067	1.051.111	813.658	1.150.767	1.964.425
1.3.2	Equity Securities		7.667	9.197	16.864	15	23.297	23.312
1.3.3	Other Financial Assets		2.602	-	2.602	-	-	-
1.4	**Derivative Financial Assets**	**(5)**	**13.684**	-	**13.684**	**138**	**259**	**397**
1.4.1	Derivative Financial Assets Measured at Fair Value through Profit/Loss		13.684	-	13.684	138	259	397
1.4.2	Derivative Financial Assets Measured at Fair Value through Other Comprehensive Income		-	-	-	-	-	-
II.	**FINANCIAL ASSETS MEASURED AT AMORTISED COST (NET)**		**23.290.701**	**20.517.445**	**43.808.146**	**16.998.174**	**14.745.234**	**31.743.408**
2.1	**Loans**	**(6)**	**23.254.473**	**18.801.331**	**42.055.804**	**17.019.728**	**13.617.465**	**30.637.193**
2.2	**Lease Receivables**	**(7)**	**291.476**	**68.673**	**360.149**	**227.356**	**16.322**	**243.678**
2.3	**Financial Assets Measured at Amortised Cost**	**(4)**	**832.051**	**2.392.749**	**3.224.800**	**638.021**	**1.356.298**	**1.994.319**
2.3.1	Government Securities		832.051	2.392.749	3.224.800	638.021	1.296.462	1.934.483
2.3.2	Other Financial Assets		-	-	-	-	59.836	59.836
2.4	**Expected Credit Losses (-)**	**(6)**	**1.087.299**	**745.308**	**1.832.607**	**886.931**	**244.851**	**1.131.782**
III.	**ASSETS HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS (Net)**	**(8)**	**130.757**	**293**	**131.050**	**124.196**	**284**	**124.480**
3.1	Asset Held for Resale		130.757	293	131.050	124.196	284	124.480
3.2	Assets of Discontinued Operations		-	-	-	-	-	-
IV.	**OWNERSHIP INVESTMENTS (Net)**	**(9)**	**327.378**	-	**327.378**	**286.470**	-	**286.470**
4.1	**Associates (Net)**		-	-	-	**8.258**	-	**8.258**
4.1.1	Associates Consolidated Under Equity Accounting		-	-	-	-	-	-
4.1.2	Unconsolidated Associates		-	-	-	8.258	-	8.258
4.2	**Subsidiaries (Net)**		**268.696**	-	**268.696**	**240.236**	-	**240.236**
4.2.1	Unconsolidated Financial Investments in Subsidiaries		-	-	-	-	-	-
4.2.2	Unconsolidated Non-Financial Investments in Subsidiaries		268.696	-	268.696	240.236	-	240.236
4.3	**Joint Ventures (Net)**		**58.682**	-	**58.682**	**37.976**	-	**37.976**
4.3.1	Joint-Ventures Consolidated Under Equity Accounting		58.682	-	58.682	37.976	-	37.976
4.3.2	Unconsolidated Joint-Ventures		-	-	-	-	-	-
V.	**TANGIBLE ASSETS (Net)**	**(10)**	**1.372.244**	**17.226**	**1.389.470**	**1.496.680**	**19.905**	**1.516.585**
VI.	**INTANGIBLE ASSETS (Net)**	**(11)**	**40.535**	**6.352**	**46.887**	**30.538**	**5.272**	**35.810**
6.1	Goodwill		-	4.783	4.783	-	3.970	3.970
6.2	Others		40.535	1.569	42.104	30.538	1.302	31.840
VII.	**INVESTMENT PROPERTY (Net)**	**(12)**	**1.261.475**	-	**1.261.475**	**1.419.315**	-	**1.419.315**
VIII.	**CURRENT TAX ASSET**		**3.750**	-	**3.750**	**1.231**	-	**1.231**
IX.	**DEFERRED TAX ASSET**	**(13)**	**191.360**	-	**191.360**	**166.345**	-	**166.345**
X.	**OTHER ASSETS**	**(14)**	**640.871**	**28.943**	**669.814**	**397.149**	**251.499**	**648.648**
	TOTAL ASSETS		**30.869.630**	**38.650.381**	**69.520.011**	**24.387.851**	**27.088.117**	**51.475.968**

	LIABILITIES	Notes (Section Five-II)	Audited CURRENT PERIOD December 31, 2020			Audited PRIOR PERIOD December 31, 2019		
			TL	FC	Total	TL	FC	Total
I.	**FUNDS COLLECTED**	**(1)**	**15.389.368**	**36.148.001**	**51.537.369**	**14.672.926**	**25.066.274**	**39.739.200**
II.	**FUNDS BORROWED**	**(2)**	**72.778**	**2.987.107**	**3.059.885**	**100.219**	**1.691.379**	**1.791.598**
III.	**BORROWINGS FROM MONEY MARKETS**		**1.246.687**	**1.029.766**	**2.276.453**	**18.237**	**-**	**18.237**
IV.	**SECURITIES ISSUED (Net)**	**(3)**	**4.042.163**	**-**	**4.042.163**	**2.519.419**	**-**	**2.519.419**
V.	**FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS**		**-**	**-**	**-**	**-**	**-**	**-**
VI.	**DERIVATIVE FINANCIAL LIABILITIES**	**(4)**	**142.596**	**-**	**142.596**	**504**	**345**	**849**
6.1	Derivative Financial Liabilities at Fair Value through Profit or Loss		142.596	-	142.596	504	345	849
6.2	Derivative Financial Liabilities at Fair Value through Other Comprehensive Income		-	-	-	-	-	-
VII.	**LEASE PAYABLES**	**(5)**	**314.684**	**13.711**	**328.395**	**287.755**	**12.905**	**300.660**
VIII.	**PROVISIONS**	**(6)**	**200.073**	**2.451**	**202.524**	**134.069**	**1.627**	**135.696**
8.1	Restructuring Reserves		-	-	-	-	-	-
8.2	Reserve for Employee Benefits		145.872	-	145.872	100.138	-	100.138
8.3	Insurance Technical Reserves (Net)		-	-	-	-	-	-
8.4	Other Provisions		54.201	2.451	56.652	33.931	1.627	35.558
IX.	**CURRENT TAX LIABILITY**	**(7)**	**74.012**	**11.018**	**85.030**	**69.726**	**4.874**	**74.600**
X.	**DEFERRED TAX LIABILITY**		-	-	-	-	-	-
XI.	**LIABILITIES FOR ASSETS HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS (Net)**	**(8)**	-	-	-	-	-	-
11.1	Assets Held for Sale		-	-	-	-	-	-
11.2	Assets of Discontinued Operations		-	-	-	-	-	-
XII.	**SUBORDINATED LOANS**	**(9)**	-	**1.732.562**	**1.732.562**	-	**1.375.164**	**1.375.164**
12.1	Loans		-	1.732.562	1.732.562	-	1.375.164	1.375.164
12.2	Other Debt Instruments		-	-	-	-	-	-
XIII.	**OTHER LIABILITIES**	**(10)**	**1.573.899**	**190.199**	**1.764.098**	**1.281.404**	**207.875**	**1.489.279**
XIV.	**SHAREHOLDERS' EQUITY**	**(11)**	**4.343.628**	**5.308**	**4.348.936**	**3.995.233**	**36.033**	**4.031.266**
14.1	Paid-In Capital		1.350.000	-	1.350.000	900.000	-	900.000
14.2	Capital Reserves		960.566	-	960.566	1.344.905	-	1.344.905
14.2.1	Share Premium		14.855	-	14.855	-	-	-
14.2.2	Share Cancellation Profits		-	-	-	-	-	-
14.2.3	Other Capital Reserves		945.711	-	945.711	1.344.905	-	1.344.905
14.3	Accumulated Other Comprehensive Income or Expenses that will not be Reclassified to Profit or Loss		254.045	-	254.045	243.404	-	243.404
14.4	Accumulated Other Comprehensive Income or Expenses that will be Reclassified to Profit or Loss		93.130	5.308	98.438	76.995	36.033	113.028
14.5	Profit Reserves		1.494.079	-	1.494.079	1.430.839	-	1.430.839
14.5.1	Legal Reserves		131.703	-	131.703	136.641	-	136.641
14.5.2	Status Reserves		-	-	-	-	-	-
14.5.3	Extraordinary Reserves		1.362.171	-	1.362.171	1.294.198	-	1.294.198
14.5.4	Other Profit Reserves		205	-	205	-	-	-
14.6	Profit or Loss		(27.128)	-	(27.128)	(158.346)	-	(158.346)
14.6.1	Prior Years Profit/(Loss)		(329.432)	-	(329.432)	(248.391)	-	(248.391)
14.6.2	Current Year Profit/(Loss)		302.304	-	302.304	90.045	-	90.045
14.7	Minority Shares		218.936	-	218.936	157.436	-	157.436
	TOTAL LIABILITIES		**27.399.888**	**42.120.123**	**69.520.011**	**23.079.492**	**28.396.476**	**51.475.968**

Appendix 7: Consolidated Statement of Off-Balance sheet of Al Baraka Turk Bank

STATEMENT OF OFF-BALANCE SHEET		Notes (Section Five-III)	Audited CURRENT PERIOD December 31, 2020			Audited PRIOR PERIOD December 31, 2019		
			TL	FC	Total	TL	FC	Total
A.	**OFF BALANCE SHEET COMMITMENTS (I+II+III)**		**11.377.799**	**9.281.131**	**20.658.930**	**6.884.242**	**5.792.399**	**12.676.641**
I.	**GUARANTEES AND SURETIES**	(1)	**5.710.137**	**5.411.694**	**11.121.831**	**5.128.502**	**5.302.936**	**10.431.438**
1.1.	Letters of Guarantees		5.647.191	3.555.738	9.202.929	5.099.099	3.619.295	8.718.394
1.1.1.	Guarantees Subject to State Tender Law		876.326	77.888	954.214	697.926	62.581	760.507
1.1.2.	Guarantees Given for Foreign Trade Operations		15	1.043.724	1.043.739	15	835.718	835.733
1.1.3.	Other Letters of Guarantee		4.770.850	2.434.126	7.204.976	4.401.158	2.720.996	7.122.154
1.2.	Bank Loans		-	49.363	49.363	-	14.463	14.463
1.2.1.	Import Letter of Acceptances		-	49.363	49.363	-	14.463	14.463
1.2.2.	Other Bank Acceptances		-	-	-	-	-	-
1.3.	Letter of Credits		39.522	1.731.270	1.770.792	257	1.329.663	1.329.920
1.3.1.	Documentary Letter of Credits		-	-	-	-	-	-
1.3.2.	Other Letter of Credits		39.522	1.731.270	1.770.792	257	1.329.663	1.329.920
1.4.	Prefinancing Given as Guarantee		-	-	-	-	-	-
1.5.	Endorsements		-	-	-	-	-	-
1.5.1.	Endorsements to the Central Bank of Turkey		-	-	-	-	-	-
1.5.2.	Other Endorsements		-	-	-	-	-	-
1.6.	Other Guarantees		-	75.323	75.323	-	339.515	339.515
1.7.	Other Collaterals		23.424	-	23.424	29.146	-	29.146
II.	**COMMITMENTS**	(1)	**2.395.012**	**850.025**	**3.245.037**	**1.722.506**	**389.607**	**2.112.113**
2.1.	Irrevocable Commitments		2.391.012	850.025	3.241.037	1.722.506	389.607	2.112.113
2.1.1.	Asset Purchase and Sale Commitments		359.047	850.025	1.209.072	47.797	389.607	437.404
2.1.2.	Share Capital Commitment to Associates and Subsidiaries		-	-	-	-	-	-
2.1.3.	Loan Granting Commitments		429.887	-	429.887	262.517	-	262.517
2.1.4.	Securities Underwriting Commitments		-	-	-	-	-	-
2.1.5.	Commitments for Reserve Deposit Requirements		-	-	-	-	-	-
2.1.6.	Payment Commitment for Cheques		667.621	-	667.621	631.606	-	631.606
2.1.7.	Tax And Fund Liabilities from Export Commitments		13.538	-	13.538	10.381	-	10.381
2.1.8.	Commitments for Credit Card Expenditure Limits		919.974	-	919.974	769.342	-	769.342
2.1.9.	Commitments for Promotions Related with Credit Cards and Banking Activities		398	-	398	335	-	335
2.1.10	Receivables From Short Sale Commitments of Marketable Securities		-	-	-	-	-	-
2.1.11	Payables for Short Sale Commitments of Marketable Securities		-	-	-	-	-	-
2.1.12	Other Irrevocable Commitments		547	-	547	528	-	528
2.2.	Revocable Commitments		4.000	-	4.000	-	-	-
2.2.1.	Revocable Loan Granting Commitments		-	-	-	-	-	-
2.2.2.	Other Revocable Commitments		4.000	-	4.000	-	-	-
3.1.	Derivative Financial Instruments for Hedging Purposes		-	-	-	-	-	-
3.1.1.	Fair Value Hedge		-	-	-	-	-	-
3.1.2.	Cash Flow Hedge		-	-	-	-	-	-
3.1.3.	Hedge of Net Investment in Foreign Operations		-	-	-	-	-	-
3.2.	Held for Trading Transactions		3.272.650	3.019.412	6.292.062	33.234	99.856	133.090
3.2.1	Forward Foreign Currency Buy/Sell Transactions		128.188	114.937	243.125	33.234	41.953	75.187
3.2.1.1	Forward Foreign Currency Transactions-Buy		83.763	39.298	123.061	27.547	10.149	37.696
3.2.1.2	Forward Foreign Currency Transactions-Sell		44.425	75.639	120.064	5.687	31.804	37.491
3.2.2.	Other Forward Buy/Sell Transactions		3.144.462	2.904.475	6.048.937	-	57.903	57.903
3.3.	Other		-	-	-	-	-	-
B.	**CUSTODY AND PLEDGED ITEMS (IV+V+VI)**		**87.262.122**	**24.652.412**	**111.914.534**	**72.616.853**	**16.137.385**	**88.754.238**
IV.	**ITEMS HELD IN CUSTODY**		**5.519.997**	**8.677.435**	**14.197.432**	**3.812.406**	**3.053.641**	**6.866.047**
4.1.	Assets Under Management		2.911.168	-	2.911.168	1.522.915	-	1.522.915
4.2.	Investment Securities Held in Custody		137.652	344.021	481.673	72	26.320	26.392
4.3.	Cheques Received for Collection		1.696.146	275.497	1.971.643	1.480.111	285.800	1.765.911
4.4.	Commercial Notes Received for Collection		526.549	83.168	609.717	543.651	76.306	619.957
4.5.	Other Assets Received for Collection		103	-	103	103	-	103
4.6.	Assets Received for Public Offering		-	-	-	-	-	-
4.7.	Other Items Under Custody		215.254	1.519.560	1.734.814	210.617	341.146	551.763
4.8.	Custodians		33.125	6.455.189	6.488.314	54.937	2.324.069	2.379.006
V.	**PLEDGED ITEMS**		**81.742.125**	**15.974.977**	**97.717.102**	**68.804.447**	**13.083.744**	**81.888.191**
5.1.	Marketable Securities		11.668.013	4.659.421	16.327.434	10.007.092	3.875.114	13.882.206
5.2.	Guarantee Notes		1.438.998	219.572	1.658.570	1.223.615	193.710	1.417.325
5.3.	Commodity		6.545.244	1.758.326	8.303.570	3.520.395	1.194.171	4.714.566
5.4.	Warranty		-	-	-	-	-	-
5.5.	Properties		56.903.781	6.988.385	63.892.166	51.035.646	5.913.841	56.949.487
5.6.	Other Pledged Items		4.924.606	2.341.372	7.265.978	2.763.503	1.898.042	4.661.545
5.7.	Pledged Items-Depository		261.483	7.901	269.384	254.196	8.866	263.062
VI.	**ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES**		-	-	-	-	-	-
	TOTAL OFF BALANCE SHEET ACCOUNTS (A+B)		**98.639.921**	**33.933.543**	**132.573.464**	**79.501.095**	**21.929.784**	**101.430.879**

Appendix 8: Consolidated Statement of Profit or Loss of Al Baraka Turk Bank

	STATEMENT OF PROFIT OR LOSS	Notes (Section Five-IV)	Audited CURRENT PERIOD January 1- December 31, 2020	Audited PRIOR PERIOD January 1- December 31, 2019
I.	**PROFIT SHARE INCOME**	**(1)**	**3.594.052**	**3.308.530**
1.1	Profit Share on Loans		3.065.363	2.960.036
1.2	Income Received from Reserve Deposits		14.777	51.897
1.3	Income Received from Banks		631	2.273
1.4	Income Received from Money Market Placements		-	-
1.5	Income Received from Marketable Securities Portfolio		482.344	270.472
1.5.1	Financial Assets at Fair Value Through Profit and Loss		118.222	6.237
1.5.2	Financial Assets at Fair Value through Other Comprehensive Income		167.162	155.654
1.5.3	Financial Assets Measured at Amortised Cost		196.960	108.581
1.6	Finance Lease Income		28.550	20.202
1.7	Other Profit Share Income		2.387	3.650
II.	**PROFIT SHARE EXPENSE**	**(2)**	**1.856.988**	**2.462.446**
2.1	Expense on Profit Sharing Accounts		1.114.179	1.594.918
2.2	Profit Share Expense on Funds Borrowed		261.175	222.674
2.3	Profit Share Expense on Money Market Borrowings		79.520	103.162
2.4	Profit Share Expense on Securities Issued		297.535	475.134
2.5	Finance Lease Expense		56.986	59.485
2.6	Other Profit Share Expense		47.593	7.073
III.	**NET PROFIT SHARE INCOME (I – II)**		**1.737.064**	**846.084**
IV.	**NET FEES AND COMMISSIONS INCOME/EXPENSES**		**233.567**	**299.245**
4.1	Fees and Commissions Received		394.977	394.901
4.1.1	Non-Cash Loans		128.295	123.572
4.1.2	Other	(3)	266.682	271.329
4.2	Fees and Commissions Paid (-)		161.410	95.656
4.2.1	Non-Cash Loans		296	431
4.2.2	Other	(3)	161.114	95.225
V.	**DIVIDEND INCOME**	**(4)**	-	-
VI.	**TRADING INCOME/LOSS(net)**	**(5)**	**245.832**	**224.827**
6.1	Capital Market Transaction Income/(Loss)		53.851	63.296
6.2	Profit/(Loss) from Derivative Financial Instruments		(142.128)	(21.992)
6.3	Foreign Exchange Income/(Loss)		334.109	183.523
VII.	**OTHER OPERATING INCOME**	**(6)**	**665.995**	**724.444**
VIII.	**TOTAL OPERATING INCOME (III+IV+V+VI+VII)**		**2.882.458**	**2.094.600**
IX.	**EXPECTED CREDIT LOSS (-)**	**(7)**	**1.162.439**	**773.996**
X.	**OTHER PROVISION EXPENSES (-)**		**22.974**	**16.411**
XI.	**PERSONNEL EXPENSES (-)**		**731.506**	**675.898**
XII.	**OTHER OPERATING EXPENSES (-)**	**(8)**	**602.043**	**517.797**
XIII.	**NET OPERATING INCOME/(LOSS) (VIII-IX-X-XI-XII)**		**363.496**	**110.498**
XIV.	**EXCESS AMOUNT RECORDED AS GAIN AFTER MERGER**		-	-
XV.	**PROFIT/(LOSS) ON EQUITY METHOD**		**21.398**	**13.963**
XVI.	**PROFIT/(LOSS) ON NET MONETARY POSITION**		-	-
XVII.	**PROFIT/(LOSS) FROM CONTINUED OPERATIONS BEFORE TAXES (XIII+...+XVI)**	**(9)**	**384.894**	**124.461**
XVIII.	**TAX PROVISION FOR CONTINUED OPERATIONS (±)**	**(10)**	**73.788**	**27.682**
18.1	Provision for Current Taxes		15.702	8.535
18.2	Deferred Tax Expense Effect (+)		366.579	220.539
18.3	Deferred Tax Income Effect (-)		308.493	201.392
XIX.	**NET INCOME/(LOSS) FROM CONTINUED OPERATIONS (XVII±XVIII)**	**(11)**	**311.106**	**96.779**
XX.	**INCOME FROM DISCONTINUED OPERATIONS**	**(11)**	-	-
20.1	Income from Assets Held For Sale		-	-
20.2	Income from Sale Of Associates, Subsidiaries And Jointly Controlled Entities (Joint Vent.)		-	-
20.3	Income from Other Discontinued Operations		-	-
XXI.	**LOSS FROM DISCONTINUED OPERATIONS (-)**		-	-
21.1	Loss from Assets Held for Sale		-	-
21.2	Loss on Sale of Associates, Subsidiaries and Jointly Controlled Entities (Joint Vent.)		-	-
21.3	Loss from Other Discontinued Operations		-	-
XXII.	**PROFIT/(LOSS) ON DISCONTINUED OPERATIONS BEFORE TAXES (XXI-XXI)**		-	-
XXIII.	**TAX PROVISION FOR DISCONTINUED OPERATIONS (±)**		-	-
23.1	Provision for Current Taxes		-	-
23.2	Deferred Tax Expense Effect (+)		-	-
23.3	Deferred Tax Income Effect (-)		-	
XXIV	**NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XXII±XXIII)**		-	-
XXV.	**NET PROFIT/LOSS (XIX+XXIV)**	**(12)**	**311.106**	**96.779**
25.1	Group's Income/Loss		302.304	90.045
25.2	Minority Shares Profit/Loss (-)		8.802	6.734
	Earnings Per Share		0,22	0,10

Appendix 9: Statement of Profit or Loss and Other Comprehensive Income of Al Baraka Turk Bank

	PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	Audited CURRENT PERIOD January 1- December 31, 2020	Audited PRIOR PERIOD January 1- December 31, 2019
I.	**CURRENT PERIOD PROFIT/LOSS**	**311.106**	**96.779**
II.	**OTHER COMPREHENSIVE INCOME**	**8.640**	**93.791**
2.1	**Other Income/Expense Items not to be Recycled to Profit or Loss**	**10.641**	**8.696**
2.1.1	Revaluation Surplus on Tangible Assets	41.708	31.588
2.1.2	Revaluation Surplus on Intangible Assets	-	-
2.1.3	Defined Benefit Plans' Actuarial Gains/Losses	(22.642)	(13.716)
2.1.4	Other Income/Expense Items not to be Recycled to Profit or Loss	(3.906)	(6.497)
2.1.5	Deferred Taxes on Other Comprehensive Income not to be Recycled to Profit or Loss	(4.519)	(2.679)
2.2	**Other Income/Expense Items to be Recycled to Profit or Loss**	**(2.001)**	**85.095**
2.2.1	Translation Differences	22.716	16.782
2.2.2	Income/Expenses from Valuation and/or Reclassification of Financial Assets Measured at Financial Assets Measured at Fair Value through Other Comprehensive Income	(33.852)	87.581
2.2.3	Gains/losses from Cash Flow Hedges	-	-
2.2.4	Gains/Losses on Hedges of Net Investments in Foreign Operations	-	-
2.2.5	Other Income/Expense Items to be Recycled to Profit or Loss	-	-
2.2.6	Deferred Taxes on Other Comprehensive Income to be Recycled to Profit or Loss	9.135	(19.268)
III.	**TOTAL COMPREHENSIVE INCOME (I+II)**	**319.746**	**190.570**

Appendix 10: Statement of Changes in shareholder's equity of Al Baraka Turk Bank

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Audited)						Other Comprehensive Income/Expense Items not to be Recycled to Profit or Loss			Other Comprehensive Income/Expense Items to be Recycled to Profit or Loss								
	Notes (Section Five-V)	Paid-in Capital	Share Premium	Share Cancellation Profits	Other Capital Reserves(*)	1	2	3	4	5	6	Profit Reserves	Prior Periods' Profit/Loss	Current Period's Net Profit/Loss	Total Equity Before Minority Shares	Minority Shares	Total Shareholders' Equity
CURRENT PERIOD (January 1 - December 31, 2020)																	
I. Closing balance	(V)	900.000	-	-	1.344.905	270.910	(27.506)	-	73.496	39.532	-	1.430.839	(248.391)	90.045	3.873.830	157.436	4.031.266
II. Correction made as per TAS 8		-	-	-	-	-	-	-	-	(8.999)	-	-	8.999	-	-	-	-
2.1. Effect of Corrections		-	-	-	-	-	-	-	-	(8.999)	-	-	8.999	-	-	-	-
2.2. Effect of Changes in Accounting Policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Adjusted Balances at Beginning Of Period (I+II)		900.000	-	-	1.344.905	270.910	(27.506)	-	73.496	30.533	-	1.430.839	(239.392)	90.045	3.873.830	157.436	4.031.266
IV. Total Comprehensive Income		-	-	-	-	29.460	(18.819)	-	22.716	(24.717)	-	-	-	302.304	310.944	8.802	319.746
V. Capital Increase in Cash		450.000	14.855	-	(464.855)	-	-	-	-	-	-	-	-	-	-	-	-
VI. Capital Increase from Internal Sources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Capital Reserves from Inflation Adjustments to Paid-in Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Convertible Bonds		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Subordinated Liabilities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Others Changes		-	-	-	65.661	-	-	-	-	(3.590)	-	223	(117.068)(**)	-	(54.774)	52.698	(2.076)
XI. Profit Distribution		-	-	-	-	-	-	-	-	-	-	63.017	27.028	(90.045)	-	-	-
11.1 Dividends		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.2 Transfers to Reserves		-	-	-	-	-	-	-	-	-	-	63.017	(63.017)	-	-	-	-
11.3 Others		-	-	-	-	-	-	-	-	-	-	-	90.045	(90.045)	-	-	-
Balances at end of the period (III+IV…+X+XI)		1.350.000	14.855	-	945.711	300.370	(46.325)	-	96.212	2.226	-	1.494.079	(329.432)	302.304	4.130.000	218.936	4.348.936

Appendix 11: Statement of Cash Flows of Al Baraka Turk Bank

	STATEMENT OF CASH FLOWS	Notes (Section Five-VI)	Audited CURRENT PERIOD January 1- December 31, 2020	Audited PRIOR PERIOD January 1- December 31, 2019
A.	**CASH FLOWS FROM BANKING OPERATIONS**			
1.1	**Operating Profit Before Changes In Operating Assets And Liabilities**		**2.216.768**	**1.578.108**
1.1.1	Profit Share Income Received		3.409.799	3.032.230
1.1.2	Profit Share Expense Paid		(1.781.221)	(1.620.675)
1.1.3	Dividend Received		-	-
1.1.4	Fees and Commissions Received		266.682	271.913
1.1.5	Other Income		628.358	458.309
1.1.6	Collections from Previously Written Off Loans	(V-I-6,h2)	608.331	375.756
1.1.7	Payments to Personnel and Service Suppliers		(912.882)	(827.187)
1.1.8	Taxes Paid		(132.320)	(50.191)
1.1.9	Others	(V-VI-3)	130.021	(62.047)
1.2	**Changes In Operating Assets And Liabilities**		**(7.186.880)**	**4.264.800**
1.2.1	Net (Increase) Decrease in Financial Assets at Fair Value Through Profit or Loss		(3.236.981)	(520.779)
1.2.2	Net (Increase) Decrease in Due From Banks and Other Financial Institutions		(2.178.742)	(1.886.205)
1.2.3	Net (Increase) Decrease in Loans		(9.830.159)	(3.887.979)
1.2.4	Net (Increase) Decrease in Other Assets		(993.462)	(89.576)
1.2.5	Net Increase (Decrease) in Bank Deposits		(1.600.976)	617.972
1.2.6	Net Increase (Decrease) in Other Deposits		10.868.959	9.696.731
1.2.7	Net Increase (Decrease) in Financial Liabilities Measured at Financial Assets at Fair Value Through Profit or Loss		-	-
1.2.8	Net Increase (Decrease) in Funds Borrowed		-	-
1.2.9	Net Increase (Decrease) in Matured Payables		-	-
1.2.10	Net Increase (Decrease) in Other Liabilities	(V-VI-3)	(215.519)	334.636
I.	**Net Cash Flow From Banking Operations**		**(4.970.112)**	**5.842.908**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
II.	**Net cash flow from investing activities**		**807.643**	**(2.143.919)**
2.1	Cash Paid For Acquisition of Investments, Associates and Subsidiaries		(708)	(173.307)
2.2	Cash Obtained From Disposal of Investments, Associates and Subsidiaries		-	-
2.3	Purchases of Property and Equipment		(173.884)	(295.930)
2.4	Disposals of Property and Equipment		505.245	162.876
2.5	Purchase of Financial Assets at Fair Value Through Other Comprehensive Income		(78.509)	(3.402.388)
2.6	Sale of Financial Assets at Fair Value Through Other Comprehensive Income		1.339.025	2.875.207
2.7	Purchase of Financial Assets Measured at Amortised Cost	(V-I-4)	(1.740.999)	(1.442.377)
2.8	Sale of Financial Assets Measured at Amortised Cost	(V-I-4)	957.473	132.000
2.9	Other		-	-
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
III.	**Net Cash Flow From Financing Activities**		**4.693.467**	**(3.854.988)**
3.1	Cash Obtained from Funds Borrowed and Securities Issued		32.924.345	22.571.042
3.2	Cash Used for Repayment of Funds Borrowed and Securities Issued		(28.007.100)	(26.696.471)
3.3	Issued Capital Instruments		-	464.855
3.4	Dividends Paid		-	-
3.5	Payments for Leases		(85.538)	(82.130)
3.6	Other		(138.240)	(112.284)
IV.	**Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents**	(V-VI-3)	**336.393**	**235.821**
V.	**Net (Decrease) Increase in Cash and Cash Equivalents**		**867.391**	**79.822**
VI.	**Cash and Cash Equivalents at the Beginning of the Period**	(V-VI-a)	**7.189.681**	**7.109.859**
VII.	**Cash and Cash Equivalents at the End of the Period**	(V-VI-b)	**8.057.072**	**7.189.681**

Appendix 12: Statement of Profit Appropriation of Al Baraka Turk Bank

STATEMENT OF PROFIT APPROPRIATION	Audited CURRENT PERIOD December 31, 2020	Audited PRIOR PERIOD December 31, 2019
I. Distribution of current year income		
1.1. Current year income	323.735	87.293
1.2. Taxes and duties payable (-)	68.998	23.864
1.2.1. Corporate tax (Income tax)	10.912	4.722
1.2.2. Income withholding tax	-	-
1.2.3. Other taxes and legal liabilities (*)	58.086	19.142
A. Net income for the year (1.1-1.2)	**254.737**	**63.429**
1.3. Prior year losses (-)	-	-
1.4. First legal reserves (-)	-	3.172
1.5. Other statutory reserves (-)	-	1.082
B. Distributable net period income [(A-(1.3+1.4+1.5)] (**)	**254.737**	**59.175**
1.6. First dividend to shareholders (-)	-	-
1.6.1. To owners of ordinary shares	-	-
1.6.2. To owners of preferred shares	-	-
1.6.3. To owners of preferred shares (Preemptive rights)	-	-
1.6.4. To Profit sharing bonds	-	-
1.6.5. To owners of the profit /loss sharing certificates	-	-
1.7. Dividend to personnel (-)	-	-
1.8. Dividend to board of directors (-)	-	-
1.9. Second dividend to shareholders (-)	-	-
1.9.1. To owners of ordinary shares	-	-
1.9.2. To owners of preferred shares	-	-
1.9.3. To owners of preferred shares (Preemptive rights)	-	-
1.9.4. To profit sharing bonds	-	-
1.9.5. To owners of the profit /loss sharing Certificates	-	-
1.10. Second legal reserve (-)	-	-
1.11. Status reserves (-)	-	-
1.12. Extraordinary reserves	-	59.175
1.13. Other reserves	-	-
1.14. Special funds	-	-
II. Distribution from reserves		
2.1. Distributed reserves	-	-
2.2. Second legal reserves (-)	-	-
2.3. Share to shareholders (-)	-	-
2.3.1. To owners of ordinary shares	-	-
2.3.2. To owners of preferred shares	-	-
2.3.3. To owners of preferred shares (Preemptive rights)	-	-
2.3.4. To profit sharing bonds	-	-
2.3.5. To owners of the profit /loss sharing certificates	-	-
2.4. Share to personnel (-)	-	-
2.5. Share to board of directors (-)	-	-
III. Earnings per share		
3.1. To owners of ordinary shares (***) (Full TL)	0,189	0,070
3.2. To owners of ordinary shares (%)	18,86	7,05
3.3. To owners of preferred shares	-	-
3.4. To owners of preferred shares (%)	-	-
IV. Dividend per share		
4.1. To owners of ordinary shares (Full TL)	-	-
4.2. To owners of ordinary shares (%)	-	-
4.3. To owners of preferred shares	-	-
4.4. To owners of preferred shares (%)	-	-

Appendix 13: Statement of Financial Position

Standard	Statement of Financial Position
IAS1	In a statement of financial position or in a statement of adjustments in the equity, the company shall disclose the following: (a) property, plant and equipment; (b) investment property; (c) intangible assets; (d) financial assets (excluding amounts shown under (e), (h) and (i)); (e)investments accounted for using the equity method; (f) biological assets within the scope of IAS 41 Agriculture; (g) inventories; (h) trade and other receivables; (i) cash and cash equivalents; (j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale (k) trade and other payables; (l) provisions; (m) financial liabilities (excluding amounts shown under (k) and (l)); (n) liabilities and assets for current tax, (o) deferred tax liabilities and deferred tax assets (p) liabilities included in disposal groups classified as held for sale (q) non-controlling interests, presented within equity; and (r) issued capital and reserves attributable to owners of

	the parent
FAS1	The assets section: In the statement of financial position; Separate totals are presented for assets, liabilities, unrestricted investment accounts and Owners ‘equity. Providing separate explanations for the assets co-financed by the Islamic bank and unrestricted investment account holders and individually financed by the Islamic bank, explanations are made in the statement of financial position or in the footnotes of the financial statements for the following assets: Cash and cash equivalent, Receivables Mudaraba financing, Salam receivables, Musharaka financing, Exception receivables, Investments in other entities, Inventories, Assets acquired for leasing, Other investments with disclosure of their types, Fixed assets with disclosure of significant types, other assets with disclosure significant types. The liabilities section: Current accounts, saving accounts and other accounts, with, separate disclosure of each category of accounts, deposits of other banks , Salam payables , Istisna’a payables, Declared but undistributed profits , Zakah and taxes payable , Other accounts payable

Appendix 14: Statement of Profit or Loss and Other Comprehensive Income

Standard	Statement of profit or loss and other comprehensive income
IAS1	The statement of profit or loss shall include line items that present the following amounts for the period: (a)revenue, (b) finance costs; (c)share of the profit or loss of associates and joint ventures accounted for using the equity method; (d)tax expense; (e)a single amount for the total of discontinued operations
FAS1	The following information should be disclosed in the income statement: a) Revenue and gains from investments. b) Expenses and losses from investments. c) Income (loss) from investments. d) Share of unrestricted investment accountholders in income (loss) from investments before the bank's share as a Mudarib. f) The Islamic bank's share in income (loss) from investments. g) The Islamic bank's share in unrestricted investment income as a Mudarib. h) The Islamic bank's share in restricted investment profits as a Mudarib. i) The Islamic bank's fixed fee as an investment agent for

	restricted investments. j) Other revenues, expenses, gains, and losses. k) General and administrative expenses. l) Net income (loss) before Zakah and taxes. m) Zakah and taxes (to be separately disclosed). n) Net income (loss)

Appendix 15: statement of changes in equity

Standard	Statement of changes in equity
IAS1	The statement of changes in equity includes the following information: (a)total comprehensive income for the period, (b)for each component of equity, the effects of retrospective application or retrospective restatement recognized (d)for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from: (i) profit or loss; (ii) other comprehensive income; and (iii)Transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.
FAS1	The following matters are explained in the statement of changes in equity of the partners: a) Paid-in capital at the beginning of the period, legal and optional reserves separately from each other, and undistributed profits. b) Shareholders' capital contributions during the period. c) Net profit (loss) for the period.

	d) Distributions made to partners during the period. e) Increases (decreases) in legal and optional reserves during the period. f) Paid-in capital at the end of the period, separate legal and other optional reserves and undistributed profits

Appendix 16: Statement of Cash Flow

Cash Flow	Previous Year	Current Year
Cash flows from operating activities	-	-
Net Income (loss)	xx	xx
Adjustments for the reconciliation of net profit	xx	xx
Net cash from operating activities	xxx	xxx
Depreciation	xx	xx
Provisions of Doubtful Accounts	xx	xx
Provisions for Zakat money	xx	xx
Tax provision	xx	xx
Zakat Paid	(xx)	(xx)
Taxes paid	xx	xx
Return on unrestricted investment accounts	xx	xx
Earnings from the sale of fixed assets	xx	xx
Depreciation of leased assets	xx	xx
Provision for impairment of investment securities	xx	xx
Bad Receivables	(xx)	(xx)
Fixed assets purchased	(xx)	(xx)
Net cash flows from operating activities	xxx	xxx
Cash flows from investing activities	-	-
sale of rental Real estates	xx	xx
Purchased rental real estates	xx	xx
Real estate sale	xx	xx
Investment securities acquired	xx	xx
Increase in Mudaraba investments	(xx)	(xx)
Stock sale	xx	xx
Exception sale	xx	xx
Net increase in receivables	(xx)	(xx)
Net cash flows from investing activities (used in investing activities)	xxx	xxx
Cash flows from financing activities	-	-
Net increase in unrestricted investment accounts	xx	xx
Net increase in current accounts	xx	xx
Dividends paid	xx	xx
Increase in credit balances and expenses	xx	xx
(Decrease) in accrued expenses	(xx)	(xx)
Increase in minority interest	xx	xx
Decrease in other assets	xx	xx
Net cash flows from financing activities	xx	xx
Increase (decrease) in cash and cash equivalents	xx	xx
Cash and cash equivalents at the beginning of the period	xx	xx

Cash and cash equivalents at the end of the period	xxx	xxx

Appendix 17: Comparasion in Respect to Fair Value

Subject	Al Baraka Islamic Bank in Bahrain	Albaraka Turk in Turkey
Fair Values	The fair values of financial assets and liabilities are calculated based on the following principles: 1.According to market pricing, fair values of investments evaluated at amortized costs are calculated. 2.In order to calculate the fair value of a loan, discounting its future cash flows using current market profit share rates is used. 3. By calculating deferred cash flows using current market profit share rates, the fair worth of monies received from financial institutions may be estimated.	Each financial asset's fair value is calculated separately in accordance with the valuation rules outlined below: 1.Fair value is calculated for investments traded in organized financial markets by referencing the quoted market bid prices in effect on the reporting date. 2. For unquoted investments, fair value is calculated by referring to recent purchase or sell transactions with third parties that have either been completed or are now underway. 3. To assess fair value for assets with fixed or predictable cash flows, the Group uses current profit rates for investments with

		comparable terms and risk characteristics to calculate the net present value of projected future cash flows. 4. An investment's cost is reduced by the provision for impairment if it can't be revalued to fair value using any of the aforementioned approaches

Appendix 18: Comparasion in Respect to Credit Risk

Subject	Al Baraka Islamic Bank in Bahrain	Albaraka Turk in Turkey
Credit Risk	1. Credit risk is the failure of one of the parties to the financing contracts to fulfill its obligations, which results in the other party incurring a financial loss. The Group controls credit risk by monitoring credit exposures and continually assessing the creditworthiness of counterparties. Financing contracts are often secured by personal guarantees by third parties and in some cases by mortgage of the financed assets and other tangible assets. 2. Credit risk exposures 3. Credit Risk - Geographical Distribution 4. Credit risk - broken down by type of counterparty 5. Credit Risk - Related Party Transactions 6.Credit Risk - Concentration of Risk 7.Overdue and non-performing credit facilities	1. Credit risk represents the Parent Bank's risk or losses arising from corporate and individual loan customer who have cash or non-cash credit relations with the Parent Bank not fulfilling the terms of their agreements partially or in full. Limit assignment authority primarily belongs to the Board of Directors and based on the authority given by the Board of Directors, the risk limits of the Parent Bank are determined by Head-office Loan Committee, Loan Committee and Board of Directors. Head-office Loan Committee may exercise such authority partially through units of the Parent Bank or branches. Proposal for

	8.Other parties with high debt 9. Credit risk - credit quality of Islamic financing contracts by type of counterparty 10. Credit risk - provision against financing facilities according to the type of the counterparty 11. Credit risk - non-performing facilities and provisions 12. Credit Risk - Restructured Islamic Finance Contracts 13. Counterparty Credit Risk Exposure	loans are presented in a written format to the Loan Committee and Board of Directors. 2. Risk Categories 3. Profile on significant risks in significant regions 4. Distribution of risks with term structure according to remaining maturities 5. Credit ratings of borrowers 6. Amounts of impaired loans and past due receivables, value adjustments and provisions, current period value adjustments and provisions according to sectors or counterparties individually 7. Information related to value adjustments and credit provisions 8. Other descriptive and quantitative information.