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www.tskb.com.tr

ORDINARY GENERAL ASSEMBLY MEETING AGENDA DATED 28.03.2019

1. Commencement, constitution of the Meeting Presidency in accordance with the Articles of Association of the bank and delegation of authority to the Meeting Presidency for the execution of the minutes of the General Assembly,

2. Review and discussion of the Annual Report of the Board of Directors and Independent Auditor Reports regarding the accounts and transactions of the Bank within the year of 2018,

3. Review, discussion and approval of the balance sheet and profit and loss statements of the Bank for the year of 2018,

4. Release of the Members of the Board of Directors,

5. Approval of the Board of Directors’ proposal regarding the determination and apportionment of the profit for the year 2018,

6. Determination of allowance for the Members of the Board of Directors,

7. Election of the Independent Audit Firm,

8. Approval of the amendments in the 11, 23 and 47th Articles of Association,

9. Approval of the renewed Profit Distribution Policy,

10. Presentation of the information regarding the renewed Disclosure Policy,

11. Presentation of the information regarding the donation made within the year and determination of the upper limit for donations to be made within the year 2019,

12. Authorization of the Members of the Board of Directors for the transactions depicted in Articles 395 and 396 of the Turkish Commercial Code,

13. Presenting information regarding the transactions within the scope of Article 1.3.6. of the Corporate Governance Principles of the Capital Markets Board.

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QUALIFICATION, PERIOD AND SCOPE OF THE REPORT

TSKB presents its 2018 performance with its Integrated Annual Report including January 1 – December 31, 2018 period. The report is issued on a bank-only basis and excludes the operations of TSKB affiliates. To note, the Bank does not deliver any operations abroad. The report only reflects the operations in Turkey.

CAPITALS APPROACH

TSKB reviews, analyses and reports the update outputs of its operations, its plans and targets to its stakeholders based on the “capitals classification” proposed by International Integrated Reporting Council (IIRC) with an integrated point of view.

CONTENT OF THE REPORT

TSKB’s contribution to the inclusive and sustainable development is reviewed with its economic, social and environmental dimensions and analyzed in different parts of the report.

PUBLICATION FORMAT OF THE REPORT

Accessibility of the report by all of the stakeholders is essential and indispensable for TSKB. Therefore, the report is produced with an environment-friendly approach and published online. The report can be accessed through Public Disclosure Platform and www.tskb.com.

COMPLIANCE TO THE REGULATORY FRAMEWORK

This report is prepared in compliance with the International Integrated Reporting Framework recommended by IIRC and Core Option of GRI Reporting Guidelines published by Global Reporting Initiative. Content of the report is compiled in accordance with the content determination methods described in GRI standards, mainly with materiality analysis.

Performance disclosures are presented mainly in the context of “GRI Standards” indicators, while progress reporting principles of United Nations Global Compact with which TSKB committed in 2010 are taken into consideration.

2018 Integrated Annual Report of TSBK, a Borsa Istanbul listed company, is in compliance with the minimum annual reporting requirements of Banking Regulation and Supervision Agency (BRSA) and Capital Markets Board (CMB) legal frameworks.

AUDIT OF THE REPORT

TSKB 2018 Integrated Annual Report including independent audit reports were audited by Güney Bağımsız Denetim ve SMMM A.Ş. (Ernst&Young, EY). It was also subject to limited assurance audit by EY with respect to non-financial information.

Furthermore, TSBK takes audit service from BSI under ISO14001 certification for its Sustainable Management System and under ISO 14064 certification regarding the calculation and verification of greenhouse gas emissions from its operations.
TSKB AT A GLANCE

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08 Milestones from 1950 to 2018
10 Firsts & Innovations
12 Awards & Achievements
**CORPORATE PROFILE**

TSKB was established in 1950 in Istanbul as Turkey’s first private development and investment bank with the support of the World Bank, the Central Bank of Turkey and the shareholding of commercial banks.

The bank operates in three main fields, namely Corporate Banking, Investment Banking and Advisory Services. TSKB has its headquarters in Istanbul with two branches in Ankara and Izmir.

Extending medium and long-term loans for financing investment projects, TSKB’s loans have a concentration on production and services sectors. TSKB not only extends direct loans to finance the investments of private sector organizations but also supports SMEs and exporters with indirect loans through leasing companies, commercial banks and participation banks within the scope of wholesale banking (APEX banking).

TSKB offers investment-banking services at international standards, with its services designed in accordance with the needs of its customers. The Bank is distinguished by its experience in development banking and submitting value-added solutions to its customers with its qualified team in advisory services.

Due to its development and investment bank-status, TSKB does not collect deposits and meets its need for medium and long-term funds through the funds it obtains from national, regional and supranational financial institutions and bond issues.

**TSKB IN NUMBERS**

**Asset size**

**TL 38.3 billion**

**Rank in the sector in terms of asset size**

**13th bank**

**Total number of employees with its affiliates**

**567**

**TSKB’S SHAREHOLDING STRUCTURE (%)**

- İşbank
- Free Float and Other
- Vakıfbank
- 50.92%
- 40.70%
- 8.38%

The shareholdings of the Bank’s Board Members, Auditors, Chief Executive Officer and Executive Vice Presidents are negligible.

TSKB stock is traded on BIST Stars under the ticker “TSKB” with a free float ratio of 38.6%. TSKB’s registered capital is TL 4,000 million whereas its paid-in capital is TL 2,300 million as of 2018 year-end.

**OUR MISSION**

Is to focus on creating value for the inclusive and sustainable development of our country through the financing and advisory solutions powered by our experience in development and investment banking as well as the visionary approach and well-established international collaboration initiatives we maintain.

**OUR VISION**

Is to be the business partner that stakeholders consult and prefer as the first choice towards the economic, environmental and social development of Turkey.

**OUR VALUES**

**PIONEERING**

- We create long-term value for customers, society and the future of our country, using a visionary perspective and innovative services as leverage.
- We keep a close eye on international banking practices and lead our sector as a pioneer.

**HUMAN-FOCUSED**

- With a human-oriented approach for a qualified economic growth, we contribute to employment, equal opportunities and social development through inclusive banking solutions.
- We make business decisions together based on collective intelligence.
- We value team success over individual success.
- We work in harmony both within the Bank and with the organizations we cooperate.
- We never discriminate among our employees.
- We protect the rights of employees and ensure they always have equal opportunities.
- We contribute to employees’ professional and personal development and encourage them to take the initiative.

**SOLUTION-ORIENTED**

- We produce flexible, fast and efficient solutions in order to optimally meet our customers’ expectations and needs.
- We are utterly prudent about the quality of the work we do and resolve in fulfilling commitments.
- Knowing that we are the leaders in our job, we take responsibility and act timely and swiftly at each stage without need for any prior guidance.

**RELIABLE & RESPECTFUL**

- We build trustful and respectful relations with all our stakeholders.
- We never compromise on a fair, accountable, transparent and ethical banking approach, and the contemporary rules of corporate governance.
- We create value for sustainable development through an environment-friendly banking approach, and take responsibility to leave future generations a world to live in.

**GRI**

102-5, 102-6, 102-7, 102-9
### Key Performance Indicators and Ratios

#### Total Assets (TL million)
- **2014**: 15,701
- **2015**: 20,735
- **2016**: 24,002
- **2017**: 28,910
- **2018**: 38,298

#### Loan Portfolio (Gross) (TL million)
- **2014**: 11,040
- **2015**: 13,735
- **2016**: 17,371
- **2017**: 22,344
- **2018**: 28,226

#### Shareholders' Equity (TL million)
- **2014**: 2,288
- **2015**: 2,489
- **2016**: 2,928
- **2017**: 3,535
- **2018**: 4,719

#### Net Profit (TL million)
- **2014**: 369
- **2015**: 407
- **2016**: 476
- **2017**: 596
- **2018**: 661

#### Financial Ratios (%)
- **Average Return on Equity**
  - **2014**: 17.7
  - **2015**: 17.0
  - **2016**: 17.6
  - **2017**: 18.4
  - **2018**: 16.0
- **Average Return on Assets**
  - **2014**: 2.6
  - **2015**: 2.2
  - **2016**: 2.1
  - **2017**: 2.3
  - **2018**: 2.0
- **Capital Adequacy Ratio**
  - **2014**: 18.1
  - **2015**: 14.9
  - **2016**: 14.3
  - **2017**: 17.1
  - **2018**: 16.2

#### Non-Performing Loans Ratio (%)
- **2016**: 0.3
- **2017**: 0.2
- **2018**: 2.1

### Loan Portfolio (Gross) Breakdown (%)

#### Total Assets Composition

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans</th>
<th>Liquid Assets</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>72</td>
<td>25</td>
<td>4</td>
</tr>
<tr>
<td>2017</td>
<td>77</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>2018</td>
<td>74</td>
<td>22</td>
<td>5</td>
</tr>
</tbody>
</table>

#### Breakdown of Revenues (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Interest Revenue</th>
<th>Other Revenue</th>
<th>Net Commissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>94</td>
<td>94</td>
<td>96</td>
</tr>
<tr>
<td>2017</td>
<td>94</td>
<td>94</td>
<td>95</td>
</tr>
<tr>
<td>2018</td>
<td>95</td>
<td>95</td>
<td>95</td>
</tr>
</tbody>
</table>

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**TSKB** provides part of its services in investment banking and consultancy services in cooperation with its affiliates, Yetim Finansman Securities, TSKB Real Estate Appraisal and TSKB Sustainability Consultancy-Escarus.
MILESTONES FROM 1950 TO 2018

- **1950s**
  - Founded with the mission of supporting the development of Turkey’s private sector, TSKB has achieved several significant breakthroughs in development and investment banking. These include securing medium- and long-term loans, providing technical support to project sponsors, and conducting preliminary actions for the formation of the capital market in Turkey. During the same period, TSKB was the only bank capable of supplying foreign currency loans needed to finance imports. It was also the only organization handling cash sales of foreign currencies released under the Marshall Plan.

  - In this decade, TSKB began to focus on private sector investments in Turkey’s developing regions. The Bank took an important step in diversifying its funding resources and obtained the first medium-term syndicated loan from the European market. The Bank also carried out the first issuance of its own long-term bonds during this period. Additionally, TSKB began to provide comprehensive research services for the manufacturing and services sectors.

- **1960s**
  - TSKB introduced many innovative practices throughout the 1960s. The Bank issued, underwrote and guaranteed company bonds and carried out its first initial public offerings of shares from its own portfolio of holdings.

  - In this decade, TSKB began to focus on private sector investments in Turkey’s developing regions. The Bank took an important step in diversifying its funding resources and obtained the first medium-term syndicated loan from the European market. The Bank also carried out the first issuance of its own long-term bonds during this period. Additionally, TSKB began to provide comprehensive research services for the manufacturing and services sectors.

  - TSKB continued to provide funding to the private sector, though in a more rapid and effective manner. During this period, TSKB embarked on highly important ventures in international relations. For example, it successfully issued a series of “Samurai bonds” in the Japanese capital market, which bolstered its brand reputation in international markets. Establishing close cooperation with European and Japanese financial institutions, TSKB significantly increased its funding resources. TSKB also played an active role in the preparation of Turkey’s Privatization Master Plan and served as an advisor for the privatization of the state-owned cement plants.

- **1970s**
  - TSKB further expanded its investment banking business while continuing to develop and diversify its cooperation with international banks. TSKB signed long-term foreign currency and interest rate swap agreements with international financial institutions. It also provided consultancy services to the European Bank for Reconstruction and Development (EBRD) in Uzbekistan. In addition, the 1990s was a period of successful initial public offerings for TSKB. Leading the establishment of over the counter bond and securities markets, the Bank became even more active after the Istanbul Stock Exchange was established, further solidified its leadership position in capital markets.

  - TSKB continued working to develop and diversify its international funding resources. During this period, the Bank successfully tapped into international syndication and murabaha markets for the first time. TSKB also began to provide an increasing volume of resources to SMEs through indirect funding in collaboration with commercial banks and leasing companies as part of “APEX Banking” operations. As the concept of sustainability gained prominence globally, TSBK started to design its business processes with a sustainable approach. TSBK became the first Turkish bank to receive ISO 14001 Environmental Management System certification; it also started to offer “environment themed” loans. During this decade, the Bank laid the groundwork for its social responsibility projects that aimed to raise public awareness about environmental sustainability.

  - For three years in a row, TSBK won first prize for the Eastern Europe Region at the “Sustainable Banking Awards” program organized jointly by the Financial Times (FT) and the International Finance Corporation (IFC). In addition, TSBK became Turkey’s first carbon-neutral bank. TSBK closely followed and monitored sustainability efforts across the globe. Consequently, it became a member of the United Nations Environment Program Finance Initiative (UNEP FI) and publicly announced its commitment to the UN Global Compact.

- **2000s**
  - TSBK began to focus on renewable energy and energy efficiency projects in the 2010s. TSBK played a leading role in combating climate change and meeting Turkey’s ever-increasing demand for energy.

  - After the 2008 global financial crisis, interest rates fell sharply across the world, creating a need for new banking products and services. Thanks to its vast experience in this area, TSBK began to provide clients an array of new, competitive investment instruments, such as capital-protected and guaranteed products. Meanwhile, the Bank continued to add value for its stakeholders

  - by taking on key roles in Turkey’s electricity distribution privatizations, asset purchases & sales financing, acquisition financing, bond issues, and public offerings. During this time, TSBK introduced new types of loans under the themes of sustainable tourism and resource efficiency. The Bank continued its achievements for resource diversification via Eurobond issues. Undertaking ongoing initiatives and improvements to ensure full compliance with all applicable international laws and regulations, TSBK is one of three companies to have received awards from the Corporate Governance Association of Turkey (TKVD) every year since 2011 under the Corporate Governance Awards. To date, TSBK has won three first place, two second place, and one third place prizes.

  - After Long-Term Investors Club (LTIC), TSBK took its place in European Long-Term Investors Association (ELTI) and International Development Finance Club (IDFC) as the only member from Turkey. In 2015, the Bank signed the Climate Change Summit (COP21) declaration of ELTI and IDFC for transition to low-carbon economy.

  - TSBK became a constituent of the BIST Sustainability Index, which is composed of companies listed on Borsa Istanbul and perform well in terms of sustainability. TSBK shares were included in the FTSE4Good Emerging Markets Index by December 2016.

- **2010s**
  - In 2016, TSBK takes a major step in social inclusion obtaining a special resource to finance investments on occupational health and safety in Turkey in addition to the investments by firms that observe gender equality in working environment and support women’s employment.

  - Reinforcing its leading position in sustainability, TSBK becomes the first Turkish bank to issue a “Green/Sustainable Bond” on international markets in 2016. Encouraged by the interest shown in this issuance, TSBK breaks a new global ground and issues a Subordinated Sustainable Bond.

  - Having published the first GRI-approved Sustainability Report in the banking sector, TSBK continues its trailblazing approach in sustainability to reporting and publishes the first Integrated Report in the private sector in 2017.

  - Based on its experience in sustainable development, TSBK engages in a key project in 2017 and cooperates with Escarus, a TSBK subsidiary, to coordinate the Turkish Ministry of Development project called “Due Diligence for Turkey Under the UN Sustainable Development Goals”.

Supporting the Turkish private sector since its establishment in 1950, TSBK continues to create value for the national economy.

- **TSKB IN 2018**

  - In 2018, TSBK secures the largest loan ever in its history. The loan agreement worth USD 400 million signed with the International Bank for Reconstruction and Development (IBRD), a World Bank Group institution, under the Inclusive Access to Finance Project accelerates TSBK’s efforts on inclusive finance, a new item added to the Bank’s mission.

  - In 2018, TSBK breaks another new ground. The Bank becomes the first financial institution to secure funds from the Asian Infrastructure Investment Bank (AIIB) for lending to private sector companies. This fund will be used to extend more loans to renewable energy, energy efficiency, transportation, energy transmission, waste water management and telecommunications investments by the private sector throughout Turkey.

  - The Bank defines its advisory solutions as “products of collective wisdom” and uses them to offer a wide-range of value-added services to the business world and investors. TSBK successfully completes 63 consultancy projects in more than 20 sectors in 2018.

Adding women empowerment, TSBK opened a new chapter in its social responsibility projects which have been implemented since 2000s. TSBK takes key steps to empower the women employees of tomorrow in terms of education and equal opportunities.
## FIRSTS & INNOVATIONS

**TSKB, established for the development of Turkish private sector, paved the way for innovative and sustainable banking.**

### 1950s
- Provide project sponsors with technical advisory services
- Provide private sector projects with medium and long-term finance

### 1960s
- Underwrite and guarantee corporate bond issues
- Offer its mature bonds from its investment portfolio to public
- Issue its own long-term bonds
- Have its records audited by an independent audit company

### 1970s
- Promote private investment incentive in under-developed regions
- Mobilize funds through medium-term syndicated loans from European markets
- Undertake major sector research services for manufacturing and service sectors

### 1980s
- Issue its own bonds in international capital markets
- Conduct manufacturer surveys among various sectors
- Extend export insurance loans secured from European and Japanese financial institutions
- Offer advisory services in textile and other sectors in cooperation with international advisors
- Offer advisory services for the privatization of public cement factories
- Issue its short-term bonds as well as guarantee and market those of its clients
- Prepare Turkey’s first privatization master plan
- Realize the first public offering as an underwriter
- Intermediary in the investment of Islamic Development Bank funds in companies as shareholders

### 1990s
- Sign long-term foreign currency and interest swap agreements with international banks
- Provide floating-rate medium-term Turkish Lira loans to the banking sector
- Provide consulting services for EBRD in Uzbekistan
- Management of a Risk Capital Fund provided by the European Investment Bank
- Undertake a voluntary “Risk Management Review” supported by World Bank

### 2000s
- Extend a credit line specifically for a “sustainable environment”
- First bank to establish a real estate appraisal company approved by Capital Markets Board of Turkey
- Provide secretariat services to the Istanbul Approach
- Develop a risk-based loan pricing model
- First Turkish bank to receive a loan from the French Development Agency
- First and only Turkish bank to become a shareholder of European Investment Fund (EIF)
- First Turkish bank having ISO14001 Certificate
- First Turkish bank to calculate and remove its carbon footprint
- First and only Turkish bank which was awarded “Sustainable Bank of the Year of Eastern Europe Region” in 3 consecutive years between 2008-2010 in the event organized by Financial Times and International Finance Corporation
- First web portal designed under environment and sustainability themes

### 2010s
- UNEP FI and Global Compact membership
- First and only Turkish development and investment bank to be granted a membership in Long-Term Investors’ Club (LTIC)
- First and only Turkish bank as a supervisor member in European Long-Term Investors Association (ELTI)
- Issue 16 thematic mutual funds between 2009 and 2012
- Secure the first EBRD loan which aims to finance SME projects for the agricultural industry in Turkey
- First Turkish Bank to be qualified for ISO14064-1 Greenhouse Gas Verification Certificate
- Restricted mudaraba loan facility with Islamic Development Bank to finance renewable energy and energy efficiency projects
- Become the founder member of International Development Finance Club (IDFC)
- First loan agreement with KfW without any government guarantee
- The first A+ level Sustainability Report approved by GRI (Global Reporting Initiative) in the sector
- The “first carbon-neutral concert” within the scope of İKVŞ Istanbul Music Festival
- Support for IDFC (International Development Finance Club)’s climate pledge
- Assistance for ELTI (European Long-Term Investors Association)’s transition to low carbon economy pledge
- Establishment of TSKB Sustainability Committee
- Eliminating individual carbon footprints of corporate stakeholders
- First green/sustainable bond of Turkey
- The world’s first “Subordinated Sustainable Bond”
- First financial institution securing loan facility from Asian Infrastructure Investment Bank (AIIB) targeting private sector investments
- The first Integrated Report in Turkish private sector
- Scholarship fund “Empower Through Education” for women employees of future
- Music education support project “Woman Stars of Tomorrow”
AWARDS & ACHIEVEMENTS

BANKING AWARDS

- Project Finance Deal of the Year (2018): Bonds&Loans Turkey
- M&A/Acquisition Finance Deal of the Year (2018): Bonds&Loans Turkey
- Structured Loan Deal of the Year (2018): Bonds&Loans Turkey
- Natural Resources Finance Deal of the Year (2018): Bonds&Loans Turkey
- Syndicated Loan Deal of the Year (2018): Bonds&Loans Turkey
- Bond Deal of the Year (2018): Bonds&Loans Turkey
- Best Syndicated Loan in Central and Eastern Europe (2017): EMEA Finance
- Best Syndicated Loan in Central and Eastern Europe (2016): EMEA Finance
- Best Infrastructure Finance Project/Project Finance (2015): Bonds, Loans & Sukuk Turkey
- Best Energy Infrastructure Deal in Europe (2011): Euromoney
- Best Hydroelectric Project in Europe (2011): Euromoney
- Best Equity House (2011): EMEA Finance
- Financial Institutions Financing Deal of the Year (2017): Bonds&Loans Turkey
- Best Solution Partner in Wind Power in Turkey (2011): TIREC
- European Geothermal Deal of the Year (2008): Euromoney
- Infrastructure Deal of the Year (2008): PFI
- Project Finance Deal of the Year (2008): Euromoney
- Best Corporate Merger and Acquisition (2005): Euromoney
- Best Local Business Partner (2004): Euromoney
- Highest Rating Given To a Bank Developing Countries Category (1998): Thomson Bankwatch

SUSTAINABILITY AWARDS

- Best Green Bond in Central and Eastern Europe (2017): EMEA Finance
- Structured Finance Deal of the Year (Winner) (2017): Bonds&Loans Turkey
- International Bond Deal of the Year (2017): Bonds&Loans Turkey
- Sustainable Bond Issuance of the Year (2016): IFR
- Green/Sustainable Bond Issuance of the Year (2016): Global Capital
- Low Carbon Hero (2015): Sustainable Production and Consumption Association (Süt-D)
- Climate Disclosure Leadership (2015): CDP
- Climate Change Leadership (2013): CDP
- Corporate Governance Awards
- Company with the Second-Highest Corporate Governance Rating Score (2015): Thomson Bankwatch
- Company with the Highest Corporate Governance Rating Score (2011, 2013): Turkish Corporate Governance Association (TKYD)
- Women Empowered Boards Special Award (2018): Sabancı University Corporate Governance Forum

CORPORATE GOVERNANCE AWARDS

- Women Empowered Boards Special Award (2018)
- Sabancı University Corporate Governance Forum
- Company with the Second-Highest Corporate Governance Rating Score (2015)
- Turkey Corporate Governance Association (TKYD)
- Transparency International Turkey
- Company with the Highest Corporate Governance Rating Score (2011, 2013, 2014)
- Turkey Corporate Governance Association (TKYD)
- Honor Award for Best Annual Report - Print Category (2015)
- Stevie Business Awards

TSKB’s role and strategy in several areas attract attention as a model and get awarded.
STRATEGY, PERFORMANCE AND 2019 EXPECTATIONS

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30  TSKB’s Strategy
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40  Value Creation
42  2018 Financial Performance and 2019 Expectations
58  Delivering Expertise and Experience
64  Group Companies
70  Inclusive and Sustainable Development
74  Sustainability Management System
84  Investment in Human Capital
90  Corporate Social Responsibility
It is estimated that the growth in global economy will decelerate to 3.5% for 2019.

Capital flows into emerging markets that have balance of payments issues fluctuated due to country-specific political problems as well as the shrinking global liquidity and the negative implications of the trade wars. June and October were marked with capital outflows, with the annual inflow worth USD 200 billion remaining lower than the USD 246 billion in 2017.

Tightening steps in developed countries and declining capital inflows led the developing countries hike their policy rates. Brazil halted the 10-month rate cut period while Mexico, South Korea, Indonesia and India hiked their rates by 0.50, 0.25, 1.75 and 0.25 points respectively throughout the year.

These developments which are expected to have long-term impacts on economic indicators, led to market fluctuations in 2018.

The U.S. stock markets closed the year with a 7% fall, deleting the 9% rise recorded in the first 9 months of the year. Seen as monetary policy normalization steps, interest rate hikes led to increases on bond yields. The 10-year U.S. government bond yield started the year at 2.41% and rose to 3.20% during 2018 before declining to 2.69% in the last quarter of the year.

Concerns surrounding global growth started to have impact on interest rate expectations into 2019. Expectations mainly focus on the Fed not hiking the rate by more than two times and the European Central Bank updating the timing of the first hike, which was planned for 2019 summer, as the second half of 2019. Fed tightening expectations in developed countries’ monetary policies can be seen as positive news for the emerging markets. However, such positive impact may not be felt in the short run due to a potential weakening in the global risk appetite arising from growth concerns. Markets in developed countries are expected to recover in the second half of the year.

In 2018, Brent crude fluctuated between USD 55 and USD 86. Starting the year at USD 66, Brent rose to USD 86, the highest for the last 4 years, due to the production cuts by OPEC countries, strong growth expectations, rising geopolitical risks in the Middle East, production cuts in Venezuela and Canada, and the expectation that the U.S. would withdraw from Iran nuclear deal. In the aftermath of these developments, the price per barrel of Brent crude fell to USD 57 after the OPEC decision to increase production, coupled with the concerns on the sustainability of global growth. OPEC countries met in Vienna in the last month of the year to discuss such developments and decided to reduce daily production by 1.2 million barrels as of the beginning of 2019. The price stood at USD 55 at year-end, and the changes in the price will be a key indicator for economic growth in 2019.

ECONOMIC DEVELOPMENTS

GLOBAL ECONOMIC DEVELOPMENTS

In 2018, the global economy grew by 3.7% to repeat the growth in 2017, the year for which the IMF estimated the biggest growth in the last 6 years. Despite the intentional slowdown in the growth of the Chinese economy by state policies and a weak growth in developing countries, global growth remained the same, thanks to the growth in developed countries maintaining its strength. This proves the fact that there is a shift of balance in global economic growth.

It is estimated that the global economy will grow by 3.5% in 2019. Such estimation by the IMF points out to a 0.4-point downward revision compared to that announced at beginning of 2018. For 2019, it is projected that trade wars will slow down the growth in the U.S. economy, the recession in the Chinese economy will continue, and the liquidity support by the European Central Bank will continue in consideration of the concerns for a lower growth in Europe.

Although global growth was strong in 2018, recent developments point to the challenges in sustainability of this strength. Such developments can be specified as, tightening measures in monetary policies, trade wars, increased geopolitical risks and weaker capital flows into developing countries.

Most of the steps regarding global policy rates in 2018 were rate hikes. In 2018, the Federal Reserve (Fed) hikes interest rates at every other meetings, raising the policy rate from 1.25-1.50% to 2.25-2.50% gradually. The European Central Bank did not change interest rates but reduced monthly bond purchases from EUR 30 billion to EUR 15 billion as of September and subsequently terminated the program at year-end. The Bank of England hiked the policy rate by 0.25 points despite the uncertainties regarding Brexit. Similar to the Fed, the Bank of Canada hiked policy rate 3 times by 0.25 points each. In 2018, the Swedish Central Bank hiked the interest rates for the first time since 2011.

The U.S. emerged as the main player in major economic developments in 2018. The U.S. announcement in March that it would start imposing countervailing duties on import steel products triggered a series of duty steps which would remain the top item on the agenda for the remainder of the year and have impact on the global growth expectations for 2019. During the G20 leaders summit in Argentina on November 30, 2018, the USA and China declared a 90-day truce and suspended recent threats of import tariffs on Chinese goods.

Brent crude fell to USD 57 after the OPEC decision to increase production in June and October 2018, as the second half of 2018. Brent crude fluctuated between USD 55 and USD 86. Rising geopolitical risks in the Middle East, production cuts in Venezuela and Canada, and the expectation that the U.S. would withdraw from Iran nuclear deal in the aftermath of these developments, the price per barrel of Brent crude fell to USD 57 after the OPEC decision to increase production, coupled with the concerns on the sustainability of global growth. OPEC countries met in Vienna in the last month of the year to discuss such developments and decided to reduce daily production by 1.2 million barrels as of the beginning of 2019. The price stood at USD 55 at year-end, and the changes in the price will be a key indicator for economic growth in 2019.

It is estimated that the growth in global economy will decelerate to 3.5% for 2019.
It is expected that the re-balancing of the Turkish economy will continue in the first half of 2019, followed by a moderate recovery in the second half.
EXTERNAL FACTORS

Non-performing loans in the sector increased due to the transition to Turkish Financial Reporting Standard (TFRS 9) as well as the cautious approach adopted by banks in loan classification due to increased volatility in the financial markets. Furthermore, there were declines in loan collections owing to the slowdown in economic activity and the increase in financial expenses of the debtors. The share of non-performing loans in total loans in the sector rose from 2.9% to 3.7% while the share of non-performing corporate loans increased to 3.8% from 2.7%.

REGULATIONS AND LEGAL AMENDMENTS BY AUTHORITIES

POLICIES OF THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

Central Bank of the Republic of Turkey (CBRT) made significant amendments in its policies in 2018 due to increasing volatility in financial markets arising from both domestic and external factors. Following the increase in upside risks regarding inflation, CBRT hiked the market lending rate by 425 basis points in the first half of the year and simplified its policy framework at the end of May. From that date on, CBRT shifted market lending from late liquidity window to weekly repo auctions and declared the one-week repo rate as the policy rate. The funding rate was hiked from 12.25% at the beginning of the year to 24% after tightening measures had been taken. At year-end, overnight lending rate stood at 25.50% while overnight borrowing rate and late liquidity window rate were 22.50% and 27% respectively.

Regulatory requirements were adjusted aiming to take fluctuations in exchange rates under control. Under the Reserve Option Mechanism (ROM), the upper limit for the FX maintenance facility was lowered initially from 55% to 45% and then to 40%. The method of determining the remuneration rate for required Turkish Lira (TL) reserves was changed. Accordingly, it was decided to set a rate 400 basis points lower than the CBRT’s one-week repo auction rate as a fixed rate. The said rate was set at 7% as of June 1, 2018 and hiked to 13% in September. The rate for required USD reserves, reserve options and free accounts was raised from 1.5% to 2% under the impact of rate hikes by the Fed. Finally, the repayment of rediscount loans lent before May 25, 2018 with a maturity of no later than July 31 was allowed to be done in TL terms and with a fixed exchange rate on the condition that the repayment is made on time.

MACROPRUDENTIAL MEASURES AND FORBEARANCES

- Decrease No. 32 on the Protection of the Value of Turkish Currency was amended.
- The FX borrowing of the firms with an FX loan risk of less than USD 15 million, was related to their FX revenues in the last three years. The FX-indexed Loans Placement was terminated.
- A new regulation was passed related to bringing proceeds of exports into Turkey.
- It was further decided to re-issue any FX-denominated or FX-indexed agreements concluded between residents, this time in TL within 30 days of the decision.

CHANGES IN FINANCIAL REPORTING

After the launch of TFRS 9 accounting system in early 2018, the banking sector started to classify and evaluate its financial assets through the subjective intrinsic evaluation model. Under this model, the setting of the loan risk taken as basis in classifying the banks’ financial assets and calculate the reserves to be allocated. The Communique on Amending the General Communique on Corporate Tax issued by the Ministry of Finance classifying the banks’ financial assets and calculate the reserves to be allocated. The Communique on Amending the General Communique on Corporate Tax issued by the Ministry of Finance classified the banks’ financial assets and calculate the reserves to be allocated. The Communique on Amending the General Communique on Corporate Tax issued by the Ministry of Finance was released.

The agreement issued by the Turkish Banks Association (TBA) and signed by the parties was approved and enforced by the BRSA on September 19, 2018 but some amendments were introduced on November 21, 2018.

“Regulation on Amending the Regulation on Restructuring Debts to the Finance Sector” was published in the Official Gazette No. 30602 of November 21, 2018.

Bank equities will be reinforced by profitability in 2019 and are estimated to maintain a robust position.

- The total amount for money swap transactions, with FX on one end TL on the other, which are completed between the Banks and non-residents, are restricted to 50% of the most recent regulatory capital of the related banks. This rate was reduced to 25% on 15 August. On 17 August, non-swap derivative operations were also limited.
- Limitations on derivative transactions were differentiated on a maturity basis.
- It is resolved that, until a second regulatory letter, changes in asset prices will not be considered to the extent of equity which is taken as basis to the extent of the capital adequacy ratio (terminated at year-end).
- It is decided that the higher of the 252-day simple average of the valuation rate for loan risk calculation and the FX rate of June 30, 2018 will be taken into account (terminated at year-end).
- Practice of new accounting standard (TFRS 9) introduced flexibility in terms of loan classification.

RESTRUCTURING AGREEMENT

On August 15, 2018, the BRSA published a regulation on the restructuring of debts to the finance sector.

A Financial Restructuring Framework Agreement was made on restructuring loans of companies that have total cash and non-cash debts of TL 100 million and above to financial institutions, are subject to legal proceedings at a maximum of 25% of the total loan debt as of the date of application and are not subject to a decree of bankruptcy.

The agreement issued by the Turkish Banks Association (TBA) and signed by the parties was approved and enforced by the BRSA on November 21, 2018.
EXTERNAL FACTORS

Social Developments

In the last 15 years, Turkish economy grew by an annual average of 5.8% thanks to a strong domestic demand and high government expenditures. This has made Turkey the 36th in the world and the 3rd among G20 states in terms of growth rates. In the same period, GDP per capita increased from USD 3,500 to USD 10,500.

The economy maintained a strong growth in the first half of 2018 but slowed down in the second half due to the negative repercussions of volatility in financial markets on domestic demand. Growth stood at 7.2% and 5.3% in the first and second quarters respectively but declined to 1.6% in the third quarter. In October, industrial production adjusted for calendar and seasonal effects fell by 5.7%, pointing out to a continued recession in the last quarter. It is estimated that growth may remain below the 15% year average in 2019.

Despite a high growth rate, a single-digit unemployment rate has been achieved in only 7 years out of 15. Labor force participation rate rose from 49.6% to 54% in the last 15 years. In addition to increasing labor participation rate, population growth, technological advancements and immigration were effective in focusing on women's employment. In 2018, the Bank secured an Inclusive Access to Finance Loan worth USD 400 million from the World Bank, with the Ministry of Treasury and Finance standing as the guarantor. The loan aims to support investments by women-inclusive firms in addition to private sector investments in priority development areas affected by the influx of Syrians under temporary protection. (See 2018 Financial Performance and 2019 Expectations)

Turkstat data suggests that Turkey’s population surged to 82 million in 2018 following an annual increase of 1.47%. Turkstat estimates that population growth rate will fall below 1% 10 years later and start to decelerate rapidly afterwards. A population growth rate has been achieved in only 7 years out of 15. Labor force participation rate rose from 49.6% to 54% in the last 15 years. In addition to increasing labor participation rate, population growth, technological advancements and immigration were effective in focusing on women's employment. In 2018, the Bank secured an Inclusive Access to Finance Loan worth USD 400 million from the World Bank, with the Ministry of Treasury and Finance standing as the guarantor. The loan aims to support investments by women-inclusive firms in addition to private sector investments in priority development areas affected by the influx of Syrians under temporary protection. (See 2018 Financial Performance and 2019 Expectations)

Women constitute 49.8% of Turkey's total population. Despite that fact, the share of women's labor force participation stood at 34.8% as of October 2018. The world average is 48.6%.

With its critically important geopolitical location, our country attracts immense immigration. The number of immigrants rose from 380,021 in 2016 to 466,333 in 2017. Iraq, Afghanistan and Syria are the top three countries of origin for migrants coming to Turkey.

The New Economic Program for 2019-2021 includes the goal to switch to “Zero Waste” practices. The Zero Waste concept is called “Near Zero Waste” in the European Union countries. Although it is not possible to produce exactly zero household and industrial wastes under today’s circumstances, the term Zero Waste can be defined as the goal not to produce any wastes that cannot be reused, recycled or recovered. In other words, it is an approach to end producing any wastes at all, if possible, reduce the amount of wastes produced, and put them back to economic use through methods such as recycling, recovery or reuse.

The Turkish Ministry of Environment and Urbanization aims to launch the Zero Waste Project throughout the country by 2023 and attain an annual saving of 12 billion. To that end, the zero waste project is expected to mitigate environmental impact and make a considerable economic contribution. The relevant legislation was promulgated by the Turkish Ministry of Environment and Urbanization. Accordingly, plastic bags will be charged at supermarkets/retail stores starting from January 1, 2019 to raise an increased awareness on the zero waste project.

“Regulation on Energy Efficiency Audits” was promulgated in the Official Gazette of July 6, 2018. The regulation stipulates that industrial facilities be audited on whether they fulfill their energy efficiency liabilities and will employ administrative sanctions. The initial scope of the regulation covers commercial buildings larger than 20,000 m², industrial businesses with an annual energy consumption of more than 1,000 tons of oil equivalent, and public buildings larger than 10,000 m². Furthermore, all buildings with an area of more than 50 m² are required to obtain an Energy Performance Certificate.

TSKB supports women's participation in labor force through its mission on inclusiveness as well as funding and loan operations focusing on women's employment. In 2018, the Bank secured an Inclusive Access to Finance Loan worth USD 400 million from the World Bank, with the Ministry of Treasury and Finance standing as the guarantor. The loan aims to support investments by women-inclusive firms in addition to private sector investments in priority development areas affected by the influx of Syrians under temporary protection. (See 2018 Financial Performance and 2019 Expectations)

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TSKB REIT completed the field work for TSBK headquarters buildings for an Energy Performance Certificate. The Bank is not subject to any audit requirements as the area of its buildings is less than 20,000 m² and its energy consumption is not above 1,000 tons of oil equivalent.

TSKB offers its customers environmental solutions through the loans it lends and the consultancy services it provides. The Bank also performs environmental impact assessments for the projects it finances and integrates them into decision-making processes for loans.

Technological Developments

Technological developments accelerated as customers' evolving needs for performing banking transactions non-spatial and timeless led to an increase in demand for more technological products and solutions. It is a commonly known fact that individual and corporate customers perform most of their financial transactions online without visiting bank branches. It is apparent that developments in financial technologies (mobile payment systems, online savings tools, daily budget applications etc.) will influence the way organizations and individuals do business.

It is expected that Blockchain, smart contracts and cryptocurrencies will influence business processes and costs in a wide range of sectors. The Blockchain infrastructure could be practically used in a myriad of areas including but not limited to finance, fund transfer, payments, capital markets, asset management, e-commerce, politics and art, and is expected to lead to a significant transformation in banking.

The importance of being close to customers and customer data in the banking sector has increased. Big data, real-time analytics and customer-focused innovation are the main concepts providing a competitive edge. Remarkable developments are observed on artificial intelligence which learns, develops itself and works like a human brain.

In order to adapt to technological/digital transformation trends in the banking sector, TSBK plans to launch research and development work on digital solutions and robotic process automation to boost the efficiency of business processes.
CHAIRMAN’S MESSAGE

In 2018, having operated in line with its strategic objectives with a risk-oriented perspective, TSKB continued to generate value for its stakeholders.

and efficiently operating financial system. A global and regional growth potential for both commercial banking and development and investment banking will be increasingly reflected on the performance of institutions.

TURKISH ECONOMY ENTERED INTO REBALANCING PERIOD IN 2018.

Turkish economy entered into rebalancing period in 2018 due to elevated geopolitical risks fueled by its geography. Mounting volatility in exchange rates led to an escalation in inflation and interest rates followed with uncertainty in financial markets. The short-term turbulence was overcome through the incentives announced by the economy management for the real sector and the relevant financial regulations. The volatility in TL value decreased due to the export volume breaking historic records on monthly basis and current account surplus. After our country fully overcomes this volatile period, we believe that respective economy actors will fulfill their duties and the finance industry will achieve a growth performance that is a few times higher than its potential.

BEING ONE OF THE LEADING INSTITUTIONS FOR DEVELOPMENT BANKING GLOBALLY...

TSKB is the first private development and investment bank of Turkey.

Main mission of TSKB is to support economic development, transfer funds to development or, in other words, to value-generating enterprises and offer versatile services.

ESTEEMED STAKEHOLDERS,

AMID THE GLOBAL ISSUES WHICH WE ARE WAITING TO BE SOLVED

It is estimated that the global economy posted robust growth in 2018. However, developments within the year point to an increasing downside risks. Issues such as rise of protectionist policies in different regions of the world including in particular the trade war between the USA and China, rising political tension between different blocks, global migration issue, conflicting atmosphere in the Middle East and have Brexit posed serious risks against the development of the global economy and international trade.

Global economy to move in a sustainable growth path requires the harmonized cooperation of all economic actors and accordingly, economic policies composed of monetary and fiscal mechanisms with a different perspective are needed. In this respect, we hope that ultimate intelligence will manage globalization in a proper way and, in other words, politics, economy and technology will function in an accord. If this is provided, the achievements of globalization will be even stronger and global development will fulfill its true potential, which will make it possible to dispense welfare much evenly and extend peace at global level. Besides, a global system and economic policy functioning in harmony will bring down a more effective and efficiently operating financial system. A global and regional growth potential for both commercial banking and development and investment banking will be increasingly reflected on the performance of institutions.

TSKB generated great value for its stakeholders while taking firm steps.

In 2018, having operated in line with its strategic objectives through a risk-oriented perspective, TSKB continued to generate value for its stakeholders. The Bank strengthened its position in the advisory services in addition to corporate banking and investment banking activities. Accomplishing successful projects in synergy with its affiliates, TSKB also continued to engage in long-term activities regarding corporate social responsibility and created value in the fields of culture and arts.

We believe that TSKB will assume more responsibility for leading sustainable growth in the ever-developing world, especially within the Turkey’s geography.

Through the integrated thinking capacity, the Bank will continue to inject more funds to the economy, contribute to the welfare of the society via its thematic loan programs and support the private sector of Turkey.

WITH ITS WELL-DEFINED PRIORITIES AND STRATEGY, TSKB IS POSITIONED AS A SOUND GROWTH-ORIENTED DEVELOPMENT BANK IN 2019 AS IN THE PAST.

Our professional management team and competent human resources execute their duties with passion and belonging. As long as this approach is prevalent in TSKB, it will possible for us to fulfill our strategic objectives and contribute to the strong future of Turkey.

I would like to extend my deepest regards to you, our valuable shareholders, for your continuous support, to our board of directors for their valuable guidance and to our entire team for their devoted efforts.

Sincerely,

H. Ersin Özince
Chairman
CEO'S ASSESSMENT

The strategies, which we have recently put into practice and the philosophy of sustainable banking, which we are pioneers of, bring us closer to our goal each and every year.

In its 68th year, TSKB continued to provide a versatile contribution to Turkey's development and sustainable growth. At the end of 2018, TSKB's total assets stood at TL 38.3 billion. Our net operating profit before provisions increased by 50% YoY to TL 1.3 billion with a net profit of TL 661 million, marking 11% YoY growth.

In 2018, the Bank provided approximately USD 2 billion of support to the real sector through cash and non-cash loans.

The Bank's total loans rose by 26% YoY to TL 28.2 billion by the end of 2018. In parallel with its growing loan portfolio, the Bank was more focused on maintaining its healthy financial structure than ever.

Our total equity reached at TL 4.7 billion, resulting in a 16.2% capital adequacy ratio – higher than the level set by the regulatory authority.

A FOCUS ON SUSTAINABLE BANKING, BASED ON OUR MISSION AND OUR POSITION IN THE SECTOR.

At TSKB, our goal is to move forward by improving our positioning in the fields of corporate banking, investment banking and consultancy. In 2018, a year of extraordinary developments, I think we have now left the worst behind us and are now in a recovery process, thanks to the implementation of decisive and policies following the fluctuations in the markets. Our economy offers significant investment opportunities on the basis of strong foundations. We look forward to our country's future with hope and continue to work hard in our financing and consulting operations to provide the support needed by our private sector. The strategies which we have recently put into practice, and the sustainable banking philosophy which we are pioneers of, brings us closer to our goal every year, which I have outlined above.

The developments in 2018 strongly confirmed that we remain a preferred business partner for our domestic and international stakeholders in addition to proving the accuracy of our business strategies.

WELL POSITIONED FUNDING ENGAGEMENTS IN 2018

In January 2018, TSKB issued a USD 350 million 5-year Eurobond in the international markets. This was among the first issuances of the banking sector in Turkey in 2018, collecting USD 1.1 billion in demand from different regions on a global basis, with the issue being three times oversubscribed. This represented a satisfactory result in terms of the interest that TSKB's issuances inspired in different investor populations.

THE LARGEST LOAN AGREEMENT IN THE BANK'S HISTORY

On June 7, 2018, through an Inclusive Access to Finance Project loan agreement signed with the World Bank Group (the IBRD, International Bank for Reconstruction and Development), TSKB secured USD 400 million in long term funding.

This represents the biggest loan agreement in the Bank's history, and the significance and value of it is in its mission. Targeting two main themes, the agreement will play a key role for us in strengthening our operations in the field of inclusive financing, which we have recently added to our mission.

The first of the themes to be supported within the scope of the loan agreement is to encourage women labor force participation and to finance clients which provide women friendly working environment. The second theme is to support private sector entities which operate development priority sub-regions affected by the influx of Syrians under temporary protection.

With the World Bank Group loan, private sector companies, with a greater focus on SMEs, which are expected to provide employment support for the Turkish economy, will be funded for their working capital requirements and their investments within the scope of aforementioned themes.

EMERGING FROM THE VOLATILE ENVIRONMENT OF 2018...

The decoupling in the growth outlook between developed and emerging economies signified that the global economy had entered a new era in 2018. The determinants of this new era were the tightening in financial conditions and the increasing cost of capital. A narrowing in global liquidity as a result of the normalization steps in monetary policies taken by developed countries and an increase in borrowing costs stand out as the reasons triggering this shift.

Accompanied by global developments and geopolitical risks in our surrounding region, Turkey's economic performance demonstrated a significant difference between the two halves of the year in 2018. Having maintained its strong growth performance in the first half of the year, Turkish economy entered a period of balancing, undergoing a volatile period in the second half, particularly in August and September. Increasing volatility in exchange rates led to a rise in interest rates and inflation, and contraction in domestic demand. Delays and cancellations in investment and spending took their toll on trading activities, causing financial difficulty for many firms. In this environment, the need for restructuring of loans stood out as a major agenda item in the banking sector. Thanks to its strong asset quality and equity structure, the banking sector maintained its solid stance, strongly and comfortably supporting the economic balancing policies implemented by the regulatory authorities.

TSKB IS FOCUSED ON LOAN MONITORING ACTIVITIES, CONCENTRATING ON MAINTAINING SOLID BALANCE SHEET STRUCTURE AND STRENGTHENING ITS LIQUIDITY.

In its 68th year, TSKB continued to provide a versatile contribution to Turkey's development and sustainable growth. At the same time, the Bank took a proactive approach focused on loan monitoring activities in the face of financial volatility, concentrating on maintaining a solid balance sheet structure and strengthening its liquidity.

By the end of 2018, TSKB's total assets stood at TL 38.3 billion. Our net operating profit before provisions increased by 50% YoY to TL 1.3 billion with a net profit of TL 661 million, marking 11% YoY growth.

In 2018, the Bank provided approximately USD 2 billion of support to the real sector through cash and non-cash loans.

The Bank's total loans rose by 26% YoY to TL 28.2 billion by the end of 2018. In parallel with its growing loan portfolio, the Bank was more focused on maintaining its healthy financial structure than ever.

Our total equity reached at TL 4.7 billion, resulting in a 16.2% capital adequacy ratio – higher than the level set by the regulatory authority.
Our goal is to improve cooperation with development financial institutions in the field of inclusive financing, and to strengthen our contribution to the Turkish economy by providing new long term financing.

A SUCCESSFUL YEAR FOR OUR CONSULTANCY OPERATIONS

With its most valuable capital - qualified and well-equipped human resources - TSKB continued to offer value-added services throughout the year through its consultancy solutions, which are considered to be "products of common sense" for the business world and investors, gaining strength from its expertise in project evaluation, economic research and sustainable banking as well as in investment banking. Aiming to become "a bank that customers ask for advice, in addition to obtaining loans", TSKB successfully completed 63 consultancy projects in 2018 from more than 20 sectors, including iron and steel, construction, health, education and finance.

The rebalancing period that we have been going through, in particular, will be a period in which economic actors will need high value-added consultancy services more than ever. As longstanding business partners for our customers and offering intellectual added value to them, TSKB considers technical consultancy, valuation and financial modeling, educational, sectoral and regional research services as special operational fields where TSKB offers brand value. We are highly dedicated to pursue this goal in these fields.

GUIDING THE SECTOR WITH ITS CORPORATE GOVERNANCE AND PROVIDING EQUALITY OF OPPORTUNITY

Accepting strong corporate governance as a major responsibility, with its high rating, TSKB maintains its position as one the highest ranked companies in the corporate governance index, and continues to be a pioneer in this aspect.

With its "Policy for Female Participation in Board of Directors", aimed at increasing the ratio of women in the Board of Directors to 25% and the progress achieved towards this target, TSKB was granted the special award of the Women Empowered Boards Forum's Independent Women Directors Project in 2018. Another development that we felt proud of was receiving the Equal Opportunities Model (FEM) Certificate from KAGİDER, awarded to companies dedicated gender equality in recruitment, training, career planning and communication.

ELABORATING COOPERATION IS KEY TO PROVIDING A BETTER FUTURE FOR THE NEW GENERATION

Work to support employment, quality of life and innovation goes hand in hand with TSKB’s approach to sustainable banking. Within this context, female university students are supported with the “Education to Production” Scholarship Fund in collaboration with TEV (The Turkish Education Foundation), helping them receive a better education before joining the workforce.

Another area of collaboration in 2018 which gave us great excitement was the TSKB Technology and Entrepreneurship Platform, established together with GİRİMAK (Entrepreneurship Foundation). Entrepreneurs participating in the platform work on innovative business ideas and technologies which will prepare TSKB and our country for the future.

Looking to the Future

Although the international and domestic economic environments pose difficulty in the short term, our future expectations remain positive.

Our wish to lead our achievements into the future that we are proud of and that keep us motivated as a team, is enhanced by the strong support of our shareholders, investors and stakeholders. Our competence to move flexibly, our unique positioning in the sector and the products and services offered by our affiliates complementing the value we offer our customers all encourage us to gain successful and impactful outcomes.

In 2019, TSKB will continue to support the economy by allocating all the resources it secures to investments that would create employment, increase exports and provide value-added within the framework of sustainable banking and inclusivity principles.

On behalf of myself and TSKB Management, I would like to hereby thank all my colleagues - the architecture of our performance - for their dedicated work, our stakeholders and, in particular, our customers for the confidence and loyalty they have shown in the TSKB brand.
TSKB takes its objectives, competences, strategic goals and market conditions into consideration while planning the future. At the same time, the Bank evaluates its current and future funding needs within the scope of the capitals model and pays utmost care to ensure its strategies and funds which are blended at the right scale in its executive plans.
STAKEHOLDERS AND MATERIALITY ANALYSIS

STAKEHOLDER COMMUNICATION

Attaching great importance to engaging in sustainable dialogue with its stakeholders, TSKB benefits from each of the feedback from stakeholders as a valuable and guiding input in a wide range of topics and fields such as:

- Identifying strategic priorities
- Setting policies
- Designing business model
- Developing social responsibility projects

TSKB’s Platforms for Stakeholder Communication

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STAKEHOLDERS COMMUNICATION

TSKB is in continuous communication and interaction with its stakeholder groups. The Bank undertakes its communication with the stakeholders through various platforms.

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STAKEHOLDERS AND MATERIALITY ANALYSIS

STAKEHOLDER COMMUNICATION

Attaching great importance to engaging in sustainable dialogue with its stakeholders, TSKB benefits from each of the feedback from stakeholders as a valuable and guiding input in a wide range of topics and fields such as:

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<th>Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Ordinary General Assembly Meeting</td>
<td>Customer Visits and Meetings Marketing Communication Meetings Sector-Specific Meetings Seminars and Conferences TSKB Web Site and Social Media Accounts Teleconference Meetings for Analysts and Investors Investor Relations Meetings both Domestic and Abroad</td>
<td>Department Meetings Executives’ Meetings Focus Group Meetings MT Program Development Workshop Intranet Web Site Intra Bank Documents Platform</td>
<td>Press Meetings PDP and Bulletin Communication Column Writing</td>
<td>Board Meetings Joint Project Work Executives’ Meetings</td>
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<td>Board Meetings</td>
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<td>Periodic Reporting</td>
<td>TSKB Web Site and Social Media Accounts</td>
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<td>Regulatory Bodies</td>
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<td>Meetings under Sectoral Association Memberships</td>
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<td>Corporate Cooperation</td>
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<td>Thematic Seminars and Conferences</td>
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<td>Attendance at Annual Meetings</td>
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<td>Staff Exchange Programs</td>
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<td>Periodic Reporting and Assessments</td>
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<td>NGO’s</td>
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<td>Boards of Directors</td>
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<td>Sustainability Workshop</td>
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<td>Thematic Course Contents</td>
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<td>Suppliers</td>
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<td>Corporate Meetings</td>
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<td>Feedback for Satisfaction Surveys</td>
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<td>Periodic Reporting and Assessments</td>
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</table>
STAKEHOLDERS AND MATERIALITY ANALYSIS

STAKEHOLDER ANALYSIS

Methodological approach

In addition to periodical contacts with all stakeholder groups during the operating cycle, TSKB also conducts regular stakeholder analysis, which is planned to be repeated every other year.

This report takes as basis the stakeholder analysis conducted in November-December 2018.

Conducted by TSKB Sürdürülebilirlik Danışmanlığı A.Ş. - Escarus, the stakeholder analysis includes a qualitative perspective for the first time in addition to the quantitative data. The project is conducted in two phases: qualitative and quantitative research. Both methods are employed to get to the most real-like stakeholder experience possible.

To ensure that the study presents integrity, the same conceptual framework was used in both in-depth interview and online survey stages. This enabled qualitative and quantitative research phases to be handled within a framework that allows them to feed each other.

The qualitative research phase for the stakeholder analysis covers the stakeholder perception on TSKB and their views on sustainability priorities. The research drew numerical results, via an online survey, from a sample to represent TSKB’s stakeholder universe.

Qualitative research, on the other hand, focused on the answers to the questions “Why and how?” and aimed to collect holistic and in-depth data. In-depth interviews aimed to obtain data on stakeholder perception and attitudes regarding TSKB as well as their personal motivations.

Materiality Analysis Survey

The online survey form and in-depth interviews with stakeholders prompted them to rank the following in an order of importance considering TSKB’s sustainability priorities:

- Supporting the financing of the combat climate change
- Supporting the financing of adaptation to climate change
- Supporting the financing of women’s empowerment
- Supporting financing for inclusive development
- Measuring environmental and social risks in all investment projects
- Diversifying sustainable finance products
- Managing the Bank’s environmental and social impacts
- Full compliance with Corporate Governance principles
- Efficient risk management
- Developing digital transformation, fintech and technology projects
- Creating responsible and sustainable growth and income
- Human capital investments, employee development and increased employee satisfaction
- Diversifying social responsibility projects to raise awareness on sustainability
- Taking action for improving transparency
- Developing projects on refugees’ problems
- Delivering awareness-raising projects to prevent child labor
- Developing human rights projects
- Delivering anti-corruption projects
- Focusing on charity, solidarity and sponsorship activities
- Making efforts to reduce suppliers’ environmental footprint
- Launching projects on encouraging entrepreneurship
- Delivering projects to improve career management and employment
- Delivering trainings on financial literacy and savings as well as financial trainings
- Conducting awareness-raising work on human rights
- Producing guiding and leading projects on the fair distribution of income
- Creating development projects
- Delivering improvement projects on harmonization with legislation
- Conducting work on developing sustainable finance products
- Assuming a leading role in ensuring that the Sustainable Development Goals are understood better and integrated into processes
- Improving customer satisfaction
- Delivering work on improving a transparent sharing of information
- Delivering projects on improving risk management
- Providing employees with development opportunities
- Developing projects on maintaining and improving the Bank’s financial performance
- Strengthening relations with international fund providers
- Focusing on efforts to develop new products

Stakeholder groups participating in the stakeholder analysis are as follows:

- TSBK Management
- Customers
- Employees
- Financial Institutions
- Development Finance Institutions
- Representatives from Non-Governmental Organizations / Media / Academia / Industry
- Affiliates’ Employees
- Suppliers

As a result of the stakeholder analysis survey, primarily important matters for stakeholder groups are located on the materiality matrix.
STAKEHOLDERS AND MATERIALITY ANALYSIS

RESULTS AND ASSESSMENT OF MATERIALITY ANALYSIS

Below are the priorities of TSKB management and of all stakeholders from the stakeholder analysis.

MATERIAL ISSUES FOR TSKB MANAGEMENT

2018 Stakeholder Analysis showed that the material issues of TSKB Management are fully compliant with TSKB’s mission, main goals, and strategies. The Bank’s priorities explicitly include the sustainable banking understanding and related sub-themes it recently internalized, in addition to a mission to make a permanent contribution to Turkey’s economic development. TSKB Management’s key priorities also include Human Capital Investment and Employee Development, Improving Employee Satisfaction and Providing Employees with Development Opportunities. Other key priorities are provided below:

- Developing projects on maintaining and improving the Bank’s financial performance
- Managing the Bank’s environmental and social impacts
- Full compliance with corporate governance principles
- Efficient risk management
- Strengthening relations with international fund providers
- Supporting the financing of adaptation to climate change
- Providing employees with development opportunities
- Improving the Bank’s environmental and social impacts
- Full compliance with corporate governance principles
- Managing the Bank’s environmental and social impacts

In parallel with TSKB’s contribution to Turkish economy, it is among the Bank’s top priorities to Develop Projects on Maintaining and Improving the Bank’s Financial Performance. The survey also emphasizes the importance of full compliance with the corporate governance principles, a major topic for sustainable banking, and underlines once again the TSKB policy based on fair, transparent, accountable and responsible banking principles.

MATERIAL ISSUES OF ALL STAKEHOLDERS OF TSKB

For TSKB’s clients, business partners, the financial institutions it cooperates with and the initiatives it is a member of as well as its employees, it is a key priority to Develop Projects on Maintaining and Improving the Bank’s Financial Performance. As one of the most experienced business partners launching projects to Improve Relations with International Fund Providers specifically, TSKB differentiates itself from other financial institutions on the market.

TSKB develops projects for development and manages their environmental and social impacts as a priority. Representing the business world, stakeholders are strongly convinced that the Bank efficiently implements its sustainability strategy, and support TSKB’s strategy to grow by creating value for the country’s economy.

The prioritization matrix established in line with the results from stakeholder analysis underlines that TSKB approaches the country’s high quality development from the perspective of Sustainability and Responsible Banking while developing and growing in harmony with all stakeholders.

In identifying TSKB’s material issues, key elements in TSKB’s sustainable business model were considered in addition to the materiality analysis, such as external factors, Sustainable Development Goals and the focus on economic and social inclusiveness.

Therefore, the integrated report also provides details on certain matters such as Social Responsibility that were not listed as a top priority in the stakeholder analysis survey and specifically handles them within the perspective of Sustainable Development Goals and inclusiveness.
CAPITALS

INPUTS

• Diversity of funds
• Provision and lending of medium- and long-term funds
• Access to state-guaranteed funds
• Robust capital

• Investing in employees
• Equal opportunities
• Social benefits
• Employee clubs

• Evaluating environmental and social impact in lending processes
• Zero Carbon Banking
• Focusing on sustainability loans

• A compact campus compatible with the corporate operation structure
• IT infrastructure
• Improvement in efficiency of processes

• 3-disciplined evaluation and analysis power based on technical, financial and economic perspectives
• Sector expertise
• Ability to develop themes and products suited for needs
• Developing know-how based consultancy
• Power of affiliates holding various expertise

• Long-term and efficient communication with stakeholders
• Social responsibility projects in education, culture and art
• Sharing experience
• Membership to and cooperation with initiatives

SUSTAINABLE FINANCIAL PERFORMANCE

• A portfolio 84% of which consists of investment and APEX loans
• Capital Adequacy Ratio of 16.2%
• Return of Equity ratio of 16%

DELIVERING EXPERTISE AND EXPERIENCE

• Management staff: Female: 52%, Male: 48%
• Average training hours per person: 55
• Participation rate for satisfaction survey: 85%
• Ratio of employees participating in Gender Equality Education: 33%

INCLUSIVE AND SUSTAINABLE DEVELOPMENT

• Reinforcement of 13 million tons of annual CO2 emission reduction
• Neutralizing carbon footprint of stakeholders up to 15,000 tons in the last three years
• 100% green energy usage and zero-carbon banking

SUSTAINABILITY MANAGEMENT SYSTEM

• Efficiency in processes
• Integrated service building with affiliates
• Healthy, efficient and ergonomic work environment

INVESTING IN HUMAN RESOURCES

• 420 TSKB Economic Research Reports
• New information source for economy: TSKB BLOG
• Constituent in Sustainability Indices
• Developing innovative and essential themes

CORPORATE SOCIAL RESPONSIBILITY

• Creating awareness of sustainability through cıvıcęcyiz.com
• Enhancing women's participation in workforce with scholarship fund “Empower through Education”
• Supporting women artists heading to global scenes with "Women Stars of Tomorrow" Project
• 6,500 additional employment created with APEX loans
• Increasing awareness in equal opportunities through esıtadımlar.com

CORPORATE GOVERNANCE - RISK MANAGEMENT

• 73% Share of sustainability-theme loans in loan portfolio
• 52% Female employees ratio
• 14% TSKB’s share in renewable energy investments in Turkey
• 10.8% Cost-to-income Ratio
• 420 TSKB Economic Research Reports
• 4,500 additional employment created with APEX loans

OUTCOMES

• Share of sustainability-theme loans in loan portfolio
• Female employees ratio
• TSKB’s share in renewable energy investments in Turkey
• Cost-to-income Ratio
• 420 TSKB Economic Research Reports
• Additional employment created with APEX loans
Distinguishing from annual and sustainability reports, Integrated Report is focused on the company’s ability to create value in short, medium and long terms. Thus, the importance of the internalization of integrated way of thinking and acting through handling strategic priorities, future-orientation, and connectivity among information, capitals and the relationship between them for the company is emphasized.

According to International Integrated Reporting Council’s (IIRC) Integrated Reporting Framework methodology, value creation process is one of the basic concepts of an integrated report. The Bank built its value creation model, which takes place in its 2018 Integrated Annual Report in compliance with this framework. TSKB’s Value Creation Model summarizes its business model that is composed by its capitals. In this business model, the inputs utilized by TSKB during its so-called operations are shaped within the framework of external factors and the Bank’s strategy and are turned into products and services. Value Creation Model reveals outcome in other words value added on i) economic, ii) environmental, and iii) social axis. At the same time, TSKB’s Value Creation Model describes the interaction of added value created by the Bank with United Nations (UN) Sustainable Development Goals.
2018 FINANCIAL PERFORMANCE AND 2019 EXPECTATIONS

The Bank contributed to the economy with a total of USD 2 billion in cash and non-cash loans in 2018.

**Highlights from 2018**

First bond issue from TSKB

TSKB further reinforced its strong liquidity position through a Eurobond issue of USD 350 million in January and the long-term funds it secured from the World Bank (IBRD) and the Asian Infrastructure Investment Bank (AIIB) during the year. Moreover, the Bank obtained a syndicated loan of USD 220 million from international markets in July.

USD 2 billion contribution to economy

TSKB contributed to the economy with a total of USD 2 billion in cash and non-cash loans in 2018. The total cash loan disbursements amounted to USD 1.4 billion including APEX loans worth of USD 170 million.

A key player in development and investment banking

TSKB's total asset size expanded to TL 38.3 billion with a surge of 32.5% compared to the previous year, thanks to a growing loan portfolio. The Bank ranks 13* in the sector in terms of its asset size and 2* among development and investment banks. 78% of TSKB's assets were denominated in foreign currency (FX), and the Bank's capital adequacy ratio stood at 16.2% as of 2018 year-end.

Risk-based and selective approach in lending

Risk-based and selective approach in lending

TSKB enjoys a market share of 34% among development and investment banks in terms of long-term loans. The Bank continued to grow its loan portfolio with a risk-based and selective approach in 2018. The Bank's total gross loans stood at TL 28.2 billion displaying an increase of 26.3% on TL-basis in 2018. The loan-to-total assets ratio was 73.7%.

Intensifying loan monitoring activities

The Bank intensified its loan monitoring activities to watch possible risks caused by FX volatilities. A proactive approach is adopted to monitor collection performance as well as the potential impacts of the 35% rise in FX basket in 2018 on the projects it financed and the financial position of the Bank's clients, following more than 20% increase in the FX basket for the last 3 years.

Lines of new credit extended to clients totaled USD 4.2 billion

During the year, TSKB extended a cash and non-cash credit line of USD 4.2 billion (excluding APEX) to its customers and signed new loan contracts amounting to a total of USD 1.8 billion. The Bank's active customers increased by 48% in the last three years.

Share of investment loans stands at 75%

In line with its mission, TSKB mainly focuses on investment loans. The share of the Bank's investment loans within total loans stood at 75%, close to the share in the previous year. As of end-2018, working capital loans and APEX loans constitute 16% and 9% of total loans respectively.

92% of Bank's loan portfolio is comprised of FX loans, with 49% in USD and 43% in EUR. The share of TL loans in the Bank's total loan portfolio is 8%.

Medium and long-term loans have a share of 88% in TSKB's loan portfolio

Medium and long-term loans have a share of 88% in TSKB's loan portfolio. TSKB extends medium-term and long-term loans to its customers in line with its vision to be the leading bank in Turkey's sustainable development. As of 2018 year-end, 12% of TSKB's loan portfolio is comprised of loans with a maturity of less than 1 year and 52% is comprised of loans with a maturity of 5 years and longer. On average, each loan has a maturity of 5.5 years with a size of USD 13 million.

A strong pick up in banking revenues

TSKB boosted its banking revenues by an annual 50%. The Bank's net income rose by 10.9% year on year and stood at TL 661 million given the annual 19% hike in provisions as a consequence of transition to IFRS 9 and the prudent provision policy. TSKB's return on equity and return on assets stood at 16% and 2% respectively as of 2018 year-end.

With respect to renewable energy projects, geothermal and solar power plants followed by wind and biomass power plants were given weight in 2018.

ROOTED EXPERTISE IN INVESTMENT LOANS

Within the scope of corporate banking business, TSKB disbursed USD 1.4 billion as cash loans in 2018. Out of this mentioned amount, USD 900 million was disbursed as long-term investment and short/medium-term working capital loans to its corporate customers. In its project finance business, the Bank extended USD 340 million to the projects syndicating with the other banks. In the same period, APEX loans stood at USD 170 million.

Regarding the new loan disbursements in 2018, electricity generation and distribution stood out, followed by energy and resource efficiency, environment-friendly real estate and tourism and infrastructure investments, women employment enhancing investments and working capital needs of SMEs and Mid-Caps in automotive, textiles, chemistry-plastics, food, iron steel etc. industries.

With respect to renewable energy projects, geothermal and solar power plants followed by wind and biomass power plants were given weight in 2018.

According to June 2018 data released by Turkish Banking Association, TSKB's share in project finance is 4% within the sector.

**Sectoral Breakdown of the Loan Portfolio**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity Generation</td>
<td>8</td>
</tr>
<tr>
<td>Construction</td>
<td>3</td>
</tr>
<tr>
<td>Chemistry and Plastic</td>
<td>2</td>
</tr>
<tr>
<td>Real Estate Excluding Housing</td>
<td>2</td>
</tr>
<tr>
<td>Tourism</td>
<td>4</td>
</tr>
<tr>
<td>Textile</td>
<td>10</td>
</tr>
<tr>
<td>Education and Health</td>
<td>3</td>
</tr>
<tr>
<td>Other(*)</td>
<td>10</td>
</tr>
</tbody>
</table>

**Type of Investments for Which TSKB Extends Project Finance**

- Energy
- Electricity distribution projects
- Natural gas distribution projects
- Environmental, resource and energy efficiency projects
- Real Estate Projects
- Tourism and city hotel investments
- Commercial real estate and shopping mall investments
- Infrastructure / Transportation
- Logistics, transportation projects (Ports and Airports)
- Telecommunications
- Public-Private Partnerships (PPP)
- Integrated Health Campus
## 2018 Financial Performance and 2019 Expectations

### Renewable Energy Sector and TSBK

Combating climate change and an efficient and accurate use of renewable energy resources during Turkey's transition to a low carbon economy bear key importance. Renewable energy resources also enjoy a key position in terms of reducing Turkey's foreign dependency in the field of energy. Electricity generation has the largest share in the Bank's loan portfolio with a rate of 34%.

**Total Installed Capacity Financed by TSBK Reached 6,066 MW**

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Number of Projects</th>
<th>Total Installed Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hydro</td>
<td>97 HPP</td>
<td>4,002 MW</td>
</tr>
<tr>
<td>Wind</td>
<td>12 GPP</td>
<td>473 MW</td>
</tr>
<tr>
<td>Solar</td>
<td>30 WPP</td>
<td>1,308 MW</td>
</tr>
<tr>
<td>Biomass/Waste</td>
<td>15 BIOMASS/WASTE</td>
<td>150 MW</td>
</tr>
<tr>
<td>Geothermal</td>
<td>136 SPP</td>
<td>133 MW</td>
</tr>
</tbody>
</table>

### Energy Efficiency

Resource efficiency projects

87% of financed energy projects has been operational. As of 2018-end, 87% of the power plant projects financed by the Bank has been operational. The total installed capacity of the operational projects was 5,263 MW.

While the total investment amount in power plant projects financed by TSBK between 2003 and 2018 reached USD 9.9 billion, the amount of commitments TSBK allocated to these projects was around USD 4.4 billion.

**Energy & Resource Efficiency**

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Number of Projects</th>
<th>Total Installed Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste</td>
<td>57 PROJECTS</td>
<td>1,308 MW</td>
</tr>
<tr>
<td>Water</td>
<td>5 PROJECTS</td>
<td>133 MW</td>
</tr>
</tbody>
</table>

### The Bank Extended a Total Direct Funding of USD 8.1 Billion to the Real Sector in the Last Five Years

Shaping its operations within a mission to produce effective solutions for long-term funding needs of private sector customers, TSBK makes high quality contribution to the sustainable growth of Turkish economy. The Bank extended a total direct funding of USD 8.1 billion to the real sector in the last five years in sectors such as renewable energy, energy efficiency, infrastructure and logistics.

Taking USD 690 million worth of APEX loans directed to SMEs into account, the total funding extended to the real sector reaches USD 8.7 billion.

### A Balanced Non-Cash Loan Portfolio

Brokering for letters of guarantees, import and other foreign trade transactions required by investment and utilities projects, TSBK offered its customers a total non-cash loan of USD 600 million in 2018. Throughout the year, the Bank focused on responding to the non-cash loan needs of its customers in power distribution, electricity generation, metal and machinery sectors.

**A Balanced Non-Cash Loan Portfolio**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Projects</th>
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<tbody>
<tr>
<td>Textiles</td>
<td>156</td>
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<tr>
<td>Cement</td>
<td>156</td>
</tr>
<tr>
<td>Automotive</td>
<td>372</td>
</tr>
<tr>
<td>Steel</td>
<td>372</td>
</tr>
<tr>
<td>Tourism</td>
<td>372</td>
</tr>
<tr>
<td>Chemistry</td>
<td>372</td>
</tr>
<tr>
<td>Sectors:</td>
<td>84 PROJECTS</td>
</tr>
</tbody>
</table>

### TSBK Offers Versatile Services to SMEs

Since the day it was established, TSBK has offered different financing models in support of SMEs which are the heart of Turkish economy. The Bank finances the investments of the relevant firms in a variety of fields ranging from modernization and capacity expansion investments, and from energy efficiency to environmental projects. Furthermore, working capital needs of SMEs are covered according to the funding criteria of the funds received from international financial institutions. As of 2018 year-end, the share of SME loans lent through APEX lending within the total portfolio stood at 9%.

### Sound Support for Turkey's Development to Continue in 2019

In 2019, TSBK will continue to finance investments of companies that support women's employment, environmental and occupational health and safety, R&D, energy and resource efficiency as well as exporters. At the same time, the Bank also plans to finance renewable energy projects that integrates national resources to the economy, in line with Sustainable Development Goals.

Another target of TSBK is to provide financing for investments and working capital needs of private sector in sub-regions, affected by the influx of Syrians Under Temporary Protection within the scope of the loan received from International Bank for Reconstruction and Development (IBRD) in 2018. "Besides, in 2019, the companies that have limited access to finance due to lack of collateralization are expected to be supported within the scope of Credit Guarantee Fund.

### Increasing Support for Women Employment

Following a loan agreement, signed with the French Development Agency (AFD) in December 2016, TSBK added "women's empowerment" in addition to "occupational health and safety" to its funding themes.

This funding was used to support the occupational health and safety investments of firms operating in Turkey in 2018, finance the investments by firms that observe gender equality in working environment, and provide opportunities for women to join the workforce.

As of 2018-end, employment opportunities were created for nearly 1,250 women via the financed projects with the women-empowerment theme. 
CLOSE CO-OPERATION WITH THE DEVELOPMENT FINANCE INSTITUTIONS

• "Being one of the most well-known Turkish banks by the international development finance institutions, TSKB operates in close cooperation with World Bank (IBRD), European Investment Bank (EIB), Council of Europe Development Bank (CEB), German Development Bank (KfW), Islamic Development Bank (IsDB), French Development Agency (AFD), International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), Japan Bank for International Cooperation (JBIC), Development Bank of Austria (OeEB), Asian Infrastructure Investment Bank (AIIB).

TSKB continued its efforts to provide new sources from development finance institutions in 2018. During the year, total amount of thematic loan agreements secured reached to USD 600 million.

World Bank (IBRD) Inclusive Access to Finance Project Loan
On June 7, 2018, TSBK signed the Inclusive Access to Finance Project Loan worth USD 400 million with the World Bank (IBRD). The loan was provided under the repayment guarantee of Turkish Ministry of Treasury and Finance. This loan marks the largest singular amount of loan secured from the World Bank since TSKB was established.

This loan was structured on the basis of two main themes:

• Providing funds to private sector companies promoting women’s participation in labor force and offering a suitable working environment to enable this
• Supporting private sector companies operating in priority development sub-regions under temporary protection (SuTP) living in Turkey are largely hosted.

• "This loan is expected to support our country’s economy in terms of employment by backing the investment and working capital needs of private sector, mainly SMEs, falling under the said criteria. Commercial banks and leasing companies will also mediate the delivery of a certain portion of the loan to eligible SMEs.

Sustainable Energy and Infrastructure On-lending facility from the Asian Infrastructure Investment Bank (AIIB): AIIB is an international financial institution aiming to improve social and economic outputs in Asia. The Beijing-based institution started operations in January 2016 and has 93 members including Turkey.

On September 28, 2018, TSBK and AIIB signed the Sustainable Energy and Infrastructure On-lending facility. The loan worth USD 200 million will be used to fund renewable energy, energy efficiency, transportation, energy transmission, waste water management and telecommunication investments by the private sector throughout Turkey. This is the first loan provided by the AIIB globally for further lending to private sector investments. The loan is secured with the Turkish Ministry of Treasury and Finance standing as the guarantor.

Target improving the variety of funding sources
In accordance with its growth plans and future strategies, TSKB will continue its efforts to secure funds from international and supranational development finance institutions. In this aspect, besides currently cooperated creditor institutions, TSKB will continue to research and studies to establish new relationships like AIIB, which was added to TSKB’s creditors in 2018.

Efficiency to improve with theme diversity
In the recent years, TSBK has carried out efforts to improve the diversity of the themes of the funds secured. Women employment, occupational health and safety, supporting companies in the priority development regions affected by the influx of Syrians under temporary protection are among the new themes, TSBK introduced and added to its operation fields.

In the period ahead, the Bank will focus on diversifying the future funds under themes suiting the needs of the private sector companies and targets given in Turkey’s New Economic Program and development plans mainly in manufacturing industry.

In the coming period, TSKB targets to develop cooperation in co-finance with the development finance institutions in addition to direct lending. Extending its communication with initiatives such as LITC, ELTI, IDFC and ADFIMI where it has memberships, the Bank will continue to follow the agenda besides sharing know-how on these platforms.

Throughout 2018, TSBK continued its efforts for obtaining new funds from development finance institutions.

STRONG RELATIONS WITH INTERNATIONAL FINANCIAL INSTITUTIONS

In 2018, TSBK maintained close contact with local and international banks and continued to focus on enriching its relations with banks in line with the goals of diversifying funds and product development. Furthermore, it pursued an intensive and effective communication with rating agencies. A summary of TSBK’s cooperation with international financial institutions in 2018 is provided below.

Bond Issuance by TSBK
In January 2018, TSBK issued the first Eurobond of the year in the sector. The issuance was worth USD 350 million and had a maturity of 5 years. The issuance was more than 3 times oversubscribed and reached a successful conclusion. In terms of costs, the bond issuance yielded the lowest interest rate TSBK has realized so far. As of end-2018, the share of Eurobond issuances including subordinated bond within TSBK’s funds (except equity) is 25%, with a total size of USD 1.65 billion.

Syndication Loan
On July 3, 2018, TSBK signed a syndicated loan agreement under the coordination of Commerzbank that was participated by a total of 15 banks including Deutsche Länderebank, which also acted as the facility agent. The USD 220 million worth syndicated loan was extended on a 367 day maturity and comprised of two different tranches, one in EUR and the other in USD. The cost of the loan was Libor + 1.45%, indicating an improvement compared to last year’s transaction.

The Bank attaches importance to improving its bilateral relations with local and international financial institutions and establish new relations. On funding side, market developments will be closely monitored in 2019, and efforts will be expended to make use of bond market, syndication, bilateral funding and debt restructuring facilities in line with the Bank’s cash flow needs and.
The total number of new employment created through "Export Support" and "SME" funds amounted to 6,500.

TSKB continued to extend APEX loans to its customers.

TSKB, IS THE LEADER OF APEX BANKING IN TURKEY.

Leading for APEX banking in Turkey, TSKB continued to extend to its customers the international thematic apex funding it obtained.

In addition to its existing cooperation with leasing companies and commercial banks under APEX banking, TSKB has also started to work with participation banks and factoring companies within the scope of "Innovative Access to Finance Project Loan" (IA2F) secured from the World Bank in 2014. In 2018, TSKB continued its program with Türkiye Kalkınma ve Yatırım Bankası (TKYB) with a view to financing the investments of micro, small and medium-sized firms around Turkey to be made in order to create new employment opportunities or maintain the current levels of employment with the loan provided by Council of Europe Development Bank. To this end, final beneficiaries are financed through leasing companies under the financing model developed and the cooperation of TSKB and TKYB.
2018 FINANCIAL PERFORMANCE AND 2019 EXPECTATIONS

TSKB re-disburses the successfully collected repayments of the past SME themed APEX loans, for creating funding to the leasing companies, commercial banks, participation banks and factoring companies.

TSKB will transfer the USD 260 million of inclusive Access to Finance Project Loan (InA2F) provided by World Bank to commercial banks and financial leasing companies as APEX loans.

So far, TSKB has carried out effective loan transactions in cooperation with 30 intermediary financial institutions under APEX banking. In 2018, the total of loans extended via APEX banking reached USD 170 million and the share of such loans within the total portfolio stood at 9%.

Support to Exports
TSKB extended a total loan of USD 1.5 million to 900 firms under 4 different EFL (Export Finance Intermediation Loan) programs and IA2F program.

EFL loans aim to not only support operations to boost exports by firms but also create new business areas and increase employment. Under the “Innovative Access to Finance Project Loan (IA2F)” agreement, the working capital and investment expenditures of private sector SMEs and mid-size exporting companies operating around Turkey were financed.

Support to Employment Generation
Through other APEX loans secured from Development Finance Institutions, TSKB has provided a total loan of USD 600 million to 1,950 SMEs since 2004. By this means, the total number of new employment created through amounted to 6,300.

INCREASING CONTRIBUTION TO BANKING REVENUES THROUGH INVESTMENT BANKING AND CONSULTANCY SERVICES

TSKB is the first and largest private investment bank in Turkey. The Bank started its investment banking operations long before the establishment of the CMB and BIST, and has been significantly contributing to sectoral development with a leading role in all product groups requiring both consultancy and brokerage services.

The Bank serves all corporate investors, of any size, operating in various sectors in line with its vision and mission, and has access to individual investors through its affiliates. It provides investment banking services on par with international standards in corporate finance, money and capital markets, and derivatives in accordance with different strategic initiatives by firms. Furthermore, it uses its intense knowledge and experience from various sectors and projects to offer its customers consultancy services.

TSKB’s revenues from diversified services for investment banking and consultancy make a gradually increasing contribution to banking revenues each year.

CORPORATE FINANCE: A STRONG START FOR 2019 WITH MORE THAN 10 MANDATES

The Bank backs the growth and development of firms with its corporate finance services in which TSBK has essential experience. The Bank offers its customers services advisory and intermediary services for equity IPOs, intermediary services for bond issuances, mergers and acquisitions, asset sale and purchasing and privatization advisory.

Market fluctuations in 2018 led to an abrupt halt for IPOs, which had a fast start for the year, and a reduction in mergers and acquisitions as well as bond issuances by the private sector. TSBK with the issuing parties strategically preferred to postpone the IPO mandates it obtained for the second half of 2018 until 2019. On mergers and acquisitions front, 2018 was marked with ongoing negotiations and an expectation for a balancing of market conditions.

TSKB’s marketing efforts enabled the Bank to secure more than ten new mandates in automotive, chemistry, electronics, retail, design, energy, transportation and packaging sectors, thus paving the way for a strong start for 2019 in corporate finance.

Requiring stable market conditions, Corporate Finance operations are expected to gain momentum as of the second half of 2019. To that end, 2019 is expected to be a productive year for both obtaining the revenues deferred from the previous year and closing the recently-acquired mandates.

A KEY PLAYER IN MONEY AND CAPITAL MARKETS

TSKB is a key player in money and capital markets. 2018 was a year when normalization trends grew stronger in the monetary policies of developed countries, geopolitical risks surged, and protectionism in international trade was deeply felt. Therefore, the risk premiums in emerging markets rose and their currencies depreciated remarkably. Capital outflows from Turkey were more noticeable, causing a high fluctuation in markets. In 2018, TSBK’s risk management activities through both its own balance sheet management and the derivative transactions of its customers gained importance.

A ‘risk-based’ approach for position and balance sheet management is necessary. TSBK accurately availed itself of the opportunities arising in such a period of increased market fluctuations and raised its income. In the meantime, the Bank also paid utmost attention to managing risks.

The Bank successfully managed its FX position in consideration of risk elements and market conditions and in line with the treasury policies. This enabled the Bank to avoid negative implications of market challenges on its balance sheet.

In order to contribute positively to profitability during the year, the volume of short-term TL loans and money market placements surged by an average 25% year-on-year.

In 2018, TSBK funded its TL securities portfolio almost entirely by its own equity. In the same period, repo transactions continued in the management of TL-denominated liabilities. Furthermore, an effective cash flow management approach was adopted, and a cost advantage was gained through transactions on the swap market.

TSKB uses its cash capital to invest in risk-free and high-return securities within the framework of its liquidity management plan. At 2018 year-end, 67% of the Bank’s TL-denominated securities portfolio was comprised of CPI-Linkers and other floating-rate securities while 33% was comprised of fixed-rate securities.

In order to reduce the average maturity of the portfolio in an environment of rising interest rates, new purchases mainly concentrated on short-term bonds. The average maturity for portfolio was reduced to 2.6 years, and the Bank not only maintained the return of its securities portfolio but also secured a yield of 20% in TL in such an increasing interest rate environment. In parallel with the increase in interest rates, Eurobonds mainly consisting of those issued by the sovereign were purchased to improve the yield of the FX securities portfolio.

Increasing number of customers in treasury transactions
Under treasury product sales operations, the Bank focused on customer visits in 2018 and shared daily bulletins, market interpretations and relevant products and services with customers. Owing to such efforts, the number of TSBK customers offered derivative transactions lifted by 17% year-on-year in 2018. A successful performance was displayed in terms of derivative transactions and the sales volume for treasury products thanks to the Bank’s proactive approach to customers and the increased need for hedging as caused by market fluctuations.

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2018 FINANCIAL PERFORMANCE AND 2019 EXPECTATIONS

VALUE-ADDED SERVICES AND SOLUTIONS SHAPED BY A ADVISOR BANK APPROACH

TSKB offers the business world and investors the required value-added services through advisory solutions powered by its expertise in not only investment banking but also project appraisal, economic research (see Delivering Expertise and Experience) and sustainable banking.

Through advisory services, TSBK aims to emerge as a long-term partner for its customers in line with its strategic goals. Regarding strategic financial advisory, the Bank provides valuation services for firms, brands and licenses in addition to feasibility analysis and surveys, fiscal restructuring, strategic road map, sectoral analyses and project finance advisory.

The Bank delivers part of its services shaped by a consultant bank approach through the synergic cooperation it has established with its affiliates TSBK Real Estate Appraisal and Escarus. To that end, the Bank not only guides domestic and international investors through its visionary advisory services on real estate but also offers boutique solutions to ensure globally-acknowledged sustainability approaches are integrated into the Turkish business world.

In 2018, TSBK successfully completed 63 advisory projects. TSBK completed 63 advisory projects in more than 20 sectors in 2018.

The number of projects increased by 65% compared to 2017 (2017: 38 projects). Using its competence to offer multidisciplinary services, TSBK is determined to improve its advisory services and present its know-how and experience to an increasing number of customers in the upcoming period.

As a Bank that solidifies its rooted experience and know-how with its economic research activities and transfers to the business world and the financial sector, will maintain and further diversify its support to sustainable and strong development.

SECTORAL BREAKDOWN OF TSBK ADVISORY PROJECTS IN 2018 (%)

In 2018, TSBK delivered projects to improve customer satisfaction, service quality, process efficiency, corporate performance management and compliance within the framework of the goals stated in the 2018-2020 strategic plan as well as the enterprise architecture principles. Below are some highlights from such work.

- Process and infrastructure work to improve corporate performance management systems, process arrangements on rendering business continuity and emergency practices more efficient, and process and infrastructure work to monitor the contribution of lending projects to economic and social development were delivered.
- The Bank performed the required infrastructure work for dynamic reporting, data quality and a centralized representation of customer and group information.
- A project was conducted to restructure the consultancy operations by TSBK and its affiliates.
- TSBK contributed to the execution and coordination of the project on establishing a national rating agency which has been launched by TBB with TSBK being involved as consultant.
- The Bank also carried out studies to improve and diversify its competitiveness in line with its strategic direction.
- Regarding Information Technologies (IT), infrastructure and integration projects to support TSBK's business continuity, efficiency, security and growth objectives were implemented. Leading projects included, among others, the integration of test automation robot into Software Development processes, the establishment of network redundancy on secondary systems for business continuity, and the launch and development of DLP (Data Loss Prevention) solutions to manage sensitive and confidential information.

TSKB SIMULTANEOUSLY WORKS ON A MYRIAD OF STRATEGIC, IT AND PROCESS IMPROVEMENT PROJECTS.

TSKB also plans to conclude the coordination and supervision of consultancy work on the establishment of a national rating agency, assess and monitor the Bank's competitiveness as a whole together with its affiliates in line with the Bank's medium and long-term priorities and continue with the development and improvement work.

Planned work for IT infrastructure includes the improvement of banking applications in terms of speed, simplicity and user experience, the extension of the use of test robot, the launch of a data classification solution in order to improve the efficiency of DLP systems for information security, and the upgrades in Microsoft Windows server infrastructure.
The Bank pursued a more selective approach in loan growth in 2018. Due to conjunctural reasons, loan growth was below the target that was revised down to 0-2% on an FX-adjusted basis at the third quarter. Loan agreements worth USD 1.8 billion in total were signed, and now cash and non-cash loans totaling USD 2 billion were placed during the same period. As a result, total loan portfolio grew by 26.3% in 2018 on a TL basis under the impact of the fluctuations in FX rates while it declined by 3% on an FX-adjusted basis and stood at TL 28,226 million.

The loan-to-total assets ratio fell slightly year-on-year and stood at 73.7% at end 2018 (2017: 77.1%). The breakdown of the loan portfolio in accordance with various FX types (including the FX-indexed loans) was in parallel with the secured loans which were recorded as liabilities. The FX loan breakdown indicated that 43% of loans are in EUR and 49% in USD TL. Loans make up 8% of the Bank's portfolio. Furthermore, 75% of the loan portfolio is comprised of investment loans in line with the Bank's mission banking.

New lending in 2018 mainly focused on electricity generation and distribution investments, energy and resource efficiency, real estate, tourism and infrastructure investments, investments supporting women's employment, and funding work for investment and working capital needs of SMEs and medium-sized enterprises. A sectoral breakdown of loans indicates that 34% of loans are allocated to the electricity generation sector, followed by tourism and logistics sectors with 11% and 10% respectively. The rest of the portfolio represents a balanced distribution among various sectors. Energy and resource efficiency projects have a share of 6% within the Bank's total loan portfolio.

The NPL ratio with fully covered for loan losses as per the provisions of TFR59 to total gross loans stood at 2.1% in 2018 (2017: 0.2%). The nominal amount of NPLs was TL 592.4 million. It was essentially one single firm that caused an above-expected NPL ratio in 2018. It is planned that routine monitoring of the firms in the loan portfolio which was intensified in 2018 as well as efforts to closely monitor and review all loan customers will be sustained in 2019. For 2019, it is not expected that there will be any firms the loans of which will evolve into NPLs with a serious impact on the Bank's loan portfolio, except for one firm, the loans of which will be restructured or are required to be rendered compliant with the repayment plans via a repayment plan amendment. The share of Tier II loans in the loan portfolio is 10.4% and it is not expected to go beyond that level. Non-cash loan portfolio increased by 23% year-on-year and reached TL 3,174 million (2017: TL 2,574 million).

The securities portfolio had the second largest share in assets with 14.9%, after loans. The total size of securities rose by 20.5% year-on-year and reached TL 5,481 million. At year-end, 71% of the securities portfolio was comprised of TL securities. 69% of the securities portfolio was made up of securities available for sale and 31% was comprised of securities held to maturity. A comparison of year-beginning and year-end showed that the percentage of "Inflation-indexed Securities" in the TL portfolio increased from 49% to 47%, while the weight of total "Floating Rate Securities" including CPI-linkers rose from 65% to 67%. In 2018, funding costs increased year-on-year, and the yield of total FX types (including the FX-indexed loans) was in parallel with the FX loan portfolio.

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The Bank's equity grew by 33.5% year-on-year to reach TL 4,719 million, and its capital adequacy ratio (CAR) stood above the legally set level, at 16.2% on a solo basis and 16.0% on a consolidated basis (2017 solo CAR: 17.1%). Having a capital NPL ratio of TL 3.3 billion, the Bank has a free capital-to-total assets ratio of 8.5% (2017: 10.1%). The free capital entirely consists of liquid assets.

Thanks to the contribution of CPI-Linkers and the maintained loan spread, the Bank's total net interest income rose by 68.7% year-on-year to reach TL 1,753.4 million. The Bank's adjusted net interest margin exceeded expectations and stood at 4.9% (NIM for 2017: 3.9%). For next year, a contraction in the net interest margin is forecasted due to an expected relative fall in the contribution of CPI-Linkers.

The total of the Bank's dividend income and other income grew by 186% year-on-year.

The total of the Bank's personnel costs and other operating expenses increased by 23% year-on-year. TSKB's cost-to-income ratio declined to 10.8% as of the end of 2018 owing to the lift in the operating income (2017: 12.5%).

The Bank's donations and charity during the year amounted to TL 160,000 in total. The total expenses incurred for the social responsibility projects stood at TL 489,247. TSKB posted TL 1.3 billion in profit before provisions and tax with a YoY increase of 50%, net in terms of TL 660.9 million with a surge of 11% in 2018. The Bank's return on equity and return on assets stood at 16% and 2% respectively.

The Bank's return on equity rises to 17.8% when the late increase in the market values of its publicly-listed affiliates included within equity is excluded (2017: 18.8%). The Bank's return on equity rises to 17.8% when the late increase in the market values of its publicly-listed affiliates included within equity is excluded (2017: 18.8%).
Financial Expectations

Above 15% in 2019. Furthermore, the Bank plans to return on equity of about 14-15% and a net interest margin in an influx of refugees in 2019. As a result of such efforts, TSKB and investments in priority development regions receiving purposes in a way to decrease the current account deficit as investments by firms delivering production for export energy and resource efficiency, and R&D investments as well employment, environment, occupational health and safety, the Bank plans to support renewable energy, women’s line with the present development finance loan agreements, TSKB targets an FX-adjusted loan growth of 5% for 2019. In line with the drops in BIST-100 and banking index. ended the year with 31% decline at 117,737. Starting the year at economic re-balancing becoming evident especially in the second domestic markets elevated volatility in the exchange rates and the maintaining this outlook. In addition to these developments, in thedomestic markets elevated volatility in the exchange rates and the economic re-balancing becoming evident especially in the second half of the year had adverse impact on the stock market. In 2018, BIST-100 index declined 21% down to 91,270, while banking index ended the year with 31% decline at 117,737. Starting the year at Tl. 1.20 TSKB share price fell down 33% closing the year at Tl. 0.80 in line with the drops in BIST-100 and banking index. TSKB targets an FX-adjusted loan growth of 5% for 2019. In line with the present development finance loan agreements, the Bank plans to support renewable energy, women’s employment, environment, occupational health and safety, energy and resource efficiency, and R&D investments as well as investments by firms delivering production for export purposes in a way to decrease the current account deficit and investments in priority development regions receiving an influx of refugees in 2019. As a result of such efforts, TSKB aims to keep its NPL ratio below 4% and expects to deliver a return on equity of about 14 15% and a net interest margin in the range of 3.5-3.8% in 2019. Furthermore, the Bank plans to complete 2019 with a capital adequacy ratio above 15%.

2018 FINANCIAL PERFORMANCE AND 2019 EXPECTATIONS

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Financial Expectations

FX Adjusted Loan Growth

Returns On Equity

Net Interest Income

Fees & Commissions

Return On Assets

Cost-to-Income Ratio

Capital Adequacy Ratio

Leverage Ratio

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2018 FINANCIAL PERFORMANCE AND 2019 EXPECTATIONS

Bank's total market capitalization was TL 2.3 billion (USD 431 million), with a foreign ownership ratio of 52.8% in its free float. Average trading volume of TSKB shares was 26 million lots. Bank’s total market capitalization was TL 2.3 billion (USD 431 million), with a foreign ownership ratio of 52.8% in its free float. As of year-end, its Price-to-Book Ratio was recorded at 0.58 and Price-to-Earnings ratio stood at 3.6. At 2018 year-end, the number of brokerage houses covering and writing reports about the Bank was 16. In 2018, 64 investor relations meetings 18 of which was abroad were held. More than 25% of the investors contacted during the year were new. In 2018, in accordance with the market conditions, increasing the number of investor meetings is the targeted. During the year, the established practice of holding teleconferences for analysts and investors every quarter following the announcement of financial results continued and their questions were replied in detail. The relevant records are available on the Bank’s web site.

In 2019, the Bank will concentrate on the Investor Relations activities to expand the Bank's investor base in order to increase TSKB's market recognition and visibility.
DELCER PRING EPI RSE ENCEN RIE NG XP E RDA ND E XPERIENCE

A TSKB CLASSIC: ECONOMIC RESEARCH

The experienced and specialized Economic Research team at TSKB showcases its expertise in industry, the economy and capital markets in the reports it publishes well as presentations for internal and external needs.

TSKB Economic Research means umbrella brand in the Bank's main working fields.

TSKB Economic Research 2018 Themes

- Participation of Women in Labor Force
- Supply Chain in Agricultural Goods and Food
- Participation of the Youth in Labor Force
- Employment Prioritized Regions
- Renewable Energy
- Energy Efficiency
- Recycling
- Sustainable Tourism
- Water Safety

TSKB Economic Research is like an umbrella brand incorporating Bank's main working fields.

TSKB Economic Research publications, in addition to supporting the Bank's resource, loan, consultancy, treasury, marketing and promotion activities, play a role as a precious tool on a knowledge sharing platform with sector and company representatives.

TSKB Economic Research issued over 420 reports in 2018. TSKB Gündem including daily brief analysis on political/economic developments in the agenda and sector newsflow, Macro View including research on macro economic data and economic calendar, New Month including leading data on the economic calendar of the new month, analysis on the heading economic events in Turkey and in the World and studies on development economics are among the periodicals of TSKB Economic Research.

Weekly and monthly Energy Bulletin shares analysis and developments in the energy sector. Monthly Energy Bulletin is published in both Turkish and English. Economic Research also publishes TSKB Look including analysis focused on macro, industry and development, Theme Look composed of themes pointing to potential topics in parallel with the Bank's mid and long-term strategy and TSKB A Reading including a brief analysis on a wide range of topics from financial markets to development economics on a technical basis.

TSKB Economic Research Publications in 2018

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<tr>
<th>Publication</th>
<th>Number of Issues</th>
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<tbody>
<tr>
<td>TSKB Daily Bulletin</td>
<td>250</td>
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<tr>
<td>Daily brief analysis on political/economic developments in the agenda and sector newsflow</td>
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<tr>
<td>Macro View</td>
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<tr>
<td>Research on macro economic data and economic calendar</td>
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<tr>
<td>Sector Overview</td>
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<td>Weekly Energy Bulletin</td>
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<td>Weekly developments in the energy sector</td>
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<td>Monthly Energy Bulletin</td>
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<td>Monthly developments in the energy sector (Turkish and English)</td>
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<td>Initial public offering reports review</td>
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<td>TSKB Look</td>
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<td>Analysis focused on macro, industry and development</td>
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<td>Theme Look (Turkish and English)</td>
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<tr>
<td>TSKB Commentary</td>
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<tr>
<td>Brief analysis on a wide range of topics from financial markets to development economics on a technical basis</td>
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<tr>
<td>Month Ahead</td>
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<tr>
<td>Leading data on the economic calendar of the new month, analysis on the heading economic events in Turkey and in the World, studies on development economics</td>
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<td>Total</td>
<td>416</td>
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</tbody>
</table>
DELIVERING EXPERTISE AND EXPERIENCE

The sectoral overview publications prepared by TSKB Economic Research as well as Financial Analysis and Assessment departments contain evaluations shedding light on a rich array of sectors.

TSKB Economic Research Sectoral View Series
- Automotive Industry and Sub-Industry
- White Goods Industry
- Textile and Clothing
- Construction, Cement and Ceramics
- Iron & Steel
- Machinery
- Freight Shipment and Ports
- Chemistry and Plastics
- Information and Communication Technologies
- Education
- Healthcare Services, Medical Devices and Pharmaceuticals
- Energy
- Tourism
- Agricultural Production and Food&Beverages

TSKB Economic Research develops cooperation with universities, think tanks, foreign missions and policy makers and regularly visits and exchanges opinions with public institutions. To that end, TSKB is involved in the working groups for Specialization Commissions, which are planned to present input into the 11th Development Plan in 2018.

Representation In Special Expertise Commissions
- Prioritizing Public Sector Investments
- Growth Dynamics
- Combat with Inflation
- Logistic Services
- Role of Woman in Development
- Energy Supply Safety and Efficiency
- Competitive Production in Agriculture and Food
- Industrial Production Policies
- Automotive Industry

TSKB Blog fostered by the Bank’s 68-year know-how and experience delivers editorials, articles on economic and sectoral developments.

TSKB Blog offers articles on international trends such as digital transformation, Industry 4.0 and low-carbon economy as well as the economic and financial agenda. The Blog aims to keep the pulse of the development agenda and highlights the rapid transformation in various industries.

TSKB Blog is fostered by TSBK's 68-year know-how and experience. The Blog delivers editorials on economic and sectoral developments and offers new articles and current themes to its followers on a weekly basis. Contents at TSKB Blog are also realized simultaneously on TSKB's social media accounts. Articles on TSKB Blog are written by a team of about 20 specialists from fields such as development, sustainability, engineering, technology, energy and tourism.

In 2018, more than 70 articles on various agenda items are published at TSKB Blog.
DELIVERING EXPERTISE AND EXPERIENCE

TSKB actively employs sectoral events as a means to reinforce stakeholder communication. Sectoral events play a key role for TSKB to access a broad stakeholder base and share its own experience. During such events, TSKB enhances its dialogue with stakeholders and significantly raises the awareness level of participants with respect to sustainability.

In 2018, TSKB was involved in many events either as an attendee or a sponsor besides hosting various events throughout the year. During such events, TSKB offered presentations or speeches on sustainability, R&D and innovation, energy efficiency and women’s employment. TSKB’s relevant activities on the matter are not only limited to Turkey. TSKB employees share the Bank’s expertise on the international arena as speakers at capacity building trainings and global summits.

INTEGRATIONAL INITIATIVES

- CDP - Carbon Disclosure Project
- WDP - Water Disclosure Project
- Universal Declaration of Human Rights by the UN
- GRI - Global Reporting Initiative
- UNEP FI - UN Environment Programme Finance Initiative
- UN Global Compact
- AFDIIFM - Association of National Development Finance Institutions in Member Countries of the Islamic Development Bank
- IF - Institute Of International Finance
- ICC - International Chamber Of Commerce
- LITC - Long-Term Investors Club
- IDFC - International Development Finance Club
- ELTI - European Long-Term Investors Association

NATIONAL INITIATIVES

- TBB - Banks Association of Turkey
- TRYD - Corporate Governance Association of Turkey
- TSPAKB - Association of Capital Market Intermediary Institutions of Turkey
- DEIK - Foreign Economic Relations Board
- and Business Association
- GRI - Global Relations Forum
- WBCSD Turkey - Business Council for Sustainable Development
- Istanbul Foundation for Culture and Arts
- Association of Money Managers
- Association of Risk Managers
- ERTA - Integrated Reporting Network Turkey

LIBRARY

TSKB Library has been serving society since 1971 with an archive of almost 13,000 books and electronic database subscriptions. As a specialty library, it provides its users - specifically university students and academics - with sector-specific reports and research results of the Bank as well as national and international literature.

MEMBERSHIPS AND WORKING GROUPS

TSKB is a member to national and international associations and initiatives operating in areas relevant to the Bank’s strategy, operations and goals. The Bank assumes active roles under such memberships and shares its experience as well as maintaining a close contact and cooperating with many organizations.

Contribution to Turkey and the TSKB brand

TSKB’s involvement in national and international initiatives contributes to not only the Bank’s brand value but also to Turkey. Work performed under memberships contributes positively to TSKB’s corporate image and promotion and supports the building of internal capacity and raising awareness. Such memberships present the opportunity to establish communication and relations with stakeholders from a diverse range of geographical locations and cultures and contribute to the promotion of Turkey on various platforms when it is the first time such events are attended by a Turkish party, thus raising Turkey’s reputation in such fields.

TSKB chairs some working groups or assumes similar key roles in organizations it is a member to. The Bank chaired the following working groups in 2018:

- Gender Equality Working Group of the International Development Finance Club (IDFC) in Istanbul
- Women's Employment and Equal Opportunities Working Group of BCSID Turkey

In addition, the Bank is also a part of NGO working groups to reify its support and contribution. The Bank helps draft reports and declarations and organize events at such working groups and may act as a sponsor in certain projects. During the reporting period, TSBK assumed active roles in the following working groups.

BCSID Turkey’s Working Groups on Sustainable Finance, Energy, Circular Economy

- Training Working Group of the Integrated Reporting Turkey Network (ERTA)
- United Nations Global Impact Working Groups on Sustainable Banking and Finance, Women’s Employment and Equal Opportunities
GROUP COMPANIES

AFFILIATES ADDING INTEGRITY, SIZE AND DEPTH TO CUSTOMER EXPERIENCE

TSKB has subsidiaries operating in various sectors and it also holds shares in various companies under İşbank Group. Through their actual business volumes, cross-cooperation opportunities and competences, the Bank’s subsidiaries make concrete contributions to the process of creating permanent value for TSKB’s stakeholders.

CUSTOMER EXPERIENCE

AFFILIATES ADDING INTEGRITY, SIZE AND DEPTH TO CUSTOMER EXPERIENCE

TSKB operates within a holistic structure with its subsidiaries that complement and supports its operations. The Bank acts in synergistic cooperation with Yatırım Finansman Menkul Değerler A.Ş., TSKB Gayrimenkul Değerleme A.Ş. and TSKB Sürdürülebilirlik Danışmanlığı A.Ş. (Escarus) in terms of creating cross-selling opportunities and delivering successful investment banking and consultancy projects.

YATIRIM FINANSMAN

Turkey's first capital markets institution

Acting in coordination with TSBK in a variety of investment banking projects Yatırım Finansman Menkul Değerler A.Ş. (Yatırım Finansman) is Turkey’s first capital markets institution. The company was founded on October 15, 1976 by 13 major banks led by İşbank and the Industrial Development Bank of Turkey (TSKB).

Earning a reputable place in capital markets thanks to the rapid and stable progress it attained since the day it was founded, Yatırım Finansman is one of the leading players in the market and emerges as a symbol of trust.

Valuable product range offered with the support of strong and widespread service network

Being one of the essential institutions of Turkey, Yatırım Finansman offers (domestic and international individual and corporate investors) high quality, reliable and rapid services to access capital markets through its robust and widespread network of branches around the country, and its online and mobile applications. Yatırım Finansman uses its know-how, experience and specialization distilled from its over 42 year history as well as its strong capital structure to create added value for its customers.

Trading safely without brokerage in domestic and/or international markets timeless and locationless via desktops, laptops and smart electronic vehicles, investors add value to their savings with YFTRADE, YFTRADEMOBİLE, YFTRADEINT, which were commissioned by Yatırım Finansman.

Yatırım Finansman operates in a strong synergy with group companies mainly with TSBK. Having initiative projects in investment banking, the company continues to provide its customers with the most convenient financial instruments and add value to their investments thanks to its employees who utilize their knowledge, experience and competences to the best of their abilities.

Discriminating service provider in the sector

Acting within the framework of the “Responsible Profitability” principle and realizing its goals to provide its investors and stakeholders with a satisfactory return, Yatırım Finansman is a Fully Authorized Brokerage House pursuant to the capital markets law and communiques. The company stands out in the capital markets timeless and locationless via desktops, laptops and smart electronic vehicles, investors add value to their savings with YFTRADE, YFTRADEMOBİLE, YFTRADEINT, which were commissioned by Yatırım Finansman.

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Through their operations and business volumes, cross-sell opportunities and competences, the Bank’s subsidiaries make concrete contributions to the process of creating permanent value for TSKB’s stakeholders.

**TSKB GYO**

A company aiming to create an efficient real estate portfolio. Established in 2006, TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB GYO, TSKB REIT) is a real estate company that aims to establish and develop an efficient real estate portfolio.

TSKB has a participation share of 85.86% at TSKB REIT, which is powered by the Bank’s 68-year corporate know-how and experience. As a capital market institution, TSKB REIT can invest in real estate, real estate projects, real estate rights and capital market instruments, establish ordinary partnerships to realise certain projects, and deliver other operations allowed by the relevant communiqué of the Capital Markets Board (CMB) of Turkey.

**A balanced investment strategy**

The core values of TSKB REIT are consistency, transparency, quality, social responsibility, customer orientation and teamwork. Its investment strategy is based on growth through project development, sustainability and risk management. The Company is established with an initial capital of TL 10 million. The capital is increased to TL 300 million after the capital increase in the fourth quarter of 2018. As of 31 December, TSKB REIT’s asset size reached TL 509 million and the leaseable area it manages stood at 66,000 m².

**REAL ESTATE INVESTMENTS OF TSKB REIT (%)**

Breakdown of TSBK REIT’s real estate investments based on appraisal values

- **Office Buildings**: 65
- **Shopping Centers**: 32
- **Hotels**: 13
GROUP COMPANIES

At 2018 year-end, TSKB REIT’s real estate portfolio included the following:
- Pendonya Shopping Mall, which is located at Pendik, Istanbul on E-5 Road, was inaugurated on December 17, 2009 and has an indoor area and leasable area of 80,648 m² and 30,573 m² respectively.
- Two office buildings located in Fındıklı, Istanbul with a total indoor area of 17,827 m².
- Tahir Han in Karaköy, Istanbul.
- Half of the shares of Dıvan Adana Hotel, which is located in Adana city center and was commissioned in September 2015, as well as its independent units.

TSKB REIT and capital markets
TSKB REIT is subject to the capital market legislation, and its goals include, among others, contributing to real estate investments so as to ensure they secure a place in capital markets as a liquid and sound investment alternative. TSKB REIT shares have been traded on Borsa İstanbul’s Collective and Structured Products Market under the symbol ‘TSGYO’ since April 2010.

A goal to improve profitability
In line with its investment strategy to increase current lease revenues and diversify portfolio, TSKB REIT will sustain efforts to increase lease revenues from Pendonya Shopping Mall in 2019.

TSKB operates with a holistic perspective through its subsidiaries which complement and support the Bank’s operations.

Multiple projects from various disciplines
Successfully accomplished many projects in various sectors and disciplines, Escarus has made up a strong consultancy team that has successfully completed many reference projects including feasibility studies & project planning for investment projects, evaluating & monitoring feasibility studies (technical and financial) for export loans and technical due diligence & monitoring studies.

Furthermore, in 2018, the company focused on capacity building work for sustainable agriculture, rural development, migration, SME development, financing climate change & adaptation to climate change, value chain analysis and social impact.

Collaborative Focus and Approach
In 2018, Escarus was represented in many events either as a speaker or as an organizer, never losing focus on sharing information and thus receiving frequent mentions throughout the year. Escarus managers and specialists attended many events as speakers including part-time lectures at universities and opening a new service area in thematic training for the finance sector.

Sectoral sustainability round-table meetings organized together with Donya Newspaper continued in 2018. Sustainability Round-table Meetings were held in finance, food & agriculture as well as waste economy themes under senior management attendance.

Additionally, Sustainability Workshop which is organized yearly in cooperation with TSKB was held at İTÜ in 2018 and attracted high attendance.

Sustainable Finance Outlook
In the last quarter of 2018, Escarus shared the first edition of Sustainable Finance Outlook annual report with its stakeholders. The report is available for public access on Escarus web site. The content of the report offers the business world an update and benchmarking. The report is available for public access on Escarus web site. The content of the report offers the business world an update and benchmarking. The report is available for public access on Escarus web site. The content of the report offers the business world an update and benchmarking.

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INCLUSIVE AND SUSTAINABLE DEVELOPMENT

TSKB IS THE LEADER FOR SUSTAINABLE BANKING IN TURKEY.

In early 2000s, the concept of sustainable banking has gained more importance and become an essential agenda item in the finance world. TSBK has a corporate history decorated with feats and leadership. The Bank has also assumed lead in sustainable banking and focused on banking practices that aim to protect and improve the natural capital.

At 2018 year-end, 73% of TSBK's total loan portfolio is comprised of sustainability loans. Using these loans as leverage, the Bank makes an inclusive and sustainable contribution to development. The weight of TSBK's sustainability funds are mostly comprised of loans exclusively extended for renewable energy, energy and resource efficiency and environment investments.

TSKB LEADS THE FINANCING OF RENEWABLE ENERGY PROJECTS.

Since mid-2000s, TSBK has been supporting the structuring of Turkish renewable energy sector via the funding and consultancy services it provides.

Since 2002, the Bank has focused on the financing of renewable energy projects. Today, the Bank serves the transition of Turkey from the current fossil fuel-based electricity generation systems to clean and renewable energy resources.

While TSBK is among the banks funding the highest number of renewable energy projects in the Turkish banking sector. As of 2018 year-end, the Bank has 290 renewable energy projects it funded. TSBK has contributed to the mitigation of Turkey's total annual carbon emissions by about 10 million tons through these projects.

In 2019, clean and renewable energy projects will continue to be on TSBK's agenda. In the upcoming period, the Bank will continue funding renewable energy projects as well as projects to combat climate change and shift to low carbon economy.

POWER TO CREATE MULTIDIMENSIONAL BENEFITS

Through the energy projects, the Bank contributes to developing energy/resource saving practices, ensuring energy diversity and reducing emissions.

A contribution is made to eliminating the bottleneck in energy, supporting the reduction of current account deficit and ensuring a safe energy supply, all simultaneously. TSBK is a leading bank specialized in energy and resource efficiency, and aims to maintain its role in this field. In addition to renewable energy, energy and resource efficiency funding, TSBK's sustainability funds within its loan portfolio are gradually enhanced in years through funding models for sustainable tourism investments, women's employment and occupational health and safety.

For the sake of the development of Turkish economy, TSBK considers exports a major point that deserves handling under sustainability and thus transfers funds to exporting companies in two distinct channels. The Bank not only provides direct funds to but also supports SMEs and exporting companies via the "APEX" loans, a financing model in which such companies are funded through commercial banks, participation banks, leasing companies and factoring companies.

TSKB gives weight to environment and sustainability themes in funding. In line with its mission to create value for the inclusive and sustainable development of Turkey, the Bank meets medium and long-term funding needs in the projects it finances via funds it secures from national, regional and supranational financial institutions and debt instruments it issues on international capital markets.

TSKB'S SUSTAINABLE FINANCE THEMES

- Renewable energy
- Energy efficiency
- Resource efficiency
- Environment
- Infrastructure
- Women's employment
- Occupational health and safety
- Supporting priority development regions
- Adaptation to climate change
- SME financing
- Supporting exporter companies
- Green building
- R&D and innovation
- Sustainable tourism
- Health and education

IN 2018, TSBK SECURED NEW SUSTAINABILITY FUNDS TOTALING USD 600 MILLION FROM DEVELOPMENT FINANCE INSTITUTIONS.

TSKB has long-term, well-established relations with development finance institutions which are among its international fund providers. To that end, the Bank signed two major loan agreements, one with the World Bank and the other with the Asian Infrastructure Development Bank. Serving to TSBK's priority for inclusive and sustainable development, the two loans are secured under the repayment guarantee by the Turkish Ministry of Treasury and Finance.

ENVIRONMENTAL BENEFITS FROM LENDING OPERATIONS

For TSBK, the environmental benefits from lending operations are equally as important as the economic benefit obtained. Evaluating the projects it assumes within ERET Environmental and Social Risk Evaluation Tool through an approach based on independent and objective criteria irrespective of the investment amount, TSBK closely monitors and reports the environmental impacts from the financing of projects.

To that end, it requests from the project sponsor in medium and high-risk cases to take measures to eliminate potential negative arising from the investment.
INCLUSIVE AND SUSTAINABLE DEVELOPMENT

SUSTAINABLE FINANCE - MAIN INDICATORS

TSKB's Renewable Energy Portfolio in Figures

- Renewable energy projects (number): 290
- Total installed capacity funded (MW): 6,066
- Share in Turkey's renewable energy capacity: 14%
- Financing commitment (USD billion): 4.4
- Contribution to CO₂ emission reduction (t CO₂/year): 10 million
- Share of electricity generation in loan portfolio: 3.4%

- Renewable Energy Projects Funded in 2018
  - No. of Projects: 66
  - Installed capacity: 408
  - Electricity generation quantity (MWh/year): 1.1 million
  - Contribution to CO₂ emission reduction (t CO₂/year): 769,000

Resource Efficiency Projects

- Raw material savings (ton/year): 14.5 million
- Water savings (m³/year): 1.2 million
- Waste savings (ton/year): 15,530.00
- Energy savings (kcal/year): 47 billion
- Contribution to CO₂ emission reduction (t CO₂/year): 2.37 billion

Energy Efficiency Projects

- Energy savings (kcal/year): 1.51 billion
- Contribution to CO₂ emission reduction (t CO₂/year): 842,000
- Contribution to CO₂ emission reduction through sustainability investments (t CO₂/year): 13 million

TSKB INFORMS ITS INVESTORS SYSTEMATICALLY THROUGH ALLOCATION AND IMPACT REPORTS.

Through the two bonds TSBK issued, it aimed to finance investments to mitigate climate change impacts as well as climate change adaptation investments and sustainable infrastructure investments in addition to ensuring social development.


The 2018 Allocation and Impact Report was evaluated by Sustainalytics, an organization evaluating TSBK’s sustainability practices and bond structure in bond issuance processes and provides investors with second-party opinions. The report contains their opinions as well. In addition, the 2018 Allocation and Impact Report received a third-party assurance letter from Ernst & Young consultancy firm as a result of due diligence.

TSKB REVISES THE PROCESS AND METHODOLOGY OF MEASURING THE SOCIAL IMPACTS IT MAKES THROUGH LOANS, CONSIDERING THE EXISTING CONDITIONS

Teams formed at TSBK run the efforts to report the economic and social benefit from sustainable banking loans.

The work phases completed as of 2018 year-end are summarized below.

- Titles and numerical indicators for economic contribution are set.
- Titles and digital indicators for contribution to sustainability and inclusiveness are set.
- In addition to digital indicators, it is decided for contribution to sustainability and inclusiveness that the United Nations (UN) Sustainable Development Goals shall also be used as criteria.
- A list of the UN Sustainable Development Goals on inclusiveness was devised, differentiating the contribution for inclusiveness.

The Bank established a dedicated working group for matching loan themes with the UN Sustainable Development Goals.

TSKB is in the process of integrating into its objectives and strategies the current sustainable development approach in its 2030 perspective, which hit the agenda following the UN Sustainable Development Goals.

TSKB’s Loan Portfolio and Its Relationship with Sustainable Development Goals

Since 1950, TSBK has increasingly and clearly contributed to Turkey’s development and led environment-related matters starting from 1980s.

TSKB is in the process of integrating its objectives and strategies into the current sustainable development approach in its 2030 perspective, which hit the agenda following the UN Sustainable Development Goals.

INCLUSIVE GROWTH WILL ADD A NEW MOMENTUM TO TSBK’S SUSTAINABLE FINANCE OPERATIONS

Actively involved in the environmental dimension of sustainable finance through renewable energy, energy efficiency and resource efficiency projects, TSBK has also focused on inclusive growth via the funds it extended for SMEs, improvement of employment, women’s employment and occupational health and safety in this new period.

The Sustainable Development Goals adopt a more comprehensive and holistic approach which covers inclusive development. To this end, international cooperation as well as coordination among the public sector, private sector and non-governmental organizations at national and local level gain significance. Therefore, it is important to document such contribution to goals in line with TSBK’s development banking mission.

In 2017, TSBK, in cooperation with its affiliate Escarus, drafted “Baseline Analysis of Turkey against Sustainable Development Goals Project” in line with the efforts run by the Ministry of Development to adapt the Sustainable Development Goals into Turkey. The study on the Economic and Social Benefits of TSBK Loans also makes use of the methods and information included in this report.

The working group comprised of TSBK experts classified TSBK loans and related them to the Sustainable Development Goals, with the results and matches being turned into a report and shared with the Senior Management. It is planned that all lending operations are included in the measurement in terms of the Sustainable Development Goals, and the contribution they make to economic/social development is closely monitored under this effort.
SUSTAINABILITY MANAGEMENT SYSTEM

AN EFFECTIVE MANAGEMENT SYSTEM COVERING ALL BUSINESS PROCESSES OF TSKB

In line with the global development of the sustainability concept and its perception, TSKB broke a new ground in Turkey and completed an end-to-end internalization of sustainability in every aspect ranging from its mission to business model and processes. TSKB supports Turkey’s sustainable development through its products and services. To that end, TSKB has structured its Sustainability Management System (SYS) in a way to cover all business processes of the Bank so as to mitigate environmental and social impacts from banking operations and support Turkey’s transition to a low carbon economy.

TSKB SYS is managed through the Sustainability Policy. Immediately after including environment and sustainability on its agenda, TSKB published its Environmental Policy in 2006. In 2012, the Bank revised its Environmental Policy as the Sustainability Policy.

Currently, the SYS is managed under the Sustainability Policy of February 2015. In addition, the Bank supports the Sustainability Policy through complementary policies. “The List of activities that are not to be financed” is published as an appendix to the TSKB Environmental and Social Impact Policy, a complementary policy, and lists the sectors that are not funded by TSKB for the sake of responsible banking.

In 2016, TSKB published the Climate Change Declaration. The declaration briefly explains how TSKB’s main operations are consistently managed through its climate change strategy. The declaration is available on TSKB’s web site.

TSKB’S SUSTAINABLE BANKING POLICIES

TSKB SUSTAINABILITY POLICY

Complementary Policies:
- TSKB Environmental And Social Impact Policy
- List Of Activities That Are Not To Be Financed
- TSKB Occupational Health & Safety Policy
- TSKB Human Rights Policy
- TSKB Sustainable Procurements Management Policy
- TSKB Anti-Bribery And Anticorruption Policy
- TSKB Anti-Bribery And Anti-Corruption Program

SUSTAINABILITY COMMITTEE

All sustainability work across the organizational structure managed by the Sustainability Committee, which is comprised of three Board Members and three Executive Vice Presidents. The members of the Sustainability Committee are appointed by Board decisions.

Sustainability Committee was established in 2014. The Committee’s mission is the coordination of the works and business plans to be composed in regard to sustainability strategy, vision and targets of TSKB. This Committee convenes every three months with at least 50% participation and at least four times a year.

In 2018, four meetings were organized in total. In these meetings, Sustainability Committee targets were set and reallocations were followed throughout the year. The Sustainability Committee is supported by the Sustainability Subcommittee and working groups, of which representatives from various departments are active members.

Sustainability Subcommittee

The Sustainability Subcommittee was established to spread sustainability operations to the entire Bank and integrate them with all business processes in parallel with the vision, strategy, goals and business plans of the Bank on sustainability and climate change. Composed of the managers of various departments, Sustainability Subcommittee reports to TSKB’s Sustainability Committee.

Every year, clear and measurable annual goals of the Sustainability Subcommittee are determined and these goals are reflected on the performance assessment of all members. Sustainability Coordination Responsible carries out the inhouse coordination of the sustainability settlement in TSKB.

Working Groups and Their Responsibilities

At TSKB, sustainability work was conducted by five different working groups affiliated with the Sustainability Sub Committee in 2018.

The responsibility of these working groups covers:
- Maintaining the certifications for ISO 14001 Environmental Management System Standard and ISO 14064, which is the international calculation and verification standard to restrict direct greenhouse gas emissions from banking operations
- Managing relations with sustainability indices which the Bank is a part of
- Considering the expectations of internal and external stakeholders and engaging in communication management
- Delivering sustainability reports by and
- Coordination of projects and studies directed to gender equality

Gender Equality Working Group was established in 2018, and assigned to coordinate the works in this field. The Group realized a variety of projects during the year and produced concrete examples about TSKB’s approach to gender equality.

Members of the working groups are appointed by the Executive Committee of the Bank. As of 2018-end, 10% of TSKB employees take part in sustainability working groups. The Sustainability Committee's goals are disseminated to every employee in this structure and taken into consideration within the employee performance appraisal. One of the common goals of the working groups is to organize internal training events/informative meetings in order to ensure capacity development for all employees of the Bank on sustainability.

TSKB AS A SIGNATORY IN THE FIELD OF SUSTAINABILITY

TSKB is a signatory to various declarations and principles particularly under the commitments related to sustainability. Some of the key examples about TSKB’s approach to gender equality include:

- Declaration on Action in Financial Institutions as prepared by IDFC
- Declaration on Transition to a Lowcarbon Economy issued by ELTI members under COP21
- Women's Empowerment Principles (WEPs)
- Joint Statement on Energy Efficiency issued by the EBRD and UNEP FI
- Global Compact Turkey - Declaration of Sustainable Finance
SUSTAINABILITY MANAGEMENT SYSTEM

ERET MODEL
Management of the environmental and social impact of disbursements

Within the principle of responsible banking, TSKB gives special importance to objective determination of the potential environmental and social risks and impacts that could arise in the implementation of projects. This process requires an extensive evaluation and the dimensions of the environmental and social impact assessed is handled with investor before placements. According to the result, matters to be managed and actions to be taken are share with the investors. The loan facility is activated after all of these capital and know-how on the matter. Environmental and social risk evaluation also helps raise awareness of the funded companies, enabling TSKB to create value for itself and its stakeholders in line with the principle of creating responsible income.

ERET Environmental Risk Evaluation Tool was first designed in 2005 and starting from 2007, the Model has been applied to all investment projects developed to neutralize the difference in competence and experience among experts in the environmental and social risk appraisal of a project, ensure the implementation of a consistent and standardized methodology, and conduct performance assessment through cause and effect relations, the ERET Environment Risk Evaluation Tool was first designed in 2005 and the model has been applied to all investment projects to be potentially funded by TSKB irrespective of the investment amount and/or credit limit.

TSKB adopts as a principle to observe sustainability practices and principles which meet the environmental, social and occupational health and safety standards of the development finance institutions in all investment projects it finances.

Furthermore, it seamlessly overlaps with the criteria in Equator Principles, which have been drafted by the IFC and widely adopted by banks currently operating in developed economies.

ERET conducts a multi-dimensional assessment.

The model conducts an assessment composed of 45 questions under 5 headings and is based on the analysis, within a current and future perspective, of environmental and social impacts as well as possible legal and financial liabilities arising from the investment project evaluated by TSBK for lending and from the other operations of the project owner. In line with the scores for environmental and social risk, how the environmental and social impacts will be mitigated and monitored is structured within the framework of a plan drafted in cooperation with the customer. The environmental rating methodology for ERET Model is continuously reviewed by TSBK teams, and the weights of high risk issues in the calculation process are increased in line with changing conditions, thus highlighting the risky issues. Annual evaluation results are publicly reported on the Bank’s website.

This model has been a very strong tool that TSBK has used for the effective management of environmental and social risks. Employed since 2007 and updated in regards to needs, it contributes project assessment processes and enables TSBK to establish deeper of these capital and know-how on the matter. Environmental and social risk evaluation also helps raise awareness of the funded companies, enabling TSBK to create value for itself and its stakeholders in line with the principle of creating responsible income.

2018 ERET RESULTS

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<tr>
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<td>Medium risk B</td>
<td>22</td>
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<tr>
<td>Low risk C</td>
<td>17</td>
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TSKB also handles under SYS the impacts arising from its operations.

TSKB also meticulously handles under SYS the environmental impacts arising from its operations. SYS efforts periodically follow and monitor resource consumption such as electricity, water and natural gas and the Bank conducts work to reduce such consumption.

In addition, TSBK implements a waste management plan to increase the rate of wastes recovered into the economy after being sent to recovery plants.

The Bank performs all relevant work under ISO 14001: Environmental Management System Standard and holds an ISO 14001 Certificate since 2007. It is among TSBK’s sustainability goals to ensure continuity of the ISO 14001 certificate.

In 2008, TSBK switched to zero carbon banking

The increasing importance of climate change stipulates transition to a low carbon economy in order to ensure a sustainable world. Aware of this, TSBK also closely monitors rising trends on a global basis. It started to measure its carbon footprint in 2006. The carbon footprint measurement was reviewed in 2008 by an independent consultancy company and the Bank consequently launched its zero carbon banking project after the consultancy company issued its report. To that end, the Bank has calculated and offset its operational greenhouse gas emissions to launch a carbon neutral-zero carbon banking practice and has been operating in line with the ISO 14064 Greenhouse Gas Accounting and Verification Standard since 2012.

For TSBK being carbon neutral means:

• Measuring carbon emissions and getting the measurements audited,
• Designing strategies and projects to mitigate carbon emissions,
• Offsetting emissions, and
• Contributing to capacity development on the matter within and outside the organization.

Strategic mitigation goals covering 2009-2010 are established in order to reduce consumptions in terms of lighting, energy and business trips, which are all sources of emission. As of 2009, the Bank has started to use electric power from renewable energy resources. This project was launched at a time when the limit for being a free consumer was similar to the level of consumption by producers in the industry and emphasized the vision and priorities of TSBK.

Carbon neutral approach carried over to social projects

TSKB not only applies the carbon neutral approach internally but also transposes it to the social projects it runs. The Bank aims to raise a common awareness on climate change and the mitigation of carbon footprint as well as improving the recognition and awareness on the matter.

• TSBK purchased Gold Standard Carbon Certificates for more than 4,000 tons of carbon in the last 5 years in an effort to offset emissions from banking operations. Such efforts mitigate the carbon emissions of the Bank and support the combat against climate change. Resources such as wind power and landfill gas are used in offsetting carbon footprint. 

• In 2018, the carbon footprints of TSBK Career Workshop, TSBK’s management trainee recruitment program, as well as the Sustainability Workshop, which aims to raise sustainability awareness in university students, were offset. All carbon emissions from transportation, accommodation and organization for these events - about 18 tons - were offset.

• 4 tons of carbon footprint from the “Conference on Women’s Employment and Beyond in the Private Sector”, which was organized at the French Palace in cooperation with the AFID to mark March 8 - International Women’s Day, was also offset.

Climate change and TSBK Sustainable Banking Strategy

TSKB handles its anti-climate change action under the sustainability strategy. The Bank believes a high quality development is directly associated with sustainable banking and thus bases its sustainable banking strategy on three main foundations.

To support Turkey’s sustainable development model

To assume a role in combating climate change

To contribute to Turkey’s transition to an industrial structure that is based on a low carbon economy.

This strategy by TSBK accommodates not only the management of climate change-related matters but also the evaluation of the relevant risks and opportunities. The Bank executes its sustainability vision and strategy within an accurately-set, efficient sustainability structure.
SUSTAINABILITY MANAGEMENT SYSTEM

INTERNAL IMPACTS-MAIN INDICATORS

TSKB vigilantly manages environmental impact stemming from its operations.

Under the Sustainability Management System operations, electricity, water, natural gas, etc. resource consumption levels are monitored periodically and measures for reducing consumption are taken.

<table>
<thead>
<tr>
<th>ASSET SIZE (billion TL)</th>
<th>NUMBER OF EMPLOYEES</th>
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</thead>
<tbody>
<tr>
<td>2018 38.3</td>
<td>2018 367</td>
</tr>
<tr>
<td>2017 28.9</td>
<td>2017 375</td>
</tr>
<tr>
<td>2016 24.0</td>
<td>2016 357</td>
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ELECTRICITY CONSUMPTION (kWh/m²)

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>68</td>
</tr>
<tr>
<td>2017</td>
<td>65</td>
</tr>
<tr>
<td>2016</td>
<td>54</td>
</tr>
</tbody>
</table>

WATER CONSUMPTION (m³/Employee)

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumption</th>
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</thead>
<tbody>
<tr>
<td>2018</td>
<td>17.6</td>
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<tr>
<td>2017</td>
<td>18.0</td>
</tr>
<tr>
<td>2016</td>
<td>18.9</td>
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</table>

RECYCLED WASTE (kg)

<table>
<thead>
<tr>
<th>Year</th>
<th>Waste</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
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<tr>
<td>2017</td>
<td>10,530</td>
</tr>
<tr>
<td>2016</td>
<td>12,950</td>
</tr>
</tbody>
</table>

TSKB targets to increase the amount of waste recycled every year in an effort to raise the contribution to the economy pursuant to its waste management plan.

*Annual average number of employees taken into consideration in ISO calculations

GRI 302-1, 302-2, 302-3, 302-4, 303-3, 303-4, 305-2, 305-4, 305-5, 305-6

TSKB 2018 INTEGRATED ANNUAL REPORT

SUSTAINABILITY GOALS

GRI 303-1, 303-2, 302-4, 303-3, 303-4, 305-1, 305-2, 305-4, 305-5, 305-6

TSKB 2018 INTEGRATED ANNUAL REPORT

THE KASIM DÜNDAR FOUNDATION

GRI 305-1, 305-2, 305-3, 305-4, 305-5, 305-6

TSKB 2018 INTEGRATED ANNUAL REPORT
Incentive mechanism in Turkey for renewable energy investments

Risk management and actions taken

Efforts focus on the assumption that renewable energy investment incentives will be terminated in 2020 as well as the action electricity generation companies will be taking.

TSKB reviews the projections for the firms in its loan portfolio in accordance with the scenario that the incentives mechanism will be terminated.

Negative impact on investments in the portfolio due to extreme weather events and changes

Extreme weather events and changes including but not limited to hurricanes, cyclones and changes in the precipitation regime may have negative implications on the investments in TSKB portfolio.

TSKB manages this process by making field visits, monitoring climate conditions in the basin and making production projections that are updated continuously. Water scarcity is another issue related directly to climate change and shows both the world and our country will soon face severe problems on the matter.

TSKB focuses on managing this risk through the funding products for energy efficiency and resource efficiency. In addition, it closely monitors relevant technological advancements and works with customers on new financial solutions. Climate change leads to negative projections specifically on hydropower plants. TSKB monitors not only the financial risk of its energy portfolio but also the climate risks encompassing drought and basin management.

Medium- and Long-Term Climate Change Risks and Opportunities

Risk management and actions taken

Extreme weather events and changes including but not limited to hurricanes, cyclones and changes in the precipitation regime may have negative implications on the investments in TSKB portfolio.

Before the COP21, Turkey shared its Intended Nationally Determined Contribution (INDC) on September 30, 2015 under its emission mitigation strategy. Accordingly, it is committed that Turkey’s greenhouse gas emissions of 440 million tons as of 2012 will rise to 1,175 million tons by 2030 under the current conditions but will be reduced to 929 million tons of greenhouse gas with a decrease of 21% if systematic measures are taken.

Operational risks

The main operational risk TSBK faces in relation to climate change is the increased greenhouse gas emissions due to natural source consumption at the Bank’s service buildings.

Funding risks

Another issue TSBK needs to manage in relation to climate change is the risks from the projects funded. The negative impact of such projects on the environment and the society constitutes the indirect impact of TSBK on climate change.

TSKB’s projection

Climate change investments in Turkey will increase in the upcoming period, giving way to new working field opportunities (carbon trading and climate finance).
Climate action is an important item on the agenda of TSKB Sustainability Committee. The Bank closely monitors Conference of the Parties (COP)

In 2015, TSKB actively attended the COP21, where the Paris Agreement was established, thus witnessing the contribution by various parties as well as the structuring of the Paris Agreement. Since then, the Bank has been regularly attending all COP conferences. This allows TSKB to follow the relevant global agenda. The Bank’s employees share TSKB’s and Turkey’s experience on climate change and finance on various platforms as panelists and speakers. The Bank enjoys the opportunity to update its operations by following up on different interpretations and approaches.

TSKB is an active participant in the Talanoa Dialogue. An important formation from the COP23 in 2017 was the Talanoa Dialogue. In Pacific languages, Talanoa means a transparent dialogue. Countries, private sector organizations, NGOs and other organizations submit to the database for the Talanoa Dialogue (https://talanoadialogue.com) their contribution documents including the current situation on negotiation process for voluntary anti-climate change action, the goals set and the main instruments to be employed for fulfilling those goals.

In 2018, TSKB contributed to the Talanoa Dialogue by submitting through TUSIAD its best practices and activities on Climate Change Prevention/Adaptation. This contribution document included the emission reduction quantities supported through green bond, energy efficiency, resource efficiency and renewable energy investments.

The contribution submitted by TUSIAD to the United Nations Talanoa Dialogue database was published on the United Nations Framework Convention on Climate Change (UNFCCC) web site on November 6, 2018.
INVESTMENT IN HUMAN CAPITAL

THE BUILDING BLOCK FOR A SUCCESSFUL AND SUSTAINABLE PERFORMANCE

TSKB considers its highly qualified and competent workforce to be a critically important factor that renders its strong performance sustainable. The Bank carries out regular activities in a myriad of human resources fields ranging from recruitment to professional and management training programs in order to make business processes more effective. In 2018, recruitment operations secured 31 new employees for the TSKB family comprised of:

- 14 Management Trainees (MTs) from the 9th Career Workshop by TSKB,
- 17 experienced recruits to meet the needs at various departments.

In 2018, TSKB launched many human resources projects. In 2018, TSKB received human resources consultancy services from an international company to set up strategy and organization, performance management system, business analyses and career maps as well as a career development model and qualifications model. To that end, it is planned to review the Performance Management System, Potential Measurement, Qualification Measurement and Technical Knowledge sets and implement them through different measurement and evaluation methodologies.

11 employees were presented with the opportunity to change departments under the Internal Transfer Project and 13 employees were given the opportunity to obtain experience of working in various departments to support horizontal career movement in a bid to improve employees’ work diversity, technical knowledge, skills and competences. In 2019, 14 MTs will be subject to interdepartmental rotation.

HR Representatives were selected from among volunteers at each department in 2017. 5 distinct meetings were held with these representatives in 2018. The meetings helped submit to the HR Department any opinions and suggestions from departments and transparently share HR practices with the teams.

Team Coaching efforts were delivered to ensure departments worked in better harmony and cooperation to attain high quality business outcomes.

Due work on the Flexible Working Model was expended to serve the goal of more productive work by TSKB employees and a pilot practice was launched. The Flexible Working Model was put into effect throughout the Bank as of January 2019.

Aiming to keep pace with the precipitous global changes and elaborate new business processes, TSKB Technology and Entrepreneurship Platform was established. To that end, TSKB established diverse project groups with the Turkish Entrepreneurship Foundation as a project partner. Project groups are expected to complete their work in 2019.

In 2018, first Career Workshop Alumni meeting was organized gathering the participants of the Management Trainee Program since 2005, with the purpose of sharing ideas, create business opportunities and enrich themselves with collective wisdom. In 2019, the activity is planned to be continued with a second meeting.

Reverse Mentoring and Young Consultants to the CEO projects were launched in 2018 to render mutual learning continuous and enhance intergenerational communication. Main topics covered included Fintech, Digitization, New Business Life and Generations, New Technologies and Startups.

Technical and managerial development trainings for TSKB employees are diversified and continue on various platforms. In 2018, trend topics such as Emotional Quotient, Storytelling and Design Thinking are added to the training catalogue.

A bonus payment is made once a year on the condition that ethical values and internal balances are observed, the strategies and long-term objectives of TSKB are adhered to, and risk management structures are taken into consideration. To this end, a gross incentive bonus of TL 10,324,652 was paid to 228 employees in 2018 for their 2017 performance.

Highlights from human capital goals for 2019

TSKB will resolutely sustain investments in its human capital and its multidimensional development in the upcoming period within an approach considering the requirements of the Bank’s corporate strategy.

In 2019, the Bank plans outdoor events to reinforce teamwork among employees, technical training sessions for the expert employees and e-learning programs for all employees. Under Individual Development Plans to be drafted for employees, training programs for employees at different levels are designed to ensure their technical and professional development as well as competency development.

An approach that contributes to motivation

TSKB extends multidimensional support to the intellectual development of its employees. TSKB actively supports various clubs to contribute to employees’ social life, increase motivation in the working environment and reinforce the synergy within the organization.

Furthermore, the Bank provides opportunities to its employees in order for them to meet at various platforms such as Future Outlook meetings, foundation cocktail, new year’s dinner, and IKSV Music Festival concert which the Bank sponsors every year.

EMPLOYEE CLUBS

Photography Workshop

The 9-month program, open to TSKB and group company employees, consists of technical courses, photography excursions, assessment meetings and seminars. Since 2016, the Workshop had its first graduates, the works of participants were displayed at TSBK Art Corridor. Moreover, TSBK’s calendars bear photos taken by workshop participants. In the scope of the Photography Workshop, monthly Film Analysis seminars also are arranged. In these seminars participants analyze a film.

Steps to Charity with FIT-TSKB

In 2017, TSBK initiated its FIT-TSKB project in order for its employees to adopt a healthier lifestyle and spend quality time with each other. Starting with body measurements, FIT-TSKB continued with healthy life seminars and group runs with trainers. FIT-TSKB participants race in Istanbul Marathon. In 2018, FIT-TSKB runners in Marathon supported Turkish Foundation for Children in Need of Protection (Koruncuk).

Entrepreneurship Platform

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Entrepreneurship Platform

TSKB will resolutely sustain investments in its human capital and their multi-dimensional development decisively and with an approach taking into account the necessities of its corporate strategy.

In the coming periods, TSBK, will continue to invest in human resource and their multi-dimensional development decisively and with an approach taking into account the necessities of its corporate strategy.
INVESTMENT IN HUMAN CAPITAL

TRAINING PROGRAMS

TSKB aims to develop human capital through tailored training programs required for specialized banking. To this end, various training and development activities are carried out to improve both technical and professional knowledge as well as personal skills of employees. Except legally compulsory technical and professional education, TSKB offers its employees training programs on the subjects listed below:

- Orientation and coaching courses are applied to ensure a rapid adaptation of TSKB's new employees to the Bank.
- Management trainee (MT) programs composed of essential professional skills are run for recent graduates who join the Bank.
- During the 2-year Development Workshop program, managers are offered training programs in relation to both personal development and management skills as well as competencies.
- Managerial skills of the senior managers are reinforced with Leaders as Coaches.
- One-on-one coaching as well as a training program abroad are provided to Department Heads under the Management Development Program.
- Personal education programs are listed in the Training Program Catalogue open to all of the employees.
- Multi-dimensional career improvement of the employees are reinforced through inhouse rotation programs.

CAREER WORKSHOP AND MT PROGRAM

TSKB employs MTs through TSKB Career Workshop.

Since 2010, 118 MTs started working in the Banks through 9 Career Workshops carried out annually with the participation of 349 students.

TSKB runs meticulous work under its goal to “train its own managers” and holds a MT Program each summer to train future managers. The Bank runs tailored training programs to prepare them for the positions they will assume at TSKB.

DEVELOPMENT WORKSHOP

This is a program that aims to prepare TSKB employees for the next stage in their careers. The Development Workshop runs over 2 years and identifies the developmental areas of each participant. From this point on, a training program is designed based on TSKB competences. The program is made up of five main modules, and focuses on the development of various competences in each module. The second phase of the program started in May 2016 and was completed in May 2018. Some 45 participants in total, comprising 27 women and 18 men, attended the program. 75 hours of training was planned for each participant. Department Heads attended the program to learn with which information the employees are equipped and to speak the same language with them.

Employee Satisfaction and Loyalty is the Priority

Employee satisfaction aspect received the highest fulfillment rating in the survey results. A comparison of 2017 and 2018 surveys indicates the following points:

- Employee engagement improved by 1.3% during last year.
- Job satisfaction aspect received the highest fulfillment rating in both years.
- Previously delivering rather poorly among findings, performance management appeared to be on the rise. At the same time, performance management was the fastest improving aspect.
- Second fastest improving subject was education and personal development compared to the previous survey.
- Underlying improvement areas including career planning, cooperation and teamwork, interdepartmental communication, and performance management have been on the rise.

In 2017, TSKB started to get HR consultancy services which supported simpler and more transparent results and momentum in relevant fields. Competencies were entirely rewritten after workshops and separated from the performance system, making them an item of development per se. Therefore, TSKB Performance System was carved into a structure made up of more measurable goals.

Consultancy work and the road maps to be followed from now on were shared with all TSKB employees. Preparations for the career development plans of employees started, pending for the design of a structure which closely monitors development. Furthermore, interdepartmental field work and team coaching efforts were also delivered in 2018.

TSKB's efforts to improve employee engagement was reflected in the survey results. Development Workshop is a program that aims to prepare TSKB employees for the next stage in their careers.
INVESTMENT IN HUMAN CAPITAL

In 2018, TSKB achieved Equal Opportunities Model (FEM) Certificate submitted by KAGIDER to the corporates embracing gender equality.

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<th>Number of Employees</th>
<th>TSKB</th>
<th>TSKB Real Estate Appraisal</th>
<th>TSKB Real Estate Investment Trust</th>
<th>Escarus</th>
<th>Yatirim Finansman Securities</th>
<th>Grand TSKB Family</th>
</tr>
</thead>
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<tr>
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<td>8</td>
<td>6</td>
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<td>31-40</td>
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<th>Male</th>
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<tr>
<td>Ph.D. Degree</td>
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</table>

TSKB 2018 INTEGRATED ANNUAL REPORT

GRI: 103-1, 103-2, 103-3, 405-1
CORPORATE SOCIAL RESPONSIBILITY

TSKB's social responsibility projects come to life in climate change, transition to a low carbon economy, equal opportunities, social and cultural development.

WOMEN STARS OF TOMORROW

Women Stars of Tomorrow: Young Women Musicians Support Fund was launched in 2018 under Istanbul Music Festival as a cooperation effort by TSKB and IKSV. The project accepted applications by young female musicians who would like to set sail to new horizons on the international arena and successfully completed its first year.

TSKB has always supported Istanbul Music Festival since 1990 and delivered a new project on the 46th year of the Festival to support the female musicians of the future. TSKB acted as the education support sponsor in the Women Stars of Tomorrow project within the scope of its social responsibility focus on women’s empowerment.

Women Stars of Tomorrow: Young Women Musicians Support Fund admitted applications by female musicians who have received acceptance from a music school abroad at undergraduate or graduate level, continue music education abroad or need support for purchasing instruments or attending master classes, music auditions and international contests.

Applications were evaluated by a jury chaired by Yeşim Gürer Oymak, Director of Istanbul Music Festival and Deputy General Director at IKSV, and composed of Hakan Şensoy, violinist and conductor; Muhsin Dinçer, pianist; Ayşeğül Kirmanoğlu, clarinetist, and Özkan Manav, composer. The total funds were divided among musicians selected by the jury in proportion with the amount of funds they needed.

İdil Biret was the first guest of honor for the project

Candidates selected by the jury for Women Stars of Tomorrow: Young Women Musicians Support Fund met the audience at Boğaziçi University’s Albert Long Hall on the evening of May 28, 2018 during the Women Stars of Tomorrow concert. The opinion leader and guest of honor for 2018 concert was İdil Biret, the first “child prodigy” of Turkey.

During the Pre-Concert Events moderated by author Yekta Kopan, İnci Kadribegiç, a student at Trakya University Medical School and a stem cell researcher, and Zeynep Karacan, a student at Yale University and an Honorable Mention Award winner at First Step to Nobel Prize in Physics contest, shared their personal success stories.

Young Women Musicians Support Fund has supported 14 young female musicians who want to continue music education abroad or attend master classes, participate in contests or orchestral auditions, or own a fine instrument.

Candidates selected by the jury for Women Stars of Tomorrow: Young Women Musicians Support Fund

Alara Acar, Harp
Aslı Su Kurtuluş, Flute
Deniz Ayşe Birdal, Cello
Deniz Su Polat, Viola
Ezgi Gökçen, Piano
Ezgi Sarkıpoglu, Violin
Ezgi Su Apaydın, Violin
Gizem Sözeri, Double bass
Gülin Ataklı, Obua
Güneş Hızlılar, Harp
İdil Yunkuş, Violin
Ramona Kemmer, Piano
Sesim Bezdüz, Violin
Ülker Tümer, Cello
CORPORATE SOCIAL RESPONSIBILITY

GİRVAK-TSBK TECHNOLOGY AND ENTREPRENEURSHIP PLATFORM

TSKB established TSBK Technology and Entrepreneurship Platform in cooperation with the Turkish Entrepreneurship Foundation (GİRVAK) to meet entrepreneurs with development-focused business ideas.

TSKB initiated the Future Outlook program in 2016 in order to adapt to the changing world and develop new ways of doing business as well as innovative perspectives and took that initiative one step further with the TSBK Technology and Entrepreneurship Platform in 2018.

Combining the expert banking experience and knowledge of TSBK employees and the enthusiasm and entrepreneurial spirit of GİRVAK fellows, the platform was launched with a publicity meeting held at Kolektif House on November 3.

TSKB supports culture and art with a sustainable approach.

EŞİT ADIMLAR - EQUAL STEPS

TSKB cares to transpose its experience in digital content production to various themes it focuses on. Equal Opportunities (esitadimlar.com) platform was launched to serve the very same purpose and offers an enriched set of content on equal opportunities.

Equal Steps was launched as a joint action by TSBK and the French Development Agency (AFD) under the umbrella of the WBCSD Turkey Working Group on Women’s Employment and Equal Opportunities.

Equal Steps yields the premise that ‘equal opportunities are indispensable for economic development’ and focuses on sharing contents on the matter which would attract the attention of both women and men. Equal Steps offers a digital library which accommodates recent updates on equal opportunities as well as corporate best practices in addition to reports, legislation and regulations. Equal Steps aims to serve as an extensive reference point for interested individuals and professionals.

SUPPORTING ISTANBUL MUSIC FESTIVAL FOR 29 YEARS

TSKB has contributed to the development of culture and arts of the country by a way of sponsoring the concerts in the Music Festival organized by Istanbul Foundation for Culture and Arts (IKSV) since 1990.

This deep-rooted cooperation effort by TSBK and IKSV set the foundations of the Women Stars of Tomorrow project launched in 2018.

PATARA ANCIENT CITY EXCAVATIONS

Believing in importance of protecting the legacy of the past as much as building a sustainable future, TSBK supports excavations at the ancient city of Patara, one of the major historical and cultural sites of our country, along with İşbank and Şişe ve Cam Fabrikaları A.Ş.

Patara was the capital of the Lycian League and Province located near the Kalkan town of Kaş, Antalya and is among the most important historical and cultural sites in Turkey. For about 30 years, excavations at the ancient city of Patara by the Ministry of Culture and Tourism have been led by Prof. Fahri İşik and Prof. Havva İşkan İşik from the Department of Classical Archaeology at Akdeniz University.

TSKB VOLUNTEERS

“TSKB Volunteers” program promotes employees of the Bank to develop their own projects and focus specifically on the projects that will create sustainable value within the society.

TSKB Volunteers develops various projects in order to disperse the NGO’s campaigns in the Bank.

In 2018, FIT-TSKB runners in Istanbul Marathon raised donation for Turkish Foundation for Children in Need of Protection (Koruncuk).

EARTH HOUR

Enjoying opportunities to raise awareness on combating climate change, TSBK joins the Earth Hour, an initiative led by the World Wildlife Fund (WWF) aiming to increase acknowledgement on global climate change.

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CEVRECİYİZ.COM

Digital platforms play a critical role in TSBK’s communication with stakeholders and widening the impact of its corporate social responsibility. The bank focuses on establishing rich internet portals and increasing its substance on social media in order to enhance sustainability awareness.

Cevreciyiz.com is the pioneer among these channels, becoming live in 2007 and having reached 50,000 followers on social media.

The website provides reference for many aspects such as sustainability, energy efficiency, environmental-friendly design, alternative energy sources; and shares innovative news from the world such as eco-friendly production and consumption trends and green architecture. Cevreciyiz.com continues its impact with the target of being a channel that will inspire its followers, for a better future.

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TSKB supports culture and art with a sustainable approach.

EŞİT ADIMLAR - EQUAL STEPS

TSKB cares to transpose its experience in digital content production to various themes it focuses on. Equal Opportunities (esitadimlar.com) platform was launched to serve the very same purpose and offers an enriched set of content on equal opportunities.

Equal Steps was launched as a joint action by TSBK and the French Development Agency (AFD) under the umbrella of the WBCSD Turkey Working Group on Women’s Employment and Equal Opportunities.

Equal Steps yields the premise that ‘equal opportunities are indispensable for economic development’ and focuses on sharing contents on the matter which would attract the attention of both women and men. Equal Steps offers a digital library which accommodates recent updates on equal opportunities as well as corporate best practices in addition to reports, legislation and regulations. Equal Steps aims to serve as an extensive reference point for interested individuals and professionals.

SUPPORTING ISTANBUL MUSIC FESTIVAL FOR 29 YEARS

TSKB has contributed to the development of culture and arts of the country by a way of sponsoring the concerts in the Music Festival organized by Istanbul Foundation for Culture and Arts (IKSV) since 1990.

This deep-rooted cooperation effort by TSBK and IKSV set the foundations of the Women Stars of Tomorrow project launched in 2018.

PATARA ANCIENT CITY EXCAVATIONS

Believing in importance of protecting the legacy of the past as much as building a sustainable future, TSBK supports excavations at the ancient city of Patara, one of the major historical and cultural sites of our country, along with İşbank and Şişe ve Cam Fabrikaları A.Ş.

Patara was the capital of the Lycian League and Province located near the Kalkan town of Kaş, Antalya and is among the most important historical and cultural sites in Turkey. For about 30 years, excavations at the ancient city of Patara by the Ministry of Culture and Tourism have been led by Prof. Fahri İşik and Prof. Havva İşkan İşik from the Department of Classical Archaeology at Akdeniz University.

EARTH HOUR

Enjoying opportunities to raise awareness on combating climate change, TSBK joins the Earth Hour, an initiative led by the World Wildlife Fund (WWF) aiming to increase acknowledgement on global climate change.

TSKB supports culture and art with a sustainable approach.

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SUSTAINABILITY GOALS

2019 and 2020 Sustainability Goals
2019 AND 2020 SUSTAINABILITY GOALS

FINANCING SUSTAINABILITY

<table>
<thead>
<tr>
<th>2017-2018 Goals</th>
<th>2018 Realization</th>
<th>2019-2020 Goals</th>
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<td>TSBK aims to set the share of TSBK's sustainable finance portfolio in the total loan portfolio, excluding the finance sector, at 55% minimum by the end of 2018 by considering renewable energy, energy and resource efficiency investments in Turkey, while also taking the repayment of previous loans into account.</td>
<td>Efforts to increase the share of TSBK's sustainable finance in the total loan portfolio continued in 2018 while also considering economic contribution indicators, and the share of sustainable finance stood at 71%. TSBK aims to set the share of its sustainable and inclusive finance portfolio in the total loan portfolio, except for the finance sector, at 60% minimum by the end of 2020 by considering renewable energy, energy and resource efficiency investments in Turkey, while also taking the repayment of previous loans into account.</td>
<td>TSBK plans to sign 15 new loan agreements on energy and/or resource efficiency projects in 2019 and 2020 under innovative financing for the economy in regions affected by natural disasters, women's employment as well as impact in line with the Sustainable Development Goals and inclusive finance in order to support the framework of Sustainable Development Goals.</td>
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In terms of financing renewable energy, TSBK plans to sign a new loan agreement on a solar power plant of at least 50 MW, a wind power plant of 150 MW, a geothermal power plant of 130 MW and a project on biomass/biomass power plant of 15 MW by the end of 2018.

The Bank aims to continue supporting projects for improving energy and resource (water, raw material and other production inputs) efficiency in Turkey from all aspects, in order to increase efficiency in the industry and ensure effective and the most suitable use of exhaustible resources. To this end, TSBK plans to sign 15 new loan agreements on energy and/or resource efficiency projects by the end of 2018.

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<td>9 new energy efficiency investments and 10 new resource efficiency investments were funded between 2017 and 2018.</td>
<td>It is expected that funds totaling USD 300 million will be extended until the end of 2020 within the framework of Sustainable Development Goals and inclusive finance in order to support women's employment as well as the economy in regions affected by refugee influx. TSBK extended new funding to a solar power plant of 47 MW, a wind power plant of 250 MW, a geothermal power plant of 159 MW and a project on biomass/biomass power plant of 44 MW between 2017 and 2018.</td>
<td>TSBK aims to conclude new loan agreements for a minimum of 150 MW renewable energy and a total of 10 energy efficiency and/or resource efficiency projects by 2020 under innovative financing for renewable energy.</td>
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The Bank is committed to having its carbon footprint periodically measured and delivering banking operations through zero-carbon principles by offsetting its carbon footprint in the upcoming years.

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<td>Carbon emissions from the Bank's internal operations were calculated in line with the ISO 14064 management system and declared via a Greenhouse Gas Inventory Report. The audit process by an independent audit company for verification was completed as part of the efforts to offset carbon footprint and deliver banking operations in accordance with the zero carbon principles. The goal is accomplished.</td>
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The Bank is committed to reducing its greenhouse emissions by 10% compared to the average of the last five years (2012-2016).

In 2017 and 2018, TSBK aims to maintain the reduction rate in paper consumption achieved in the last two years, which is about 10%. TSBK will continue to send all paper consumed in its premises to recycling facilities and the implementation of 100% recycling of waste paper goal in the upcoming years.

In 2017 and 2018, the Bank aims to have all loans to renewable energy, energy and resource efficiency projects in the Turkish sector, at 55% minimum by the end of 2018 by considering renewable energy, energy and resource efficiency investments in Turkey, while also taking the repayment of previous loans into account.

In 2019 and 2020, TSBK plans to sign 15 new loan agreements on energy and/or resource efficiency projects in 2019 and 2020 under innovative financing for the economy in regions affected by natural disasters, women's employment as well as impact in line with the Sustainable Development Goals. TSBK aims to conclude new loan agreements for a minimum of 150 MW renewable energy and a total of 10 energy efficiency and/or resource efficiency projects by 2020 under innovative financing for renewable energy.

The Bank is committed to measuring the environmental and social risks of all investment loans irrespective of the project amount, ensuring the necessary measures are taken proactively based on the determined risk and monitoring the implementation of these measures.

The requirements of ISO 14001 and ISO 14064 management systems were delivered in a holistic manner in the Bank's operations. To that end, audits for the certification process were completed.

In 2018, environmental and social risk management practices for all investment projects under the EBRD model were applied on a total of 60 investment loan projects irrespective of the project amount. As a result, 3 projects were classified as A (high) and 18 projects were classified as B (medium-high) risk projects while 25 projects and 14 projects were classified as B (medium) and C (low) risk projects respectively. Risks were identified, required measures were taken on a project basis, and a monitoring and tracking system was set up. The goal is accomplished.

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HUMAN RESOURCES

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<td>A Development Workshop program (comprehensive training series for theory, practice, implementation and experience consisting of classroom training program and project work for 10 full days) was initiated in 2014 for all employees at senior manager and manager level (approximately 80 people) and was completed in 2016. In 2016, the second phase of the program was launched for 45 Managers and Senior Managers who had not attended the previous training program. Continuing with the same content, the program is expected to be concluded in 2018.</td>
<td>The 2nd Development Workshop was completed in May 2018, and graduated 42 participants.</td>
<td>The Bank plans to diversify the scope of and re-design the program with a focus on leadership development.</td>
</tr>
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In 2019 and 2020, TSBK plans to manage all its environmental and social impacts as well as greenhouse gas emissions within the framework of ISO 14001 and ISO 14064 Standards.
HUMAN RESOURCES

2017-2018 Goals 2018 Realization 2019-2020 Goals
Every year, TSBK offers all its employees a “Training Scheme” based on their core competences. Prepared so as to support competences that open the door for improvement, these trainings are open to all employees and particularly focus on junior associates, associates and assistant managers. During performance evaluation meetings, the employees assess their competences together with their managers and may select training topics they need for their own improvement. Through this activity initiated in 2013, plans for the training process are now in place in a way to enable employees requesting training to attend at least one training per year.

TSKB has been organizing TSBK Career Workshop for “fresh graduates that are management trainees aiming to become a member of TSBK” since 2010 with the aim of “Creating a TSBK family” and “raising our own managers”. At the end of this three-day workshop on enabling university students just starting their careers to explore their personal capabilities and increasing awareness on their potential TSBK selects its new colleagues. TSBK Career Workshop will also be held in 2018.

New management trainees selected via the TSBK Career Workshop are inducted into the MT Development program. This is a long-term program structured in a way to allow the development of well-equipped banking staff in the field of Development and Investment Banking and aims to prepare them for the future. To this end, management trainees participate vocational trainings on Banking that are delivered by internal and external trainers. In addition, it is planned that they receive training on “Basic Occupational Health and Safety”, “Sustainability”, “Corporate Governance, Ethical Principles, Anti-Corruption and Anti-Bribery”, “Business Continuity”, “Prevention of Laundering of Proceeds of Crime and of the Financing of Terrorism”, “Protection of Personal Data”, ”Competition Law” and “Information Security and Awareness” during the training period. For the development of well-equipped banking staff, the programme aims to prepare them for the future. During the period, the trainees will participate in vocational training on Banking that is delivered by internal and external trainers. In addition, it is planned that they receive training on “Basic Occupational Health and Safety”, “Sustainability”, “Corporate Governance, Ethical Principles, Anti-Corruption and Anti-Bribery”, “Business Continuity”, “Prevention of Laundering of Proceeds of Crime and of the Financing of Terrorism”, “Protection of Personal Data”, “Competition Law” and “Information Security and Awareness” during the program.

174 people participated 14 catalogue trainings organized under 8 different topics in 2018.

In 2019, the scope of the work will be expanded in a way to establish tailored development plans and the process will proceed within a comprehensive monitoring of development. Our work on the training catalogue will maintain a focus on supporting our employees on global trends and topics.

14 new management trainees who joined us following the 9th Career Workshop program participated in the 36-day MT program delivered by internal and external trainers and their vocational development was supported.


The development program (coaching and international training programs) structured for managers at a department head level is planned to be continued.

The development program (coaching and international training programs) structured for managers at a department head level will continue in 2019 and 2020.

2019 AND 2020 SUSTAINABILITY GOALS

CORPORATE SOCIAL RESPONSIBILITY

2017-2018 Goals 2018 Realization 2019-2020 Goals
Being the main communication channel of TSBK’s social responsibility project, Çevreciyiz is the most comprehensive environment and sustainability web portal in Turkey to this day thanks to its robust content, mobile-compatible design and social media pages. The aim is to reach out to an even larger audience by increasing the number of followers for this platform in 2017-2018. To this end, the goal is to maintain the current visitors of Çevreciyiz web site and ensure an increase in the number of social media followers for the platform.

Since 2011, TSBK has been bringing together university students, i.e. future management trainees, with members of the academia in addition to private sector representatives and organizing the “Sustainability Workshops”, which is the first literacy program on sustainability, in cooperation with Escarus, the Bank’s affiliate. TSBK aims to continue the Sustainability Workshop in collaboration with Escarus in 2017-2018 as well and organize at least one workshop every year.

TSKB Sustainability Workshop was held at ITU in December 2018. To this date, 240 university students have been involved in the case studies under the workshop.

TSKB aims to continue the Sustainability Workshop in collaboration with Escarus in 2019-2020 as well and organize at least one workshop every year.

The Bank continues its efforts on becoming a “Zero Carbon” organization in 2019 and 2020, and plans to measure and offset, by purchasing Gold Standard Carbon Credits, the carbon footprint created by the concerts organized under IKSV-Istanbul Music Festival sponsored by TSBK as well as the Career Workshops, Sustainability Workshops and conferences hosted by TSBK. TSBK will continue to support the projects “Empower Through Education” scholarship fund and “Female Stars of Tomorrow” it launched at the end of 2017. In addition, TSBK will sustain its support to excavations at the Ancient City of Patara.

TSKB offset the carbon footprint of the events it organized during the year and continued to support the Empower Through Education scholarship fund, Tomorrow’s Female Stars support fund and excavations at the Ancient City of Patara.

In 2018, TSBK launched the first “Zero Carbon” organization in 2017 and 2018, and plans to measure and offset, by purchasing Gold Standard Carbon Credits, the carbon footprint created by the concerts organized under IKSV-Istanbul Music Festival sponsored by TSBK as well as the Career Workshops, Sustainability Workshops and conferences hosted by TSBK. TSBK will continue to support the projects “Empower Through Education” scholarship fund and “Female Stars of Tomorrow” it launched at the end of 2017. In addition, TSBK will sustain its support to excavations at the Ancient City of Patara.

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As Turkey’s first carbon neutral bank, TSBK acts responsibly in terms of the carbon footprint of the events it organizes. The Bank continues its efforts on becoming a “Zero Carbon” organization in 2019 and 2020, and plans to measure and offset, by purchasing Gold Standard Carbon Credits, the carbon footprint created by the concerts organized under IKSV-Istanbul Music Festival sponsored by TSBK as well as the Career Workshops, Sustainability Workshops and conferences hosted by TSBK. TSBK will continue to support the projects “Empower Through Education” scholarship fund and “Female Stars of Tomorrow” it launched at the end of 2017. In addition, TSBK will sustain its support to excavations at the Ancient City of Patara.

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H. ERSİN ÖZİNCE
Chairman of the Board

H. Erşin Özince was born in Nisan in 1953 and graduated from Middle East Technical University, Faculty of Administrative Sciences, School of Administrative Sciences. He started his professional career at İşbank as an Assistant Inspector on the Board of Inspectors in 1976. After working in various managerial positions at İşbank, Mr. Özince was appointed to the post of Deputy Chief Executive in 1994 responsible for Treasury, Financial Management, Capital Markets, Loans and the Credit Information and Financial Analysis departments of the bank. On 28 October 1998, Mr. Özince was appointed as the 13th Chief Executive Officer of İşbank.

Elected as a Board member on 31 March 2011, 28 March 2014 and 31 March 2017, Mr. Özince has been serving as the Chairman since 1 April 2011. He also serves as the Chairman of the Remuneration Committee since 29 December 2011, as a member of the Audit Committee, T.R.N.C. internal Systems Committee and an alternate member of the Credit Committee since 4 April 2017.

Mr. Özince served as the Chairman of the Board of Directors of the Banks Association of Turkey (TEMA Foundation) and an independent board member due to her membership in Audit Committee.

MEHMET ŞENÇAN
Vice Chairman

Having born in Adapazarı in 1964, Mr. Mehmet Şencan graduated from Management Engineering Department of Istanbul Technical University. He began his career at İşbank as an Officer at Galata Branch in 1988 and joined the Board of Inspectors as an Assistant Inspector in 1989. He was appointed to Bursa Branch as an Assistant Manager in 1997. Mr. Şencan served as the Manager of Antakya, Gebze, Demili and Bursa Branches, and was appointed as the Manager of Bursa Corporate Branch in 2007. Başkanlı Corporate Branch in 2011 and Kayseri Corporate Branch in 2016. Mr. Şencan was appointed as Deputy Chief Executive on 27 April 2017. Mr. Şencan, who was elected as a board member of TSBK on 7 June 2017, has been appointed as the Vice Chairman of the TSBK’s Board of Directors. Mr. Şencan is an independent board member due to his membership in Audit Committee.

SUAT İNÇE
Board Member and CEO

Suat İnce was born in 1964 in Ankara and graduated from the Economics Department at the Faculty of Economics and Administrative Sciences, Middle East Technical University. Having started his professional career at İşbank as an assistant Inspector on the Board of Inspectors, he was appointed as Assistant Manager of Corporate Loans Underwriting Division in 1995. Between 1997 and 2006, he was positioned as Manager in various units and branches of the bank. He served as Deputy Chief Inspector and a member of Board of Directors of the Banks Association of Turkey (TEMA Foundation). Mr. İnce is also the Chairman of the Remuneration Committee and an alternate member of the Credit Committee since 4 April 2017.

YAVUZ CANEVİ
Board Member

Yavuz Canevi was born in Konya in 1939 and graduated from the Finance and Economics Department of the Faculty of Political Sciences, Ankara University in 1960. He completed a master’s degree at the University of Southern California in 1969. After serving as a Ministry of Finance Inspector from 1960 to 1963, he worked in a variety of positions in public and private organizations from 1963 to 1989, until getting retired from his position as Treasury Undersecretary in the latter year. Mr. Canevi has been the Chairman of the Board of Directors of Türk Ekonomi Bankası since 1996. Mr. Canevi, who had served as a member of TSBK’s Board of Directors and appointed as the Bank’s Chief Executive Officer.

MEHMET EMİR ÖZÇAN
Board Member

Mehmet Emir Özcan was born in 1960 and graduated from Ankara University, Faculty of Political Science and Department of Economics. Having started his professional career as an Assistant Auditor at İşbank in 1983, he held several managerial positions at Albaraka Türk Katılım Bankasısı. Between 2003 and 2005, he served as a Managing Board Member at Halkbank. During the same period, Mr. Özcan was a representative of the Bank in the IF (Institute of International Finance) and a Board member of Demir-Halk Bank/Netherlands, Halk Türkiye Merkez Dövizci and Halk Finansal Kârabela. Between 2005 and 2010, he was a member of the Board of Directors of Ziraatbank, he also served as Chairman and board member at various Ziraatbank subsidiaries. Between 2010 and 2012, he was assigned as Deputy Chairman of the Board of Directors at Halk Banka A.Ş. and board member of Demir-Halk Bank Rotterdam. In 2013, he was elected as Deputy Chairman of Vakıfbank and held deputy and board chairman positions in several Vakıfbank subsidiaries. Having been appointed as the Turkish Republic of Northern Cyprus Central Bank Governor in 2017, he resigned from his position at Vakıfbank. In 9 June 2017, he was appointed as the Head of Treasury at İşbank. Mr. Özcan has been a TSBK board member since 17 April 2014. Mr. Özcan is an independent board member due to her membership in Audit Committee.

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Ebru Özşuca
Board Member

Ebru Özşuca has been a TSBK board member since 1 April 2011.

Suat İnce was born in 1964 in Ankara and graduated from the Finance and Economics Department at the Faculty of Economics and Administrative Sciences, Middle East Technical University. Having started his professional career at İşbank as an assistant Inspector on the Board of Inspectors, he was appointed as Assistant Manager of Corporate Loans Underwriting Division in 1995. Between 1997 and 2006, he was positioned as Manager in various units and branches of the bank. He served as Deputy Chief Inspector and a member of Board of Directors of the Banks Association of Turkey (TEMA Foundation). Mr. İnce is also the Chairman of the Remuneration Committee and an alternate member of the Credit Committee.

In addition to his duties at the Bank, he serves as the Chairman of the Board of Directors of TSBK’s Board of Directors since 4 April 2017.
MİTHAT RENDE
Board Member
Born in 1953 in Antakya, Mithat Rende graduated from the Faculty of Political Science of University of Ankara. After graduation he worked in the Ministry of Commerce and then was admitted to the Ministry of Foreign Affairs, where he held posts in Damascus, Rome, Brussels (NATO), Sofia, Vienna (OSCE) and London. Mr. Rende also served as the Director of the Human Rights Department at the Ministry after completing the post-graduate program in Security and International Relations at the London Royal College of Defence Studies. In 2005, he was appointed as Deputy Director General of Energy Environment and Water Affairs, served as Chairman of the Trade and Transit Working Group of the Energy Charter Conference in Brussels between 2005 and 2008, and was appointed as Ambassador to Doha (Qatar) in 2007. Mr. Rende then served as a member of the Board of Directors at Crédit Agricole Spa between 2008 and 2016, and was elected as Vice President of the European Banking Federation in 2016. Having retired in 2016, he has been a member of the TSKB Board of Directors since 4 April 2017.

ZEYNEP HANSU UÇAR
Board Member
Zeynep Hansu Uçar was born in Ankara in 1971 and graduated from Business Administration Department at the Faculty of Economics and Administrative Sciences of Middle East Technical University in 1993. Ms. Uçar has started her professional career at İşbank as an Assistant Specialist in the Subsidiaries Department. Having served as the Unit Manager between 2007 and 2015, she was promoted as Department Manager of the Subsidiaries Department. Ms. Uçar has been a TSBB board member since 2 December 2015.

AHMET HAKAN ÜNAL
Board Member
Hakan Ünal was born in 1974 in Ankara and graduated from Economics Department of the Faculty of Economics and Administrative Sciences, Hacettepe University in 1997. He then earned his MBA degree from Institute of Social Sciences, Istanbul Bilgi University in 2007. Having started his professional career at İşbank as an Assistant Inspector on the Board of Inspectors in 1998, he was appointed as Assistant Manager of the Credit Information and Financial Analysis Division in 2008. Having served as Unit Manager between 2011 and 2016, he was promoted as the Head of Financial Analysis Department. Mr. Ünal has been a TSBB Board Member since 6 April 2018.

HÜSEYİN YALÇIN
Board Member
Hüseyin Yalçın holds a degree in Economics from the Faculty of Administrative Sciences at the Middle East Technical University. He served as an Inspector, Assistant Manager and Branch Manager at Ziraat Bank between 1977 and 1990. From 1990 to 2000, Mr. Yalçın served as a Deputy General Manager and General Manager Consultant at Development Bank of Turkey. After the transfer of banks to Savings Deposit Insurance Fund, he served as a Senior Deputy General Manager at Yurtbank, as a Deputy General Manager at Someterbank, as a Deputy General Manager at Kent Portföy and as the General Manager Consultant at Toprakbank from 2000 until 2002. He was elected as a member of the Board of Directors at İşbank in 2011 and worked for 6 years in same position. Hüseyin Yalçın was elected as a member of the Board of Directors at Milli Reasürans between 2017 and 2018. Since 6 April 2018, Mr. Yalçın has been a TSBB Board Member.

CAN YÜCEL
Board Member
Can Yücel was born in 1978 in Ankara and graduated from the Economics Department at the Faculty of Economics and Administrative Sciences, Middle East Technical University in 1999. Having started his professional career at İşbank as an Assistant Inspector on the Board of Inspectors, he came to several management positions at SME Loan Allocation and Corporate Loan Allocation Departments, respectively, since 2008. In 2011, Mr. Yücel was appointed as Project Finance Unit Manager under Corporate Loan Allocation Department in which he finally has been positioned as the Department Manager in 2016. On 10 June 2016, Mr. Yücel has been appointed as a member of the TSBB’s Board of Directors.
Suat İnce was born in 1964 in Ankara and graduated from the Economics Department at the Faculty of Economics and Administrative Sciences, Middle East Technical University. Having started his professional career at İşbank as an Assistant Inspector on the Board of Inspectors, he was appointed as Assistant Manager of Corporate Loans Underwriting Division in 1995. Between 1997 and 2008, he was positioned as Manager of various units and branches of the bank. He served as Deputy Chief Executive of İşbank between 2008 and 2016. On 1 April 2016, Mr. İnce was elected as a member of the TSBK’s Board of Directors and appointed as the Bank’s Chief Executive Officer.

Çiğdem İçel
Executive Vice President

Çiğdem İçel was born in Eskişehir in 1966 and graduated from the Department of Business Administration, Bilkent University. Ms. İçel began her professional career at TSBK as an Assistant Investment Advisor in the Treasury Department. After serving in a variety of positions, she was appointed as the Head of Treasury and Correspondent Banking Department in 1998. Çiğdem İçel was promoted to the Executive Vice President on 29 January 2006. Ms. İçel is currently responsible for the Development Finance Institutions, Financial Institutions, Economic Research, Engineering and Technical Consultancy Departments since 1 January 2017.

Gökhan Canakpinar
Executive Vice President

Gökhan Canakpinar was born in Ankara in 1964 and graduated from the Department of Business Administration, Middle East Technical University. Mr. Canakpinar began his professional career at İşbank as an assistant specialist in Financial Control Department in 1988. He was promoted to Head of Financial Control in 2000 and to Head of Board of Internal Auditors in 2008. Since 28 November 2013, Ms. Börü has been responsible for Board of Inspectors, Monitoring and Loan Operations Departments.

Ece Börü
Executive Vice President

Ece Börü was born in Istanbul in 1966 and graduated from Management Engineering Department of Istanbul Technical University in 1988. Ms. Börü joined TSBK in 1995 as an assistant specialist in the Financial Analysis Department and completed her master’s degree on Management and Organization at Marmara University in 1996. Mr. Canakpinar was appointed as the Head of Corporate Finance Department in 2006 and promoted to Group Head in 2011. Having received his Accounting Finance doctorate degree from Marmara University in 2013, he was promoted as Executive Vice President on November 28, 2013. Mr. Aygen has been in charge of Corporate Finance, Corporate Banking and Project Finance Departments since 1 January 2017.

Hakan Aygen
Executive Vice President

Hakan Aygen was born in Konya in 1963 and graduated from Management Engineering Department of Istanbul Technical University in 1989. Mr. Aygen started his professional career in non-financial sector in 1989. He joined TSBK in 1995 as an assistant specialist in the Financial Analysis Department and completed his master’s degree on Management and Organization at Marmara University in 1996. Mr. Aygen was appointed as the Head of Corporate Finance Department in 2006 and promoted to Group Head in 2011. Having received his Accounting Finance doctorate degree from Marmara University in 2013, he was promoted as Executive Vice President on November 28, 2013. Mr. Aygen has been in charge of Corporate Finance, Corporate Banking and Project Finance Departments since 1 January 2017.

Aziz Ferit Eraslan
Executive Vice President

Aziz Ferit Eraslan was born in Ankara in 1969 and graduated from the Faculty of Business Administration at Istanbul University in 1990. Ms. Hancı began her professional career at Citibank in 1991. She worked at the Treasury department of Chase Manhattan and BNP AS Direksiyon Bankı respectively. Ms. Hancı joined the TSBK Treasury Team in 2005. She was appointed as the Head of Treasury, Treasury and Capital Markets Operations Departments.

Aslı Zerrin Hancı
Executive Vice President

Aslı Zerrin Hancı was born in Ankara in 1969 and graduated from the Faculty of Business Administration at Istanbul University in 1990. Ms. Hancı began her professional career at Citibank in 1991. She worked at the Treasury department of Chase Manhattan and BNP AS Direksiyon Bankı respectively. Ms. Hancı joined the TSBK Treasury Team in 2005. She was appointed as the Head of Treasury, Treasury and Capital Markets Operations Departments.

Hidayet Yektin Kesler
Executive Vice President

H. Yetkin Kesler was born in Istanbul in 1966 and graduated from the Department of Industrial Engineering at Bilkent University in 1989. He started his career as an Assistant Internal Auditor at Koçbank in 1992. Then he completed his master’s degree of Management Engineering at Istanbul Technical University in 1993. Mr. Kesler joined TSBK as a Financial Controller Specialist in 1994 and was appointed as Head of System Development in 2005, as Head of Internal Control in 2011, and as head of Enterprise Architecture and Process Management Department in 2013. Since 1 January 2017, Kesler has been Executive Vice President responsible for Human Resources and Corporate Communications, Enterprise Architecture and Process Management, Corporate Compliance and Pension and Assistance Funds.
CORPORATE GOVERNANCE

SECTION I - CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE STATEMENT

Regarding the Principle 4.6.5, due to corporate policies, the Bank does not announce the remuneration of the senior management and board member on a personal basis. The total figure is announced in the annual report.

Filed in accordance with Capital Market Board Resolution numbered 2/49 and dated January 10, 2019, Bank’s Corporate Governance Principles Compliance Report (CRF) and Corporate Governance Information Filings (CIGF) is accessible via Public Disclosure Platform (PDP).

SECTION II - SHAREHOLDERS

2.1. Investor Relations Department

Investor relations responsibilities are executed pursuant to the fundamentals of corporate governance which are transparency, accountability, responsibility and equality by the departments of Budget Planning & Investor Relations and Legal Affairs. "Investor Relations Department Manager", who holds Capital Market Activities Advanced Level Certificate and Corporate Governance Rating Specialist Certificate, serves as a member of Corporate Governance Communique".

The Bank is in full compliance with the Corporate Governance Principles, with the exception of the following few non-compulsory principles. Below-mentioned principles that are not yet complied with did not so far result in any conflict of interest among the stakeholders.

In relation to the principle no. 1.5.2, there is no regulation in the Bank’s articles of association except for the provisions stipulated by the relevant legislation on minority rights.

With respect to the principle no. 4.6.1, the performance of the Board of Directors is not assessed.

Respecting the principle 4.6.5, due to corporate policies, the Bank does not announce the remuneration of the senior management and board member on a personal basis. The total figure is announced in the annual report.

Responding to all shareholder and analyst information claims received via telephone and e-mail in 2018, Investor Relations Department conducted total of 64 informative meetings with investors and analysts, 18 of which was abroad.

In the same year, quarterly teleconference meetings were organized. Thus, 4 teleconference meetings were held during 2017.

Activities of the Investor Relations Department were reported to the Corporate Governance Committee to be reviewed in the Committee’s first meeting. The Committee submitted the relevant report to the Board of Directors, at the meeting dated February 26, 2019.

A total of 68 public disclosures were made in the time frame between 1 January - 31 December 2018 pursuant to the regulations of Capital Market Board. There were no special cases between 1 January - 31 December 2018 pursuant to the "Unusual Price and Volume Movements" was met at the same day and disclosed that there was special event pertaining to the Bank, which has not been disclosed to public.

A leading institution in corporate governance, the Bank attained a corporate governance rating in 2018 that enabled it to maintain its position among the highest-rated institutions. TSBK’s corporate governance rating of 9.54 over 10 was confirmed by Saha Rating on October 20, 2018.

TSBK’s Corporate Governance Rating

<table>
<thead>
<tr>
<th>Main Sections</th>
<th>Weight</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders</td>
<td>0.25</td>
<td>9.49</td>
</tr>
<tr>
<td>Public Disclosure and Transparency</td>
<td>0.25</td>
<td>9.69</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>0.15</td>
<td>9.85</td>
</tr>
<tr>
<td>Board of Directors</td>
<td>0.35</td>
<td>9.34</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>0.94</td>
<td></td>
</tr>
</tbody>
</table>

2.2. General Assembly Meeting

During the Ordinary General Assembly held on March 23, 2018, the shareholders were given the right to ask questions and there has not been any proposal from shareholders regarding any additions to the agenda.

The following resolution was adopted by the shareholders unanimously:
- Constitution of the Meeting Presidency in accordance with the Articles of Association of the Bank and delegation of authority to the Meeting Presidency for the execution of the minutes of the General Assembly,

The following resolutions were adopted by the shareholders by majority votes:
- Review and discussion of the Annual Reports of the Board of Directors, Declaration of Compliance with the Corporate Governance Principles and Reports of the Auditors and Independent Auditors regarding the accounts and transactions of the Bank within the year of 2017,
- Review and approval of the balance sheet and profit and loss statement of the Bank for the year 2017,
- Approval of the election of the Members of the Board of Directors in replacement of resigned members,
- Release of the Members of the Board of Directors from their responsibilities,
- Adoption of a resolution regarding the determination and allotment of the profit to be distributed, determination of the dividend distribution date,
- Determination of allowance for the Members of the Board of Directors,
- Choosing the independent audit firm,
- Determination of the upper limit for the donations to be made in 2018,
- Empowering the Members of the Board of Directors with regards to responsibilities and transactions set forth in Turkish Commerce Code, Articles 395 and 396.
Dividends are paid within the legally prescribed periods of time. The payment of dividends is completed in no case later than the end of the 5th month of the year as prescribed by the law.

The dividend proposal of the Board of Directors was accepted during the General Assembly. The cash dividend of the year 2017 equivalent to TL 96,000,000 was distributed on 26 March 2018, whereas the TL 400,000,000 was distributed as bonus shares subsequent to the registration of the said shares by the Capital Markets Board on June 4, 2018.

SECTION III – STAKEHOLDERS

The stakeholders, who have an interest in the bank, including shareholders, employees, creditors, clients, suppliers, non-governmental organizations, the government and potential investors submit their complaints and recommendations to the Bank by means of a communication form that can be found on the Bank’s website. Furthermore, stakeholder analysis done every two years contributes in this aspect.

Employees are kept informed about all bank decisions and developments that may be of concern to them and feedback is solicited from them on such issues. The Bank, which continues to develop mechanisms to include employees into decision-making processes, receives employee feedback via committee activities as well as periodic surveys. Besides, having gathered employees from every department, the Bank also has put the “HR Representatives” project into practice in 2017. There are no trade union activities

The participation of the employees to the management is incorporated to the internal regulations. The employees are authorized according their signing rating in pursuant to the Directive of Türkiye Sınai Kalkınma Bankası transfer of Representation Authority published on Trade Registry Newspaper at page 483, dated November 11, 2005 with the number 8944.

The Dividend Policy dictates that as long as there are no unfavorable developments in global and local economic circumstances, and the Bank’s financial position and capital adequacy ratio are at the foreseen levels, 30% of the distributable profit that is calculated as the first profit share will be paid out as cash and/or stock dividends.

<table>
<thead>
<tr>
<th>Full Name</th>
<th>Title</th>
<th>Educational Background</th>
<th>Working Experience</th>
<th>Date of Appointment</th>
<th>Committees and Title</th>
<th>Duties out of the Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>M. Erdem</td>
<td>Board Chairman</td>
<td>Middle East Technical University, Economics and Administrative Sciences / Business Administration</td>
<td>42 years</td>
<td>4 May 2017</td>
<td>-</td>
<td>T: 1 Bank An. S.A. Board Chairman</td>
</tr>
<tr>
<td>Mehmet</td>
<td>Board Chairman</td>
<td>Istanbul Technical University / Management Engineering</td>
<td>30 years</td>
<td>7 June 2017</td>
<td>Audit Committee Chairman, Credit Revision Committee Member</td>
<td>T: 1 Bank An. S.A. Executive Vice President, İfakolonyan An. S.A. Board Chairman, I: İŞ Bank An. S.A. Board Chairman, I: Sünik Bank An. S.A. Board Chairman</td>
</tr>
<tr>
<td>Suat</td>
<td>Board Member and CEO</td>
<td>Middle East Technical University, Economics and Administrative Sciences / Economics</td>
<td>31 years</td>
<td>1 April 2016</td>
<td>Credit Revision Committee Member</td>
<td>TSBK An. S. A. CEO, Yatırım Finansman Merkezi Dijeleri An. S. A. Board Chairman</td>
</tr>
<tr>
<td>Yusuf Caner</td>
<td>Board Member</td>
<td>University of Southern California / MBA in Economics</td>
<td>38 years</td>
<td>9 April 2015</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mahmut</td>
<td>Board Member</td>
<td>Ankara University / Economics</td>
<td>35 years</td>
<td>20 January 2017</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Elif Göksu</td>
<td>Board Member</td>
<td>Southampson University / International Banking and Finance</td>
<td>25 years</td>
<td>17 April 2014</td>
<td>-</td>
<td>T: 1 Bank An. S.A. Executive Vice President, İ. İşbank Board Member</td>
</tr>
<tr>
<td>Mithal Renda</td>
<td>Independent Board Member</td>
<td>London RCLS/Security and International Relations</td>
<td>30 years</td>
<td>4 April 2017</td>
<td>Sustainability Committee Member</td>
<td>Engin Yalınçam, Enerji Hazırlatıcı ve Teraş An. S.A. Independent Board Member, Tatviklar Türkiye AB Demirli, Global Relations Forum Member</td>
</tr>
<tr>
<td>Zeynep Haydar</td>
<td>Board Member</td>
<td>Middle East Technical University, Economics and Administrative Sciences / Business Administration</td>
<td>25 years</td>
<td>2 Dec 2015</td>
<td>Corporate Governance Committee Member, Remuneration Committee Member, Sustainability Committee Member</td>
<td>T: 1 Bank An. S.A. Subsidiaries Department Head, Anadolu Cam Sanayi An. S. A. Board Member, Paquetlik Cam Sanayi An. S. A. Board Member,缫纹 Home Cam Fabrikaları An. S. A. Board Member, Tatsuka Cam Sanayi An. S. A. Board Member, T. İş Bank An. S. A. Executive Vice President, İş Faktoring An. S. A. Board Chairman</td>
</tr>
<tr>
<td>Ahmet Hatun</td>
<td>Board Member</td>
<td>Istanbul Bilkent University / B.A. in Business Administration</td>
<td>20 years</td>
<td>6 April 2018</td>
<td>Credit Revision Committee Member</td>
<td>T: 1 Bank An. S.A. Financial Analysis and Intelligence Department Head, İfakolonyan An. S.A. Board Member</td>
</tr>
<tr>
<td>Hayran Yalçın</td>
<td>Board Member</td>
<td>Middle East Technical University, Economics and Administrative Sciences / Economics</td>
<td>41 years</td>
<td>6 April 2018</td>
<td>-</td>
<td>Retired Board Member</td>
</tr>
<tr>
<td>Can Yücel</td>
<td>Board Member</td>
<td>Middle East Technical University, Economics and Administrative Sciences / Economics</td>
<td>19 years</td>
<td>10 June 2016</td>
<td>Sustainability Committee Member</td>
<td>T: 1 Bank An. S.A. Corporate Loans Placement Department Head, İ. İşbank An. S. A. Board Member, İŞ Bank An. S.A. Corporate Governance Committee Member</td>
</tr>
</tbody>
</table>

*Members of the Audit Committee were accepted as Independent Members of the Board of Directors as per the provisions of Capital Market Board's Corporate Governance Communique No: 6.117.1., Article 6/3/o.
CORPORATE GOVERNANCE

All of the Directors’ Board Members were re-elected in the General Assembly on March, 23, 2018. As the period of duty is 3 years, end of duty date for all of the members is 2021.

In regard to the “Policy for Female Participation in the Board of Directors” composed in 2014, assessments have been done by the Board of Directors every year. As of December 31, 2018, there were two women members in the Board of Directors in 2019, the relevant policy is planned to be updated through time extension.

With the Nomination Committee’s report dated January 18, 2018, Mr. Mithat Rende was presented as the independent board member nominee at the Board of Directors meeting on January 26, 2018. Following the approval of the Board of Directors, Mr. Rende was selected as the independent board member by the General Assembly held on 23 March 2018. Declaration of independence of Mr. Mithat Rende takes place below.

“To the Board of Directors of Türkiye Sınai Kalkınma Bankası A.Ş.;

Whereas I am nominated to Independent Board of Directors Member on your Bank’s General Assembly Meeting dated March 23, 2018, I hereby represent and warrant:

a) that there isn’t any relations between myself, my spouse, my relatives up to second degree or my in-laws, and the Company or those companies that are publicly traded in the stock market;

b) that I have ample vocational education, knowledge and experience to properly perform duties I’ll undertake as can be reasonably expected from an independent Board of Directors Member;

c) that I have not taken part, in the last five years, in companies from which the Company purchases significant amounts of goods or services, especially controlling (including but not limited to tax inspection, legal audit, internal audit), rating or consultancy services, as shareholder (5% and above), Board of Directors member or in any other management position with important duties and responsibilities;

d) that I am not employed by public sector organizations as a fulltime employee as of the date I was nominated to Independent Board of Directors Member and that – in the event I am elected, I will not work as a fulltime employee in public sector organizations throughout the term of my office as Independent Board of Directors Member;

e) that I am considered as a resident of Turkey in the sense of Income Tax Code (ITC) Code No: 193 dated December 31, 1960;

f) that I possess strong ethical standards, vocational reputation and experience to contribute to the Bank’s success and to remain impartial and take decisions with careful consideration of the stakeholders’ rights in the event of any conflicts of interest that might arise among the stakeholders of the Company;

g) that I will have enough time to monitor the Company’s activities and fully perform my duties that I will undertake;

h) that I did not serve as a Board Member for a term longer than 6 years for the last 10 years;

i) that I did not serve as an Independent Board Member in more than three of the companies that have controlling power on the Company or shareholders of the Company and/or in more than five of the companies that are publicly traded in the stock market;

j) that I wasn’t registered and announced for and on behalf of a legal person that is appointed to the Board of Directors Member and therefore, I will serve as an Independent Member.

Sincerely,

Mithat Rende

4.2. Operating Principles of the Board of Directors

Board of Directors gathers periodically, at least once a month, or more where the Company’s business so dictates. The meeting date is set so as to allow participation of all Board Members, and Board of Directors meetings are held by participation of all members, excluding the exceptional cases under unforeseen circumstances.

In principle, Board Members participate in every meeting. Moreover, Board Members may choose to participate Board Meeting on electronic environment.

The Board’s first meeting is preferably held on the same day that the board is elected. At this first meeting, the chairman and deputy chairman are elected, duty assignments are made, and committees are formed.

A draft of the agenda for a board meeting is prepared by the CEO and finalized in line with the suggestions of the chairman and other directors. The information and documents pertaining to items on the board’s agenda are sent out to members to be reviewed at least seven days before the meeting. In situations where this is not possible, every effort is made to ensure that all members are equally informed about the matters involved.

There is a secretariat in place for the purpose of notifying and organizing the communications with the Board of Directors. Summoning the Board of Directors meetings are made by means of phone at first, which is followed by written invitation.

Each board member is entitled to a single vote. As stipulated in the Articles of Association, the board convenes with a simple majority of its membership and decisions are passed by a simple majority of those present.

The Board of Directors convened 39 times between 1 January 2018 and 31 December 2018. In this period, there was not any significant transaction with any affiliated parties that would require approval for approval at the next Assembly.

The possible losses resulting from mismanagement of Board of Directors and all Bank managers are under the coverage of USD 75 million insurance, which is signed by Türkiye İş Bankası A.Ş. for its group companies.

4.3 Number, Structure and Independence of Committees

Established by the Board of Directors

The governing principles with respect to the board committees’ duties and responsibilities are disclosed at the Bank’s corporate website.

Audit Committee

Audit Committee has two members, which have been elected from among non-executive members of the board of directors. Current Audit Committee members are Mr. Mahmet Yıcan (Chairman) and Ms. Ebru Ozuca (Member).

Operating principles of the Audit Committee is accessible at the Bank’s website.

Audit Committee has gathered 30 times in the period of 1 January - 31 December 2018.

Corporate Governance Committee

Corporate Governance Committee is formed by 2 non-executive members of the Board of Directors and the Investor Relations Department Manager. The committee members were composed of Ms. Ebru Ozuca (Chairwoman), Ms. Zeynep Hanu Uçar (Member), and Ms. Özen Çağlı (Member) in 2018.

In accordance with the Communique, the duties of the Nomination Committee are incorporated into the duties and responsibilities of the Corporate Governance Committee. During the year, Nomination Committee held one meeting.

Corporate Governance Committee meets minimum 4 times a year or at any time when requested by a member, with a predetermined agenda. The Committee has conducted 4 meetings in 2017 at the Bank’s head office with full attendance.
CORPORATE GOVERNANCE

Remuneration Committee
The committee is comprised of two Members of the Board, namely Ms. Ebru Özşuca (Chairwoman) and Ms. Zeynep Hansu Uçar (Member).

Duties, authorities and responsibilities of the Remuneration Committee as well as the procedures and principles that are applicable to their office can be found at the Bank’s website.

Activities of the Bank regarding remuneration are under regular inspection and evaluation with respect to adherence to relevant legislation and policy provisions.

4.4. Financial Benefits
The Bank carries out its activities regarding remuneration policies within the framework of the related banking regulations and Capital Market regulations. TSKB’s Remuneration Policy is available on the Bank’s corporate website in Investor Relations section. This policy covers all managers and employees.

Members of the Board of Directors receive no financial benefits other than the monthly honorarium that is paid to them. The amount to be paid as an honorarium is determined in line with the proposals put forward by shareholders at a General Assembly.

No member of the Board of Directors is or has ever been the direct or indirect recipient of any cash or non-cash loan extended by the bank.

The total amount of financial benefits paid such as bonus, dividend, wage, etc. to members of Board of Directors and senior management is TL 11,640 thousand.

Other payments with respect to traveling, accommodation and etc. paid to members of Board of Directors and senior management is TL 357,441.

PROFIT DISTRIBUTION PROPOSAL

Pursuant to 47th article of our Articles of Association General Assembly shall be offered to reserve 2018 Net Profit of TL 660,925,623.04 as;

1. in accordance with paragraph (a) of the relevant article, allocation of TL 33,046,281.15 which is 5% of the net profit as legal reserves,

2. Allocation of the remainder TL 627,879,341.89 as extraordinary reserves.

We hereby submit to the General assembly to entitle the Board of Directors for all procedures related to all issues projected above.

NOTE ON THE PROFIT DISTRIBUTION PROPOSAL

In accordance with the Bank’s Dividend Policy, considering the national and global economic conditions, the long term growth targets of the Bank, the sustainability of its strong equity structure, as well as the Banking Regulatory and Supervisory Agency’s guidance regarding the banking sector, it will be submitted to the approval of the General Assembly, as shown in the attached 2018 Profit Distribution Proposal that of the net profit of TL 660,925,623.04, TL 33,046,281.15 will be reserved as general legal reserve, and the remaining TL 627,879,341.89 will be set aside as extraordinary reserves under shareholders' equity.
SUMMARIZED BOARD OF DIRECTORS’ REPORT

Esteemed shareholders,

You are all welcome to the 69th Ordinary General Assembly Meeting of our Bank.

We would like to convey our kindest regards to our shareholders, their representatives and guests for honoring the hall and hereby submit to your examination and approval the Board’s Annual Report and Independent Audit Report for 2018 accounting period as well as profit and loss statements.

Global economy presented a strong growth in 2018. However, global developments indicate that it is getting more difficult to maintain such a trend in global economic growth. Such developments include, among others, tightening measures in monetary policies, trade wars, increased geopolitical risks and weaker capital flows into developing countries.

The Turkish economy was influenced by negative geopolitical developments domestically as well as the rise in borrowing costs due to shrinking global liquidity. USD/TL rate which was 3.77 at the beginning of 2018, picked up by 40% to reach 5.28 at year-end. Increasing FX rates triggered a rise in the inflationist pressure since there is a high dependence on import inputs in production.

In 2018, annual inflation surged from 11.9% to 20.3% since there is a high dependence on import inputs in production. Increasing FX rates triggered a rise in the inflationist pressure. Since there is a high dependence on import inputs in production.

The Bank posted a net income of TL 660,926 thousand with a surge of 11% year-on-year in 2018. As of 2018 year-end, our capital adequacy ratio, return on equity, return on assets and NPL ratio stood at 16.2%, 16%, 2% and 2.1% respectively.

Avaling ourselves of this opportunity, we would like to thank our business partners, employees and all stakeholders for their contribution to such successful results and extend our warmest regards to our shareholders that honored our General Assembly meeting.

BOARD OF DIRECTORS

TÜRKİYE SİNAİ KALKINMA BANKASI A.Ş.

OTHER MAJOR UPDATES ON CORPORATE OPERATIONS

Disclosures on Private Audit and Public Audit During the Accounting Period

During the current accounting period, a private audit has not been conducted at the Bank as per Articles 207, 438 and 439 of the Turkish Commercial Code. The Bank is subject to public audit by public institutions such as the BRSA, CBIR, CMB and the Competition Authority. If any matters requiring a public disclosure arise in relation to the audits conducted at the Bank by public institutions, they are publicly shared through material disclosures.

Disclosures on Administrative or Judicial Sanctions Imposed on the Company and Board Members for Acts Violating Legislative Provisions

Information on court proceedings are provided in the annual report and in section III/4 of part five of the non-consolidated audit report.

Related Party Transactions

Information on the Bank’s related party transactions are provided in the footnotes for the Audit Report. The conclusion of the subsidiaries report for 2018 drafted pursuant to Article 199 of the Turkish Commercial Code No. 6102 is provided below:

"Between our Bank and Türkiye İş Bankası A.Ş., our controlling shareholder, and the companies affiliated thereto, there are no legal procedures completed under the instructions of our controlling shareholder to the benefit of the latter or of a company affiliated thereto and no measures taken or avoided to the benefit of our controlling shareholder or a company affiliated thereto."
RISK MANAGEMENT POLICIES

Information On Risk Policies Based On Risk Types

TSKB’s Risk Management Policies and application principles of these policies consist of written standards established by the Board of Directors and implemented by the Bank’s executive management. According to TSKB’s Risk Management Policies, the main risks exposed by the Bank are identified as the credit risk, asset-liability management risk (market risk, structural interest rate risk, liquidity risk) and operational risk. Risk Management Department is formed within the Bank in order to manage the risks the Bank is exposed to in parallel to the risk policies ensuring compliance with those policies and related application principles.

TSKB’s Risk Management Department actively participates in all processes regarding the management of risks and submits regular reports to the Board of Directors, Audit Committee, senior management and related units of the Bank. Its duties, responsibilities and structure have been established by the Regulation of Risk Management Department.

Credit Risk Management Policy

Credit risk is the possibility that the credit customer or a counterparty of an agreement being unable to fulfill the obligations pursuant to the conditions of the agreement. Whilst the most common and apparent source of credit risk is the loans granted by the Bank, other banking services carrying counterparty risk also carry credit risk. In this regard, all related banking activities are evaluated within the scope of credit risk.

Credit risk is measured and managed by taking into account the structure and characteristics of the credit, the terms and conditions of the credit agreement and financial conditions, the structure of the risk profile until the end of the maturity in parallel with possible market movements, guarantees and collaterals, internal risk ratings, possible changes in ratings during the risk exposure period, concentrations (one single company, group of affiliated companies, sector, country, etc.) and compliance with limits established by the Board of Directors to prevent such concentrations.

In measuring credit risk, the Internal Rating Based Model is used for the purposes of monitoring and controlling the credit risk and providing early warning. Maximum effort is taken to ensure that limits and policies in agreements with foreign and domestic sources do not diverge to a significant degree from the policies and limits set by the Bank. Despite the clauses in the agreements deviate from the existing policies, they are still accepted to be in force.

Asset-Liability Management Risk Policies

All financial risks arising from the Bank’s assets and liabilities other than credit risk are defined as asset-liability management risks. The market risk of the trading portfolio, structural interest rate risk and liquidity risk fall into this category.

1. Market Risk Management Policy

Market risk is the possibility of portfolio or position loss in the scope of trading portfolio resulting from fluctuations in interest rates, stock prices, commodity prices or exchange rates on the financial markets. The purpose of market risk management is to manage, within the appropriate parameters, the risks which the Bank might be exposed to with a proactive approach and thus maximize the Bank’s risk adjusted return.

Market risk is managed by using consistent risk measurement and criteria such as fluctuation level of interest and/or prices and Value at Risk calculations, establishing appropriate procedures regarding the performance of control and observing compliance with the identified risk limits.

Interest rate risk, exchange rate risk, stock and commodity price risk and exchange risks constitute the major elements of market risk. In order to control these risks in a healthy manner the core principal is to manage transactions carried out in money and capital markets such that they do not form concentration in terms of instrument, maturity, currency, interest type and other similar parameters, and in a “well diversified” manner in accordance with their risk levels. Moreover, the creditworthiness of issuers of financial instruments causing market risk is evaluated and monitored carefully.

In calculating market risk, the Bank uses two major approaches, namely BIS Standard Method and Value at Risk (VaR). Accuracy of the VaR model is ensured by back testing which is the comparison between the calculated Value at Risk and realized losses. In addition, stress tests are applied in order to determine the impacts of events, with low possibility of realization but substantial losses, on Value at Risk.

II - Structural Interest Rate Risk Management Policy

Structural interest rate risk is the risk of change in the Bank’s capital due to possible changes in interest rates through differences in the repricing period and the interest structures of interest-sensitive assets and liabilities monitored in banking book.

Structural interest rate risk is managed through the provision of consistent information on structural interest rate risk to all organizational levels by using risk measurement and criteria such as the level of fluctuation of interests, interest shock and stress test calculations.

The inconsistencies of the asset-liability structure are monitored and measured on currency basis and at determined maturity intervals taking into account their re-pricing.

TSKB manages interest risk by acknowledging that it threatens the Bank’s income, capital, liquidity and reputation and consists of factors such as re-pricing risk, yield curve risk, base risk, spread risk and option risk.

III - Liquidity Risk Management Policy

Liquidity risk is defined as the risk of failure to meet the on and off balance sheet liabilities when due. This includes the case when the Bank does not have enough cash or cash inflows in order to fulfill the cash outflows completely and on time and thus incurs a loss.

There are two kinds of liquidity risk, one is related to funding for capital markets and trading activities, the other one is related to market. Liquidity risk related to funding is the risk which occurs when investment and funding needs are not fulfilled timely or with a reasonable cost because of insolvency in the cash flows. Liquidity risk related to market occurs when the Bank cannot close its positions on time or with reasonable costs because the markets are not deep, have problems, or the Bank cannot enter the markets.

It is essential to have maximum diversification regarding to funding sources, markets, instruments and maturities in order to have an effective and sustainable liquidity management.

In liquidity management, the portfolio structure is formed in line with the functions of revenue generating from the portfolio and management of the market risk. Risk return balance is constantly monitored whereas the liquidity needs are followed up at all times.
RISK MANAGEMENT POLICIES

Operational Risk Policy
Operational risk is defined as the loss occurring from processes, humans and systems because of deficiencies or faults or mistakes or outside events. Compliance to the laws and ethical standards are also included in this definition.

Operational risks are managed by applying special controls and precautionary measures to the fundamental operational areas of the Bank, by forming an appropriate internal control system and distributing the authorities throughout the Bank, by testing and controlling in detail all the Bank’s operational systems, by obtaining a consistency between the internal and external systems and having an independent data backup system.

The Bank respects the principle of segregation of duties in order to reduce the risk of fraud, manipulation or mistakes. The functions which should be separated are determined as (i) starting a transaction, (ii) giving authority and approval, (iii) recording the transaction, (iv) confirming the transaction, (v) reliable custody services, (vi) monitoring and auditing, (vii) upgrading of IT systems and activities of Daily operations. It is essential that the transaction data will be recorded in the system by using the IT applications right after the transaction has been made.

Operational risks are measured by applying the “Basic Indicator Approach” method.

Risk Management Policy For Subsidiaries
The Bank pays attention that the fundamental principles and standards related to the risk management systems and processes are also applied in the subsidiaries. Consolidated Risk Policies are determined and approved by the Board of Directors. It is essential for the subsidiaries that these policies are adopted, specified risk management systems and processes are applied in order to have consolidated risk management and to act in consistency with the risk limits set in the group level.

Policies Regarding Other Risks
Other risks are Model Risk, defined as the risk of loss due to erroneous design or implementation failures of the models used for pricing, credit facilities and risk measurement, Strategy Risk, occurring because of false or ill-timed decisions, and Reputation Risk, defined as the reputation loss of the Bank in the eyes of the customers and markets. These risks are mentioned in the Bank’s Risk Policies in order to increase the awareness throughout the Bank.

STRUCTURE OF THE AUDIT COMMITTEE

Activities Of The Committees Established Within The Scope Of Risk Management, And Names And Surnames Of The Chairmen And Members Of These Committees
Audit Committee
Audit Committee is composed of 2 members, which were elected among the non-executive Members of the Board of Directors. Currently, Audit Committee members are Mr. Mehmet Şencan and Mr. Ebru Özşuca.

Audit Committee is responsible for;
Ensuring the effectiveness and adequacy of the internal audit, internal control and risk management systems within the framework of the relevant legislation, on behalf of the Board of Directors,
Supervising the functioning of the Internal systems, accounting and reporting systems within the framework of the Law and relevant regulations, and maintaining the integrity of the information provided, Making pre-assessment for the Board of Directors to choose independent audit corporations, and corporations that provide rating, valuation and support services, and regularly monitoring the activities of these corporations that sign contract with the Bank after they are chosen by the Board of Directors, Continuing and enabling the coordination of the Internal audit activities of the subsidiaries subject to consolidation in a consolidated manner, Regularly receiving reports from the units established within the scope of Internal systems, and from the independent audit corporations with respect to their execution of the tasks and reporting the detected malfunctions to the Board of Directors.

All members of the Audit Committee attended the 30 meetings held by the Audit Committee in 2018.

Chairmen And Members Of These Committees
Audit Committee
Chairmen And Members Of These Committees
Executive Vice President In Charge Of Internal Systems: Azt Ferit Eraslan
Term of Office: 3 Years
Professional Experience: 26 Years
Worked Previously In: İşbank Financial Management Department
Education: Master’s Degree Abroad
Risk Management Departments
Head of Internal Auditors: Mehmet Sungun
Term of Office: 5 Years
Professional Experience: 25 Years
Worked Previously In: Financial Analysis, Loans, Corporate Banking, Risk Management Departments
Education: Master’s Degree in Turkey
Risk Management Departments
Head of Risk Management: Fuat Sönmez
Term of Office: 2.5 Years
Professional Experience: 20 Years
Worked Previously In: System Development and Quality Management, Board of Internal Auditors, Process Management Departments
Education: Bachelor’s Degree in Turkey
Risk Management Departments
Head of Internal Control: Simay Kınıkaya
Term of Office: 2 Years
Professional Experience: 20 Years
Worked Previously In: Treasury Department
Education: Bachelor’s Degree in Turkey
Risk Management Departments

STRUCTURE OF THE AUDIT COMMITTEE

DIRECTORS WITHIN THE SCOPE OF INTERNAL SYSTEMS

Executive Vice President In Charge Of Internal Systems: Azt Ferit Eraslan
Term of Office: 3 Years
Professional Experience: 26 Years
Worked Previously In: İşbank Financial Management Department, CJSC Isbank (Russia) Headquarters
Education: Master’s Degree Abroad
Risk Management Departments
Head of Internal Auditors: Mehmet Sungun
Term of Office: 5 Years
Professional Experience: 25 Years
Worked Previously In: Financial Analysis, Loans, Corporate Banking, Risk Management Departments
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Professional Experience: 20 Years
Worked Previously In: Treasury Department
Education: Bachelor’s Degree in Turkey
Risk Management Departments
AUDIT COMMITTEE REPORT

AUDIT COMMITTEE’S ASSESSMENT ON FUNCTIONING OF INTERNAL AUDIT, INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS AND THEIR ACTIVITIES IN 2018

Auditor Committee held 30 meetings in 2018. In these meetings, the Audit Committee carried out activities to fulfill the duties and responsibilities specified within the scope of “Activities of the Committees” established within the scope of Risk Management, and Names and Surnames of the Chairman and Members of these Committees’ Secretariat and the “Regulation: On The Evaluation Process of Banks’ Internal Systems and Internal Capital Adequacy”.

Internal audit, internal control and risk management activities in the Bank are carried out by the Board of Internal Auditors, Internal Control Department, and Risk Management Department. Relevant departments’ duties and responsibilities were specified by the regulations approved by the Board of Directors. All three departments carry out their activities under the Executive Vice President in charge of Internal Systems, who is independent from executive activities and executive units and directly reports to the Audit Committee. Evaluating the internal systems established to cover all branches and units, and subsidiaries subject to consolidated audit, their functioning, and maintaining their adequacy and effectiveness are among the Board of Directors’ priorities. Within the scope of internal systems, Board of Directors’ duties and responsibilities are fulfilled by the Board of Directors, Audit Committee, Executive Vice President who is in charge of internal systems, and Departments of Internal Audit, Internal Control and Risk Management.

Board of Internal Auditors
The Board of Internal Auditors provides assurance in: i) carrying out bank activities in line with the Law and other relevant legislation as well as the internal strategies, policies, principles and targets of the bank; and ii) ensuring that the internal systems and risk management systems are compliant, effective and efficient as well as the accuracy and reliability of accounting records and financial reports.

Board of Internal Auditors does not only deliver findings as a result of the audits it conducts. It also develops opinions and suggestions that will prevent deficiencies, faults and misconducts (if any) from repeating, develop processes, increase efficiency and effectiveness and strengthen internal systems. Furthermore, it follows up the findings and related measures taken closely as well as providing information about the developments with respect to the issues tracked in the Audit Committee meetings held during the year.

In 2018, Board of Auditors conducted 40 audits in terms of banking processes and information systems in total composed of Head Office departments, Bank’s 2 subsidiaries as well as 6 firms from which the Bank procured banking processes and support services.

As a result of the audits and assessments made in 2018, there have not been any material finding identified, that may have negative impact on the Bank’s activities, and hinder the Bank from fulfilling its liabilities. It was concluded that, the Bank’s internal control and risk management systems functioned well, Bank’s activities had low risk in general, finance and legal reports were accurate, Bank complied with the legislation.

In conclusion, the internal audit system was effective and successful in measuring, detecting and eliminating risks with its risk-oriented approach, qualified human resources, experienced and prudent management.

Internal Control
The Internal Control Department is responsible for the presence of the internal control system that covers control activities to identify in advance and manage the risks to which the Bank may be exposed in its efforts to achieve its aims; to ensure that the Bank’s operations are effective and productive; to protect the Bank’s assets; to comply with current laws and regulations; and to safeguard the reliability and integrity of the accounting and financial reporting systems. Within this scope, internal control activities are carried out by the competent and experienced internal control personnel.

According to Banking Regulation and Supervisory Association (BRSA) regulation published in the Official Newspaper on July 11, 2014 dated with the number 23907 internal control activities are a part of all of the operations in the Bank. It is expected that a structure in compliance with the CCDIO components is established, units carry out self-assessment, function processes and potential threats induced by the operations and the assessment of weaknesses for these threads and the adverse impact of the related threads and weaknesses are analyzed.

Accordingly, “Operational Risk Map” workshop was launched by the Internal Control Department, within the 2018 masterplan. As a result of this workshop, establishment of a strong corporate culture and measurement of discrete and inter-related operational risks will be realized as stated in Guide to Operational Risks of BRSA.

It is targeted with the project that Triple Defense Line that is an effective method to manage risks and control the operational activities in the future will be developed. Therefore, it is targeted to provide a concrete basis for forcefulness and the perfection of the assurance to the stakeholders, legal entities, employees, and the Board of Directors and to compose a meaningful operational loss data pool that will be a base or advanced measurement approach.

As the process of preparing an “Operational Risk Map” started in 2018 with the Treasury operations, it will continue with the other banking activities in 2018 and it will be repeated every year to follow the developments of the operational risk levels.

Risk Management
The risk management process, which is organized under risk management regulations and serves for the establishment of a company-wide common risk culture, is of such a structure in which risks are defined in compliance with international regulations governing the performance of measurement, analysis, monitoring and reporting activities. Risk Management Department; i) carries out these activities developing the systems needed within this scope, ii) monitors risk’s compliance with policies and standards, and Bank limits, iii) continues the activities for compliance with the relevant legal legislation and the Basel criteria. Risk measurements specified in reporting, are made with an approach developed in internal models besides the standard approach used in legal reporting, while they are also supported with the stress tests.

Risk Management Department submits its detailed unconsolidated risk management reports prepared on monthly basis and consolidated risk management reports on quarterly basis to the Board of Directors via the Audit Committee.

In 2018, in addition to the reports presented to the Board of Directors, risk and capital adequacy measuring and reporting activities for legal and MIS purposes continued.

Activities were carried out to comply with the various legal regulations and Risk Guidelines.

Besides, activities of the Internal Capital Adequacy Assessment Process (ICAAP) and its reporting process, were coordinated. Within this scope, detailed stress tests and scenario analysis were conducted, and projections were made for future period’s capital requirement.

Other than routine operations in 2018, the loan clients internal ratings model, which is active in 2018, was revised pursuant to the relevant regulation and present needs, as part of the IFRS 9 and IFRS 8 (Internal Ratings Based) Approach Standards Compliance Project.

The software and system infrastructure used related to ‘Asset Liability Risk Management’ and ‘Market Risk Management’ are revised.

The Audit Committee continued to report to Board of Directors regarding the operational results, necessary measures, practices and its comments on other critical issues that ensure the Bank’s operations to continue reliably.

The Audit Committee monitored the compliance of the Bank to regulations pertaining to internal control, internal audit and risk management and to Bank policies and practices which were approved by the Board. As a result of the Audit Committee’s evaluations and reviews, it was seen that the Bank’s internal systems were effectively functioning as they were planned, and that the internal controls made for financial reporting were effective. The Audit Committee evaluated the support services that the Bank procured, and monitored the efforts of taking certain measures for managing the risks efficiently in the procuremen process. Moreover, independent audit results, yearly and quarterly financial results as well as independent audit reports were assessed with the independent auditors. During their operations related to the Bank, the independent auditors of the financial firms, independent auditors and appraisal companies’ and the sufficiency of the resources allocated to them were reviewed.

With respect to the activities and functioning of internal systems - internal audit, internal control and risk management - in 2018, we believe that the activities performed were highly qualified and satisfactory.
ASSURANCES


130 Independent Assurance Statement

132 ISO 14001 Certificate

133 ISO 14064 Certificates
INDEPENDENT AUDITORS’ REPORT ON THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

To the Shareholders of Türkiye Sise ve K避mik Anonim Sirketi

1) Qualified Opinion

We have reviewed the annual report of Türkiye Sise ve K避mik Anonim Sirketi for the period of 31 December 2018.

In our opinion, except for the matter specified in the tables for Qualified Opinion paragraph, the financial statements presented in the annual report of the Board of Directors and the disclosures made by the Board of Directors on the valuation of the Bank are presented fairly and consistently, in all material respects, with the audited full set financial statements and the information obtained during the audit.

2) Basis for Qualified Opinion

As described in the Our Auditors’ Opinion of Independent Auditor’s Report on Financial Statements of the Bank for the Report period between 1 January 2018 and 31 December 2018 dated 1 February 2019, the audited financial statements of the Bank as of 31 December 2018 were prepared in accordance with IFRS. The audited financial statements for the year ended 31 December 2018 are prepared in Turkish liras, with all the amounts expressed in Turkish liras. The consolidated financial statements of the Bank, including the financial statements of its subsidiaries, were prepared in accordance with Turkish liras as the functional currency.

3) The Auditor’s Opinions on the Financial Statements

We have expressed a qualified opinion in our auditors’ report dated 1 February 2019 on the annual financial statements of the Bank for the period of 1 January 2018 and 31 December 2018.

4) The Responsibility of the Board of Directors on the Annual Report

In accordance with Article 314 and 516 of the Turkish Commercial Code (TCC), the management of the Bank is responsible for the following items:

a) Preparation of the annual report within the legal time frame following the balance sheet date and submission of the annual report in the general assembly.

b) Preparation and fair presentation of the annual report, reflecting the operations of the Bank for the year along with its financial position in a correct, concise, straightforward, true and honest manner.

In this report, the financial position is presented according to the financial statements. The development of the Bank and the potential risks to be encountered are also noted in this report. The evaluation of the audit opinion is also included in this report.
INDEPENDENT ASSURANCE STATEMENT

To the Board of Directors and Management of Türkiye Sınai Kalkınma Bankası A.Ş., Istanbul, Turkey

This Assurance Statement (hereafter “Statement”) is intended solely for the management of Türkiye Sınai Kalkınma Bankası A.Ş. (hereafter “TSKB” or “the Company”) for the purpose of evaluation of key indicators in its 2018 Integrated Report (hereafter “the Report”) that has been prepared by the Company for the year ended 31 December 2018.

Subject Matter Information and Applicable Criteria

We were engaged by the Company to provide limited assurance on the items listed below which can also be found as the ‘Report Indicator Scope Table’ at the appendix section of the Report.

The scope of our assurance

The scope of our assurance service is limited to 2018 Subject Matter Information in financial, human and natural capital indicators, which are listed below in TSBS’s Headquarters.

1. Rate of sustainability themed loans in loan portfolio.
2. Gender ratio of management.
3. Average hours of training per employee.
4. Annual participation in employee satisfaction survey.
5. Total natural gas consumption (m³).
6. Water intensity per employee (litre/m²).
7. Recycled waste of glass, plastic and paper (kg).
8. Reduction of GHG emissions from renewable energy projects financed.

The procedures selected depend on the practitioner’s judgment. The procedures include, in particular, inquiry of the personnel responsible for collecting and reporting on the Subject Information and additional procedures aimed at obtaining evidence about the Selected Information.

In respect of the Selected Information mentioned above the procedures performed include the following procedures:

1. Interviewed sector key personnel of the Company to understand the current processes in place for capturing the Subject Information pertaining to the reporting period.
2. Reviewed Selected Information on site covering TSBK Headquarters;
3. Undertook substantive testing, on a sample basis, of the Selected Information;
4. Used the Company’s internal documentation to evaluate and measure the Selected Information;
5. Evaluated the design and implementation of key processes and controls over the Selected Information;
6. Performed, on a sample basis, calculations used to prepare the Selected Information for the reporting period.
7. Evaluated the disclosure and presentation of Selected Information in the Report.

Our conclusion

As a result of our procedures, nothing has come to our attention that indicates the Selected Information reviewed for the year ended 31 December 2018 is not prepared in all material respects in accordance with the ‘Report Indicator Scope Table’ that is presented in the appendix section of the Report.

Our assurance team

Our assurance team, comprising of multidisciplinary professionals, has been drawn from our climate change and sustainability network and undertakes similar engagements with a number of significant companies in Turkey and internationally.

We permit this report to be disclosed in Türkiye Sınai Kalkınma Bankası A.Ş. Integrated Report for the year ended 31 December 2018, to enable the Directors of Türkiye Sınai Kalkınma Bankası A.Ş. to show they have addressed their governance responsibilities by obtaining an independent assurance report in connection with the Subject Matter Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors as a body and Türkiye Sınai Kalkınma Bankası A.Ş. for our work on this report except where terms are expressly agreed between us in writing.

For Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

Zeynep Okuyan Odemire, SWMM Partner
Istanbul, 25.03.2019

Zeynep Okuyan Odemire, SWMM Partner
Istanbul, 25.03.2019
ISO 14001 CERTIFICATE

ISO 14064 CERTIFICATE
Scan the QR code to reach the notes related to the independent auditors’ reports. The reports are also available at the website link below:
INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Türkiye Sınai Kalkınma Bankası A.Ş.:

Audit of Unconsolidated Financial Statements

Qualified Opinion

We have audited the accompanying unconsolidated financial statements of Türkiye Sınai Kalkınma Bankası A.Ş. (the Bank), which comprise the statement of financial position as at 31 December 2018 and the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter on the unconsolidated financial statements described in the Basis for Qualified Opinion paragraph, the accompanying unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of Türkiye Sınai Kalkınma Bankası A.Ş. as at 31 December 2018 and unconsolidated financial performance and unconsolidated its cash flows for the year then ended in accordance with the Banking Regulation and Supervision Agency (“BRSA”) Accounting and Financial Reporting Legislation which includes “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette no.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by BRSA and Financial Reporting Standards (“TFRS”) for those matters not regulated by the aforementioned regulations.

Basis for Qualified Opinion

As explained in Note 7 in the Explanations and Disclosures related to the Liabilities, the accompanying unconsolidated financial statements as at 31 December 2018 include a free provision at an amount of TL 220,000 thousands, of which TL 30,000 thousands and TL 190,000 thousands was provided in current and prior years respectively by the Bank management, for possible results of the circumstances which may arise from possible changes in the economy and market conditions and include the reversal of deferred tax asset at an amount of TL 41,800 thousands, which was accounted based on the free provision provided in 31 December 2017. Due to the fact that the above mentioned items do not meet the requirements of TAS 37, the "Prior years' income/losses" as of 31 December 2018 is understated by TL 148,200 thousands after deducting the tax effect and the "pretax income" is understated by TL 30,000 thousands.

Our audit was conducted in accordance with "Regulation on independent audit of the Banks" published in the Official Gazette no.29314 dated 2 April 2015 by BRSA (BRSA Independent Audit Regulation) and Independent Auditing Standards ("ISA") which are the part of Turkish Auditing Standards issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with of Code of Ethics for Independent Auditors (Code of Ethics) published by POA and have fulfilled our other responsibilities in accordance with the code of ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are the matters that, in our professional judgement, were of most significance in our audit of the unconsolidated financial statements of the current period. Key audit matters were addressed in the context of our audit of the unconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.
Disclosure requirements of TFRS 9 are comprehensive and judgements and estimates used in expected credit loss calculation are new, complex and comprehensive.

Policies implemented by the Bank management include:

- Transition to TFRS 9 effect 1% on the Bank's equity
- There are complex and comprehensive requirements of TFRS 9.
- The classification of the financial assets is based on the Bank's business model and characteristics of the contractual cash flows in accordance with TFRS 9 and the Bank uses significant judgment on the assessment of the business model and identification of the complex contractual cash flow characteristics of financial instruments.
- The Bank determines the fair value of financial assets measured at fair value by level 3 related business model category non-observable in fair value measurement due to the existence of significant estimates and assumptions determination during the measurement process.
- Policies implemented by the Bank management include compliance risk to the regulations and other practices.
- New or re-structured processes of TFRS 9 are advanced and complex.
- Judgements and estimates used in expected credit loss calculation are new, complex and comprehensive.
- Disclosure requirements of TFRS 9 are comprehensive and complex.

Our audit procedures included among others include:

- Evaluating the appropriateness of accounting policies as to the requirements of TFRS 9, Bank's past experience, local and global practices.
- Reviewing and testing of new or re-structured processes which are used to calculate expected credit losses by involving our information technology and Process audit specialists.
- Evaluating the reasonableness of management’s key judgements, estimates and data sources used in expected credit loss calculations considering the standard requirements, sectoral, local and global practices.
- Reviewing the appropriateness of criteria in order to identify the financial assets having solely payments of principal and interest and checking the compliance to the Bank's Business model.
- Examining the financial instruments classification and measurement models (fair value hierarchy Level 3 financial instruments) and comparing them with TFRS 9 standard requirements.
- Assessing the appropriateness of definition of significant increase in credit risk, default criteria, modification, probability of default, loss given default, exposure at default and forward looking assumptions together with the significant judgements and estimates used in these calculations to regulations and bank’s past performance. Evaluating the alignment of those forward looking parameters to Bank’s internal processes where applicable.
- Assessing the completeness and the accuracy of the data used for expected credit loss calculation.
- Testing the mathematical accuracy of expected credit loss calculation on sample basis.
- Evaluating the judgments and estimates used for the individually assessed financial assets.
- Evaluating the accuracy and the necessity of post-model adjustments.
- Auditing of TFRS 9 disclosures.

Pension Fund Obligations

Employees of the Bank are members of "TSKB A.Ş. Memur ve Müşahidetli Yardım ve Emekli Vakfı", ("the Fund"), which is established in accordance with the temporary Article 20 of the Social Security Act No. 506 and related regulations. The Fund is a separate legal entity and foundation recognized by an official decree, providing all qualified employees with pension and post-retirement benefits. As discussed in Section Three Note XVII the "Explanations on Liabilities regarding employee benefits" to the financial statements, Banks will transfer their pension fund to the Social Security Institution and the Council of Ministers has been authorized to determine the transfer date.

The Bank’s present value of the liabilities of TSKB A.Ş. Memur ve Müşahidetli Yardım ve Emekli Vakfı fund, subject to the transfer to the Social Security Institution of the Pension Fund as of 31 December 2018 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 15 January 2019, there is no need for technical or actual deficit to book provision as of 31 December 2018.

The valuation of the Pension Fund liabilities requires judgment in determining appropriate assumptions such as defining the transferable social benefits, discount rates, salary increases, demographic assumptions, inflation rate estimates and the impact of any changes in individual pension plans. The Bank Management uses Fund actuaries to assist in assessing these assumptions.

Considering the subjectivity of key assumptions and estimate used in the calculations of transferable liabilities and the effects of the potential changes in the estimates used together with the uncertainty around the transfer date and given the fact that technical interest rate is prescribed under the law, we considered this to be a key audit matter.

Derivative Financial Instruments

Derivative financial instruments including foreign exchange contracts, currency and interest rate swaps, currency and interest rate options, futures and other derivative financial instruments which are held for trading are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Details of related amounts are explained in Section Five Note I.2. Positive differences related to derivative financial assets held-for-trading and Section Five Note I.2 Negative differences related to derivative financial liabilities held-for-trading disclosures.

Fair value of the derivative financial instruments is determined by selecting most convenient market data and applying valuation techniques to those particular derivative products. Derivative Financial Instruments are considered by us as a key audit matter because of the subjectivity in the estimates, assumptions and judgements used.

Our audit procedures involve obtaining written confirmations from the third parties and comparing the details of the related derivative transactions. Our audit procedures included among others involve reviewing trading data and initially fair value measurement accepted by the bank management fair value calculations of the selected derivative financial instruments which is carried out by valuation experts in our audit team and the assessment of used estimations and the judgments and testing operating effectiveness of the key controls in the process of fair value determination.

Our procedures included, amongst others, recalculating fair value calculation and disclosures relating to derivative financial instruments considering the requirements of Turkey Accounting Standards ("TAS") and Turkey Financial Reporting Standards ("TFRS").
Responsibilities of Management and Directors for the Unconsolidated Financial Statements

Bank management is responsible for the preparation and fair presentation of the unconsolidated financial statements in accordance with the BRSA Accounting and Reporting Legislation and for such internal control as management determines is necessary to enable the preparation of the financial statements that is free from material misstatement, whether due to fraud or error.

In preparing the unconsolidated financial statements, management is responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Unconsolidated Financial Statements

In an independent audit, the responsibilities of us as independent auditors are:

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with BRSA Independent Audit Regulation and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with BRSA Independent Audit Regulation and ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)

• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the unconsolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

1) In accordance with Article 402 paragraph 4 of the Turkish Commercial Code ("TCC") ; no significant matter has come to our attention that causes us to believe that the Bank’s bookkeeping activities and financial statements for the period 1 January – 31 December 2018 are not in compliance with the TCC and the Bank’s articles of association in relation to financial reporting.

2) In accordance with Article 402 paragraph 4 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The engagement partner who supervised and concluded this independent auditor’s report is Yaşar Bivas.

1 February 2019
Istanbul, Turkey
The financial statements of Türkiye Sınai Kalkınma Bankası A.Ş. for the year ended 31 December 2018 are presented in this report. The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules.

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.
UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS OF 31 DECEMBER 2018

(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

**Note:** The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

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<th>Section</th>
<th>Current Period 31 December 2018</th>
<th>Prior Period 31 December 2017</th>
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<td>LIABILITIES</td>
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<td>I. FUNDS BORROWED</td>
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<td>II. SPECIAL DEPOSITS</td>
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<tr>
<td>III. MARKETABLE SECURITIES ISSUED (Net)</td>
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<td>6,949,189</td>
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<tr>
<td>IV. Bills</td>
<td>-</td>
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<tr>
<td>V. Assets Related to Leasing Operations</td>
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<td>6,949,189</td>
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<td>10,665,782</td>
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<tr>
<td>VII. Derivative Financial Liabilities at Fair Value Through Profit or Loss</td>
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<td>10,665,782</td>
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<td>VIII. Derivative Financial Liabilities at Fair Value Through Other Comprehensive Income</td>
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<td>XXXVIII. MISC. Liabilities</td>
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</table>
UNCONSOLIDATED STATEMENT OF OFF-BALANCE SHEET AS OF 31 DECEMBER 2018

(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

UNCONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

TSKB 2018 INTEGRATED ANNUAL REPORT

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.
UNCONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

TSKB 2018 INTEGRATED ANNUAL REPORT

TSKB 2019 INTEGRATED ANNUAL REPORT

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

TSKB 2018 INTEGRATED ANNUAL REPORT

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

TSKB 2019 INTEGRATED ANNUAL REPORT

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

TSKB 2018 INTEGRATED ANNUAL REPORT

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TSKB 2019 INTEGRATED ANNUAL REPORT

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TSKB 2018 INTEGRATED ANNUAL REPORT

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TSKB 2019 INTEGRATED ANNUAL REPORT

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

TSKB 2018 INTEGRATED ANNUAL REPORT

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

TSKB 2019 INTEGRATED ANNUAL REPORT

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.
**UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018**

(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

<table>
<thead>
<tr>
<th>CHANGES IN SHAREHOLDERS’ EQUITY</th>
<th>Section 5</th>
<th>Note V</th>
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<tbody>
<tr>
<td>Paid in Capital</td>
<td>Other Capital Reserves</td>
<td>Share Premiums</td>
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<tr>
<td>Prior Period Retained Earnings</td>
<td>Current Period Retained Earnings</td>
<td>Retained Earnings Value in Foreign Currency</td>
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<td>Prior Period – 31 December 2017</td>
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<td>III. New balance (I+II)</td>
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<td>Changes in the period</td>
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<td>VI. Hedging (Effective portion)</td>
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<tr>
<td>6.2 Hedge of net investment in foreign operations</td>
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<td>VII. Tangible assets revaluation differences</td>
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<td>IX. Bonus shares obtained from associates, subsidiaries and jointly controlled entities (Joint Vent.)</td>
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<td>X. Foreign exchange differences</td>
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<td>XI. Disposal of assets</td>
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<td>XIII. Effect of change in equities of associates on bank's equity</td>
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<td>XVIII. Other</td>
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<td>20.2 Transfers to reserves</td>
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<td>20.3 Other</td>
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<td>Closing Balance</td>
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Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.
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<th>Share Cancellation Profits</th>
<th>Other Capital Reserves</th>
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<th>5</th>
<th>6</th>
<th>Profit Reserves</th>
<th>Prior Period Profit or (Loss)</th>
<th>Current Period Profit or (Loss)</th>
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<th>Minority Interest</th>
<th>Total Shareholders’ Equity</th>
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<td>8,337</td>
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<td>764,190</td>
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<td>4,719,994</td>
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<td>XI.</td>
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<td>XII.</td>
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</table>

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

1. Accumulated Revaluation Increase / Decrease of Fixed Assets
2. Accrued Remuneration Gains / Losses of Shareholders’ Equity Plan
3. Other (Share of Investments Valued by Equity Method in Other Comprehensive Income Not Classified Through Profit or Loss and Other Accrued Amounts of Other Comprehensive Income Items Not Reclassified Through Other Profit or Loss)
4. Foreign Currency Translation Differences
5. Accrued Remuneration and/or Reimbursement Gains/Loss of the Financial Asset at Fair Value Through Other Comprehensive Income
6. Other (Cash Flow Hedge Gains/Losses, Shares of Investments Valued by Equity Method in Other Comprehensive Income Classified Through Profit or Loss and Other Accrued Amounts of Other Comprehensive Income Items Reclassified Through Other Profit or Loss)
Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.
### UNCONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

<table>
<thead>
<tr>
<th>Head</th>
<th>Current Period</th>
<th>Prior Period</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. DISTRIBUTION OF CURRENT YEAR INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 CURRENT YEAR INCOME</td>
<td>909,263</td>
<td>727,303</td>
</tr>
<tr>
<td>1.2 TAXES AND DUTIES PAYABLE</td>
<td>498,337</td>
<td>331,615</td>
</tr>
<tr>
<td>1.2.1 Corporate tax (income tax)</td>
<td>146,337</td>
<td>161,659</td>
</tr>
<tr>
<td>1.2.2 Other withholding tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2.3 Other taxes and duties</td>
<td>352,002</td>
<td>321,878</td>
</tr>
<tr>
<td><strong>A. NET INCOME FOR THE YEAR</strong></td>
<td>650,926</td>
<td>595,668</td>
</tr>
<tr>
<td><strong>1.3 PRIOR YEARS LOSSES</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>1.4 FIRST LEGAL RESERVES</strong></td>
<td>-</td>
<td>29,783</td>
</tr>
<tr>
<td><strong>1.5 OTHER STATUTORY RESERVES</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>B. NET PROFIT AVAILABLE FOR DISTRIBUTION</strong></td>
<td>650,926</td>
<td>565,885</td>
</tr>
<tr>
<td><strong>1.6 FIRST DIVIDEND TO SHAREHOLDERS</strong></td>
<td>-</td>
<td>169,820</td>
</tr>
<tr>
<td>1.6.1 To owners of ordinary shares</td>
<td>-</td>
<td>169,818</td>
</tr>
<tr>
<td>1.6.2 To owners of preferred shares</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1.6.3 To owners of preferred shares (pre-emptive rights)</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>1.6.4 To profit sharing bonds</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1.6.5 To holders of profit and loss sharing certificates</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>1.7 DIVIDENDS TO PERSONNEL</strong></td>
<td>-</td>
<td>11,882</td>
</tr>
<tr>
<td><strong>1.8 DIVIDENDS TO BOARD OF DIRECTORS</strong></td>
<td>-</td>
<td>1,981</td>
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<tr>
<td><strong>1.9 SECOND DIVIDEND TO SHAREHOLDERS</strong></td>
<td>-</td>
<td>326,182</td>
</tr>
<tr>
<td>1.9.1 To owners of ordinary shares</td>
<td>-</td>
<td>326,182</td>
</tr>
<tr>
<td>1.9.2 To owners of preferred shares</td>
<td>-</td>
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<tr>
<td>1.9.3 To owners of preferred shares (pre-emptive rights)</td>
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<tr>
<td>1.9.4 To profit sharing bonds</td>
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</tr>
<tr>
<td>1.9.5 To holders of profit and loss sharing certificates</td>
<td>-</td>
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</tr>
<tr>
<td>1.9.6 To holders of profit and loss sharing certificates</td>
<td>-</td>
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<tr>
<td><strong>1.10 SECOND LEGAL RESERVES</strong></td>
<td>-</td>
<td>1,387</td>
</tr>
<tr>
<td><strong>1.11 STATUTORY RESERVES</strong></td>
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<td>-</td>
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<tr>
<td><strong>1.12 GENERAL RESERVES</strong></td>
<td>-</td>
<td>54,633</td>
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<tr>
<td><strong>1.13 OTHER RESERVES</strong></td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>1.14 SPECIAL FUNDS</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>II. DISTRIBUTION OF RESERVES</strong></td>
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<tr>
<td>2.1 APPROPRIATED RESERVES</td>
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<tr>
<td>2.2 SECOND LEGAL RESERVES</td>
<td>-</td>
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<tr>
<td>2.3 DIVIDENDS TO SHAREHOLDERS</td>
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<tr>
<td>2.3.1 To owners of ordinary shares</td>
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<tr>
<td>2.3.2 To owners of preferred shares</td>
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<tr>
<td>2.3.3 To owners of preferred shares (pre-emptive rights)</td>
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<tr>
<td>2.3.4 To profit sharing bonds</td>
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<tr>
<td>2.3.5 To holders of profit and loss sharing certificates</td>
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<tr>
<td>2.4 DIVIDENDS TO PERSONNEL</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2.5 DIVIDENDS TO BOARD OF DIRECTORS</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>III. EARNINGS PER SHARE</strong></td>
<td></td>
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<tr>
<td>3.1 TO OWNERS OF ORDINARY SHARES</td>
<td>0.24</td>
<td>0.25</td>
</tr>
<tr>
<td>3.2 TO OWNERS OF ORDINARY SHARES (%)</td>
<td>23.60</td>
<td>24.82</td>
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<tr>
<td>3.3 TO OWNERS OF PRIVILEGED SHARES</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3.4 TO OWNERS OF PRIVILEGED SHARES (%)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>IV. DIVIDEND PER SHARE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1 TO OWNERS OF ORDINARY SHARES</td>
<td>-</td>
<td>0.21</td>
</tr>
<tr>
<td>4.2 TO OWNERS OF ORDINARY SHARES (%)</td>
<td>-</td>
<td>20.67</td>
</tr>
<tr>
<td>4.3 TO OWNERS OF PRIVILEGED SHARES</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4.4 TO OWNERS OF PRIVILEGED SHARES (%)</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

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(1) Since the Board of Directors has not prepared any proposal for profit distribution relating to the year 2018 yet, only profit available for distribution for the year 2018 is presented.

(2) A nominal value of 1 Kurus figures a share in unconsolidated income statement and unconsolidated statement of profit distribution and an earnings per share is calculated for a nominal value of 1 Kurus.

(3) The current amount is deferred tax expense and the prior period amount is deferred tax income.
To the General Assembly of Türkiye Sınai Kalkınma Bankası A.Ş.:

Audit of Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Türkiye Sınai Kalkınma Bankası A.Ş. (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter on the consolidated financial statements described in the Basis for Qualified Opinion paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Türkiye Sınai Kalkınma Bankası A.Ş (the Bank) and its subsidiaries as at 31 December 2018 and consolidated financial performance and consolidated its cash flows for the year then ended in accordance with the Banking Regulation and Supervision Agency ("BRSA") Accounting and Financial Reporting Legislation which includes "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by BRSA and Financial Reporting Standards ("TFRS") for those matters not regulated by the aforementioned regulations.

Basis for Qualified Opinion

As explained in Note 7 in the Explanations and Disclosures related to the Liabilities, the accompanying consolidated financial statements as at 31 December 2018 include a free provision at an amount of TL 220.000 thousands, of which TL 30.000 thousands and TL 190.000 thousands was provided in current and prior years respectively by the Bank management, for possible results of the circumstances which may arise from possible changes in the economy and market conditions and include the reversal of deferred tax asset at an amount of TL 41.800 thousands, which was accounted based on the free provision provided in 31 December 2017. Due to the fact that the above mentioned items do not meet the requirements of TAS 37, the "Prior years' income/losses" as of 31 December 2018 is understated by TL 148.200 thousands after deducting the tax effect and the "pretax income" is understated by TL 30.000 thousands.

Our audit was conducted in accordance with "Regulation on independent audit of the Banks" published in the Official Gazette no.29314 dated 2 April 2015 by BRSA (BRSA Independent Audit Regulation) and Independent Auditing Standards ("ISA") which are the part of Turkish Auditing Standards issued by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under these standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with of Code of Ethics for Independent Auditors (Code of Ethics) published by POA and have fulfilled our other responsibilities in accordance with the code of ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.
Judgements and estimates used in expected credit loss calculations

- The classification of the financial assets is based on the characteristics of financial instruments.
- There are complex and comprehensive requirements of TFRS 9 to ensure the fair value of the derivative financial instruments is determined by using various techniques to those particular derivative products. Derivative financial instruments which are held for trading are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Details of related amounts are explained in Section Five Note 12c. Positive differences related to derivative financial assets held for trading and Section Five Note 12d Negative differences related to derivative financial liabilities held-for-trading disclosures.

- The Parent Bank’s present value of the liabilities of TSKB A.Ş. Memur ve Müstahdemden Yardım ve Emekli Vakfı, (“Fund”), subject to the transfer to the Social Security Institution of the Pension Fund as of 31 December 2018 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law No. 506 and related regulations. The Fund is a separate legal entity and foundation recognized by an official decree, providing all qualified employees with pension and post-retirement benefits. As disclosed in Section Three Note XVI the financial statements, Banks will transfer their pension fund to the Social Security Institution and the Council of Ministers has been authorized to determine the transfer date.

- The Parent Bank’s present value of the liabilities of TSKB A.Ş. Memur ve Müstahdemden Yardım ve Emekli Vakfı fund, subject to the transfer to the Social Security Institution of the Pension Fund as of 31 December 2018 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law No. 506 and related regulations. The Fund is a separate legal entity and foundation recognized by an official decree, providing all qualified employees with pension and post-retirement benefits. As disclosed in Section Three Note XVI the financial statements, Banks will transfer their pension fund to the Social Security Institution and the Council of Ministers has been authorized to determine the transfer date.

- The valuation of the Pension Fund liabilities requires judgment in determining appropriate assumptions such as defining the transferable social benefits, discount rates, salary increases, demographic assumptions, inflation rate estimates and the impact of any changes in individual pension plans. The Parent Bank Management uses Fund actuaries to assist in assessing these assumptions.

- Considering the subjectivity of key assumptions and estimate used in the calculations of transferable liabilities and the effects of the potential changes in the estimates used together with the uncertainty around the transfer date and given the fact that technical interest rate is prescribed under the law, we considered this to be a key audit matter.

- Our audit procedures involved obtaining written confirmations from the third parties and comparing the details of the related derivative transactions. Our audit procedures included among others involve reviewing policies regarding fair value measurement accepted by the bank management at fair value calculations of the selected derivative financial instruments which is carried out by valuation experts in our audit team and the assessment of used estimations and the judgements and testing operating effectiveness of the key controls in the process of fair value determination.

- Our procedures included, amongst others, recalculating fair value calculation and disclosures relating to derivative financial instruments considering the requirements of Turkey Accounting Standards (“TAS”) and Turkey Financial Reporting Standards (“TFRS”).
Responsibilities of Management and Directors for the Consolidated Financial Statements

Group management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the BRSA Accounting and Reporting Legislation and for such internal control as management determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

In an independent audit, the responsibilities of us as independent auditors are:

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with BRSA Independent Audit Regulation and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with BRSA Independent Audit Regulation and ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.)
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

1) In accordance with Article 402 paragraph 4 of the Turkish Commercial Code (”TCC”), no significant matter has come to our attention that causes us to believe that the Bank’s bookkeeping activities and financial statements for the period 1 January – 31 December 2018 are not in compliance with the TCC and the Bank’s articles of association in relation to financial reporting.

2) In accordance with Article 402 paragraph 4 of the TCC, the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

The engagement partner who supervised and concluded this independent auditor’s report is Yaşar Bivas.
## CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS OF 31 DECEMBER 2018

(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

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</thead>
<tbody>
<tr>
<td>I. FINANCIAL ASSETS (Net)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>I.1 Cash and Cash Equivalents</td>
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<td>5,392,766</td>
<td>3,356,329</td>
<td>8,466,039</td>
<td></td>
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<tr>
<td>I.1.1 Cash and Cash with Central Bank</td>
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<td></td>
<td>616,456</td>
<td>1,697,637</td>
<td>2,314,093</td>
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</tr>
<tr>
<td>I.1.2 Cash</td>
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<td></td>
<td>6,369</td>
<td>798,875</td>
<td>805,244</td>
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<td>I.1.3 Cash in transit</td>
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<td>36,409</td>
<td>782,762</td>
<td>819,171</td>
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<tr>
<td>I.2.1 Money Market Placements</td>
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<td>574,673</td>
<td>574,673</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I.2.2 Financial Assets at Fair Value Through Profit or Loss</td>
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<td>3,989</td>
<td>3,989</td>
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<td></td>
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<td>1,565,384</td>
<td>3,133,803</td>
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<td>I.13.2 Financial Instruments held for sale</td>
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Note: The year period financial statements and related disclosures are not restated as permitted by TRSD 9 transition rules. Since 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.
### TÜRKİYE SINAİ KALKINMA BANKASI A.Ş.  
#### CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS OF 31 DECEMBER 2018

(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

#### CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS OF 31 DECEMBER 2018

<table>
<thead>
<tr>
<th>Section 5</th>
<th>Note/No.</th>
<th>TL</th>
<th>FC</th>
<th>Total</th>
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<td>4.1 Notes and Bills Due</td>
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<td>16,410</td>
<td>34,164</td>
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<td>5.2 Other</td>
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<td>5.3 Bills Due</td>
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<td>6.3 Other</td>
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<td>7.2 Derivative Financial Liabilities at Fair Value Through Other Comprehensive Income</td>
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<td>8.2 Derivative Financial Liabilities Held for Trading</td>
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<td>8.3 Derivative Financial Liabilities For Hedging Purposes</td>
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<td>8.4 Fair Value Hedge</td>
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<td>8.5 Interest Rate Hedge</td>
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<td>8.6 Other</td>
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<td>9.2 Operating Lease Payables</td>
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<td>9.3 Other</td>
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<td>9.4 Deferred Financial Lease Expenses (-)</td>
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<td><strong>TOTAL LIABILITIES</strong></td>
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#### Turkish Lira (TL) Financial Statements

- **2018** financial statements are presented separately.
- **2017** financial statements are presented separately.
- **2018** and **2017** financial statements are prepared on different principles.
- **2018** financial statements are presented separately.
- **2017** financial statements are presented separately.

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.
3.2.3 Foreign Currency, Interest Rate, and Securities Options 2,563,980 2,704,528 5,268,508 2,319,676 2,332,296 4,651,972
3.2.2.2 Foreign Currency Swap-Sell 3,432,783 3,821,411 7,254,194 1,766,440 1,667,336 3,433,776
3.2.3.2 Foreign Currency Options-Sell 1,281,990 1,352,264 2,634,254 1,159,838 1,166,148 2,325,986
3.2.3.1 Interest Rate Options-Buy - - - - - -
3.2.3.4 Interest Rate Options-Sell - - - - - -
3.2.4 Foreign Currency Futures - - - - - -
3.2.5.2 Interest Rate Futures-Sell - - - - - -
3.2.5.1 Interest Rate Futures-Buy - - - - - -
3.2.2.1 For...
**TSKB 2018 INTEGRATED ANNUAL REPORT**

**2018 INTEGRATED ANNUAL REPORT**

Note: The key performance statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

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<td>5.2 Cash Flow Hedge Income / Loss</td>
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<td>VI. GAIN / LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET INVESTMENT IN FOREIGN OPERATIONS</td>
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<td>6.2 Reclassification and Recycling Derivatives Accounted for Cash Flow Hedge Purposes to Income Statement (Recycled to Profit/Loss)</td>
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<td>10.2 Other Comprehensive Income</td>
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<td>10.3 Net Income / (Loss)</td>
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<td>X. TOTAL COMPREHENSIVE INCOME (I+II)</td>
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<th>Section</th>
<th>Note IV</th>
<th>Audited Current Period 1 January 2017 - 31 December 2018</th>
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<tbody>
<tr>
<td>I. CURRENT PERIOD INCOME / LOSS</td>
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<td>2.1.3 Defined Benefit Pension Plan Remeasurement Gain / Loss</td>
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<td>2.1.4 Other Comprehensive Income Items Reclassified Through Profit or Loss</td>
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<td>2.1.5 Tax Related Other Comprehensive Income Items Reclassified Through Profit or Loss</td>
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<td>2.2 Reclassified Through Profit or Loss</td>
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<td>2.2.3 Cash Flow Hedge Income / Loss</td>
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### PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME UNDER SHAREHOLDERS’ EQUITY

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<td>I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE-FOR-SALE FINANCIAL ASSETS</td>
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<td>5.2 Reclassification and Recycling Derivatives Accounted for Cash Flow Hedge Purposes</td>
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<td>VI. GAIN / LOSS ON DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGES OF NET INVESTMENT IN FOREIGN OPERATIONS</td>
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<td>6.2 Reclassification and Recycling Derivatives Accounted for Cash Flow Hedge Purposes</td>
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<tr>
<td>VII. EFFECTS OF CHANGES IN ACCOUNTING POLICY AND CORRECTIONS OF ERRORS</td>
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<td>VIII. OTHER PROFIT / LOSS ITEMS ACCOUNTED FOR UNDER SHAREHOLDERS’ EQUITY AS PER TAS</td>
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<td>8.1 Deferred Tax of Valuation Differences</td>
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<td>8.5 Recycling of Net Investments in Foreign Operations to Income Statement</td>
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<td>8.6 Other</td>
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<td>IX. TOTAL PROFIT / LOSS ACCOUNTED FOR THE CURRENT PERIOD (X+XI)</td>
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Note: The year-to-year financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.
### CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

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<td>Hedging (Effective Portion)</td>
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<td>V.</td>
<td>Cash Flow Hedge</td>
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<td>VI.</td>
<td>Hedging of Investment in Foreign Operations</td>
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<td>Tangible Assets Revaluation Differences</td>
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<td>Intangible Assets Revaluation Differences</td>
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<td>Bonus Shares from Investments in Associates, Subsidiaries and Joint Ventures</td>
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<td>Disposal of Assets</td>
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<td>Cash Increase</td>
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## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

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<th>Share Capital Reserves</th>
<th>Other Capital Reserves</th>
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<td>23,442</td>
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Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

#### A. CASH FLOWS FROM BANKING OPERATIONS

1.1 Operating Profit Before Changes in Operating Assets and Liabilities 1,679,473
   1.1.1 Interest Received 2,537,294
   1.1.2 Interest Paid (1,942,810)
   1.1.3 Dividends Received 5,123
   1.1.4 Fees and Commissions Received 63,926
   1.1.5 Other Income (1) 78,683
   1.1.6 Collections from Previously Written off Loans 4,407
   1.1.7 Payments to Personnel and Service Suppliers (113,100)
   1.1.8 Taxes Paid (194,310)
   1.1.9 Others (1) 58,276

#### B. CASH FLOWS FROM INVESTING ACTIVITIES

2.1 Cash Paid for Purchase of Entities under Common Control, Associates and Subsidiaries (2) (2,500)
2.2 Cash Paid for Purchase of Financial Assets at Fair Value through Other Comprehensive Income (100,000)
2.3 Cash Received from Sale of Entities under Common Control, Associates and Subsidiaries (100,000)
2.4 Payments for Property and Equipment (40,000)
2.5 Purchases of Shares and Rights (2,000)
2.6 Purchase of Financial Assets at Fair Value through Other Comprehensive Income (100,000)
2.7 Purchase of Financial Assets Measured at Amortized Cost (227,000)
2.8 Sale of Financial Assets Measured at Amortized Cost (2,000)
2.9 Other (2) (2,500)

#### C. CASH FLOWS FROM FINANCING ACTIVITIES

3.1 Cash Obtained From Funds Borrowed and Securities Issued 1,319,190
3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued (9,190)
3.3 Capital Increase (100,000)
3.4 Dividends Paid (2,000)
3.5 Payments for Finance Leases (10,000)
3.6 Other (20)

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

#### A. CASH FLOWS FROM BANKING OPERATIONS

1.1 Operating Profit Before Changes in Operating Assets and Liabilities 942,951
   1.1.1 Interest Received 1,578,190
   1.1.2 Interest Paid (583,810)
   1.1.3 Dividends Received 5,421
   1.1.4 Fees and Commissions Received 5,782
   1.1.5 Other Income 99,505
   1.1.6 Collections from Previously Written off Loans (4,810)
   1.1.7 Payments to Personnel and Service Suppliers (122,368)
   1.1.8 Taxes Paid (122,368)
   1.1.9 Others (192,315)

#### B. CASH FLOWS FROM INVESTING ACTIVITIES

2.1 Cash Paid for Purchase of Entities under Common Control, Associates and Subsidiaries (2) (79,038)
2.2 Cash Obtained from Sale of Entities under Common Control, Associates and Subsidiaries (2) (92,801)
2.3 Purchases of Property and Equipment (14,796)
2.4 Repossession of Property and Equipment (1,200)
2.5 Purchase of Financial Assets at Fair Value through Other Comprehensive Income (781,787)
2.6 Sale of Financial Assets at Fair Value through Other Comprehensive Income (867,314)
2.7 Purchase of Financial Assets Measured at Amortized Cost (2,280)
2.8 Sale of Financial Assets Measured at Amortized Cost (2,000)
2.9 Other (1) (2,704)

#### C. CASH FLOWS FROM FINANCING ACTIVITIES

3.1 Cash Obtained From Funds Borrowed and Securities Issued 884,159
3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued (1,077,305)
3.3 Capital Increase (100,000)
3.4 Dividends Paid (192,801)
3.5 Payments for Finance Leases (16,000)
3.6 Other (20)

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.
###CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2018

(Amounts are expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

<table>
<thead>
<tr>
<th>Section</th>
<th>Current Period 31 December 2018</th>
<th>Prior Period 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. DISTRIBUTION OF CURRENT YEAR INCOME (1)</td>
<td></td>
<td></td>
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<tr>
<td>1. Current Year Income</td>
<td>909,263</td>
<td>727,303</td>
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<td>1.2 Taxes and Duties Payable</td>
<td>248,337</td>
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<tr>
<td>1.2. Corporate tax due to tax loss</td>
<td>140,335</td>
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<tr>
<td>1.2.1 Income withholding tax</td>
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<tr>
<td>1.2.2 Other taxes and duties (4)</td>
<td>102,002</td>
<td>138,004</td>
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<td>A. NET INCOME FOR THE YEAR (1-1.2)</td>
<td>609,926</td>
<td>595,668</td>
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<td>1.3 Prior Year Losses (2)</td>
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<tr>
<td>1.4 First Legal Reserves (5)</td>
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<td>29,782</td>
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<tr>
<td>1.5 Other statutory reserves (7)</td>
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<td></td>
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<tr>
<td>B. NET PROFIT AVAILABLE FOR DISTRIBUTION (A-(1.3+1.4+1.5))</td>
<td>609,926</td>
<td>565,885</td>
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<tr>
<td>1.6.1 First Dividend to Shareholders (6)</td>
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<td>169,818</td>
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<td>1.6.2 To owners of ordinary shares</td>
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<td>169,818</td>
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<td>1.6.3 To owners of preferred shares</td>
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<td>2</td>
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<td>1.6.4 To holders of profit and loss sharing certificate</td>
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<tr>
<td>1.6.5 Dividends to Directors (7)</td>
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<td>11,987</td>
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<tr>
<td>1.6.6 Second dividend to Shareholders (8)</td>
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<td>226,182</td>
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<td>1.6.7 To owners of ordinary shares</td>
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<td>226,182</td>
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<tr>
<td>1.6.8 To owners of preferred shares</td>
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<td>-</td>
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<td>1.6.9 To holders of profit and loss sharing certificate</td>
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<td>1.6.10 Dividends to Personnel (9)</td>
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<td>11,882</td>
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<td>1.6.11 To holders of profit and loss sharing certificate</td>
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<td>1.6.12 To owners of ordinary shares</td>
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<td>1.6.13 To owners of preferred shares</td>
<td></td>
<td>-</td>
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<tr>
<td>1.6.14 To profit sharing bonds</td>
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<tr>
<td>1.6.15 To holders of profit and loss sharing certificate</td>
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<tr>
<td>1.6.16 Dividends to Board of Directors (10)</td>
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<td>1.7 Second Legal Reserves (10)</td>
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<td>1.7.1 General Reserves (11)</td>
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<td>1.7.2 Other Reserves (13)</td>
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<td>1.7.3 Special Funds (14)</td>
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<td>II. DISTRIBUTION OF RESERVES (11)</td>
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<td>2.1 Appropriated Reserves (11)</td>
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<td>2.2 Second Legal Reserves (11)</td>
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<tr>
<td>2.3 Dividends to Shareholders (12)</td>
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<tr>
<td>2.3.1 To owners of ordinary shares</td>
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<td></td>
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<tr>
<td>2.3.2 To owners of preferred shares</td>
<td></td>
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<tr>
<td>2.3.3 To holders of profit and loss sharing certificate</td>
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<tr>
<td>2.3.4 To holders of profit and loss sharing certificate</td>
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<tr>
<td>2.3.5 To owners of preferred shares</td>
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<tr>
<td>2.3.6 To holders of profit and loss sharing certificate</td>
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</tr>
<tr>
<td>2.3.7 To owners of preferred shares (pre-emptive rights)</td>
<td>-</td>
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</tr>
<tr>
<td>2.3.8 To profit sharing bonds</td>
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<tr>
<td>2.3.9 To holders of profit and loss sharing certificate</td>
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<td>-</td>
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<tr>
<td>2.3.10 To owners of ordinary shares</td>
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<tr>
<td>2.3.11 To owners of preferred shares</td>
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<td>-</td>
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<tr>
<td>2.3.12 To holders of profit and loss sharing certificate</td>
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</tr>
<tr>
<td>2.4 Dividends to Personnel (13)</td>
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<tr>
<td>2.5 Dividends to Board of Directors (14)</td>
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<tr>
<td>III. EARNINGS PER SHARE (15)</td>
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<td>3.1 To owners of ordinary shares (15)</td>
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<td>3.2 To owners of preferred shares (15)</td>
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<td>3.3 To owners of profit sharing bonds</td>
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<td>3.4 To owners of profit sharing certificates</td>
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<tr>
<td>IV. DIVIDEND PER SHARE (16)</td>
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<tr>
<td>4.1 To owners of ordinary shares (16)</td>
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<td>0.21</td>
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<td>4.2 To owners of preferred shares (16)</td>
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<td>26.37</td>
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<td>4.3 To owners of profit sharing bonds</td>
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<td>4.4 To owners of profit sharing certificates</td>
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</tbody>
</table>

(1) Since the Board of Directors has not prepared any proposal for profit distribution relating to the year 2018 yet, only profit available for distribution for the year 2018 is presented.
(2) According to the regulation in Turkey, companies do not distribute profits based on consolidated. Profit distribution is based on non-consolidated financial statements.
(3) A nominal value of 1 lira figures a share in unconsolidated income statement and unconsolidated statement of profit distribution and an earnings per share is calculated for a nominal value of 1 Kuruş.
(4) The current amount is deferred tax expense and the prior amount is deferred tax income.
GRI STANDARDS INDEX - CORE

“For the Materiality Disclosures Service, GRI Services reviewed that the GRI content index is clearly presented and the references for Disclosures 102-40 to 102-49 align with appropriate sections in the body of the report.”
### GRI STANDARDS INDEX - CORE

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<th>PAGE NUMBER/DIRECT REFERENCE</th>
<th>OMISSIONS</th>
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<tr>
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<td>103-3</td>
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<td></td>
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<td>Page 78-79</td>
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<td>302-5</td>
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<td>GRI 303: WATER 2016</td>
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<td>303-5</td>
<td>Page 78-79</td>
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<td>GRI 305: EMISSIONS 2016</td>
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<td>305-5</td>
<td>Page 78-79</td>
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<td>GRI 306: EFFLUENTS AND WASTE</td>
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<td>306-1</td>
<td>Page 36-37</td>
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<td>306-2</td>
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<td>GRI 203: INDIRECT ECONOMIC IMPACTS 2016</td>
<td>103-1</td>
<td>Page 36-41</td>
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<td>103-3</td>
<td>Page 24-25, 26-29</td>
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<td>GRI 204: PROCUREMENT PRACTICES 2016</td>
<td>104-1</td>
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<td>104-3</td>
<td>Page 24-25, 26-29</td>
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**Notes:**
- Page numbers and direct references may vary depending on the specific version and edition of the Integrated Annual Report.
- Omissions may refer to areas where information is not available or is not disclosed.
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<tr>
<th>GRI STANDARD NUMBER</th>
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<tr>
<td>G306: EFFICIENCY AND WASTE 2016</td>
<td>306-1</td>
<td>Page: 78-79</td>
<td>The disclosure is omitted because it is not directly related with TSKB’s business activities and operations.</td>
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<tr>
<td>G307: ENVIRONMENTAL COMPLIANCE 2016</td>
<td>307-1</td>
<td>Page: 36-37</td>
<td>There are no significant fines or sanctions in the reporting period.</td>
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<tr>
<td>G308: SUPPLIER ENVIRONMENTAL ASSESSMENT 2016</td>
<td>308-1</td>
<td>Page: 88-90</td>
<td>Although the suppliers are expected to pay attention to their environmental impact, there are no suppliers that were screened using environmental criteria.</td>
</tr>
<tr>
<td>G401: EMPLOYMENT 2016</td>
<td>401-1</td>
<td>Page: 84-89</td>
<td>Total number of new employees hired in 2018 is 31.</td>
</tr>
<tr>
<td>G401: EMPLOYMENT 2016</td>
<td>401-2</td>
<td>Page: 84-89</td>
<td>All TSKB employees are working on full-time basis.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>GRI STANDARD NUMBER</th>
<th>DISCLOSURES</th>
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<td>Page: 84-89</td>
<td>All TSKB employees are working on full-time basis.</td>
</tr>
</tbody>
</table>
TSKB does not employ child labor in any way. TSKB expects all of its suppliers comply with age restrictions mentioned on related laws and regulations.

There are no activities and operations at TSKB with significant risk for incidents of forced or compulsory labor. TSKB expects all of its suppliers do not employ forced or compulsory labor in any case.

There are no activities at TSKB with significant risk for breaches of customer privacy and losses of customer data.

There are no complaints concerning breaches of customer privacy and losses of customer data.

TSKB does not employ child labor in any way. TSKB expects all of its suppliers comply with age restrictions mentioned on related laws and regulations.

There are no activities and operations at TSKB with significant risk for incidents of forced or compulsory labor. TSKB expects all of its suppliers do not employ forced or compulsory labor in any case.

There are no complaints concerning breaches of customer privacy and losses of customer data.

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