



**INTEGRATED  
REPORT  
2016**

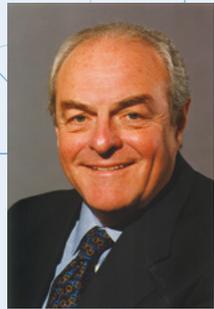


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# Preface



**PROF. MERVYN  
E KING SC**

Türkiye Sınai Kalkınma Bankası (TSKB) is one of Turkey's major banks which has for some time internalised integrated thinking in its value creation process. It has now done its first integrated report for its fiscal period in 2016.

In the report the board acknowledges that integrated reporting is an ever developing process. In short, it is accepted by the board that it is on a journey of integrating the six capitals as described in the Framework of Integrated Reporting published by the International Integrated Reporting Council in December 2013.

Integrated thinking is a process where the collective mind of the board is applied as to how the company makes its money and in doing so how it affects the sources of value creation used by the company and its relationships with its stakeholders.

The long term goal of TSKB is to increase its contribution to Turkey's growth and development but in doing so create value for its stakeholders.

Being aware that TSKB operates in the triple context of the Turkish economy, society and its environment, it was the entity which had the first green SRI bond issuance in 2016 which attracted a huge demand from international markets. TSKB is a part of the Borsa Istanbul's Sustainability Index and joined the FTSE for Good Emerging Markets Index which was another step by the company in its commitment to creating value long term in a sustainable manner for the benefit of all its stakeholders.

By 1990 TSKB was integrating environmental factors into their appraisal process for the financing of projects. In 2000 it was the first bank in Turkey to grant a loan linked to industrial pollution abatement. It also became the first Turkish company to measure and erase its carbon footprint and obtained an ISO 14001 certificate in environmental management systems. It went further in 2011 when it became an important partner in the wind energy sector and was recognised as a major investor in Turkey in clean technology and new energy.

TSKB has also taken account of the United Nations Sustainable Development Goals and in funding projects TSKB does not look at them merely as financial transactions but as a contribution to the country's development and global sustainability.

While TSKB states in its integrated report that it creates value for all its stakeholders through its operations and its integrated

approach to doing business, the veracity of these statements can be gleaned from reading the report and looking at the company's journey in adopting integrated thinking in the development of its strategy, short, medium and long term.

Since 2009 TSKB has been quoted in the Borsa Istanbul Corporate Governance Index as being among the companies with one of the highest corporate governance ratings in Turkey.

TSKB has built a communication platform for each of its stakeholder groups and attaches great importance to an ongoing engagement with its stakeholders. Learning of the needs, interests and expectations of its stakeholders, management has become better informed in developing strategy and reports to the board on its ongoing relationships with its stakeholders. This has helped the board to have an informed oversight over management's proposals.

In its integrated report TSKB deals with each of the six capitals separately. In regard to financial capital TSKB includes the products and services the bank provides to its customers through its funds as well as the added value it creates by its corporate culture of stakeholder inclusivity. In dealing with human capital it is acknowledged that the skills of its employees is a critical aspect in its business model. TSKB distinguishes the levels of education and expertise among its employees to ensure that the bank assumes

a leading role in a diverse range of financial products. TSKB also has training programme workshops for its employees.

The way in which TSKB deals with natural capital is exhibited with its sustainable banking concepts started in the year 2000 - thus the bank has incorporated renewable energy issues in funding projects and which make a positive contribution to the Turkish society and environment.

In dealing with intellectual capital the board has reported how it stands by those who produce the future in terms of "producing without consuming the future." It has a range of technical expertise in its business model to meet the priorities for the country.

In regard to manufactured capital TSKB considers the internal needs and dynamics of the organisation as well as its customers and consistently updates its IT infrastructure. TSKB is committed to continue to ensure all work processes are run in a safe, fast and high quality manner by the realisation of the most up to date applications in work continuity and data security, web infrastructure and mobile communication areas.

In relation to social capital, I have already referred to its platforms for communication with its stakeholders but the way it deals with social capital is reflected in its drive to be the best bank in Turkey's sustainable development.

In dealing with future outlook, the report deals with targets in banking, in financial projects, social issues and environmental factors. All of these outlooks are consistent with an integrated thinking approach in regard to its business model.

From what is set out above it will be seen that TSKB has been mindful in drafting its first integrated report of the general principles and the content elements of the IIRC's Framework. But as acknowledged in the report it is on a journey in this regard, as are many companies around the world. Having started it can only improve the quality of its integrated report in the future.

It is clear, however, that the collective mind of TSKB's board has spent time understanding its financial and non-financial information and has, in clear, concise and understandable language written an integrated report which can be understood by all its stakeholders. It certainly will enable stakeholders to be more informed in regard to evaluating how TSKB makes its money and, in doing so, how it affects the Turkish economy, society and the environment. This will lead long term to TSKB being able to raise capital more cheaply because the providers of capital are better informed and will be able to attract the cream of the crop of the net generation to its business because it is clear that it has moved away from carrying on business as usual in adopting a valuation creation process in a sustainable manner.

This can only be to the benefit of all of its stakeholders including its shareholders, long term.

In reading TSKB's first integrated report one gets a quiet feeling of comfort that it is a company in which its stakeholders can have trust and confidence, that it is creating value but is aware of the affects of doing so on the economy, society and the environment of Turkey. This leads the reader to conclude the legitimacy of its operations with effective leadership and adequate controls.

22 March 2017

# About the Report

**STARTING FROM 2017, TÜRKİYE SİNAİ KALKINMA BANKASI (TSKB) AIMS TO ESTABLISH** a more efficient communication with its stakeholders through the integrated report\* which incorporates both financial and non-financial information.

TSKB targeting to create long-term value for its customers, investors, business partners, employees as well as the society since its foundation has internalized integrated thinking and made it an integral part of its modus operandi.

As this is the first integrated report of the institution special attention has been made to share the Bank's entire development process, value creation and key milestones since its establishment.

The decision and process to issue an integrated report have been carried out through a participatory and interactive approach involving all stakeholders including the Bank's senior management and employees. Under TSKB's sustainable banking approach integrated reporting is an ever-developing process. To this end, at TSKB, we believe comments and opinions from stakeholders will prosper the organization, will help shape the corporate strategy and contribute to the high-quality value creation process.

Detailed financial tables and the audit report for 2016 can be accessed from the TSKB Annual Report.

*An integrated report is a new generation reporting approach in which an organization informs its stakeholders over the capitals and relations it has created and effected.*

*Integrated reporting is based on integrated thinking and integrated way of doing business.*

\* TSKB Integrated Report has been published on March 9, 2017.

# 2016 Economic Outlook

- > WORLD ECONOMY
- > TURKISH ECONOMY
- > BANKING SECTOR

## MODERATE GLOBAL GROWTH CONTINUES

In its World Economic Outlook update published in January 2017, the IMF revised its global growth projection for 2016 from 3.2% to 3.1%. This update reflects the economic uncertainties led by the Brexit referendum, which was held in mid-2016 and paved the way for a UK farewell to the European Union and the impact of an unsatisfactory growth in the U.S. economy. Additionally, a serious differentiation was observed in the performance of developing countries in 2016. China struggled with continued slowdown and India recorded a robust growth while Brazil and Russia made progress to recover from recession.

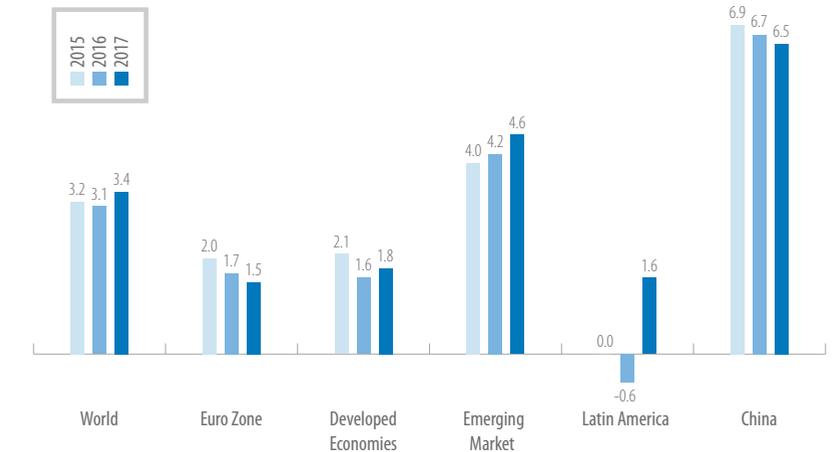
## CHANGING TRENDS IN FINANCIAL MARKETS

Markets survived the impact of the Brexit referendum only through short-term fluctuations thanks to the help of post-referendum monetary policies. However, the increase in interest rates before the interest rate hike by the Fed in December, the price surge in metals after the U.S. elections and the build-up in inflation expectations all seem to lead to the start of a "strong dollar and high interest rate" period.

U.S. Dollar Index (DXY) is an index of the value of the United States Dollar relative to a basket of six foreign currencies. It exceeded 103 before the Fed's interest rate increase on 14 December and completed 2016 at 102.2 with an increase of 3.6%.

Growth Expectancy %

SOURCE IMF



U.S. Fed Interest Rate

SOURCE Federal Reserve





Interest rates in the U.S. recorded an upward trend under the influence of an expected increase in inflation. The ten-year U.S. Treasury bond rate started the year at 2.27% and ended at 2.44%.

The Fed which was expected to increase interest rates twice at the beginning of the year postponed them due to the Brexit referendum that caused political uncertainties and the U.S. elections before raising the interest rate for the first time in December 2016 to take policy rates from 0.25-0.50% range to 0.50-0.75% range.

### A STRONG U.S. DOLLAR DEVALUED THE CURRENCIES OF DEVELOPING COUNTRIES

Capital inflows to emerging markets continued until November despite variations between countries and currencies displayed a stable trend. The Fed's failure to raise the rate at the beginning of the year brought along a sustained attractiveness for investments in developing countries. The uncertainties emerging after the U.S. elections in November led to a negative differentiation of developing countries from developed countries. IIF data shows that the capital inflows to emerging markets stood at around USD 58 billion between January and October while a capital outflow of USD 27 billion in November and USD 3 billion in December was recorded.

Despite the negative developments, globally stock exchanges closed 2016 positively. Venezuelan and Egyptian exchanges were the two exchanges with the highest yield, 117% and 76% respectively. Meanwhile, the Chinese stock exchange could not escape falling by 12% due to the country's efforts to follow policies to reinvigorate domestic demand while applying a controlled slowdown in growth rate as well as capital controls against foreign investors. The stock exchanges of developing countries rose by 9% on average and the U.S. S&P rose by 10% while the European exchanges fell by about 3%.

Change in USD rate (2016) SOURCE Reuters

YEAR BEGINNING – OCT. 31		OCT. 31 – YEAR END	
Argentina	17.5%	Argentina	4.6%
Brazil	-19.2%	Brazil	-0.1%
China	4.4%	China	2.2%
Czech Republic	-1.2%	Czech Republic	4.4%
Hungary	-3.1%	Hungary	4.5%
India	0.8%	India	1.9%
Indonesia	-5.4%	Indonesia	3.3%
Israel	-1.3%	Israel	0.3%
South Korea	-3.1%	South Korea	5.9%
Mexico	9.8%	Mexico	9.8%
Poland	-0.1%	Poland	6.7%
Russia	-13.4%	Russia	-3.0%
South Africa	-12.8%	South Africa	1.8%
Taiwan	-3.9%	Taiwan	2.9%
Thailand	-2.8%	Thailand	2.4%
Turkey	6.2%	Turkey	13.8%

### OIL PRODUCTION CUT LED TO A PRICE INCREASE

Oil has been a key factor in markets in 2016. Starting the year with a decline to USD 27, the lowest in the last 12 years, the Brent Crude surged from this level to USD 52 by June. This was under the impact of an expected postponement of the Fed's rate hike and the shrinking production led by low prices. Following a fall in prices again, OPEC and non-OPEC producers drafted a production cut plan at an unofficial meeting at the end of September. This plan was finalized during the official meeting on 30 November. OPEC countries agreed to cut down total production by a daily 1.2 million barrels to 32.5 million barrels as of January 2017 (a decision supported by non-OPEC producers). Influenced by such developments, the oil price stood at USD 56 at 2016 year-end with an increase of 50%.

Crude Oil \$/barrel, Brent SOURCE Matriks



### THE EUROPEAN CENTRAL BANK EXTENDED ITS BOND PURCHASE PROGRAM

In the Eurozone, annual inflation rate went down to minuses in May 2016 after the European Central Bank extended its bond purchase program in December 2015. However, the annual inflation rate stood at 1.1% at the year-end due to the rise in oil prices. Unemployment rate displayed a downward trend throughout the year to go down to 9.8% while the annual growth rate was 1.8%. As a result, EUR to USD exchange rate which started the year 2016 at 1.08 completed the year at 1.05.

Euro/USD SOURCE Matriks





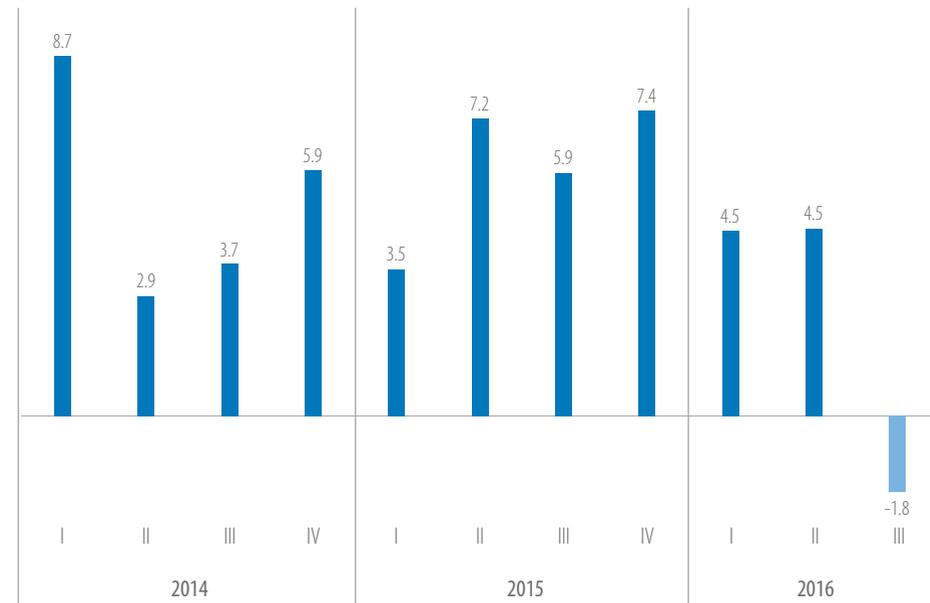
### LEADING INDICATORS ON THE TURKISH ECONOMY POINT OUT TO A RECOVERY IN THE LAST QUARTER OF THE YEAR

In the third quarter of 2016, Turkish economy contracted by 1.8%, resulting in a growth rate of 2.2% in the first three quarters. In terms of expenditures, the reasons for the shrinkage in the third quarter are the 3.2% shrinkage in household consumption and the increasing negative contribution from foreign demand. On production side, the recession in exports in the third quarter led to a 7.7% decrease in agricultural production and the recession in tourism and transportation caused an 8.4% decline in services while industrial production that has a significant weight fell by 1.4%, all leading to an economic contraction. Data adjusted for seasonal and calendar effects indicated that the GDP decreased by 2.66% in the third quarter of 2016 when compared to the previous quarter. As of the end of September 2016, the size of Turkish economy stood at TL 2.5 trillion (USD 850 billion).

GDP growth data for previous periods have been revised due to changes in calculation methodology and change of the base year by TÜİK. Consequently 2013 growth rate has been revised from 4.2% to 8.5%, 2014 rate from 3% to 5.2% and 2015 rate from 4% to 6%. The growth rates for first quarter of 2016 were revised from 4.7% to 4.5% and second quarter from 3.1% to 4.5%.

Growth by quarters %

SOURCE TÜİK



Data for the last quarter of the year points out to an economic recovery. The increase in industrial production rose from 0.2% in October to 4.6% in November 2016. In December, automotive production increased by 24% and white goods production rose by 14%, both proof that industrial production may grow strongly in December as well. Although retail data and developments in foreign trade cannot be reckoned as signs of recovery in domestic and foreign demand, public investments will be able to support growth on expenditures side. Such data is indicative of an expected 2.3% growth in the last

quarter of 2016 and an expected 2.2% annual growth.

### IMPORTS ON THE RISE WHILE THE EXPORTS HAVE FALLEN

In the last two years, foreign trade deficit followed a downward trend under the impact of low commodity and oil prices but the developments in global markets in 2016 signalled the end of this two-year period. The surge in oil price from USD 27 to USD 56 and the rise in commodity prices, specifically in metals, following the U.S. elections boosted imports while the decline in exports continued (despite the recovery

in exports to Iran, Iraq and Russia). In 2016, exports stood at USD 143 billion with a decline of 0.9%, imports decreased by 4.2% to USD 199 billion and the foreign trade deficit fell by 11.7% to USD 56 billion.

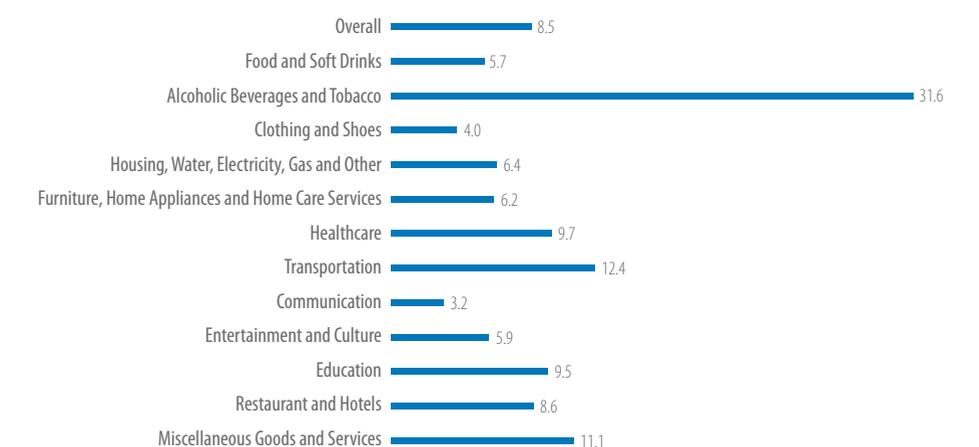
The decelerating decline in foreign trade deficit due to rising oil prices and the loss in tourism revenues amounting to an approximate USD 10 billion put an end to the downward trend observed in current accounts deficit for the last 2.5 years. In 2016, current accounts deficit rose by 2% to USD 32.6 billion. It is estimated that the current accounts deficit/GDP ratio will be 3.8%.

### SURPRISING DECLINE IN FOOD PRICES WAS BALANCED WITH TAX ADJUSTMENT

Consumer prices saw 2016 off with a rise of 8.53% above both the 7.5% the projection of the Central Bank, and the 6.5%, the target in the Medium-Term Plan (MTP). The reasons behind a high inflation rate were the tax adjustments in automotive and fuel products as well as alcoholic beverages and tobacco products as opposed to the declining food prices and the negative impact of the increase in exchange rate left over from 2015. Annual inflation rates for food, alcoholic beverages and tobacco products, and transportation stood at 5.7%, 32% and 12% respectively. It is projected that the inflation rate may rise to two digits in the first half of 2017 under the influence of the devaluation of TL in the last two

Annual Inflation %

SOURCE TÜİK



months of the year, the rising oil prices following the OPEC agreement and the increase in commodity prices before launch of growth incentives policies expected in the aftermath of the U.S. elections. For the second half of the year, a downward trend is expected under the base effect and the annual inflation is estimated to be over 8%.

In addition to international developments, domestic markets also survived an extraordinary agenda. Downgrading of ratings by S&P and Moody's and the developments in domestic and foreign policies hit the top of the agenda in

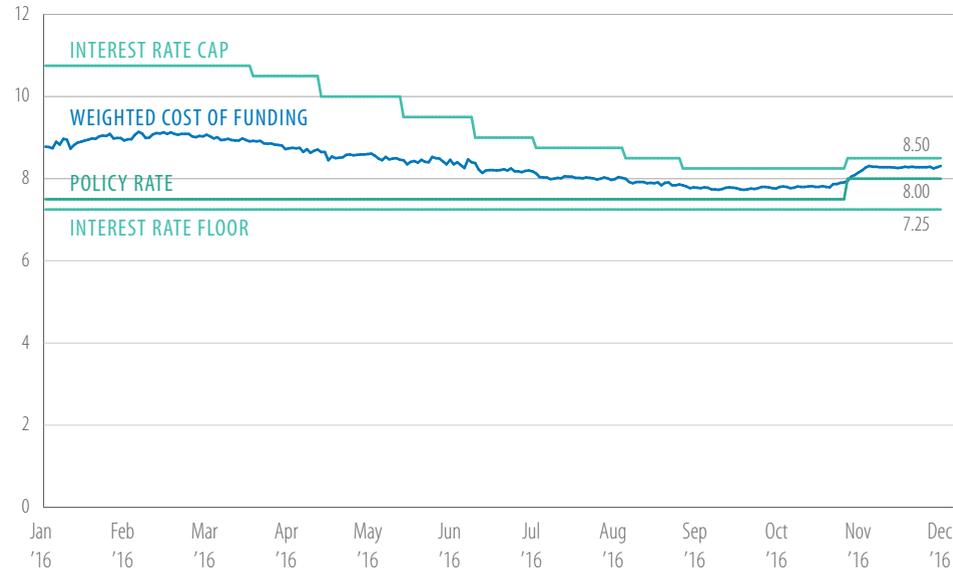
markets. At Borsa Istanbul, BIST-100 index completed the year at 78,138 with a rise of 9%. Simplification steps by the Central Bank in monetary policies and the slight recession in inflation from food prices led to a decrease from 10.86% to 10.63% in the two-year benchmark bond interest rate. A stronger USD abroad and the capital outflow in the last two months of the year caused the USD/TL rate to rise to 3.52 with an increase of 21%.

**TCMB CONTINUED TO TAKE SIMPLIFICATION STEPS**

The Central Bank declared in the monetary policy it announced in August 2015 that the need for a wide interest corridor decreased in line with the simplification plan due to the decline in global volatilities and reduced the overnight lending rate from 10.75% to 8.25% just to increase it to 8.50% in November in line with the rising volatility due to the U.S. elections and expectations from the Fed. The weekly repo rates stabilized at 7.5% throughout the year rose to 8% for the same reasons but the overnight lending rate was fixed at 7.25% all year long. As a result, the Central Bank narrowed down the interest corridor by 225 basis points in 2016.

**Central Bank Interest Rates**

SOURCE Central Bank



**TURKISH BANKING SECTOR**

**SUCCESSFUL SECTOR PERFORMANCE SUSTAINED IN 2016**

The total number of banks as of 2016 year-end in the Turkish banking sector stood at 52. In 2016, the assets of the sector grew by 8.4% as adjusted for currency impact to reach TL 2.7 trillion.

Loans constituted 63% of total assets and rose by 17% in 2016 following a 20% growth in 2015. In 2016, TL loans grew by 12% while foreign currency loans increased by 6% on a USD basis. Loan growth adjusted for currency impact stood at 12% in 2015 and rose by 10% in 2016. Making up about one fourth of all loans, personal loans grew

by 9% in 2016. SME loans, on the other hand, also constituted for one fourth of all loans and rose by 9% in 2016 after a 17% increase in 2015.

Deposits constituted half of the total liabilities in the banking sector and increased by 17% in parallel to the growth in loans in 2016. TL deposits grew by 18% while foreign currency deposits contracted by 5% on a USD basis. The increase in deposits as adjusted for currency impact stood at 8%. The total loan-to-deposit ratio in the sector rose to 118.6% during the year but receded to 117.4% as of December. When other main

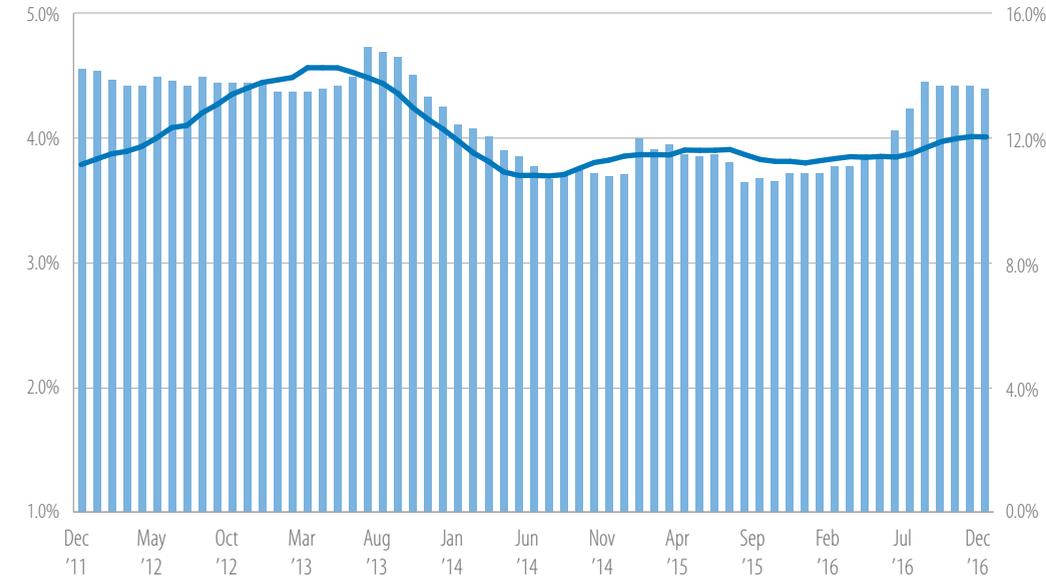
FX sources are considered, the ratio of loans to FX funds stand at 85.4%.

Although the FX funds the sector secured increased by 4.6% on a USD basis in the first six months of the year, a decrease of 5.8% starting from July led to a decline of 1.5% on annual basis. In 2016, foreign loans secured from abroad decreased by 4.8% and a net recession was observed in total funds despite the increase in funding from deposits and the securities issued. As of end-2016, FX funding makes up 22% of the sectoral balance sheet.

**Net Interest Margin (Last 12 Months)**

**Return on Equity (Last 12 Months)**

SOURCE BRSA



The sector used new resources essentially to finance the loan growth and the increase in securities portfolio remained at 1.2%. The asset quality in the sector deteriorated at a similar rate to 2015. An increase of 22% was observed in non-performing loans (NPL) and the percentage of NPLs in the sector rose to 3.21%. The reserve ratio for problematic loans of the sector is maintained a high level of 77.4%.

**RETURN ON EQUITY ROSE COMPARED TO PREVIOUS YEAR**

Profitability in the sector recovered in 2016 and return on equity rose from 10.7% at 2015 year-end to over 13%. Reduction in

commercial losses and in losses due to exchange rate, coupled with the decline of growth in operating expenses down to 5%, led to an increase in profitability. Furthermore, the cost-to-income ratio fell from 46% to 40% at 2016 year-end thanks to the measures the banks took to increase productivity, supporting the profitability increase.

Capital adequacy ratio in the sector remained the same on an annual basis with 15.6% at 2016 year-end. Core capital adequacy ratio fell by 4 basis points annually and stood at 13.2%.

**A LOAN GROWTH OF 14-15% IS EXPECTED IN 2017**

In 2017, the sector is expected to attain a 14-15% growth in nominal loans and deposits. It is anticipated that loan growth will be driven by corporate loans in TL. It is projected that the net profit increase in the sector will be 5% and return on equity will move horizontally at around 13%.

# Chairman's Message



*TSKB had another successful year in 2016. Since 1950 when it was founded, the Bank has always acted on an awareness and responsibility for supporting Turkey's growth irrespective of the circumstances of the day.*

Esteemed Stakeholders,

Global economic indicators presented a weak and vulnerable growth outlook in 2016 similar to the four preceding years but took a rather positive turn towards the end of the year. The relative momentum the U.S. economy gained specifically in the third quarter and the increased optimism towards developing economies lead to positive expectations for 2017.

On domestic front, the fiscal discipline that is maintained and the budget deficit which was curbed to hover slightly over 1% in 2016, indicate an improved outlook ahead. Moreover, specific incentives and measures introduced by the authorities to support

consumption and investment expenditures towards the end of the year, points out to an increase in the economic activity in 2017 and a growth of 3-3.5% in Turkish economy.

## **TURKISH BANKING INDUSTRY MAINTAINS ITS STRONG POSITION**

Our economy is resisting against the abominable coup attempt, terrorism and geopolitical risks in the region thanks to its strong macroeconomic foundations and resilient banking system.

Turkish banks maintained their robust performance despite rising risks and volatility in international markets in 2016 and extended an uninterrupted support to economy. Syndicated loans were renewed

during the year and this emerged as an indicator of the international confidence in the Turkish banking industry. Furthermore, the European Commission has resolved that the regulatory and supervisory framework of our banking sector is in harmony with the European Union legislation, a highly positive development offering Turkish banks the prospective opportunity to access funds and enjoy cost advantage.

## **WE ARE AWARE OF OUR RESPONSIBILITIES**

Despite challenging domestic and international circumstances, TSKB had another successful set of results in 2016 thanks to the dynamic and proactive policies it pursued. Since 1950 when it was founded, TSKB has always acted on an awareness and responsibility for supporting Turkey's growth irrespective of the circumstances of the day. We consider it a fundamental priority to assume strategic roles with respect to satisfying the long-term funding requirements of many companies from various industries and offer sustainable added value in Turkey's development journey as it has been the case so far.

We continuously improve our performance in line with our goal to increase our contribution to Turkey's growth and development. We handle sustainability within an approach that goes beyond financial targets and break new grounds in this area.

The first Green/SRI Bond issuance in our country in 2016 is one of these many firsts that we have affixed our signature to. This issuance attracted significant demand from international markets, and the funds generated through the issuance were used as additional financing for both green projects and investments with social benefits. We also received various awards from reputed international platforms for this bond issuance. TSKB is a part of BIST Sustainability Index and also succeeded in joining the FTSE4Good Emerging Markets Index in December, yet another major step in line with our commitment to create long-term value for all stakeholders.

## **WE WILL MAINTAIN OUR BUSINESS WITH DETERMINED APPROACH**

Our history and our faith in Turkey adds to our potential.

We will continue to deliver solid performance results in line with our goals, as we did in 2016, while assuming key roles in Turkey's development thanks to our robust assets and resilient capital structure. At a time when development and investment banking have gained increased importance, we will exponentially improve the contribution we make to the country's economy.

We will maintain our determined approach and use our well-established corporate culture rising on transparency

and accountability as well as our strong shareholding structure and highly-qualified human resources as leverage for progress as a financial service provider leading every aspect of our country's development.

Availing myself of this opportunity, I would specifically like to thank my colleagues as well as our distinguished customers, shareholders and all other stakeholders for supporting and confiding in us.

Sincerely,

**ADNAN BALI**  
CHAIRMAN OF THE BOARD

# CEO'S Message



Esteemed Shareholders,  
Customers,  
Business Partners,

Valuable Members of the TSKB Family,

In 2016, the economic outlook was marked by uncertainties and limited growth all around the world while our country survived a challenging period due to conflicts in the Middle East and the increasing number of terrorist attacks. The largest test for our state and our people during the year has been the treacherous coup attempt of July 15, which directly targeted our democracy.

*Our financial indicators point out to one of the most successful periods in TSKB's history in terms of supporting development.*

As TSKB, we believe we are going through a period when all individuals and organizations must act in an unprecedented spirit of solidarity, understand each other better and assume relevant responsibilities for the economic development of our country.

As a bank that has adopted the mission to support Turkey's development since 1950, we take this belief as the basis for continuing to fulfill our responsibilities today as it has been the case so far.

Having left a challenging year behind, the financial results we delivered are significant in displaying not only the strengthened position and reputation of our Bank but also

our mobilization of the funds we have for the growth of our economy.

As of December 31, 2016, total assets of our Bank expanded by 15.8% annually to TL 24 billion. Throughout the year, TSKB's support to real economy via cash and non-cash loans has been around USD 2.1 billion. While foreign funds secured from international markets reached TL 19.3 billion at a time when variable market conditions and weak investment appetite dominate, our loan growth in TL was over the industry average at 26.7% while it undershot our target on fx-adjusted basis, with 8.2%. Cash loans reached TL 17.3 billion with a balance sheet share of 72%. The share of SME loans within the total loan portfolio was 18%. Our successful loan assessment processes and risk-sensitive loan portfolio management approach enabled us to limit our non-performing loan ratio to 0.3%, way below the industry average.

In 2016, our shareholders equity rose by 17.7% to reach TL 3 billion. Thanks to our efficiency focused efforts, our Bank delivered an average annual return on equity of 17.6% and an average annual return on assets of 2.1%, while the net profit posted was TRY 476 million with 17.1% pick up on a year-on-year basis.

## **SUSTAINABILITY IS AT THE CORE OF ALL TSKB STRATEGIES**

Sustainability emerges as the key concept at a time when technology develops so

rapidly and industrialization increases at a similar pace. As one of the organizations adopting the concept of sustainability at a very early stage in our country, TSKB uses its experience and expertise in sustainability to create value for all its stakeholders. Sustainability loans attained a weight of 57% within the total loan portfolio of TSKB. We support the reduction of current accounts deficit through an installed capacity of 5,332 MW in renewable energy projects which we have funded, the acceleration of transition to a low-carbon economy through the prevention of a 13-million-ton carbon emission on an annual basis, and the production of the real sector with a higher performance through energy, water and resource efficiency investments.

In 2016, we had success in turning our efforts to improve the added value we provide in sustainability work into positive business results. In May, we issued the "Green/SRI Bond" on international markets and emerged as the first Turkish bank to do so. Moreover, we extended a total fund of USD 300 million to investments offering a solution to climate change as well as a social benefit. This bond issuance attracted a demand of 44% from the UK, 39% from Continental Europe, 9% from U.S. off-shore funds and 8% from Asia and the Middle East, indicating a high level of recognition and reputation for our Bank on a vast geography. The issuance received two different awards in 2016, one from GlobalCapital

and the other from the International Financing Review (IFR) and thus crowned our sustainability efforts aiming to create economic and social added value.

## **SHAREHOLDERS' EQUITY**

In 2016, our shareholders' equity rose by 17.7% to reach TL 3 billion. Thanks to our efficiency focused efforts, our Bank delivered an average annual return on equity of 17.6% and an average annual return on assets of 2.1%, while the net profit posted was TRY 476 million with 17.1% pick up on a year-on-year basis.

### IN 2016, TSKB CONTINUED TO DIVERSIFY ITS INTERNATIONAL FUNDING SOURCES

Despite uncertain market conditions in 2016, our Bank signed 6 new funding agreements with development finance institutions to strengthen its funding base.

A loan agreement amounting to EUR 100 million was signed with the European Investment Bank (EIB) to finance investments by SMEs and midcaps around Turkey and meet their working capital needs.

In addition, a loan worth EUR 150 million was secured from the German Development Bank (KfW) to fund renewable energy and energy efficiency projects. Within the scope of energy and environmental projects, another loan agreement amounting to Euro 100 million was signed with EIB.

In the last quarter of the year, we signed an agreement with the World Bank (IBRD) for a loan of USD 150 million to finance geothermal energy investments of private sector companies around Turkey, a proud development for us emerging as yet another attempt to facilitate our country's transition to a low-carbon economy and reduce its foreign dependency in energy.

With two recent themed funds, each worth EUR 100 million, we secured from the French Development Agency (AFD) and the Council of Europe Development

Bank (CEB), total amount of themed funds that is secured from development finance institutions in 2016 reached USD 733 million. Therefore, the total foreign currency funds that we obtained from international markets as well as our green/SRI bond issuance and syndicated loan that was rolled over with 107% mounted to USD 1.3 billion.

### WE ARE PROUD OF SUPPORTING WOMEN'S EMPLOYMENT

At TSKB, we believe the social role and living conditions of women are key for providing hints on the level of development in countries. We are also aware that our country will take yet another step forward towards its qualified development goal thanks to each economically-empowered woman joining the workforce.

To this end, we obtained a loan of EUR 100 million from the French Development Agency (AFD) 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. The mentioned fund is a key development as it offers a solution to issues in Turkey regarding access to funds in this area.

I would like to emphasize that, as a bank with a female employee rate of 55%, we will be taking significant steps to raise awareness on women's participation in real economy.

### BUILDING THE FUTURE TODAY

Our financial indicators point out to one of the most successful periods in TSKB's history for supporting development. This burdens us with the responsibility to further improve and carry forward our identity as a competitive bank that produces knowledge for the development of the country.

On this note, we consider the "Geleceğe Bakış" (Future Vision) program launched in 2016, included our affiliates and has attracted an active participation by the "Great TSKB Family", to be a historical milestone for tomorrow's successful TSKB.

Under the program, we cover and handle a myriad of subjects including but not limited to our products and services and our way of doing business. We also work to further improve the added value we create in all fields through common sense and plan the next 5 to 10 years.

### TSKB WILL CONTINUE WORKING FOR THE FUTURE OF A STRONG TURKEY

As we leave behind a challenging year, I would like to remind that all of us have important roles and responsibilities in 2017. Last year, we observed good practices reflecting the continued awareness on a "common cause" and this confirms our faith in Turkey's future.

As I conclude my remarks, I would like to offer my heartfelt thanks to the great TSKB family for their dedication and for enabling our Bank to have a successful finish in 2016, and to our shareholders, customers and business partners for confiding in and supporting us.

Sincerely,

**SUAT İNCE**  
CEO  
BOARD MEMBER



# TSKB at a Glance

TSKB was established in 1950 in Istanbul as Turkey's first private development and investment bank with the support of the World Bank and the Central Bank of the Republic of Turkey and the shareholding of commercial banks. The Bank operates in three main fields, namely Corporate Banking, Investment Banking and Consulting 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 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.

## Mission

*For Turkey's sustainable development: Supply entrepreneurs with medium- and long-term financing, brokerage and advisory support, Play a continuous role in the development of capital markets in Turkey, Create increasingly more added value for our shareholders, customers, employees, and all other stakeholders.*

## Vision

*To be the pioneering bank in Turkey's sustainable development.*

## TSKB in Numbers

- > TL 24 billion asset size
- > 19<sup>th</sup> bank in terms of asset size
- > A family of 567 with its subsidiaries

## MAIN SUBSIDIARIES

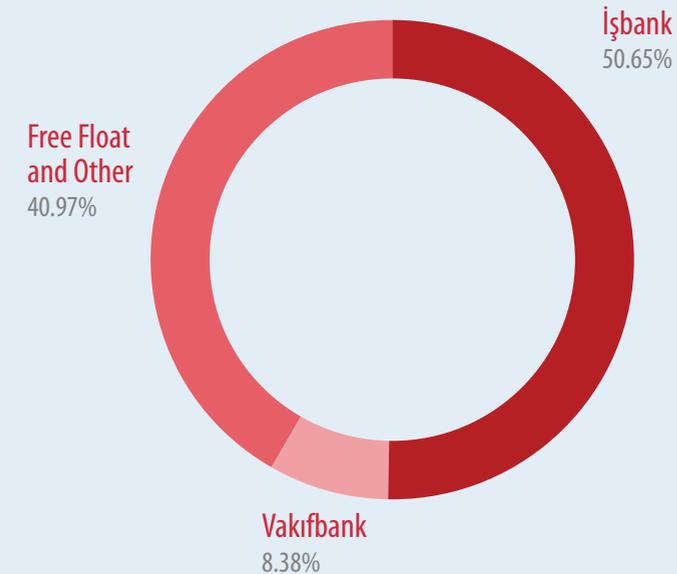
**Yatırım Finansman Securities**  
**TSKB Real Estate Appraisal**  
**TSKB Real Estate Investment Trust**  
**TSKB Sustainability Consultancy (Escarus)**  
**European Investment Fund (EIF)**



## RATINGS

	TSKB	TURKEY
Fitch	BBB-	BBB-
Moody's	Ba1	Ba1
SAHA	9.53/10	

## TSKB'S SHAREHOLDING STRUCTURE



TSKB is a public corporation with 39.1% of its shares being traded under the ticker symbol "TSKB" at Borsa Istanbul (BIST) Star Market. As of end-2016, the Bank's registered capital stood at TL 2,500,000,000 while its paid-in capital was TL 2,050,000,000.

*TSKB: The first development and investment bank pathing the way for the investments of the Turkish Private Sector*

## PIONEERING ROLE IN MULTIPLE AREAS OF THE TURKISH BANKING SECTOR

- > First development bank of Turkey
- > First equity participation of International Financial Corporation in Turkey
- > First issuance of private sector bonds
- > First issuance of bonds outside Turkey in Turkish Economic history
- > First bank in Turkey to have its accounts voluntarily audited by an independent audit company
- > First bank in Turkey to integrate environmental due-diligence in the credit appraisal process
- > First bank in Turkey to get ISO 14001 Certificate
- > First bank in Turkey to set-up an Environmental Management System
- > First carbon-neutral bank of Turkey
- > First bank to issue a Green/Sustainable Bond in Turkey



# The Role of TSKB in the Development Path of the Turkish Economy



***TSKB which was set-up with the mission of supporting the industrialization, development of Turkey and increasing the well-being of the society has focused on it since its foundation. It is therefore inevitable that the history of TSKB goes hand in hand with that of the Turkish economy. The Bank which has made contributions to almost each milestone of the Turkish economy continues its activities while continuously changing and adapting to developments and changes. TSKB aims to continue its activities as the pioneering bank in the sustainable development of the country.***

## 1950–1960

### Firsts and Pioneering in the 50s

- > EXTENSION OF PROJECT BASED MEDIUM TO LONG TERM LOANS TO THE PRIVATE SECTOR
- > TECHNICAL CONSULTANCY TO PROJECT SPONSORS
- > FIRST BANK TO ACQUAINT THE PRIVATE ENTREPRENEURS WITH FEASIBILITY STUDIES
- > FIRST STUDIES AND INITIATIVES FOR THE ESTABLISHMENT OF CAPITAL MARKETS
- > FIRST INSTITUTION TO EXTEND THE MUCH-NEEDED FOREIGN CURRENCY DENOMINATED LOANS FOR IMPORTS OF CAPITAL GOODS DURING TIMES OF EXTREME FOREIGN EXCHANGE SCARCITY

**TSKB, THE FIRST PRIVATELY OWNED DEVELOPMENT AND INVESTMENT BANK IN TURKEY** was founded with the support of the Central Bank of Turkey and the World Bank with the primary aim of supporting the development of the Turkish private sector through long-term investment loans. The model, which was successful, was eventually replicated in various developing countries by the World Bank.

TSKB which took its first decision to extend a loan on 26 February 1951 has realized numerous firsts in development and investment banking areas. TSKB has played

a pioneering role in these fields and carried out various initiatives through extension of medium to long term loans to the private sector on project basis, technical consultancy services to project promoters and feasibility studies on the establishment of capital markets.

The resources supplied by TSKB in these years when the private sector initiatives were in the formation stage has helped the private sector to become an important player in industrial production. TSKB has, in this period, helped the creation of new and additional capacity, in various sectors including durable and non-durable consumer goods.

TSKB has played an effective role in the Turkish economy in the 1950-1960 period which was characterized by scarcity of foreign exchange. TSKB which was the sole supplier of foreign exchange loans in this period has also played an important and special role in distribution of funds in the post-World War II era provided by various initiatives. The distribution of these scarce funds with objective and set criteria by TSKB has put the bank in a position of a trusted and prestigious institution in the minds of the entrepreneurs.

TSKB, conscious of the scarcity of foreign currency in the economy carried out various sector studies and established investment priorities and criteria in main sectors. To this extent, the bank carried out research

in various sectors and **took a leading role in directing private sector investments.** TSKB established the “New Investments Research Department” in 1959 for further guidance.

TSKB introduced the notion of the need of carrying out feasibility studies for investments to the private sector by requiring would-be investors to submit the studies with loan applications. The Bank initiated technical and financial follow-up studies throughout the implementation stage of investments and required the borrowers to carry-out the necessary remedies. This process enabled many investments to be realized during times when technical assistance was very scarce.

In this period TSKB carried out an effective equity participation strategy and took stakes in investments of various corporates which, in due course of the time became Turkey's largest industrial enterprises.

In these years, almost all the industrial corporates which were at the establishment stage received their first long term investment loans from TSKB.

## 1960–1970

### Firsts and Pioneering in the 60s

- > FIRST LOCALLY PRODUCED BUS, FIRST LOCAL AUTOMOBILE, FIRST AUTOMOBILE TIRE, FIRST LPG TANK, FIRST HIGH VOLTAGE CABLE, PLASTICS, ACRYLIC FIBRE, CARDBOARD, BATTERIES, SOFT SODA DRINK, TOILET PAPER, PENCILS, RECORDS, SUPPORT TO THE FILMING INDUSTRY
- > ISSUANCE, GUARANTEE AND UNDERWRITING OF CORPORATE BONDS
- > FIRST INITIAL PUBLIC OFFERING OF SHARES FROM PORTFOLIO
- > FIRST VOLUNTARY AUDITING OF ACCOUNTS OF A TURKISH BANK BY AN INDEPENDENT AND INTERNATIONAL AUDITING COMPANY
- > FIRST EQUITY PARTICIPATION OF IFC IN TURKEY

**IN THE 1960S TSKB CARRIED OUT VARIOUS IMPORTANT AND NEW INITIATIVES IN THE CAPITAL MARKETS** through undertaking initial public offering of companies from its securities portfolio and issuance, guarantee and underwriting of corporate bonds. TSKB was the first Turkish bank to have its financial statements audited by an international and independent auditing company on a voluntary basis thus **paving the way for transparency and accountability in capital markets.**

In an era where a shortage of qualified personnel was prevailing TSKB, under no legal obligation and on a voluntary basis, aided the formation of the State Planning Office (SPO) in 1960's and helped with the preparation of the First Five Yearly Development Plan. TSKB while playing an active role in the establishment of SPO also provided the SPO'S first Undersecretary. A financial analyst at TSKB Mr. Osman Nuri Torun became SPO's first Undersecretary. Three economists working at TSKB's Economic Research Department were seconded to SPO and made significant contributions to the preparation of the First Five Year Development Plan during its preparation stage in 1962.

TSKB strengthened by **becoming the first equity participation of IFC- a World Bank Group company –in Turkey**, assumed a critical role in the industrialization process of the period. As private sector investments

increased in sectors such as automotive, processed food, consumer durables, and construction materials TSKB provided much needed investment finance to the leading corporates. In the period TSKB provided finance to private sector fixed asset investments which in turn led to production of first Turkish buses, automobiles, automobile tires, LPG tanks, high voltage cables, batteries, cardboard, plastics and acrylic fibres.

In the 1960's TSKB extended its scope of activities to the capital markets through shares and bonds. TSKB started to sell the shares of its equity participations and thus made significant contributions to the creation and development of capital markets. In this period TSKB also established "Principles for Intermediation in Bond Issuances" in April 1968 and realized the **first private sector bond issuance** in the same year.

TSKB set up a pension fund for its staff in 1965. As of this date TSKB's staff and retirees continue to get additional social security services from the pension fund.

## 1970–1980

### Firsts and Pioneering in the 70s

- > SUPPORTING PRIVATE SECTOR INVESTMENTS TO THE DEVELOPING REGIONS OF THE COUNTRY
- > FIRST LONG TERM BOND ISSUE OF A CORPORATE'S OWN
- > ACCESSING TO ADDITIONAL FUNDS THROUGH MID-TERM SYNDICATED LOANS FROM THE EUROPEAN MARKET
- > PIONEERING SUPPORT TO EXPORT ORIENTED INDUSTRIES
- > SUBSTANTIAL SECTORAL STUDIES IN THE SERVICES SECTOR AND INDUSTRY

**IN THE 1970S, AS A DEVELOPMENT BANK, TSKB IN LINE WITH THE PREVAILING OF POLICIES** of the government of the time and initiatives of the World Bank in supporting private sector involvement and setting-up of companies with many shareholders in less developed regions, supported private sector initiatives in these regions. The Bank developed policies to support investments and industrial development in an equitable manner in all regions of the country. To this extent, the Bank provided a wide and value added range of services including technical assistance, project preparation and turn-key projects.

TSKB continued to sell shares from its equity portfolio in this period. **A significant proportion of the companies whose shares were listed at the Istanbul Stock exchange which would begin its operations by 1980s, consisted of those whose shares were offered by TSKB to the market.**

The Bank, in line with the policy of diversification of its funding sources, realized its first medium to long term bond issuance and secured funding from the European markets through midterm securitization loans in this period.

TSKB realized another first in the 1970s through carrying out substantial research in the services sector and the industry.

In this period, the Bank started to finance textiles and other export oriented sectors and thus played a pioneering role in the establishment of the export led growth model which was implemented in the 1980s.

## 1980–1990

### Firsts and Pioneering in the 80s

- > FIRST ISSUANCE OF LONG TERM BONDS IN INTERNATIONAL CAPITAL MARKETS (JAPAN)
- > PREPARATION OF TURKEY'S FIRST EVER PRIVATIZATION MASTERPLAN WITH AN INTERNATIONAL PARTNER
- > ESTABLISHMENT OF A SYSTEM OF FOREIGN EXCHANGE RISK INSURANCE FOR FOREIGN EXCHANGE DENOMINATED LOANS (FERIS)
- > SETTING UP OF THE TREASURY DEPARTMENT
- > CONDUCTING PRODUCER SURVEYS IN VARIOUS SECTORS TO FOLLOW-UP SECTORAL DEVELOPMENTS
- > ACQUISITION OF EXPORT FINANCE CREDITS FROM EUROPEAN AND JAPANESE FINANCE CORPORATIONS
- > PROVISION OF CONSULTANCY SERVICES TO TEXTILES AND OTHER INDUSTRIES WITH INTERNATIONAL CONSULTING COMPANIES
- > ESTABLISHMENT OF THE PRIVATIZATION STRATEGY FOR STATE-OWNED CEMENT FACTORIES
- > FIRST INITIAL PUBLIC OFFERING (IPO) THROUGH OUTRIGHT GUARANTEE
- > INTERMEDIATION FOR ISLAMIC DEVELOPMENT BANK FOR EQUITY PARTICIPATIONS IN TURKEY
- > ISSUANCE OF TSKB BILLS AND TSKB GUARANTEED BILLS
- > INTEGRATION OF ENVIRONMENTAL FACTORS TO THE PROJECT APPRAISAL PROCESS

#### IN THE 1980S TSKB STRENGTHENED ITS RELATIONSHIP WITH EUROPEAN AND JAPANESE FINANCIAL INSTITUTIONS.

This led the Bank to diversify and increase its sources of funding, enabling a more effective and faster capability of meeting the private sector's funding needs.

This era witnessed TSKB covering important ground in international relations and establishing its brand name in international markets. **For the first time in Turkish economic history the Bank issued long term bonds in international capital markets.** The signing ceremony for the Samurai Bonds issued in the Japanese markets with sovereign guarantee was held in Japan on May 20, 1985 with the presence of Mr. Turgut Özal- the prime minister of the time.

The textile consultancy participation of the Bank (Tekstil Danışmanlık Servisi A.Ş.) prepared the "Cotton and Wool Industries Committee Report" for the sixth Five Yearly Development Plan with "Boston Consulting" Company. **In 1982 TSKB set up the consultancy department which would provide services to other sectors.**

The Bank, teamed with a foreign partner, participated in the bid seeking consultancy services for Turkey's first Privatization Masterplan. TSKB partnered with Morgan Guaranty Trust which was one of the leading companies in the World in the field of privatization and the bid was

won. Consequently 26 state economic enterprises were examined in detail with a view for privatization. The Privatization Masterplan prepared by TSKB and Morgan Guaranty partnership paved the way for the enactment of the Privatization Law and the Establishment of Mass Housing Public Administration Partnership.

TSKB also provided consultancy services for the establishment of the privatization strategy and valuation of 11 Çitosan cement factories and eventually realized the sale of the plants.

In the 1980's, the bank integrated environmental due diligence in its project evaluation process. The possible environmental impacts of the projects to be financed, mitigation and control of the impacts were incorporated to appraisal process. Thus, TSKB integrated environmental due diligence to its project appraisal process long before the establishment of environmental regulations in the country.

## 1990–2000

### Firsts and Pioneering in the 90s

- > SIGNING OF LONG TERM FOREIGN CURRENCY AND INTEREST SWAP AGREEMENTS WITH INTERNATIONAL BANKS
- > PROVISION OF MID- TERM TURKISH LIRA DENOMINATED LOANS TO THE INDUSTRY WITH VARIABLE INTEREST RATES
- > CONSULTANCY SERVICES TO THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD) IN UZBEKISTAN
- > MANAGEMENT OF THE RISK CAPITAL FUND PROVIDED BY THE EUROPEAN INVESTMENT BANK (EIB)
- > VOLUNTARY PARTICIPATION IN 'RISK MANAGEMENT STUDY' INITIATED BY THE WORLD BANK
- > FIRST BANK IN TURKEY TO DISBURSE A LOAN WITH THE THEME OF INDUSTRIAL POLLUTION ABATEMENT

#### Awards

- > CHOSEN AS THE BEST INVESTMENT BANK IN TURKEY BY EUROMONEY (1997,1998, 1999)
- > GRANTED THE HIGHEST RATING NOTE BY THOMSON BANKWATCH IN THE CATEGORY OF DEVELOPING COUNTRIES/BANKING (1998)
- > CHOSEN AS THE BEST RESEARCH HOUSE BY EMERGING MARKETS INVESTOR MAGAZINE (1997)

#### IN THIS PERIOD TSKB SUPPLEMENTED ITS DEVELOPMENT BANKING ACTIVITIES

by increasing and strengthening its scope of activities in investment banking through products, services and partnerships.

This period witnessed TSKB extending its scope of consultancy activities to Turkic republics. An agreement was signed with EBRD in 1993 for consultancy services in Uzbekistan. As a result, consultancy services were provided to National Bank of Uzbekistan (NBU) with a view for the extension of a loan to NBU by EBRD. Consultancy services were also provided to International Development Bank of Turkmenistan through Turkish Cooperation and Coordination Agency (TİKA). TSKB also provided consultancy services to the Southeast Anatolia Project Agency on setting up a regional development agency and to the Privatization Administration agency on priorities and strategies for privatization of state owned enterprises.

In this period TSKB enriched its financial resources by designing long term derivative products realized through international banks. Majority of the funds secured from the European Investment Bank to finance SME's in Turkey was disbursed by TSKB. The Bank also managed the "Risk Capital Fund" extended by the EIB and voluntarily participated in the "Risk Management Study" initiated by the World Bank.

Starting from 1993 TSKB acted as an intermediary in the "Fund Based Credit" scheme initiated by the state to promote fixed asset investments carried-out by companies. TSKB also actively participated in the disbursement of funds aimed at abating the damages caused by the 1999 earthquake to the industry and services.

In the 1990's the Bank carried out several successful initial public offerings. The Bank taking a leading role in the establishment of "over the counter" bond and shares markets established the Corporate Finance Department in 1995. Consequently, the Bank played a leading role in the IPO market in the 1995-1998 period and became a major and leading player in this field. TSKB carried out Turkey's first initial public offering with a firm underwriting in 1992 (Çimentaş). This methodology set up a precedent and was used by other intermediaries making a significant contribution to the development of the stock exchange.

In 1998 TSKB secured the Industrial Pollution Abatement loan from the European Investment Bank and **became the first bank in Turkey to disburse a facility with the aim of reducing industrial pollution.**

# 2000–2010

## Firsts and Pioneering in the 2000s

- > FIRST LOANS WITH THE “ENVIRONMENT” THEME
- > ACTIVE FINANCING SUPPORT TO RENEWABLE ENERGY SECTOR
- > TURKEY’S FIRST REAL ESTATE APPRAISAL COMPANY TO BE LICENSED BY THE CAPITAL MARKETS BOARD
- > CARRYING OUT THE ROLE OF SECRETARIAT IN THE ISTANBUL APPROACH
- > FIRST BANK IN TURKEY TO SECURE A LOAN FROM FRENCH DEVELOPMENT AGENCY
- > FIRST TURKISH ENTITY TO BECOME A SHAREHOLDER OF THE EUROPEAN INVESTMENT FUND (EIF)
- > FOUNDATION OF TSKB REAL ESTATE APPRAISAL COMPANY AND TSKB REAL ESTATE INVESTMENT TRUST
- > ESTABLISHMENT OF AN ENVIRONMENTAL MANAGEMENT SYSTEM AND OBTAINING ISO14001 CERTIFICATE IN ENVIRONMENTAL MANAGEMENT SYSTEMS
- > FIRST TURKISH BANK TO MEASURE AND OFFSET ITS CARBON FOOTPRINT
- > WWW.CEVRECIYIZ.COM - FIRST WEB PORTAL WITH THE THEME OF ENVIRONMENT AND SUSTAINABILITY
- > FIRST TURKISH BANK TO PREPARE A SUSTAINABILITY REPORT

## Awards

- > SUSTAINABLE BANK OF THE YEAR IN EASTERN EUROPE – FT AND IFC (2008,2009, 2010)
- > GEOTHERMAL INVESTMENT OF THE YEAR IN EUROPE – EUROMONEY (2008)
- > PROJECT FINANCE OF THE YEAR - EUROMONEY (2008)
- > INFRASTRUCTURE PROJECT OF THE YEAR - PFI (2008)
- > BEST MERGER AND ACQUISITION - EUROMONEY (2005)
- > BEST LOCAL BUSINESS PARTNER – EUROMONEY (2004)

**IN THE 2000S TSKB CONTINUED TO SECURE INTERNATIONAL FUNDS IN LINE WITH ITS SUSTAINABILITY TARGETS** and successfully carried out its first international securitization and murabaha facilities.

Starting with the 2000s, supporting the efforts to decrease the balance of payments deficit as well as a clean environment, TSKB started to actively support projects aiming to produce energy from renewable sources. To this effect, the Bank secured funds from the World Bank (IBRD), European Investment Bank (EIB), French Development Agency (AFD) and the German Development Bank (KfW). Conscious of the high-energy density prevailing in the Turkish industry TSKB started to promote and finance energy efficiency investments.

TSKB, within the scope of wholesale banking secured funding from development financial institutions such as the World Bank and Council of Europe Development Bank. These funds were then channelled through several commercial banks and leasing companies to meet the investment finance and working capital needs of SME’s and export oriented companies since the beginning of 2000s.

As the concept of sustainability started to gain global importance TSKB started to shape all its internal work processes within the framework of sustainability. To this extent TSKB was **the first bank to set-up an Environmental Management System** fully in compliance with the ISO 14001 standards. In this period TSKB also started to initiate social responsibility projects aiming to create social awareness on environmental sustainability.

TSKB took a keen interest in loan facilities which had an “environmental theme” and started to closely follow the agenda on sustainability. To this extent, the Bank became a member of the United Nations Environmental Programme Finance Initiative (UNEP FI).

TSKB was chosen as **the “Sustainable Bank of the Year in Eastern Europe” for three successive years in the event jointly organized by the International Finance (IFC) Corporation and the Financial Times.**

TSKB was given the role of the secretariat, acting as a coordinator between the commercial banks and their clients, during the Istanbul Approach process, which constituted a fundamental step towards restructuring after the financial crisis of early 2000s. The entrustment of the role of the secretariat to TSKB is a clear sign of that the institution is portrayed as a neutral and competent coordinator in the minds of the

public and private sector, commercial banks and their clients.

TSKB founded TSKB Real Estate Appraisal Company in 2002 and TSKB Real Estate Investment Trust in the beginning of 2006.

Another major development in this era was the merger of TSKB by taking over Industrial Investment Bank - a sister bank which had a similar mission and shareholding structure.

# 2010s

## Firsts and Pioneering in the 2010s

- > SIGNING OF UN GLOBAL COMPACT
- > FIRST TURKISH BANK TO RECEIVE ISO 14064 GREENHOUSE GAS VERIFICATION CERTIFICATION
- > LAUNCH OF THE MOST COMPREHENSIVE ENERGY AND RESOURCE EFFICIENCY PORTALS
- > FIRST AND ONLY MEMBER FROM TURKEY IN ELTI, IDFC AND LTIC
- > ESTABLISHMENT OF TSKB SUSTAINABILITY COMMITTEE
- > QUOTATION AT THE SUSTAINABILITY INDEX OF THE STOCK EXCHANGE
- > PARTICIPATION IN TURKISH GROWTH AND INNOVATION FUND SET UP BY THE EUROPEAN INVESTMENT FUND
- > SIGNING OF A CREDIT GUARANTEE FACILITY (INNOVFIN) WITH THE EUROPEAN INVESTMENT FUND TO SUPPORT SME'S
- > FIRST ISSUANCE OF A GREEN / SUSTAINABLE BOND BY A TURKISH BANK

## Awards

- > SUSTAINABILITY BOND OF THE YEAR – THOMSON REUTERS/INTERNATIONAL FINANCING REVIEW (2016)
- > GREEN / SUSTAINABLE BOND OF THE YEAR– EUROMONEY&GLOBAL CAPITAL (2016)
- > LOW CARBON HERO AWARDS - SUSTAINABLE PRODUCTION AND CONSUMPTION ASSOCIATION(2015-2016)
- > BEST INFRASTRUCTURE PROJECT - KIZILDERE 3 GEOTHERMAL – EMEA FINANCE (2016)
- > CLIMATE TRANSPARENCY LEADERSHIP AWARD – CDP 2015
- > BEST STRUCTURED FINANCING PROJECT AWARD - ETLIK PPP - BONDS, LOANS & SUKUK TURKEY (2015)
- > HIGHEST SCORE IN BIST (STOCK EXCHANGE) CORPORATE GOVERNANCE INDEX TRANSPARENCY IN CORPORATE GOVERNANCE RESEARCH (2015)
- > CORPORATE WITH HIGHEST CORPORATE GOVERNANCE RATING (2012, 2014, 2015)
- > CLIMATE CHANGE LEADER – CDP TURKEY (2013)
- > ONE OF THE THREE BEST BANKS IN EUROPEAN REGION IN SUSTAINABILITY - FT & IFC (2011, 2013)
- > BEST SOLUTION PROVIDER PARTNER IN WIND ENERGY SECTOR – TIREC (2011)
- > BEST INVESTOR IN CLEAN TECHNOLOGY AND NEW ENERGY - THE NEW ECONOMY MAGAZINE (2011)
- > BEST INTERMEDIATION – EMEA FINANCE (2011)
- > BEST ENERGY INFRASTRUCTURE AND HYDROPOWER PROJECT - EUROMONEY (2011)

**IN THE 2010S TSKB WAS ONE OF THE LEADING ACTORS IN SUPPORTING THE TRANSITION TO A LOW CARBON ECONOMY** with the finance extended to renewable energy, energy efficiency and resource efficiency. The Bank, as well as supporting the abatement of the effects of global climate change, undertook an important mission in creating additional capacity in meeting the increased demand for energy, stemming from the growth of the economy. As of the end of 2016 the financing Bank had extended to energy projects between 2003-2016 with a total investment cost of USD 9 billion is approximately USD 3.4 billion.

TSKB has been supporting the efforts to increase resource efficiency in our country's private sector in the last 7 years through mid and long-term loans. The Bank has provided financing of approximately USD 750 million to 122 projects in energy and resource efficiency areas.

With the global crisis of the 2010s TSKB offered new and innovative products such as funds protecting the principal investment and guaranteed products in local and international markets.

In the period TSKB continued the diversification of its funding sources. In 2014, for the first time in its history, the Bank realized a Eurobond issue in the amount of USD 350 million with a maturity of five years. A second Eurobond issue of USD 350 million was successfully realized in 2015. In 2013, a loan facility was secured from the German Development Bank (KfW) without a sovereign guarantee for the first time. KfW extended the loan without any additional guarantees by directly taking TSKB's risk.

In the period TSKB played active role in supporting the privatization of the electricity distribution through extending asset acquisition finance. TSKB, also provided acquisition consultancy, carried out bond issues of corporates and realized various IPOs.

In 2016, in line with the mission of supporting innovative SME's and midcap companies TSKB signed a credit guarantee agreement for Innovfin SMEs with the European Investment Fund amounting to EUR 20 million.

TSKB also established a derivatives unit and carried out a pioneering task through offering derivatives products, in international norms, to its corporate clients with the aim of protecting the customers' balance sheets from market risks. TSKB realized its first foreign exchange warrant issue in 2012.

TSKB which is the sole member from Turkey of ELTI and IDFC from Turkey signed, the Declaration on Transition to a Low Carbon Economy which was prepared within the scope of the International Climate Summit (COP 21 Summit) in 2015. In 2015, the Bank was quoted on the Istanbul Stock Exchange Sustainability Index with other institutions with high sustainability performance.

TSKB maintained its position among corporations with highest corporate governance rating since the year it was listed in BIST Corporate Governance Index in 2009. The Bank has been awarded the first place for three years, second place for two years and third place for one year for the Corporate Governance Awards organized by the Corporate Governance Association of Turkey (TKYD) since 2011.

"The Turkish Growth and Innovation Fund" set up by the European Investment Fund and to which TSKB contributed, became operative in 2016. The fund, which acts as a fund of funds, aims to support the SME sector through investing in funds providing finance to SME's.

The Bank achieving another first, realized the first "Green / Sustainable Bond" issue from Turkey in 2016. The 5-year tenor bond issuance of USD 300 million was oversubscribed by 13 times. The proceeds of the Green / Sustainable Bond are to be used to finance green and sustainable projects only.

Fully aware of the importance of the effects of climate change, TSKB shares its policies and actions in a transparent manner with its stakeholders with regards to its policies and actions regarding the issue. To this effect, the Bank has disclosed its "Climate Change Declaration" in December 2016.

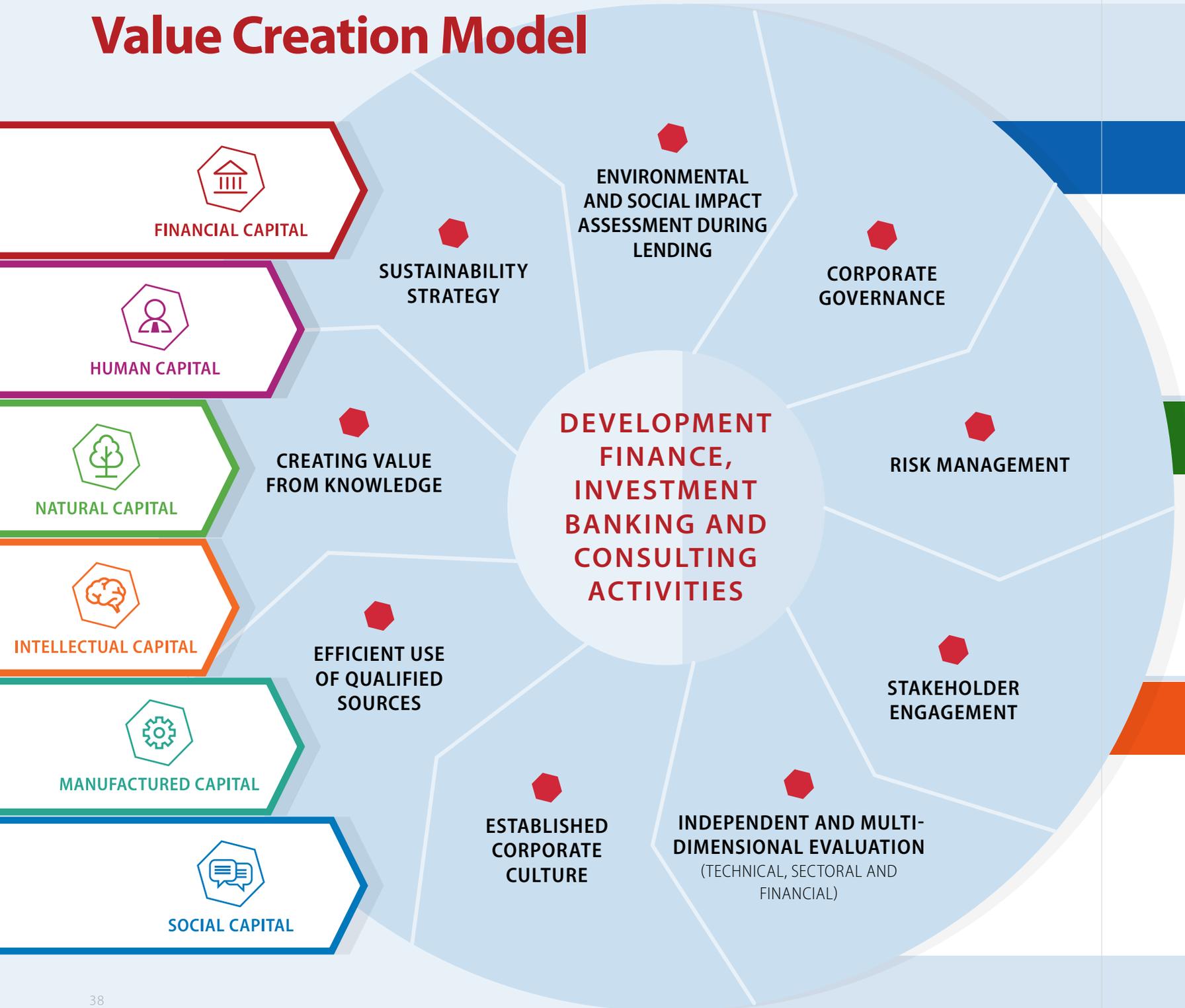
# Business Model

**TSKB PURSUES A VISION TO BE TURKEY'S LEADING BANK IN SUSTAINABLE DEVELOPMENT** and sets its goals and strategies with an integrated perspective which is natural part of its corporate culture and way of doing business. The Bank considers the support it extends to sustainable development to be a very valuable and continuous tool in creating long-term and permanent value for all stakeholders. The Bank's goals and strategy involves not only ensuring a sustainable income for its shareholders but also using all its resources in the most accurate, efficient and responsible manner to create value for internal and external stakeholders alike.

## Goals

- › *Supporting sustainable development*
- › *Providing entrepreneurs with brokerage and consultancy support on monetary and capital markets*
- › *Ensuring sustainable profitability and growth*
- › *Strengthening corporate structure*
- › *Developing in harmony with stakeholders*

# Value Creation Model



## ECONOMIC

**TL 24 billion**  
Total Asset Size

**TL 17.3 billion**  
Total Credits

**0.3%**  
Non-Performing Loan (NPL)

## ENVIRONMENT

**57%**  
Rate of sustainable finance in the portfolio

**13 million tons**  
Annual CO<sub>2</sub> reduction with projects

**ISO 14001**  
**ISO 14064**  
Certified bank

## SOCIAL

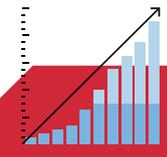
**55%**  
Female employee rate

**13%**  
Increase in employee loyalty in last 4 years

**450**  
Number of students with which know-how is shared through workshops

# Business Model

## OUR AREAS OF ACTIVITY

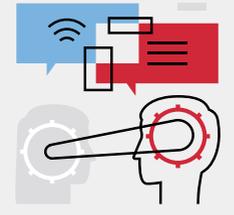


**DEVELOPMENT BANKING**

## OUR STRATEGIES

- > Contribution to Turkey's sustainable growth
- > Financing low-carbon economy
- > Priority to increasing employment in lending activities
- > Accessing and providing finance with new themes to areas in need of support by the Turkish industry
- > Increasing the value added of our customers to the economy
- > Reaching SME's and export oriented enterprises through intermediary financial institutions with funds secured from development finance institutions

## OUR STAKEHOLDERS



**CUSTOMERS**

**DEVELOPMENT FINANCE INSTITUTIONS**

**FINANCIAL INSTITUTIONS**

**PUBLIC SECTOR**

**REGULATORY AUTHORITIES**

**EMPLOYEES**

**SHAREHOLDERS**

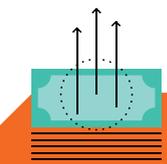
**UNIVERSITIES AND NGOS**

**NATIONAL AND INTERNATIONAL INITIATIVES**

**MEDIA**

## OUR OUTCOMES

- > Increasing medium to long term funding for the national economy
- > Contribution to economic growth
- > Contribution to the decrease in greenhouse gas emissions
- > Increasing renewable energy capacity of the country
- > Securing funds with the theme of sustainability
- > Application of international environmental and social standards and increasing awareness
- > Contribution to employment



**INVESTMENT BANKING SERVICES**

- > Supporting clients with Corporate Finance services
- > Provision of client specific money and capital market products to clients for effective risk management

- > Introducing clients to alternative modes of financing
- > Developing client specific derivative products to protect clients from risks
- > Contributing to the development of capital markets
- > Managing the liquidity and asset/liability positions of the Bank with risk management



**CONSULTANCY SERVICES**

- > Provision of consultancy services in fields of finance, real estate and sustainability geared towards the assets and needs of customers backed by accumulation of knowledge acquired over a long span of time

- > Offering integrated solutions to our customers
- > Creating value added to investments and investors
- > Cooperation with public entities



## SUPPORT FOR SUSTAINABLE DEVELOPMENT GOALS

United Nations Sustainable Development Goals (SDGs) are a set of 17 Sustainable Development Goals adopted by world leaders at the United Nations Sustainable Development Summit on September 25, 2015 to eradicate poverty by 2030, fight inequality and injustice, and combat climate change.

Under a strategic and integrated perspective, each project funded by TSKB is not just considered a banking transaction but a milestone that contributes to the country's development and global sustainability. TSKB sets all its goals and makes all its decisions within an awareness that it is a part of a collective solidarity in terms of sustainability.

TSKB carries out thematic work both to mitigate the internal impact from its operations and to control external impact from its products and services, all proof that the Bank fully adopts and contributes to the United Nations Sustainable Development Goals.

Through its corporate culture in addition to its services and loans, TSKB supports the following Sustainable Development Goals:



# Our Products and Services

*TSKB offers a range of services designed and structured in line with the country's development and the development goals of the Turkish business world in the fields of lending, investment banking and consultancy.*



## CORPORATE BANKING

Contribution to country's economy and employment...

### CORPORATE LOANS

- > INDUSTRIAL INVESTMENTS
- > ENERGY AND RESOURCE EFFICIENCY
- > ENVIRONMENTAL INVESTMENTS
- > RENEWABLE ENERGY
- > SUSTAINABLE TOURISM
- > HEALTHCARE AND EDUCATION INVESTMENTS
- > WOMEN EMPLOYMENT
- > OPERATIONAL HEALTH AND SAFETY

### PROJECT FINANCE

- > POWER GENERATION AND DISTRIBUTION
- > HOTELS, MALL, COMMERCIAL REAL ESTATE
- > LOGISTICS
- > TRANSPORTATION/INFRASTRUCTURE
- > PPP PROJECTS
- > MERGERS AND ACQUISITIONS

### OTHER LOAN PRODUCTS

- > WHOLESALE BANKING
- > SME FINANCE
- > EXPORT SUPPORT LOAN
- > FOREIGN TRADE FINANCE
- > COUNTRY (ECA) LOANS
- > WORKING CAPITAL FINANCE
- > LEASING

## INVESTMENT BANKING

Support for development of customers' assets...

### CORPORATE FINANCE

- > PREPARATION AND BROKERAGE FOR IPO
- > BROKERAGE FOR BOND ISSUANCE
- > MERGERS AND ACQUISITIONS
- > TRADING OF ASSETS
- > PRIVATIZATION CONSULTANCY

### MONETARY AND CAPITAL MARKETS\*

- > BROKERAGE FOR TRADING OF STOCKS
- > BROKERAGE FOR TRADING OF BONDS
- > FX TRADING
- > WARRANT TRANSACTIONS
- > REPO TRANSACTIONS
- > FOREIGN DERIVATIVES TRANSACTIONS
- > FOREX AND LEVERAGED TRANSACTIONS
- > SECURITIES LOAN
- > PORTFOLIO MANAGEMENT
- > INVESTMENT CONSULTANCY

### DERIVATIVE PRODUCTS

- > FORWARD
- > OPTION
- > CAPS & FLOORS
- > SWAPTION
- > SWAP TRANSACTIONS
  - MONEY
  - INTEREST
  - CROSS RATE

## CONSULTANCY

Added value based on expert knowledge...

### STRATEGIC FINANCIAL CONSULTANCY

- > COMPANY, TRADEMARK AND LICENSE APPRAISAL
- > FEASIBILITY ANALYSIS AND STUDY
- > FINANCIAL STRUCTURING
- > STRATEGIC ROAD MAP
- > SECTORAL ANALYSES
- > PROJECT FINANCE CONSULTANCY

### REAL ESTATE APPRAISAL\*

- > REAL ESTATE APPRAISAL
- > MACHINERY PARK AND MACHINERY APPRAISAL
- > TENDER CONSULTANCY
- > BEST USE ANALYSIS
- > COLLATERAL APPRAISAL
- > FEASIBILITY, PROJECT TRACKING AND MONITORING
- > SECTORAL ANALYSIS AND SPECIAL REPORTS
- > GREEN BUILDING ANALYSIS
- > URBAN TRANSFORMATION CONSULTANCY
- > CONCEPT DEVELOPMENT CONSULTANCY

### SUSTAINABILITY AND ENVIRONMENT\*

- > SUSTAINABILITY MANAGEMENT
- > ENVIRONMENTAL AND SOCIAL ASSESSMENT
- > TECHNICAL CONSULTANCY
- > CLIMATE CHANGE MANAGEMENT
- > CARBON CONSULTANCY
- > ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT
- > INVESTMENT MONITORING FOR FINANCIAL INSTITUTIONS
- > RENEWABLE ENERGY CONSULTANCY

\* TSKB offers part of its investment banking and consultancy services in cooperation with its affiliates Yatırım Finansman Securities, TSKB Real Estate Appraisal and TSKB Sustainability Consultancy.

# TSKB and Sustainability

*TSKB's sustainability strategy is based on the approach that the key to qualified development is sustainable banking. The Bank's sustainable banking strategies are set in accordance with the following goals:*

- > *To support Turkey's sustainable development model,*
- > *To assume an active role in combating climate change,*
- > *To contribute to our country's transition to an industrial structure that is based on a low carbon economy.*

## Institutionalizing Sustainability

**TSKB'S FOUNDATION MISSION EVOLVED INTO SUPPORTING TURKEY'S SUSTAINABLE DEVELOPMENT** in time under the influence of the ever-developing global awareness on sustainability and the orientation of the Bank's intellectual capacity. TSKB creates value for all its stakeholders through its operations and integrated approach of doing business.

1970s and 1980s saw large sized development and investment projects come into life around the world. Globally the need to pay attention to environmental issues together with economic development and consideration of the environmental dimension and impact during and after investments has started to occupy the agenda since then. The need to strike a balance between industrialization and environmental protection has become more evident and recognized. In the light of such developments, starting from the 1980s environmental issues have received increasing focus in the credit assessment process and the relevant reports of TSKB. The publication of the EIA Regulation in 1993 was the starting point for placing legislation in place to oversee the environmental dimension of investment projects in Turkey. The fact that TSKB began to consider the environmental dimension in credit reports and decision-making processes 13 years before the date is a clear indicator of the Bank's trailblazing vision pertaining to sustainability and its integrated approach of considering financial and non-financial factors together while making decisions to extend loans.

TSKB aims to make the best use of its close relations with international development finance institutions in contributing to Turkey's sustainable development. The Bank came across the notion of loan themes exclusive to environmental investments towards the end of 1990s and started to perform lending operations with a view to prevent industrial pollution.

International development finance institutions as well as supranational and multilateral institutions which are the chief funding sources of TSKB have a global vision on matters such as the environment, climate change, social impact and energy. The mission of these institutions includes but is not limited to using capacity development and awareness as tools to guide and improve the organizations they work with and supporting organizations through lending operations. Supranational institutions as development finance institutions are instilling such priorities in local financial institutions. The perspective and new themes acquired from the DFIs fully overlapped with TSKB's development banking vision in addition to the internal capacity and intellectual capital it developed and these were consequently reflected in successful business models.

The environment has been the top item on the agenda when financing sustainability is concerned due to the increasing perception of industrial environmental pollution in 1980s as a problem and the large scale environmental disasters. However, TSKB does not limit the scope of sustainability to the environment.

The Bank considers financing sustainability as a comprehensive approach that may be extended to innovative business models and covers a myriad of themes such as the environment, social, energy, efficiency and R&D, women employment and sustainable tourism.

At TSKB, the process of financing sustainability began at the end of 1990s through the financing of environmental investments and continued in 2000s via the financing of renewable energy investments. This was followed by energy efficiency, resource efficiency and sustainable tourism.

In renewable energy, initially the focus was on hydro power, later spreading to wind power, geothermal power, landfill gas, biomass and solar power. The understanding of banking which considers environmental and social aspects has shown a perspective wider than environmental impact with the financing of renewable energy.

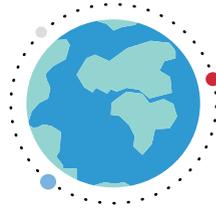
Such success in financing renewable energy was followed by the financing of energy efficiency and resource efficiency projects respectively. TSKB works in close connection with the industry and is well versed in industrial dynamics. The Bank broke new ground in technical criteria for energy efficiency through its industrial experience and intellectual capital during the structuring of energy and resource efficiency loans with the development finance institutions.

# TSKB's Sustainability Journey

1980

> **CONSIDERING THE ENVIRONMENTAL FACTOR IN CREDIT APPRAISAL PROCESSES**

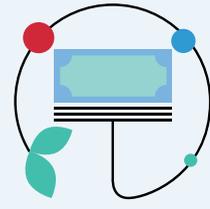
Fully on its own initiative, TSKB started to consider the environmental factor in credit appraisal processes and monitor the fulfilment of environmental responsibilities in projects.



1990

> **FIRST ENVIRONMENTAL LOANS OFFERED TO TURKISH INDUSTRY**

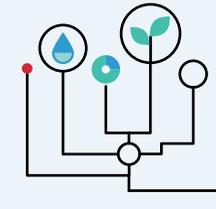
TSKB secured funds from international markets to finance environmental investments in 1990s and stood out as the first bank to offer environmental loans to Turkish industry.



2005

> **ENVIRONMENTAL MANAGEMENT SYSTEM**

In 2005, TSKB began to transpose sustainable banking to the corporate dimension and completed its efforts to establish an Environmental Management System in mid-2006.



2006

> **SHARING THE ENVIRONMENTAL POLICY WITH STAKEHOLDERS AND THE PUBLIC**

The Bank internalized the notion of environment and sustainability and published its first policy to that end.



2007

> **THE FIRST TURKISH BANK TO OBTAIN ISO 14001 CERTIFICATE**

> LAUNCH OF [www.cevreciyiz.com](http://www.cevreciyiz.com) PORTAL

> LAUNCH OF ERET (ENVIRONMENTAL RISK EVALUATION TOOL)

2008

> **TURKEY'S FIRST CARBON NEUTRAL BANK**



2009

> **THE FIRST BANK IN TURKEY TO BECOME A MEMBER OF THE UNITED NATIONS ENVIRONMENT PROGRAMME FINANCE INITIATIVE (UNEP FI)**

> PARTNERING WITH THE GLOBAL REPORTING INITIATIVE (GRI) AS A CORPORATE STAKEHOLDER

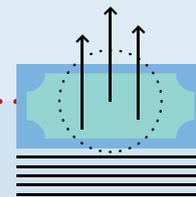
2010

> **PUBLISHING THE FIRST GRI-APPROVED SUSTAINABILITY REPORT IN THE FINANCE SECTOR**

> INVOLVEMENT IN THE CARBON DISCLOSURE PROJECT (CDP)

> SIGNING OF THE UN GLOBAL COMPACT

> MEMBERSHIP TO LONG TERM INVESTORS CLUB (LTIC)



2011

> **SUPPORTING THE "WATER DISCLOSURE PROJECT" (WDP)**

> **THE FIRST PROGRESS REPORT UNDER THE UN GLOBAL COMPACT**

> **ESTABLISHMENT OF TSKB SUSTAINABILITY CONSULTANCY- ESCARUS**

> **FOUNDING MEMBER OF INTERNATIONAL DEVELOPMENT FINANCE CLUB (IDFC)**

2012

> **THE FIRST TURKISH BANK TO BE GRANTED ISO 14064 GREENHOUSE GAS MANAGEMENT STANDARD CERTIFICATE**

> **ESTABLISHMENT OF THE SUSTAINABILITY MANAGEMENT SYSTEM**

> **ESTABLISHMENT OF THE LIST FOR SECTORS AND OPERATIONS NOT SUITABLE FOR LENDING (EXCLUSION LIST)**

2013

> **GRI A+ SUSTAINABILITY REPORT**

> **FOUNDING MEMBER OF THE EUROPEAN ASSOCIATION OF LONG-TERM INVESTORS (ELTI)**



2014

> **ESTABLISHMENT OF THE SUSTAINABILITY COMMITTEE**

> **DRAFTING OF THE SUSTAINABILITY POLICY AND COMPLEMENTARY POLICIES**

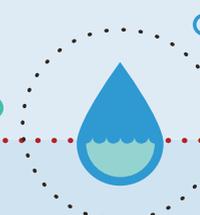
> **FIRST CARBON-NEUTRAL CONCERT OF TURKEY**

2015

> **GRI G4 SUSTAINABILITY REPORT**

> **INCLUSION IN THE BIST SUSTAINABILITY INDEX**

> **SIGNING OF THE UN WOMEN'S EMPOWERMENT PRINCIPLES (WEPS)**



2016

> **THE FIRST GREEN / SUSTAINABLE BOND ISSUANCE IN TURKEY**

> **PUBLICATION OF TSKB DECLARATION ON CLIMATE CHANGE**

> **INCLUSION IN THE FTSE4GOOD EMERGING MARKET INDEX**

2017

> **FIRST INTEGRATED REPORT OF THE TURKISH FINANCE SECTOR**



Future

> **WIDENING OF SUSTAINABLE FINANCE SERVICES**

> **CREATING RESOURCE FOR TRANSITION TO LOW CARBON ECONOMY THROUGH INNOVATIVE FINANCING MODELS**

> **CONTINUING SUPPORT TOWARDS UN SUSTAINABLE DEVELOPMENT GOALS**

> **INCREASING SUPPORT TOWARDS SOCIAL DEVELOPMENT**

> **INCREASING AWARENESS AMONG BUSINESS WORLD AND LEADERS OF THE FUTURE**

> **CONTINUOUS DEVELOPMENT OF HUMAN RESOURCE AND BUSINESS MODEL**

# Sustainability Governance at TSKB

**THE SUSTAINABILITY MANAGEMENT SYSTEM RUN BY TSKB** to mitigate environmental and social impacts from banking operations and support Turkey's transition to a low carbon economy while backing the country's sustainable development at the same time is structured in a way to cover all business processes of the Bank. To this end, the entire system is managed via the Sustainability Policy.

Internalizing the environment and sustainability issues, the Bank published the "Environmental Policy", its first policy in this field, in June 2006 before revising the Environmental Policy as the Sustainability Policy in 2012. Currently, the Sustainability Policy of February 26, 2015 is in force. TSKB's Sustainability Policy is also supported by complementary policies published in this field.

"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.

## TSKB's Sustainable Banking Policies

### TSKB Sustainability Policy

#### Other 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 ANTI-CORRUPTION POLICY
  - TSKB ANTI-BRIBERY AND ANTI-CORRUPTION PROGRAM

#### SUSTAINABILITY COMMITTEE

All sustainability work across the organizational structure is managed by the Sustainability Committee, which is comprised of two Board Members and two Executive Vice Presidents. The Sustainability Committee is supported by the Sustainability Subcommittee, which has active representatives from various departments. Through the work of these committees, TSKB ensures that sustainability approaches are integrated into all business processes and the matter is internalized by the Bank's employees.

#### SUSTAINABILITY SUBCOMMITTEE

The aim of the Sustainability Subcommittee is to spread sustainability operations throughout the Bank and integrate them to all business processes in parallel with the vision, strategy, goals and business plans of the Bank on sustainability and climate change. Formed by Head of Departments, the subcommittee reports to TSKB's Sustainability Committee.

#### WORKING GROUPS AND THEIR RESPONSIBILITIES

At TSKB, sustainability work is managed by the Sustainability Subcommittee and conducted by 4 different working groups established in affiliation to the Subcommittee.

In 2016, 4 working groups actively performed sustainability work. 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, analysing opportunities in relation to sustainability and creating new sustainability products for the Bank, managing relations with sustainability indices which the Bank is a part of, and delivering sustainability reports by considering the expectations of internal and external stakeholders and engaging in communication management. Overall 10% of TSKB staff is represented in the sustainability working groups.



# Corporate Governance

## Corporate Governance

**AT TSKB, CORPORATE GOVERNANCE AND FULL COMPLIANCE WITH LAWS** set the driver for sustainable economic performance, the framework for ethical and honest banking, and the main tool for balancing and maintaining stakeholder interests. Constituting the basis for TSKB's stable development, the corporate governance understanding is also a consequence of the Bank's developing all this process based on integrated thinking.

The Board of Directors, the CEO, the senior management and the committees are the main components in TSKB's corporate governance organization. In addition, the Bank cares to establish structures in which all right holders and stakeholders, chiefly the employees and shareholders, can contribute to management.

TSKB has clearly defined policies, procedures, risk management principles and systems in place for main business fields, services and products. TSKB's existing IT infrastructure ensures that policies, procedures and systems are efficiently and rapidly internalized within the service cycle, all management reporting functions are delivered in the most efficient manner and the internal and external audit functions are performed completely.

Since 2009 when it was quoted on Borsa Istanbul (BIST) Corporate Governance Index, TSKB has been among the companies with the highest corporate governance rating in Turkey. The Bank's corporate governance rating stood at 9.52 over 10 in October 2016 then rose to 9.53. Persistently updating its goals, the Bank's Corporate Governance Rating has always been high since 2009, an indicator that the Bank has fully institutionalized and internalized the matter.

***TSKB is among organizations with highest corporate governance rating since its first rating in 2009***

## Management Structure

In accordance with the Bank's Articles of Association and the laws of the Republic of Turkey, TSKB is controlled by the shareholders via the General Assembly. The Bank's Statutes stipulate that the decisions made at the General Assembly can be adopted with the affirmative votes of the absolute majority of the votes present at the meeting on the condition that a quorum is ensured.

The Bank has 8 Executive Vice President's Offices and 27 Departments to be effective by January 1, 2017. Of those Departments 24 report to the General Management Office while the Internal Audit, Internal Control and Risk Management Departments directly report to the Board of Directors via the Executive Vice President reporting to the Audit Committee.

# Board of Directors

The Bank's Articles of Association provides that the Board of Directors be comprised of a minimum of five members to be elected by the shareholders at the General Assembly. The Chief Executive Officer is a natural member of and appointed by the Board of Directors. Each Board member assumes office for a term of three years.

## MEMBERS OF THE BOARD OF DIRECTORS

**Adnan Bali** › Chairman  
**Ebru Özsuca** › Vice Chairman  
**Suat İnce** › Board Member and CEO  
**Halil Aydoğan** › Board Member  
**Yavuz Canevi** › Board Member  
**Fikret Utku Özdemir** › Board Member  
**Kemal Saç\*** › Board Member  
**Zeynep Hansu Uçar** › Board Member  
**Kamil Yılmaz** › Board Member  
**Can Yücel\*** › Board Member

## EXECUTIVE

For detailed information on the Bank's management structure, please visit <http://www.tskb.com.tr/en/investor-relations/bank-information/board-of-directors-senior-management>

\* Members of the Audit Committee have been appointed as Independent Board Members as per the Communiqué on Corporate Governance II-17.1, Article 6/(3)-a.

# Committees

TSKB Board of Directors has a Sustainability Committee established on its own initiative in addition to an Audit Committee, a Corporate Governance Committee and a Compensation Committee set up in line with the banking and Capital Markets Board

legislation. The Internal Audit, Internal Control and Risk Management Departments directly report to the Board of Directors via the Executive Vice President for Internal Systems.

# Organizational Chart

as of January 1, 2017



\*Board Rapporteur

# Audit, Control and Risk Management

The Internal Audit, Internal Control and Risk Management Departments, i.e. the Bank's "Internal Systems", are responsible for analysing and sharing with relevant bodies all potential risks that could possibly impact on the Bank's business strategy and risk profile. The organization of internal systems is indicated below.

## Board of Internal Auditors

The Board of Internal Auditors directly reports to the Board of Directors via the Executive Vice President for Internal Systems and the Audit Committee and carries out the audit function that applies to all operations of TSKB and the affiliates thereof. To this end, the Department conducts audit, inspection and investigation work at the Bank's Head Office departments, branches and affiliates. In addition, the Department provides assurance in terms of the efficiency and adequacy of internal control and risk management systems as well as the accuracy, reliability, completeness and up-to-dateness of all financial and management information.

At the beginning of each year, the Board of Internal Auditors drafts a detailed internal audit plan that specifies the departments, affiliates and processes to be inspected and the projects to be attended as part of the internal audit operations for the following year and submits it to the Audit Committee and then the Board of Directors for approval. Internal audit and information technologies audit operations are performed by inspectors and information technologies inspectors within the framework of the audit plan and in an unbiased and independent manner reflecting the required professional prudence.

Pursuing a risk-oriented and modern audit approach, the Board of Internal Auditors carries out risk assessment work that sets the basis for audit plans. In risk assessment, the risks the Bank is exposed to and relevant controls are considered to identify the priority areas for audit work and the frequency of audits. This ensures an efficient use of resources and a rapid and effective intervention in areas perceived as risky.

## Internal Control

TSKB Internal Control System is structured in a way to continuously keep all financial and operational risks concerning the operations at a reasonable level and under full control.

The Internal Control Department is responsible for the presence of an internal control system that covers the entire control operations aiming to detect and manage, in advance, the risks the Bank might be exposed to in attaining its goals, conduct the Bank's operations efficiently and effectively, protect its assets, ensure compliance with the existing laws and regulations, and guarantee the reliability and integrity of the accounting and financial reporting system.

TSKB Internal Control Department has also integrated the prevention of laundering of the proceeds of crime and the financing of terrorism into its control operations to check compliance with the relevant legislation as well as the adequacy of the measures taken.

TSKB has ensured full compliance with the current Turkish legislation on preventing the laundering of proceeds of crime and the financing of terrorism and works to seamlessly execute control, warning and other mechanisms required in business processes.

## Risk Management

TSKB's Risk Management Policies and the codes of practice pertaining to such policies are comprised of written standards set by the Board of Directors and applied by the Bank's senior management.

Under TSKB's Risk Management Policies, the main risks the Bank is exposed to are identified as credit risks, asset-liability management risks (market risk, structural interest rate risk, liquidity risk) and operational risks. The Risk Management Department has been established within the Bank to ensure compliance with the mentioned risk policies and the codes of practice pertaining thereto and manage the risks the Bank is exposed to in parallel with these policies.

TSKB Risk Management Department is actively involved in all processes regarding the management of risks and regularly reports to the Board of Directors, the Audit Committee, the senior management and the relevant departments within the bank. The roles, responsibilities and structure of the Department are set in the Regulation on Risk Management Department.

### CREDIT RISK MANAGEMENT POLICY

Credit risk is the probability of a credit customer or a party to an agreement therewith to fail to fulfil an obligation in line with the agreed conditions. Although the loans extended by the Bank are the most common and visible sources of credit risk, other banking services bearing a counterparty risk also pose a credit risk. To this end, all the relevant banking operations are assessed to fall within the scope of credit risk.

The structure and characteristics of a loan, the provisions of loan agreements and financial conditions, the structure of the risk profile until the end of maturity in parallel with potential market trends, guarantees and collaterals, internal risk ratings and potential changes with regard to the ratings in the process of risk exposure, concentrations (a single company, a group of affiliated companies, sector, country, etc.) and conformity with the limits set by the Board of Directors to prevent such concentrations are taken into consideration, measured and managed.

In measuring the Credit Risk, the Internal Rating-Based Model is duly employed to monitor and control the credit risk and issue advance warnings.

Maximum care is displayed in ensuring that the limits and policies adopted in agreements with foreign and domestic funders are not significantly different from the policies and limits set by the Bank. Although the articles in agreements differ from the existing policies, they are still binding.

### ASSET-LIABILITY MANAGEMENT RISK POLICIES

All financial risks arising from the Bank's assets and liabilities excluding the credit risk are defined as asset-liability management risks. Such risks include the market risk for trading portfolio, the structural interest rate risk and the liquidity risk.

### MARKET RISK MANAGEMENT POLICY

Market risk is the possibility of a loss being incurred by the portfolio or position accepted within the scope of trading portfolio as a result of fluctuations of interest rates, share prices, commodity prices and exchange rates in financial markets. The aim of the market risk assessment is to maximize the risk-adjusted return of the Bank by managing the potential risks to be faced by the bank in a proactive manner and in line with appropriate parameters.

Market Risk is managed by using consistent risk measurements and criteria such as the level of fluctuation of interest rates and/or prices and Risk-Exposed Value calculations, establishing appropriate procedures for control and monitoring compliance with established risk limits and risk appetite.

Interest rate, exchange rate, share price, commodity price and settlement risks are the main elements of market risk. In order to contain these risks in a sound way, it is essential to manage the transactions executed in monetary and capital markets in a way to prevent any concentration in terms of instrument, maturity, currency, type of interest and other similar parameters and in a “well-diversified” way by considering the level of risk posed by these transactions. Moreover, creditworthiness of issuers of financial instruments that pose a market risk is duly considered.

The Bank uses two main approaches in the calculation of market risk: Standard Method of the BRSA and Risk-Exposed Value (REV) approach. The accuracy of the REV model is confirmed by way of back-testing. The said test is based on the comparison of calculated Risk-Exposed Value against incurred losses. Besides, stress tests are conducted to identify the impacts on Risk-Exposed Value of developments which will be highly damaging, although their occurrence is a low possibility.

#### **STRUCTURAL INTEREST RATE RISK MANAGEMENT POLICY**

Structural interest rate risk refers to the probable impact on a bank’s capital from potential changes in interest rates due to differences in the repricing period and interest structure for interest-sensitive assets and liabilities in banking accounts.

Structural interest rate risk is managed by providing all organizational levels with consistent information on structural interest rate risk by employing risk measurements and criteria such as fluctuation of interest rates, interest shock and stress test.

The inconsistency of asset/liability structure in terms of its repricing based on various currencies and within the set maturity terms is monitored and measured.

TSKB manages the interest risk with the awareness that it is comprised of elements such as repricing risk, yield curve risk, basis risk, spread risk, option risk and jeopardizes the Bank’s income, capital, liquidity and reputation.

#### **LIQUIDITY RISK MANAGEMENT POLICY**

Liquidity risk is defined as the risk of failing to meet on-balance-sheet and off-balance-sheet liabilities on time. A bank’s incurring a loss since it does not have the cash or cash inflow at a level and quality that compensate for cash outflows fully and timely is an example for liquidity risk.

In capital markets and trading operations, there are two main types of liquidity risks, namely funding liquidity risk and market liquidity risk. A funding liquidity risk is a risk that investment and funding requirements cannot be met on time or can only be met at an uneconomic price due to incongruities in cash flows. A market liquidity risk, on the other hand, means the risk that a bank fails to close out its positions on time or by bearing reasonable costs due to shallow markets, market disruptions and/or the bank’s inability to penetrate the markets.

To ensure effectiveness in liquidity management and maintain its sustainable position, it is essential to make a maximum use of diversification opportunities based on funding sources, markets, instruments and maturities.

In the management of liquidity risk, a portfolio structure that is congruous with the functions of yielding returns from the portfolio and market risk management is established and the risk return balance is continuously maintained without compromising on liquidity requirements.

#### **OPERATIONAL RISK POLICY**

Operational risk is defined as the risk of loss arising from the inadequacy of processes, people and systems or the defects or faults they have and from external events. This definition also includes compliance with laws and ethical standards.

Such risks are managed by performing specific controls for basic functionalities pertaining to the Bank’s operations and taking the required measures, establishing an appropriate internal audit system and mechanism to distribute the powers within the Bank, testing and controlling all operational systems of the Bank in detail, establishing full compliance between internal & external systems and having an independent data backup mechanism in place.

The Bank observes the principle of separating tasks and distributing functions to mitigate risks in relation to deliberate transactions, manipulations or errors. Minimum functions that need to be separated are (i) initiating the transaction, (ii) authorization and approval, (iii) recording transactions, (iv) confirming transactions, (v) safekeeping services, (vi) monitoring and audit and (vii) activities pertaining to the development of IT systems and to daily operations. It is essential to enter transaction information into the system by using IT applications the moment the transaction takes place.

The Basic Indicator Approach is employed in measuring the operational risks.

#### **RISK MANAGEMENT POLICY AT THE SUBSIDIARIES**

Attention is given to ensure that the basic principles and standards related to risk management systems and processes observed at TSKB are also observed at the subsidiaries to the same extent, and the Consolidated Risk Policies are set and approved by the Board of Directors. It is essential for subsidiaries to internalize such policies and implement the minimum risk management systems and processes for risk management on a consolidated basis, and comply with the risk limits set at the Group level.

#### **POLICIES ON OTHER RISKS**

Other risks include the Model Risk, which is defined as the risk of loss resulting from a failing design in models employed by the Bank in pricing, lending, risk measurement, etc. processes and/or from problems suffered in the implementation of such models; the Strategy Risk, which arises from defective or untimely decisions; and the Reputation Risk, which can be defined as damage to the Bank’s reputation in the market and in the eyes of the customers. These risks are included in TSKB’s Risk Management Policies document to ensure that the awareness level in relation to such risks are improved.

#### **ENSURING A SYSTEMIC FOLLOW-UP OF EXCLUDED PERSON LISTS**

Within the framework of national laws and international regulations as well as the commitments the Bank undertakes to institutions and organizations that it has correspondence and funding source relations with, the Bank is responsible for monitoring the national and international exclusion lists and sanction decisions and conducting exclusion and sanction checks in all its operations.

In order to perform more comprehensive and systematic exclusion and sanction checks for this process which was carried out partially manually before 2016, a system that will be integrated with all systems of the Bank, enabling making of queries with most comprehensive details in all current exclusion lists and running automatic checks on query screens by using multiple data during transaction has been established.

To this end, checks will be carried out more systematically, savings from both workload and time will be attained and our Bank’s risk in detecting transactions subject to exclusion and sanction will be minimized.



# Stakeholder Communication

TSKB builds different communication platforms for each stakeholder group and attaches great importance to engaging in a sustainable dialogue with them. Feedback from stakeholders provide guidance on a myriad of matters ranging from identification of the strategic priorities of TSKB to setting the relevant policies, from business models and to social responsibility projects. TSKB employs the following methods in its communication with stakeholders.

## SHAREHOLDERS

Annual Ordinary General Assembly Meeting  
Board Meetings  
Periodic Reporting  
TSKB Web Site and Social Media Accounts

## CUSTOMERS

Customer Visits and Meetings  
Sector-Specific Meetings  
Seminars and Conferences  
TSKB Web Site and Social Media Accounts  
Online Transactions Platform - Customer Communication Form  
Economic and Sector Research Reports

## EMPLOYEES

Department Meetings  
Executives' Meetings  
Focus Group Meetings  
MT Development Program  
Development Workshop  
Intranet Web Site  
Regulatory Documents Platform

## SUBSIDIARIES

Board Meetings  
Joint Project Work  
Executives' Meetings

## FINANCIAL INSTITUTIONS

Corporate Meetings  
Capacity Building Meetings  
Field Visits  
Thematic Seminars and Conferences  
Attendance to Annual Meetings  
Staff Exchange Programs  
Periodic Reporting and Assessments

## SUPPLIERS

Corporate Meetings  
Feedback for Satisfaction Surveys  
Periodic Reporting and Assessments

## REGULATORY BODIES

Regular monitoring of reporting liabilities and other information flows prescribed in laws and the legislation  
Attendance to relevant meetings

## BANKING SECTOR

Meetings under Sectoral Association Memberships  
Corporate Cooperation

## MEDIA

Press Meetings  
PDP and Bulletin Communication  
Columns

## NGOs

Boards of Directors  
Working Groups  
General Assembly Meetings  
Joint Events  
cevreciyiz.com

## UNIVERSITIES

Career Workshop  
Sustainability Workshop

## Materiality

### STAKEHOLDER ANALYSIS

Focusing on creating value for Turkey's sustainable development, TSKB sets its corporate priorities in all sustainable banking operations in line with the expectations of its stakeholders. In addition to the contacts and meetings it has with all stakeholder groups, TSKB also conducts regular stakeholder analysis every year.

In 2016, the stakeholder survey was performed as an on-line survey that covered the priority areas identified under 7 different headings and the relevant applications under each heading and was widely responded to by stakeholders. The stakeholder groups responding to the stakeholder analysis are as follows:

- > TSKB Management
- > Customers
- > Employees
- > Financial Institutions / Development Financial Institutions
- > Representatives from Non-Governmental Organizations / Media / Academia / Industry
- > Subsidiaries' Employees
- > Suppliers

As a result of the stakeholder analysis survey, matters highly important for main stakeholder groups are examined in the materiality matrix.

## ASPECTS OF MATERIALITY ANALYSIS

**SUPPORTING UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS AND FINANCING THE COMBAT AGAINST CLIMATE CHANGE**

Financing investments such as renewable energy, energy and resource efficiency, sustainable tourism, waste management and innovation investments and effective cooperation with national and international funders to this end

**MEASURING AND MANAGING ENVIRONMENTAL AND SOCIAL RISKS IN ALL INVESTMENT PROJECTS**

Measuring the environmental and social risks in all investment projects, a responsible lending approach that observes various dimensions such as compliance with environmental regulations, efficiency, biodiversity, occupational health and safety and human rights

**FULL COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES AND EFFECTIVE RISK MANAGEMENT**

An ethical, fair, transparent, responsible and accountable management understanding, an effective and active risk management (capital, operational, credit, asset-liability risks)

**IMPROVING CUSTOMER SATISFACTION**

Satisfying customers' expectations through appropriate cost, effective lending and a high service quality

**CREATING RESPONSIBLE AND SUSTAINABLE GROWTH AND INCOME**

Return on equity, sustainable growth, robust capital adequacy ratio, high asset quality and an effective management of liquidity position

**INVESTMENT IN HUMAN CAPITAL**

Training/development, compensation, effective performance management, striking a balance of work/social life

**CONDUCTING SOCIAL RESPONSIBILITY PROJECTS FOR SUSTAINABILITY**

Raising awareness on sustainability through collaboration with employees, the business world, initiatives at universities, non-governmental organizations and the public sector



**RESULTS AND ASSESSMENT OF MATERIALITY ANALYSIS**

Stakeholder analysis indicates the following priorities for the TSKB Management and all stakeholders:

**PRIORITIES OF TSKB MANAGEMENT**  
*in order of importance*

1. Creating responsible and sustainable growth and income
2. Improving customer satisfaction
3. Measuring and managing environmental and social risks in all investment projects
4. Full compliance with Corporate Governance principles and effective risk management
5. Investment in human capital
6. Supporting United Nations Sustainable Development Goals and financing the combat against climate change
7. Conducting social responsibility projects for sustainability

The results of 2016 Stakeholder Analysis display a compatible outlook between the priorities of the TSKB Management and the main goals and strategies of TSKB, a bank with a mission to operate for Turkey's economic development. The most significant priority to this end is creating a responsible and sustainable growth and income. A robust financial performance

is the first and priority way to continue financing high quality development investments. Provision of sustainable funds from development financial institutions and channelling such funds to the investments of Turkish private sector in the most reliable manner are two goals standing out under this priority.

In all banking services it delivers to customers, TSKB acts with an understanding of long-term partnership and considers it a high priority goal to sustain operations with a view to creating maximum added value for investments and investors.

TSKB's experience in relation to Turkey's sustainable development is the basis for its responsible lending approach. The measurement and management of environmental and social risks in all investment projects are among the Bank's highest priorities.

TSKB aims to ensure full compliance with the "Corporate Governance" principles that set the basis for sustainable banking and once again highlights its permanent policy for fair, transparent, accountable and responsible banking.

**PRIORITIES OF ALL STAKEHOLDERS<sup>1</sup> OF TSKB**  
*in order of importance*

1. Measuring and managing environmental and social risks in all investment projects
2. Full compliance with Corporate Governance principles and effective risk management
3. Supporting United Nations Sustainable Development Goals and financing the combat against climate change
4. Creating responsible and sustainable growth and income
5. Investment in human capital
6. Improving customer satisfaction
7. Conducting social responsibility projects for sustainability

Considering the environmental and social risks of investments and financing the combat against climate change are the two key priorities for TSKB's customers, business partners, the financial institutions it cooperates with and the initiatives it is a member of as well as its employees.

1. This also covers the employees of TSKB.

The Bank adopted sustainability on its agenda at an early phase in the finance sector and has launched many leading practices while allocating an increasing amount of funding to renewable energy, energy and resource efficiency investments in addition to environmental investments. TSKB has emerged as a most experienced business partner launching projects to create a solution to climate change.

The awareness of TSKB's human capital and the business world stakeholders in this sense strengthen the Bank's sustainability strategy.

TSKB's commitment to corporate governance principles overlaps with stakeholders' expectations and supports the Bank's strategy to grow by creating value for the country's economy.

**FUTURE TARGETS**  
**The Materiality matrix established in line with the results from all stakeholder groups confirms that TSKB approaches the country's development from the perspective of sustainability and responsible banking while developing and growing in harmony with all stakeholders. The Bank plans to maintain its efforts and operations in a way to support the country's sustainable development in line with stakeholder expectations.**

**Materiality Matrix**



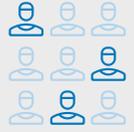


# Capitals



# Capitals



	VALUE FOR TSKB	VALUE FOR SOCIETY	KEY PERFORMANCE INDICATORS (2016)
 <p><b>FINANCIAL CAPITAL</b></p> <ul style="list-style-type: none"> <li>Diversity of funds</li> <li>Accessing and disbursing medium to long term finance</li> <li>Access to funds with sovereign guarantee</li> <li>Strong capital</li> </ul>	<ul style="list-style-type: none"> <li>Increase in funds secured</li> <li>Increasing loan volume</li> <li>Financial sustainability</li> <li>Increased investor interest</li> </ul>	<ul style="list-style-type: none"> <li>Contribution to sustainable development</li> <li>Reliable solution provider in the mind-sets of stakeholders</li> <li>Providing clients with structured products that meet the needs</li> <li>Strong share performance</li> </ul>	<ul style="list-style-type: none"> <li>75% loan portfolio comprising of investment and APEX loans</li> <li>Cost to income ratio of 15%</li> <li>17.6 % return on equity</li> </ul>  <p><b>57%</b> RATE OF SUSTAINABILITY THEMED LOANS IN LOAN PORTFOLIO</p>
 <p><b>HUMAN CAPITAL</b></p> <ul style="list-style-type: none"> <li>Investment in employees</li> <li>Equal opportunity</li> <li>Social benefits</li> <li>Employee clubs</li> </ul>	<ul style="list-style-type: none"> <li>Qualified human resource</li> <li>Competitive strength</li> <li>Employee satisfaction and loyalty</li> <li>Grand TSKB family</li> </ul>	<ul style="list-style-type: none"> <li>Realizing projects that create value for the society</li> <li>Contribution to social equality</li> <li>Highly competent human resource</li> <li>Contribution to employment</li> </ul>	<ul style="list-style-type: none"> <li>Management: 56% female, 44% male</li> <li>55.9 average hours of training per employee</li> <li>95% participation in employee satisfaction survey</li> </ul>  <p><b>55%</b> FEMALE EMPLOYEE</p>
 <p><b>NATURAL CAPITAL</b></p> <ul style="list-style-type: none"> <li>Integration of environmental and social due diligence to lending process</li> <li>Zero-carbon banking</li> <li>Concentration in sustainability theme loans</li> </ul>	<ul style="list-style-type: none"> <li>Responsible banking understanding that meets the expectations of fund providers and stakeholders</li> <li>Increased reputation among stakeholders</li> <li>Management and mitigation of environmental and social risks</li> </ul>	<ul style="list-style-type: none"> <li>Supporting low-carbon and environment friendly economic growth</li> <li>Raising awareness in the business world</li> <li>Supporting renewable energy, energy efficiency and resource efficiency practices in Turkey</li> </ul>	<ul style="list-style-type: none"> <li>57% of loan portfolio consists of sustainability themed-funds</li> <li>Contribution to the reduction of 13 million tons CO<sub>2e</sub> emissions</li> <li>Offsetting 15.000 tons carbon footprints of stakeholders in the past 3 years</li> <li>100% green energy use and carbon neutral bank</li> <li>Quoted on BIST Sustainability Index since 2015</li> </ul>  <p><b>15%</b> SHARE OF TSKB IN TURKEY'S RENEWABLE ENERGY INVESTMENTS</p>
 <p><b>INTELLECTUAL CAPITAL</b></p> <ul style="list-style-type: none"> <li>3 discipline appraisal and analysis strength (Engineering, Financial Analysis, Economic Research)</li> <li>Sectoral Expertise</li> <li>Ability to develop themes and products based on need</li> <li>Strength of subsidiaries with diversified expertise</li> </ul>	<ul style="list-style-type: none"> <li>Innovative products and services</li> <li>Low level of non-performing loans</li> <li>Income differentiation</li> </ul>	<ul style="list-style-type: none"> <li>Solution oriented banking services</li> <li>Supplying clients with integrated solutions through subsidiaries</li> <li>Sector studies with wide perspective</li> </ul>	<ul style="list-style-type: none"> <li>First green bond issue in Turkey and CEEMEA region</li> <li>Published 192 sectoral studies/analysis in 2016</li> <li>First bank to integrate and model environmental and social due diligence to lending process</li> </ul>  <p><b>0.3%</b> NPL RATIO</p>
 <p><b>MANUFACTURED CAPITAL</b></p> <ul style="list-style-type: none"> <li>Compact compound in harmony with the corporate culture</li> <li>Information technology infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Improving productivity in work processes</li> <li>Institutionalization of knowledge</li> </ul>	<ul style="list-style-type: none"> <li>Answering client needs in a timely and speedy manner</li> <li>Increasing customer satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>Efficiency in the processes</li> <li>Service building integrated with the subsidiaries</li> <li>Healthy, efficient and ergonomic working environment</li> </ul>  <p><b>15%</b> COST TO INCOME RATIO (BANKING SECTOR AVERAGE 40.1%)</p>
 <p><b>SOCIAL CAPITAL</b></p> <ul style="list-style-type: none"> <li>Long lasting and effective dialogue with stakeholders</li> <li>Social Responsibility projects</li> <li>Sharing of experience</li> <li>Membership to and cooperation with initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Increased reputation among stakeholders</li> <li>Increasing domestic and international recognition</li> <li>Ability to attract qualified human resources</li> <li>Increasing internal capacity</li> </ul>	<ul style="list-style-type: none"> <li>Contribution to highly competent human resources</li> <li>Increasing awareness on climate change and sustainability among stakeholders</li> <li>Supporting equal opportunity and gender equality in the society</li> <li>Sharing opinion and views with the public authorities on preparation of regulations</li> </ul>	<ul style="list-style-type: none"> <li>Increasing awareness on sustainability through cevreciyiz.com</li> <li>Supporting art through IKSV Zero Carbon concerts</li> <li>Supporting culture through excavations at antique Patara city</li> </ul>  <p><b>50.000</b> CEVRECIYIZ.COM FOLLOWERS ON SOCIAL MEDIA</p>

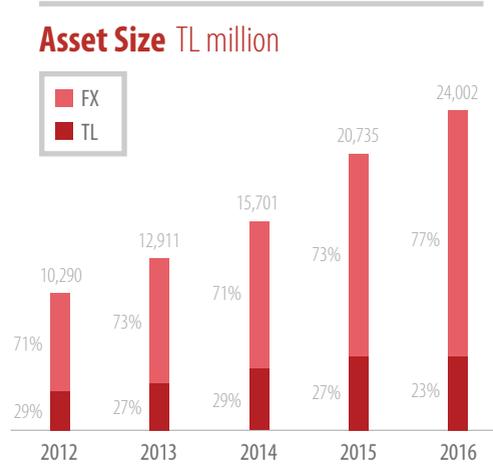


# Financial Capital

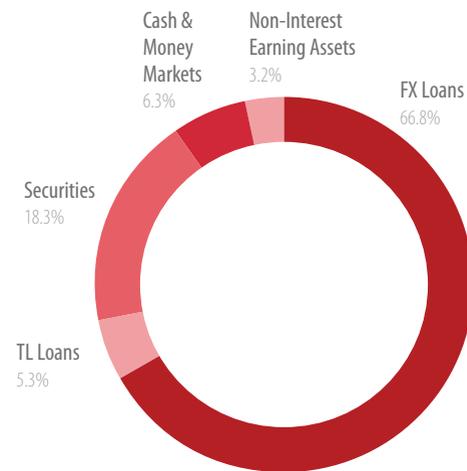
*TSKB's financial capital includes the products and services the Bank provides to its customers through its funds as well as the added value it creates via its corporate culture while extending such funds. The Bank's organizational structure focusing on the economy and development enables it to evaluate and extend the funds it has in line with this goal.*



**21%**  
Average asset growth  
in the last 5 years



**Asset Composition**



**69%**  
Average Loan/Asset  
Ratio in the last 5 years

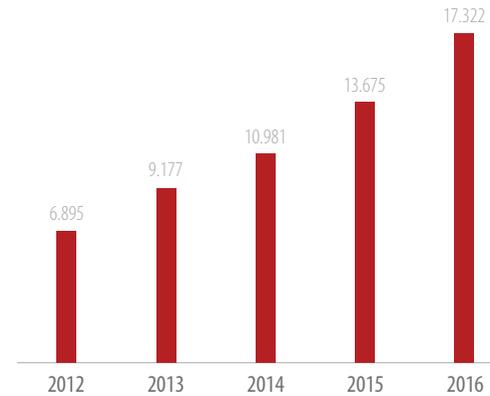
*Ranks 19<sup>th</sup> in the  
sector with an asset  
size of TL 24 billion*

*2<sup>nd</sup> place among  
development and  
investment banking  
in terms of asset size*

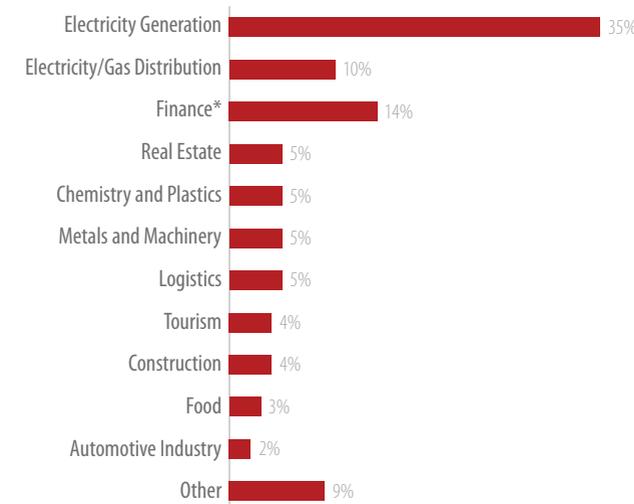
*A market share  
of 41% in the  
development and  
investment banking  
in long-term FX  
loans*

**22%**  
Average loan growth in the  
last 5 years

**Loan Portfolio** TL million



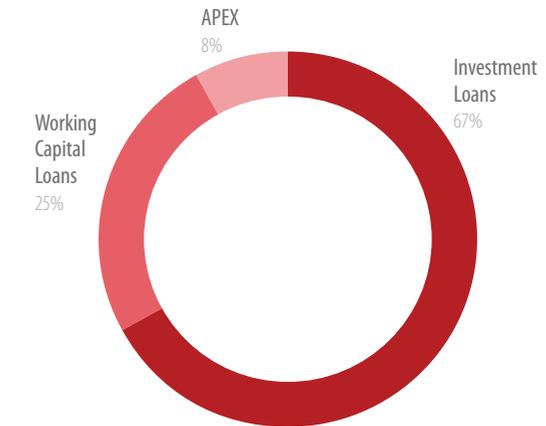
**Sectoral Breakdown of Loans**



\* includes APEX Banking.

**75%**  
Share of investment and  
APEX loans

**Loans by Type**



**5.9 years**  
Average loan term

**93%**  
Share of FX loans

**38%** in EUR  
**55%** in USD

**Percentage of Non-Performing Loans**

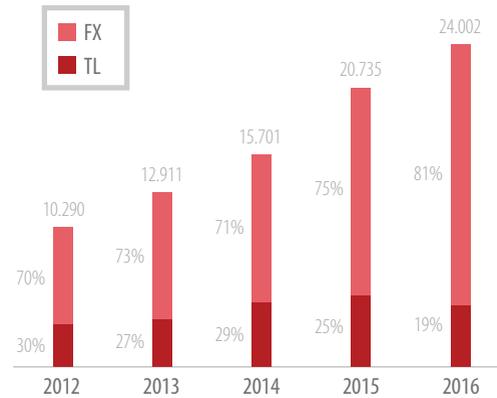


**0.3%**  
Average NPL rate in  
the last 5 years

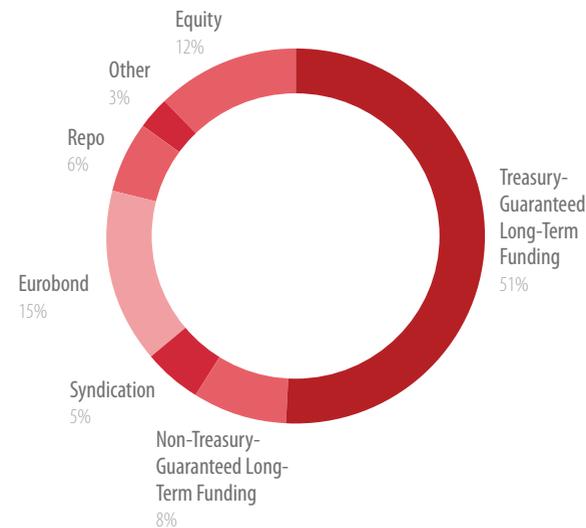


87% of Total Funding is long-term

**Total Liabilities TL million**



**Composition of Liabilities**



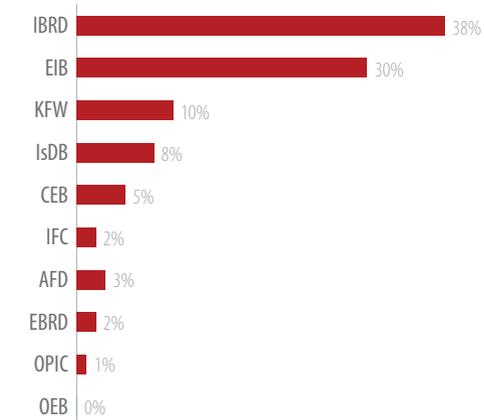
USD 5.8 billion

Total Funding

80%

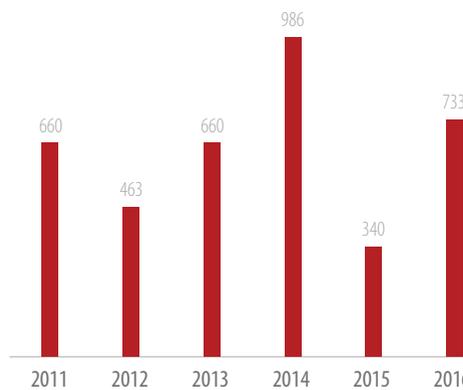
Weight of Development Finance Institutions (DFI) in long term funding

**Distribution of Thematic Long-Term Funding with respect to DFIs**

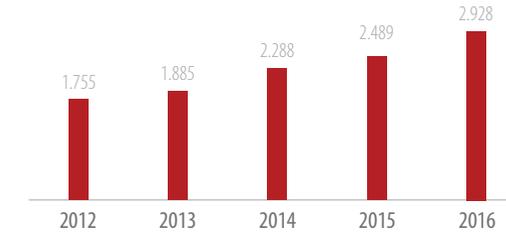


**Funding Agreements signed with DFIs**

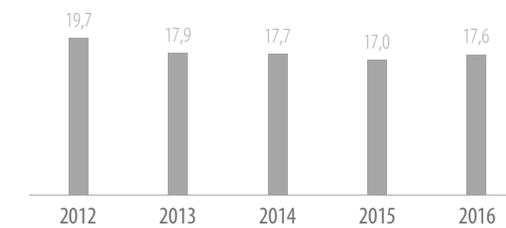
USD million



**Equity TL million**

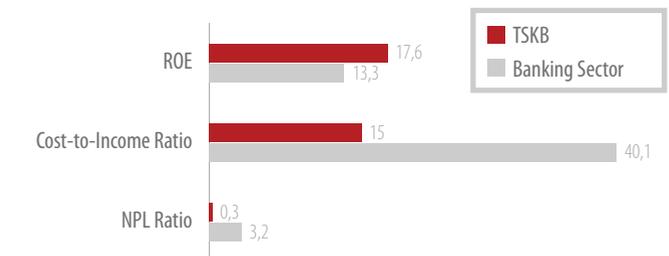


**Return on Equity (ROE) %**



18%  
Average ROE in the last 5 years

**Outstanding Ratios in Comparison with the Sector %**



# Highlights

## ROBUST GROWTH OF ASSETS

In 2016, TSKB's total asset size rose to TL 24 billion with an increase of 15.8% on a year-on-year basis. About 77% of TSKB's assets were comprised of foreign currency (FX) assets and the Bank's capital adequacy ratio stood at 14.3% despite the Turkish Lira depreciating in 2016.

## A LOAN PORTFOLIO SIZE POWERING REAL ECONOMY

TSKB has a strong loan portfolio and the Bank's total loan volume grew by 26.7% on TL basis and 8.2% when adjusted for currency impact in 2016. Such growth was in parallel with the sectoral average in FX loans and, as a result, the Bank's total loans stood at about TL 17.3 billion while the loan-to-total assets ratio was 72.2%.

## LINES OF CREDIT EXTENDED TO CLIENTS TOALED USD 6.6 BILLION

As a result of successful operations in 2016, TSKB allocated a cash and non-cash credit line of USD 6.6 billion (excluding APEX) to its customers and signed new loan agreements amounting to a total of USD 1.9 billion.

## A CASH LOAN DISBURSEMENT OF USD 1.8 BILLION

In 2016, TSKB disbursed total loans of USD 1.8 billion including APEX loans to its customers. In the same period, APEX loans extended stood at USD 150 million.

## AN ASSET QUALITY ENABLING GROWTH TARGETS

TSKB is the embodiment of trust and confidence in the eyes of its stakeholders thanks to its robust capital structure and maintains a healthy asset quality. The ratio of the Bank's non-performing loans, which is much lower than the banking sector average, to total loans fell from 0.4% to 0.3% as of the end of 2016.

## AN INCREASE OF 24.3% IN NET INTEREST INCOME

TSKB's net interest income grew by an annual 24.3% to reach 777.2 million Turkish Liras in 2016 operating period. In addition, the Bank's total operating income rose by an annual 8.8% to stand at 772.5 million Turkish Liras.

## A SUSTAINABLE NET PROFIT INCREASE

TSKB has a sustainable financial performance. The Bank's net profit for 2016 was TL 476.4 million with an increase of 17.1% year-on-year. TSKB's return on equity stood at 17.6% as of the end of 2016 while its return on assets was 2.1%.

## A KEY PLAYER IN DEVELOPMENT AND INVESTMENT BANKING

As of 2016 year-end, TSKB ranked second among development and investment banks in terms of asset size and had a market share of 41% in long-term FX loans.

## AN INCREASE OF 9% IN THE NUMBER OF ACTIVE CUSTOMERS

In 2016, TSKB maintained its sectoral diversity in its loan portfolio meticulously and continued to acquire new customers. The Bank increased the number of its active customers by 9% year-on-year and signed 38% of its loan agreements with new customers.

## INVESTMENT LOANS HAVE A SHARE OF 67% IN TOTAL LOANS

Throughout the year, TSKB extended not only investment loans but also short-term lending products to respond to the daily working capital needs of its customers. As of 2016 year-end, investment loans, working capital loans and APEX loans constituted 67%, 25% and 8% of the total loan portfolio respectively.

Of the total loan portfolio 93% is comprised of FX loans, with 55% being in USD and 38% in EUR. The share of Turkish Lira loans within the total loan portfolio was 7% which was flat compared to previous year.

## MEDIUM AND LONG-TERM LOANS HAVE A SHARE OF 86% 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 end-2016, an analysis of TSKB's loan portfolio shows that

- > 14% of the portfolio is comprised of loans with a maturity of less than a year
- > 56% of the portfolio is comprised of loans with a maturity of 5 years and longer.

On the other hand, 51% of the loans having a maturity of 5 years and longer are loans with a maturity of more than 8 years. At TSKB, the average loan maturity is 5.9 years and the average loan amount is USD 15 million.

## A NON-PERFORMING LOAN PERCENTAGE BELOW SECTOR AVERAGE

The sector average for non-performing loans by 2016 year-end stood at 3.2% while the Bank's NPL ratio fell to 0.3% in the same period. The average of the last 5 years stood at 0.3%. The ratio of the Bank's closely monitored loans to total loans was 1.1%, making only to 1.4% when non-performing loans are also taken into account..

## WELL ROUTED EXPERTISE IN PROJECT FINANCING

TSKB has key experience and know-how in project finance and enjoys a market share of 4% according to the Banks Association of Turkey (TBB) data.

Under TSKB's project finance operations, the cash loans extended to customers amounted to about USD 720 million in 2016. Electricity generation plants received the highest share within the cash loans disbursed in the scope of project finance. Besides; electricity distribution, privatization finance and infrastructure have been other sectors which had notable weight within the new project finance disbursements.

In addition to long-term investment loans, 2016 operations also included working capital loans on short-term and medium-term maturities to meet the operational needs of project finance customers.

2017 is expected to be a relatively more dynamic year than the last year under the impact of the completion of financial closures pertaining to the transfer of assets including EÜAŞ (Electricity Generation Company) plants tendered out in 2016, the acceleration of pending financial closures in public-private partnership projects in the field of healthcare, and the motorway and bridge projects the tenders for which are completed and/or to be completed, and other pending privatization transactions.

*Uninterrupted support to the real sector with mid and long term thematic loans and qualified investment banking services*

## RENEWABLE ENERGY SECTOR AND TSKB

The share of loans with a sustainability theme in the TSKB's loan portfolio was 57% as of 2016 year-end. The effective and accurate use of renewable energy resources is of tremendous importance in a period marked by tackling climate change and in Turkey's transition to a low carbon economy. Renewable energy resources also have a key role in reducing Turkey's dependence on foreign resources.



**A TOTAL INSTALLED CAPACITY OF 5,332 MW FINANCED**

Since 2002, TSKB has been supporting the renewable energy projects in the country through long-term funding. The Bank has a market share of 6.5% in energy loans in the sector. The energy projects financed by TSKB range from hydropower plants to solar, wind and geothermal power plants. The total estimated installed capacity for the 211 projects financed stood at 5,332 MW, which represents 15% of Turkey's total installed capacity in renewable energy.

When renewable energy is concerned, solar power plant projects were given extra weight in 2016 in addition to wind power and geothermal power plant projects. In 2016, the Bank financed a total of 60 new solar power plant projects, corresponding to 10% of Turkey's total installed solar power capacity in MW as of 2016 year-end. An overall analysis of the loan portfolio shows that, at year end, the total weight of energy sector within TSKB's loan portfolio remained almost the same.

**In the upcoming period, geothermal and solar power plant investments are expected to continue at the same pace, and it is projected that the Bank's support to private sector will accelerate in this field.**

The number of renewable energy projects

that has been financed until the end of 2016 and came into operation is 138. Furthermore, the total installed capacity of the projects in operation stands at 4,375 MW. While the total investment amount of the energy projects funded between 2003 and 2016 was USD 9 billion, the amount of loans committed by TSKB for these projects was around USD 3.4 billion.

**FINANCING FOR RESOURCE EFFICIENCY**

Over the last seven years, TSKB has provided medium- and long-term financing to Turkish private sector to support efforts to improve resource efficiency. To date, the Bank has extended around USD 750 million in loans and supported 122 projects within the scope of energy and resource efficiency.

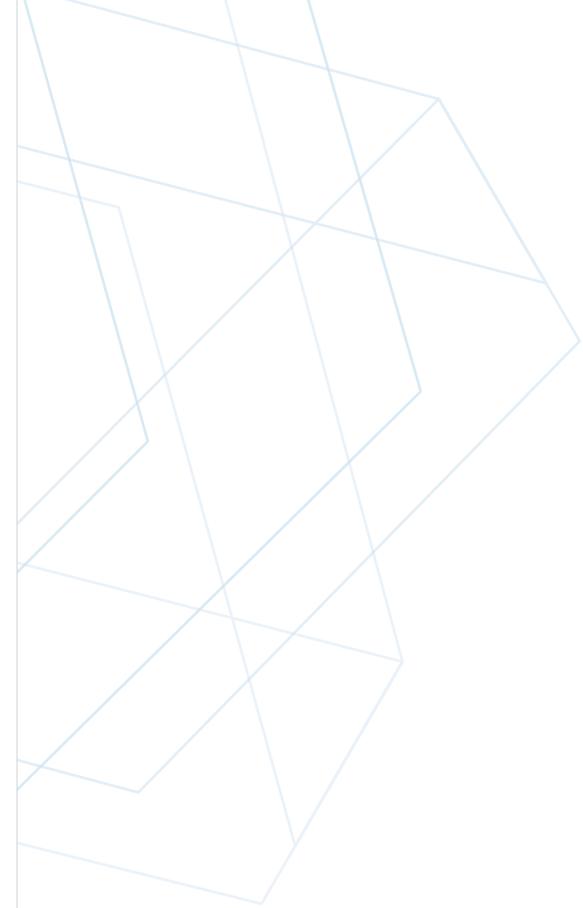
Energy and resource efficiency loans made up 10% of the Bank's loan portfolio at 2016 year-end. Given the growing focus on the fight against climate change, TSKB expects the prominence of the energy and resource efficiency efforts to surge up going forward.

**In 2017, the Bank aims to continue funding investments that will support sustainable development in the first place, including but not limited to energy and resource efficiency investments of firms operating in any branch of industry, investments backing female employment, and environmental and occupational health and safety investments while expanding its customer portfolio with a priority for the SME segment.**

**SUPPORT FOR SMEs**

Since its foundation, TSKB has bolstered SMEs, which are of paramount significance for the Turkish economy. The Bank not only responds to working capital needs of SMEs but also finances the investments of the said firms in a variety of fields ranging from technology update investments to capacity development, from energy efficiency to environmental projects. As of the end of 2016, the share of SME loans within the total loan portfolio was 18%. The SME-Midcap loan of EUR 100 million secured from the European Investment Bank in 2016 will contribute to increasing the support for SMEs.

Furthermore, the first Turkish InnovFin SME Guarantee Agreement was signed with the European Investment Fund in 2016 to support innovative investments by SMEs. **The agreement provides that TSKB will be able to extend loans to innovative companies for the next two years through the guarantee offered by the European Investment Fund under Horizon 2020-European Union Framework Programme for Research and Innovation.**



**ALWAYS STANDING BY THE REAL SECTOR**

Shaping its operations within a mission to produce effective solutions for long-term funding needs of private sector customers, TSKB makes high quality contribution to the sustainable growth of Turkish economy. The Bank extended a total direct funding of USD 7.6 billion to the real sector in the last five years in sectors such as renewable energy, energy efficiency, infrastructure and logistics.

Considering an approximate amount of USD 600 million lent to SMEs through the APEX loans channel, the total funding made available for the real sector in the last 5 years reaches USD 8.2 billion.

**TSKB - Primary Indicators for APEX Loans**

PROGRAM TITLE	YEAR	AMOUNT	NUMBER OF COMPANIES FINANCED (AS OF 2016 YEAR-END)	CURRENT STATUS OF PROGRAM
<b>Support to SME and Export</b>				
Innovative Access to Finance (IA2F)	2014	USD 250 million	186	In Progress
<b>EXPORT SUPPORT</b>				
EFIL IV Additional Loan	2011	USD 300 million	137	Completed
EFIL IV	2008	USD 300 million	133	Completed
EFIL III	2005	USD 305 million	168	Completed
EFIL II	2004	USD 303 million	211	Completed
<b>SME</b>				
CEB IV APEX	2013	EUR 100 million	416	Completed
CEB III APEX	2010	EUR 100 million*	223	Completed
KfW APEX	2004	EUR 7.7 million	54	Completed
EIB APEX	2005	EUR 150 million	343	Completed

\*Euro 90.9 million of the loan was disbursed in the form of APEX.

**TURKEY'S APEX BANKING PIONEER**

TSKB is the leader for APEX banking in Turkey. In 2016 operating period, the Bank continued to extend to its customers the international funding it secured from the World Bank and other DFIs. In addition to leasing companies and commercial banks, the Bank also began working with participation banks and factoring companies as part of the Innovative Access to Finance Loan, which TSKB secured from the World Bank in 2014 under its APEX banking efforts. To date, TSKB has effectively cooperated with 30 intermediary institutions as part of its APEX banking activities.

In 2016, the total of loans extended via APEX banking reached USD 150 million and the

share of such loans within the total portfolio stood at 8%. TSKB is the World Bank's preferred business partner in our country in terms of EFIL loan programs. As of the end of 2016, TSKB has carried out 4 EFIL programs and extended a total loan of USD 1,208 million to 649 companies. EFIL loans aim to not only support operations to boost exports by firms but also create new business areas and increase employment.

Under other APEX loan schemes, TSKB works via commercial banks and leasing companies to extend SME loans that contribute to increasing employment. To this end, via USD 503 million of loans, TSKB financed 1,114 SMEs, contributing to nearly additional 5,800 employment.



Under the guarantee of Republic of Turkey Prime Ministry Undersecretariat for Treasury, the Bank signed an “Innovative Access to Finance Project Loan” (IA2F) agreement with the World Bank to extend such loans to SMEs and export-oriented enterprises in the private sector around Turkey and extended a total loan of USD 150 million to 153 companies in 2016. This is the first loan extended by the World Bank in Turkey via participation banks and factoring companies.

**A BALANCED NON-CASH LOAN PORTFOLIO**

Issuing letters of guarantee and providing intermediation services for import and other foreign trade transactions required by investment and infrastructure projects, TSKB provided its customers with a total non-cash loan of USD 614 million with an increase of 14%. Throughout the year, the Bank focused on responding to the non-cash loan needs of its customers in energy distribution, power generation, metal and machinery sectors.

**STRONG ROLE OF TREASURY TRANSACTIONS IN THE BALANCE SHEET**

In addition to income from lending, which is the main operation of the Bank, the successful management of the cash flow and securities portfolio makes a significant contribution to the Bank’s profitability. The size of the securities portfolio in the last 5 years stood at an average of 19% of the balance sheet.

Customer transactions as part of treasury operations has significant importance in terms of both delivering a high-quality service in managing the financial risks of the Bank’s lending customers and generating income from commissions. Therefore, TSKB continues to keep its product range, specifically in derivatives, wide and updated in parallel with the changing market conditions. Recently, marketing operations in this field have been given weight to increase the income from such transactions.

In 2016, derivative transactions amounting to TL 9,631 million were carried out to manage the customers’ risks.

**AN INDISPENSABLE PLAYER IN CORPORATE FINANCE**

2016 was a more difficult year than 2015 in terms of capital markets. Mergers and acquisitions consultancy and financial strategic consultancy projects were mainly given weight as the focus of corporate finance operations. In mergers and acquisitions market, the previous year’s slowdown continued but corporate finance still received highlight as an active market. Despite a relative decrease in interest from foreign investors due to the extraordinary conditions our country and region have been going through, Middle Eastern private equity funds based in Turkey were specifically active. In corporate finance, TSKB received new authorizations on top of existing ones in 2016. Furthermore, the Bank continued its appraisal and financial strategic consultancy projects intensively during the year while getting actively involved in initial public offering business.

**Long-Term and Essential Relations with Financial Institutions**

*TSKB’s ability to secure medium-term and long-term funding and stable relations with financial institutions have two major components of its sustainable banking strategy and value creation process.*

TSKB, which was established by the World Bank support, has had continuous and sustainable relations with national and development financial institutions since the day it was founded. Such strong and stable relations and the high quality and long-term funds they provide have a significant place in the Bank’s value creation process.

**TSKB has facilitated access to international high-quality funding, and considers its capacity to provide medium-term and long-term funds as a key component in its sustainable banking strategy. TSKB will continue to improve its relations with development finance institutions further and support Turkey’s sustainable development journey.**



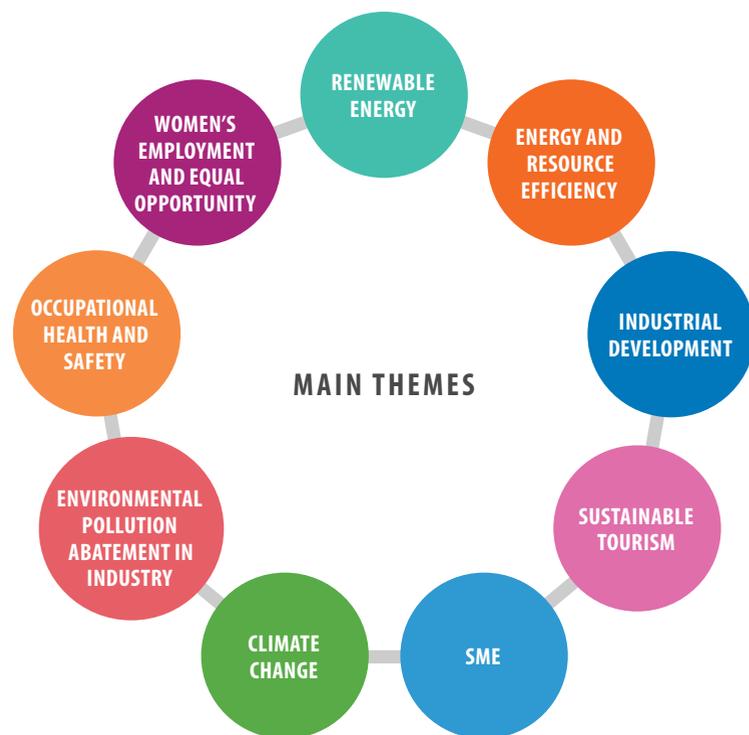
**LONG-TERM RELATIONS WITH DEVELOPMENT FINANCE INSTITUTIONS**



1. Relations started back in 1970s when TSKB intermediated IsDB’s capital contribution to small and medium-size industrial projects by Turkish private sector and turned official at the beginning of 1980.  
 2. Relations started when TSKB joined the EIF as a shareholder in 2006 but the first business relation was established in 2016.



**LOANS WITH VARIOUS THEMES OBTAINED FROM DEVELOPMENT FINANCE INSTITUTIONS**



Throughout 2016, TSKB successfully continued its efforts to secure new funds from development finance institutions. The total amount of thematic loan agreements that were signed during the year reached USD 733 million. Details of the mentioned funds are provided below.

**IBRD – TURKEY GEOTHERMAL DEVELOPMENT PROJECT LOAN**

AMOUNT USD 150 million  
TERM 28 years

**KFW – RENEWABLE ENERGY, RESOURCE AND ENERGY EFFICIENCY, ENVIRONMENT LOAN**

AMOUNT EUR 150 million  
TERM 15 years

**EUROPEAN INVESTMENT BANK (EIB) – SME-MIDCAP LOAN**

AMOUNT EUR 100 million  
TERM 8 years

**EUROPEAN INVESTMENT BANK (EIB) – ENERGY, ENVIRONMENT LOAN**

AMOUNT EUR 100 million  
TERM 12 years

**AFD – LOAN TO SUPPORT WOMEN'S EMPLOYMENT, OCCUPATIONAL HEALTH AND SAFETY IN TURKEY**

AMOUNT EUR 100 million  
TERM 10 years

**COUNCIL OF EUROPE DEVELOPMENT BANK (CEB) – APEX LOAN**

AMOUNT EUR 100 million  
TERM 7 years

**BOND ISSUANCES AND SYNDICATED LOANS**

Starting to work with international finance institutions in addition to Development Finance Institutions in the provision of funds, TSKB has been securing syndicated loans since 2005 and issuing bonds since 2014.

In addition to the funding agreements signed in 2016, the Bank issued Green/ Sustainable Bond worth USD 300 million and secured a syndication loan amounting to USD 274 million with a roll-over ratio of 107% to take its total funding in foreign currency that it obtained from international markets to USD 1.3 billion.

**TSKB Syndicated Loans**

YEAR	ROLLOVER RATE	NUMBER OF PARTICIPATING BANKS	NUMBER OF NEW PARTICIPATING BANKS	TOTAL BORROWING (USD)	TERM
2013	133%	11	4	133 million	364 days
2014	100%	13	5	134 million	364 days
2015	190%	17	5	256 million	367 days
2016	107%	16	2	274 million	367 days

**Bond Issuances by TSKB**

ISSUANCES	DATE OF ISSUANCE	MATURITY OF ISSUANCE	END OF MATURITY	AMOUNT OF ISSUANCE (USD)
TSKB Green/SRI Bond 2021	5/18/2016	5 years	5/18/2021	300 million
TSKB Eurobond 2020	4/22/2015	5 years	4/22/2020	350 million
TSKB Eurobond 2019	10/27/2014	5 years	10/30/2019	350 million

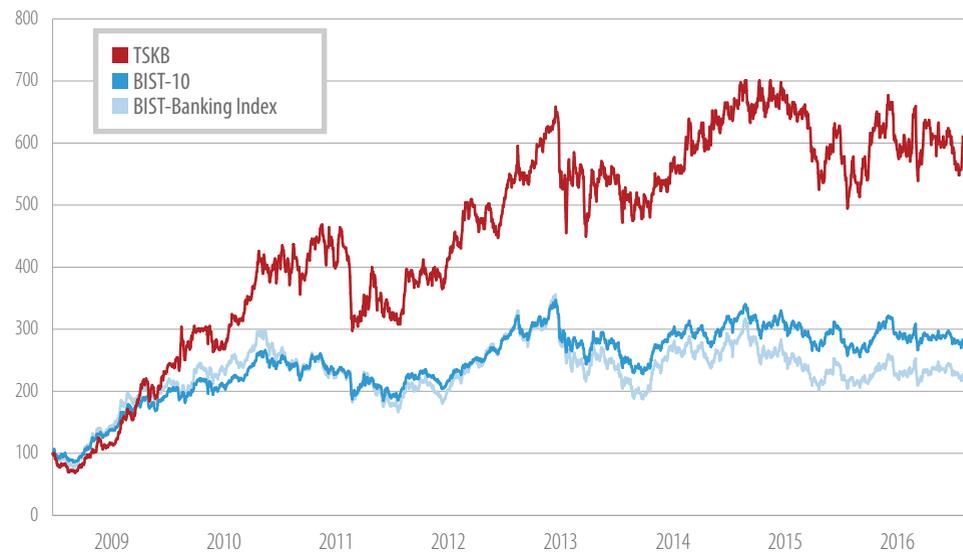
*TSKB has been quoted on BIST Corporate Governance Index since 2009, at BIST Sustainability Index since 2015 and has entered FTSE4GOOD Emerging Markets Index as of 2016.*

### ROBUST STOCK PERFORMANCE

TSKB stocks are quoted and traded on BIST-50 and additionally in various indices such as BIST Corporate Governance Index, BIST Sustainability Index and ISIST Index. Furthermore, in December 2016, TSKB joined the FTSE4Good Emerging Markets Index established by FTSE, an independent organization created under joint ownership by the London Stock Exchange and the Financial Times.

In 2016, BIST-100 Index and BIST Banking Index rose by 8.9% and 8% respectively while TSKB stocks picked up by 10.7%. In 2016, the Bank's stocks outperformed BIST-100 by 1.6% and BIST Banking Index by 2.4%. As of December 31, 2016, the Bank's market capitalization reached TL 2.9 billion. Foreign investors' share in TSKB's publicly-held stocks stood at 59.5% as of the end of the year.

**TSKB Stock Performance** SOURCE BIST Daily Bulletin



	31/12/2014	31/12/2015	30/12/2016
<b>Closing price for TSKB stocks (TL)<sup>1</sup></b>	1.42	1.27	1.41
Change (%) <sup>2</sup>	30.9	-10.0	10.7
BIST Bank Index relative (%)	0.4	19.3	2.4
BIST 100 relative (%)	3.6	7.5	1.6
<b>BIST Bank Index</b>	158,940	119,917	129,549
Change (%) <sup>2</sup>	30.4	-24.6	8.0
<b>BIST 100 index</b>	85,721.1	71,727.0	78,138.7
Change (%) <sup>2</sup>	26.4	-16.3	8.9

1. Retrospective closing prices are adjusted for cash dividends and capital increase through bonus issues performed after the relevant dates.
2. Change compared to the beginning of year



# Human Capital

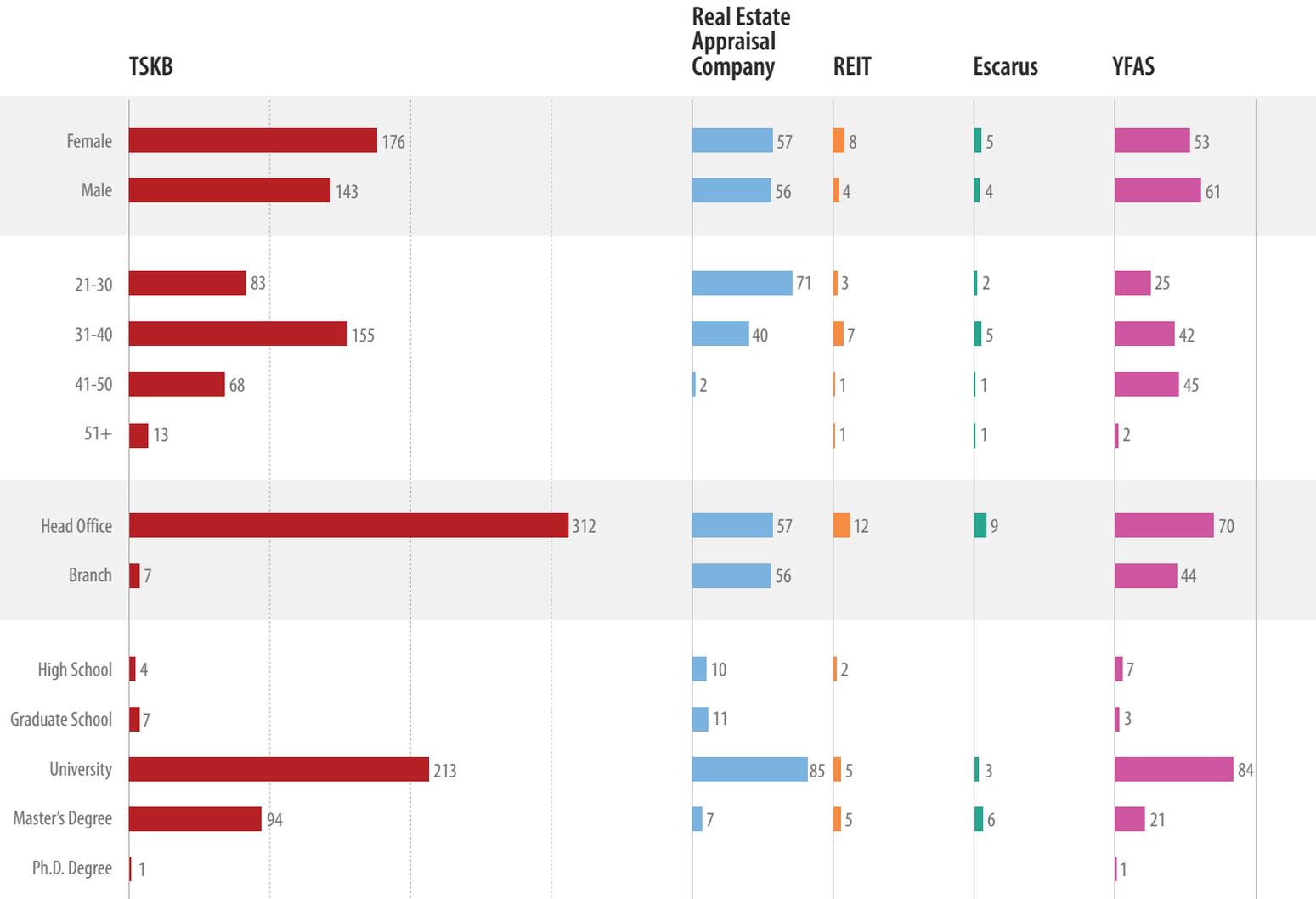
# Our Workforce in Numbers

**A QUALIFIED WORKFORCE IS ONE OF THE MOST IMPORTANT ELEMENTS IN TSKB'S BUSINESS MODEL.** TSKB employees, distinguished thanks to their level of education and expertise, ensure the Bank assumes the leading role in a diverse range of fields.

TSKB offers its employees a working environment where human rights are respected, equal opportunities are provided and initiatives are encouraged and it supports this environment through innovative training programs, internal communication work and social benefits.

**567** Grand TSKB Family

**319** TSKB Banking Staff



# 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.

- > Career Workshop programs are run for recent graduates who join the Bank.
- > Orientation and coaching processes are applied to ensure a rapid adaptation of TSKB's new employees to 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 competences.
- > One-on-one coaching as well as a training program abroad are provided to Department Heads under the Management Development Program.

## 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 5 main modules, namely Self-Consciousness, Presence, Strategic Leadership, High-Impact Leadership and Progressive Leadership, and focuses on the development of various competences in each module.

The first phase of the program started in April 2014 and was completed in May 2016. A total of 70 participants comprised of 39 women and 31 men graduated from the 1<sup>st</sup> Development Workshop Program. Each participant received 75.5 hours of training.

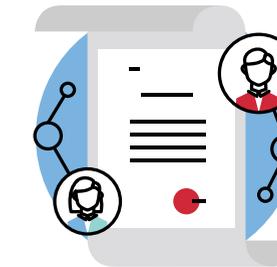
The second phase of the program started in May 2016 and will complete in April 2018. 45 participants in total, comprising of 27 women and 18 men, are attending the program.

**17,833**  
Total Hours of Training



**55.9**  
Total duration of training excluding administrative employees / person (hours)

**115**  
Development Workshop Participants



**89**  
Number of MTs trained by the Career Workshop

## CAREER WORKSHOP

TSKB runs meticulous work under its goal to "train its own managers" and holds a Management Trainee (MT) Program each summer to train future experts and managers. The Bank runs tailored training programs to prepare the management trainees it employs for the positions they will assume at TSKB.

Since 2010, a total of 7 Career Workshops have been held, 28 courses have been provided to 255 participants and 89 MTs have been trained.

# Employee Satisfaction and Loyalty is the Priority

**TSKB BELIEVES THE BEST BUSINESS DEVELOPMENT IS POSSIBLE THROUGH THE OBSERVATIONS AND FINDINGS OF THE PEOPLE WITHIN AN ORGANIZATION.** To this end, employee satisfaction surveys are conducted periodically. Through such surveys, TSKB regularly measures the satisfaction and engagement levels of its employees, creates a routine platform where they can submit their ideas and suggestions, and acts in line with improvement goals. Measurements are specifically performed within the scope of engagement analyses, and survey results are shared transparently with all employees.

307 employees responded to the 2016 employee satisfaction survey. Participation rate was 96%.

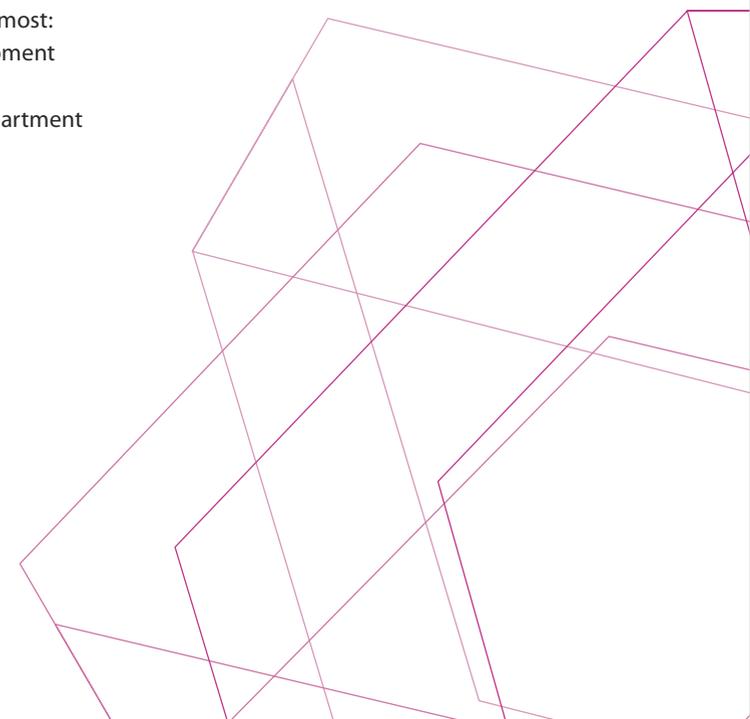
In 2012, 287 employees had responded to the employee satisfaction survey.

TSKB's efforts to improve employee engagement were reflected in survey results. A comparison of 2012 and 2016 surveys shows that:

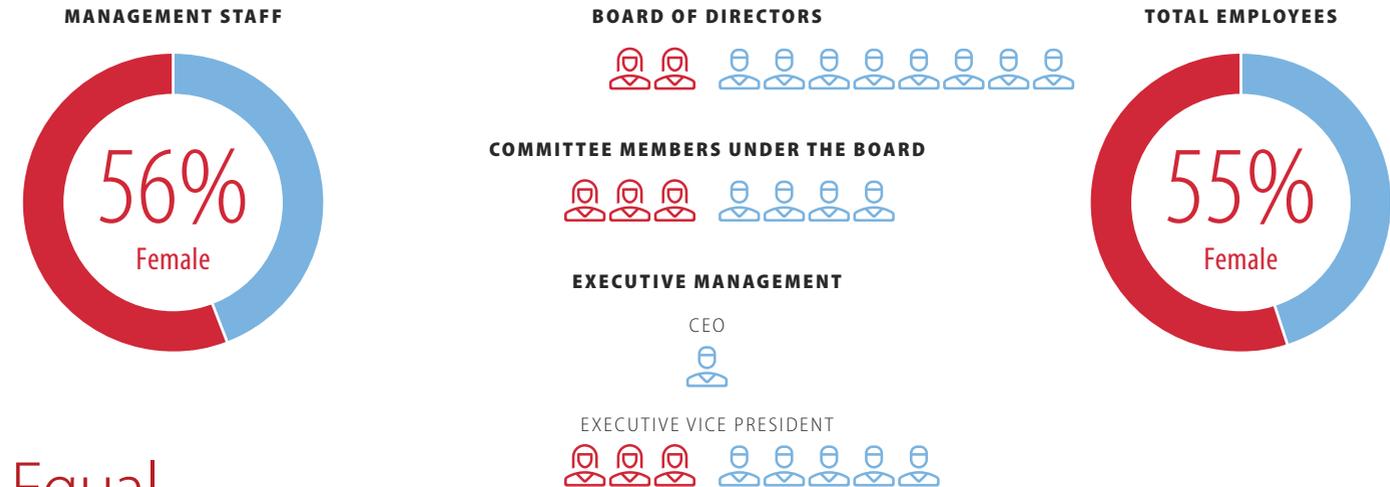
- > Employee engagement was improved by 13% in the last 4 years.
- > Questions on employee engagement are among the highest rising topics:
  - “I was recognized and praised for doing something good during the last week”
  - “At TSKB, I have an opportunity each day to do the best thing I do”
  - “In the last six months, I was given feedback at workplace on any progress I made”
- > Furthermore, improvements were made in factors that impacted the employee engagement most:
  - Training and Development
  - Job Satisfaction
  - Satisfaction with Department Manager

TSKB set development goals in priority areas identified following the 2012 survey. Clear improvements were observed in such areas in the 2016 survey. Priority development areas after 2016 are career planning, cooperation and teamwork, interdepartmental communication and performance management.

**Moreover, starting from 2017, the employee engagement dimension was also numerically added to the goals of the management and included in the performance system, an indicator of the importance the Bank attaches to the matter.**



## Gender breakdown of Board Members



## Equal Opportunity

TSKB pursues a human resources policy that is based on diversity and equal opportunities and acts in accordance with technical and personal competence criteria at recruitment, training and development, performance and career management, compensation and promotion stages. The fact that 55% of banking staff is female is a concrete indicator of the human

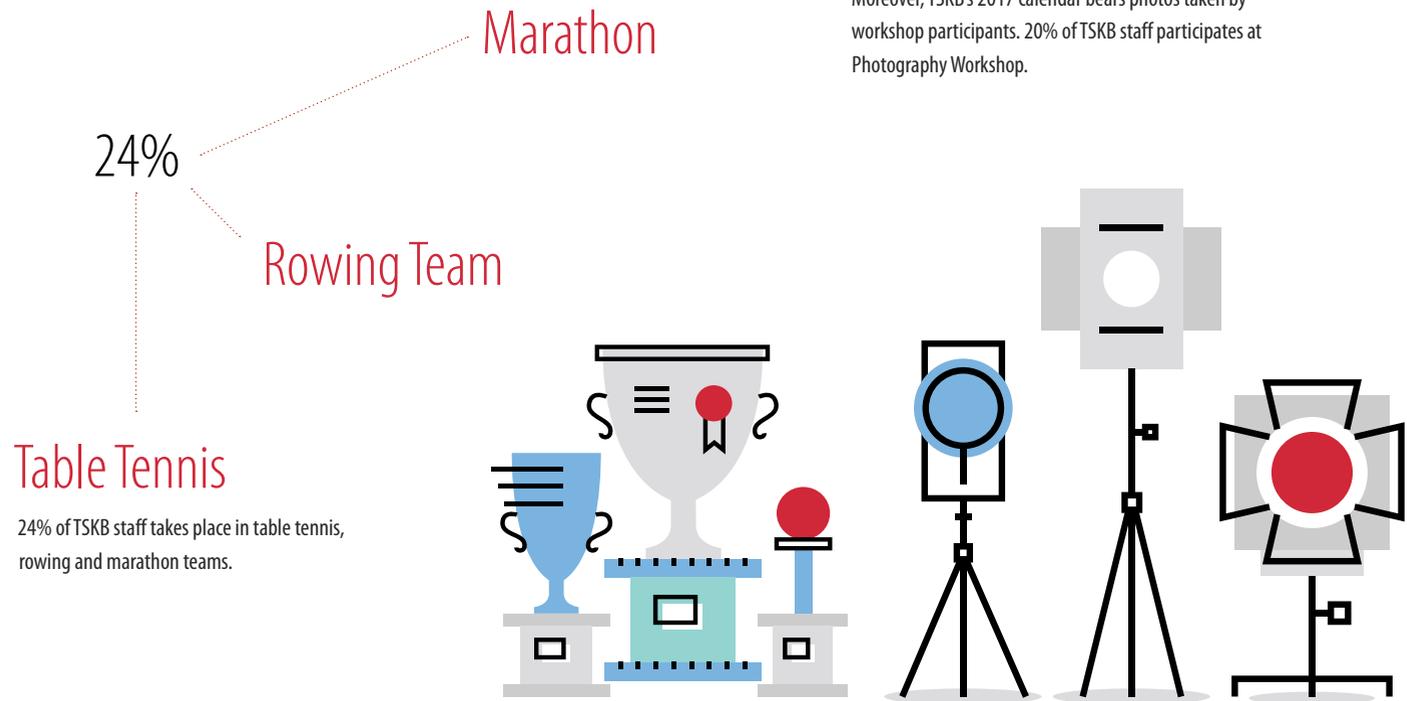
resources policy that is based on diversity and equal opportunities. Moreover, with 56% women in management positions, TSKB is distinguished positively. TSKB aims to support decision-making women's attendance to various committees and has voluntarily committed itself to increasing the rate of female Board members to 25% by the end of 2018.

The Bank has a performance-based promotion system focusing on equal opportunities. Continuous work is under way on the development journeys of employees and on their preparation for senior positions with a priority on performance and success.

## Employee Clubs

In addition to supporting 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, employees are brought together at various platforms such as "Future Vision" meetings, sustainability talks, managers meeting, foundation cocktail, new year's dinner, and IKSVM Music Festival, which the Bank sponsors every year.



### PERFORMANCE, COMPENSATION, REWARD AND SOCIAL BENEFITS

Sustainability and efficiency are key concepts in TSKB's human resources approach. Therefore, all TSKB employees are assessed objectively via the Performance Management System and supported for their continuous development thanks to various training programs.

Furthermore, TSKB applies an egalitarian "Remuneration Policy" that is coordinated with the performance assessment system and is sensitive to the market. The Bank conducts all employee assessments free from any kind of difference (gender, mental / physical handicap, age, race, religion, language, sect, faith, cultural or social class) and reflects the same approach in compensation and reward mechanisms.

### PENSION FUNDS / QUALITY HEALTHCARE SERVICES

At TSKB, there are two pension funds offering different social security options, namely TSKB Employees Assistance and Pension Foundation established in 1964 and TSKB A.Ş. Employees Supplementary Social Security and Assistance Foundation founded in 1994.

TSKB, 52 years ago, founded social security systems that were based on good practices around the world and offered comparative advantages to employees, thus transposing its "sustainability" and "leadership" aspects in investment and development banking into social security. TSKB pension funds deliver all commitments on healthcare and pension to around 1,400 people including members and the dependents of the members. TSKB pension funds serve their members with pension and retirement bonus products as long as they are alive and the dependents if the members pass away.



# Natural Capital



*The importance TSKB attaches to natural capital manifest itself in the operations created by the sustainable banking concept specifically since 2000s.*

*TSKB's process and methodology for assessing external impacts provides added value to both the organization and the society in the following areas:*

- > Increasing renewable energy investments in the country*
- > Reducing carbon emissions / energy needs through efficiency loans*
- > Raising awareness on the part of all stakeholders, mainly the clients*
- > Ensuring that the funded projects make positive contributions to the environment and social life and bring in a positive impact for the country and the society*
- > Strengthening the sustainable banking image of the Bank*
- > Periodically measuring and decreasing internal impacts.*

**SUPPORT TO TRANSITION TO LOW CARBON ECONOMY WITH SUSTAINABILITY INVESTMENTS**

**RENEWABLE ENERGY PROJECTS**

Since mid-2000s, TSKB has been contributing to the structuring of renewable energy and distribution sectors via the funding and provision of consulting services.

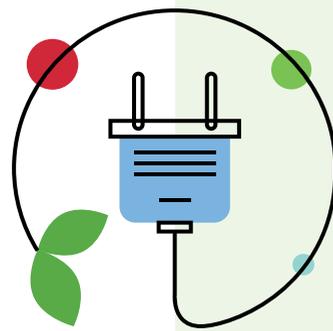
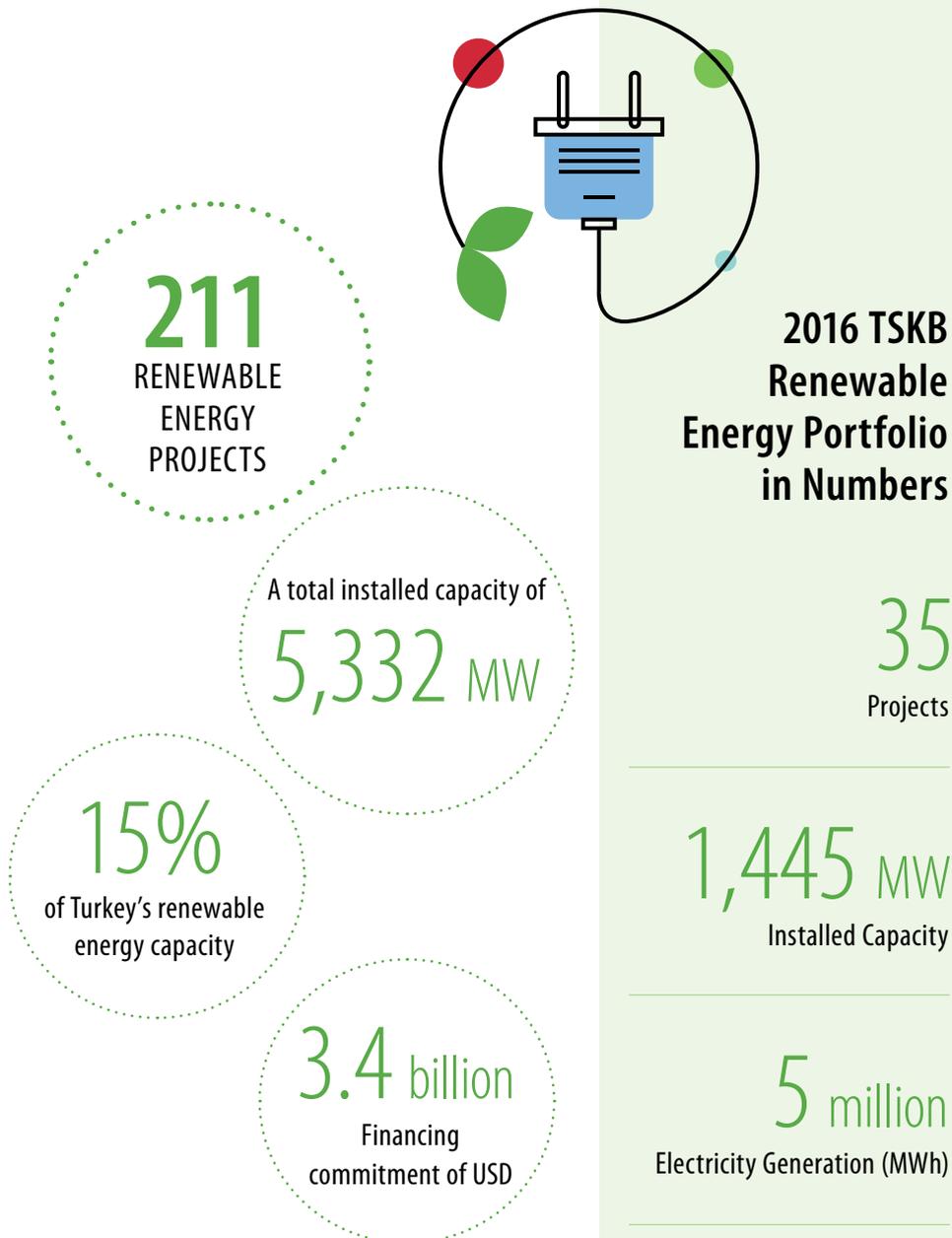
Renewable energy projects which TSKB has been providing substantial funding since 2002 continue to serve the transition of Turkey from the current fossil fuel-based power generation systems to clean and renewable energy resources. TSKB is among the Turkish banks that fund the highest number of renewable energy projects in the Turkish banking sector. The Bank has, so far, funded 211 renewable energy projects, thus contributing to a reduction of approximately 8.5 million tons in the total annual carbon emissions of Turkey.

**Clean and renewable energy will continue to be a priority sector for TSKB in 2017 and beyond. In line with a directly proportional increase in the demand for energy with economic growth, it is among TSKB's priority goals to support investments based on renewable energy resources in terms of supply security and sustainable development in accessibility.**

**8.5 million**  
Contribution to CO<sub>2</sub> emission reduction (tCO<sub>2</sub>e/year)

**35%**  
Ratio of energy generation in loan portfolio

**2.2 million**  
Contribution to CO<sub>2</sub> emission reduction (tCO<sub>2</sub>e/year)



The funding TSKB extends to the energy sector eventually benefits all sectors, the Turkish economy and the environment. Such projects contribute to developing energy/resource saving practices, ensuring energy diversity and reducing emissions. Loans for renewable energy and energy efficiency both contribute to eliminating the bottleneck in energy and support the reduction of current accounts deficit and ensure safe energy supply.

**TSKB aims to maintain its portfolio rate in this field with its image as a leading bank specialized in energy and resource efficiency.**

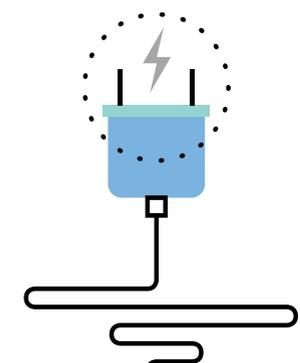
**Resource Efficiency Projects**



**63,810**  
Raw Material Savings (ton/year)

**15,850**  
Waste Savings (ton/year)

**831,940**  
Contribution to CO<sub>2</sub> emission reduction (tCO<sub>2</sub>e/year)

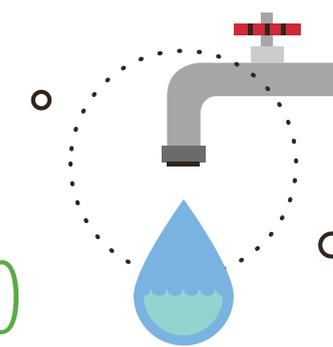


**Energy Efficiency Projects**



**4.6 billion**  
Energy Savings (kcal/year)

**3.6 million**  
Contribution to CO<sub>2</sub> emission reduction (tCO<sub>2</sub>e/year)

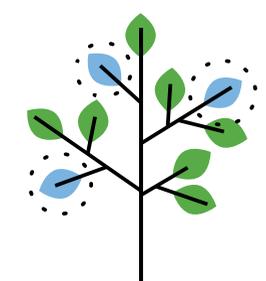


**63,810**  
Raw Material Savings (ton/year)

**367,580**  
Water Savings (m<sup>3</sup>/year)

**15,850**  
Waste Savings (ton/year)

**1.47 billion**  
Energy Savings (kcal/year)



# Internal Impacts

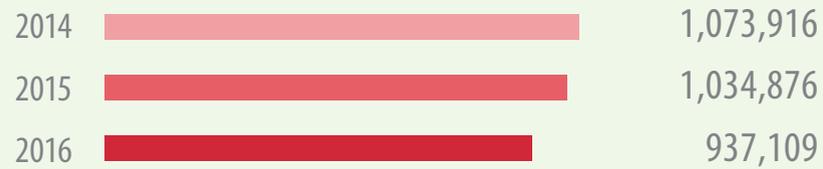
TSKB's internal impacts from office activities were structured in 2006 and their performance and consequences have been monitored under an ISO 14001 certificate since 2007 and an ISO 14064 certificate since 2012.

TSKB reinforces its efforts for sustainability and environmental management through periodic reporting.

The Bank supports recycling practices towards reducing internal impacts. To this end, electronic wastes (batteries and fluorescent lamps) are recycled in addition to the collection of paper, plastic and glass wastes for recycling.

17,236 m<sup>2</sup>  
TSKB Service Buildings

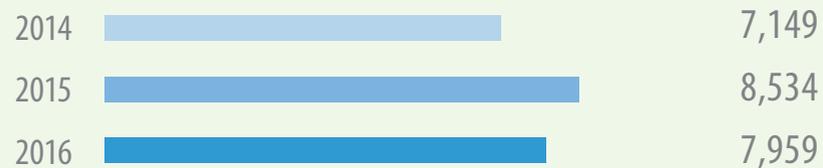
## Electricity Consumption (kWh) Head Office



## Natural Gas Consumption (m<sup>3</sup>) Head Office



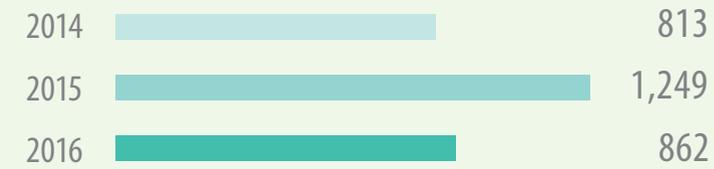
## Water Consumption (m<sup>3</sup>) Total



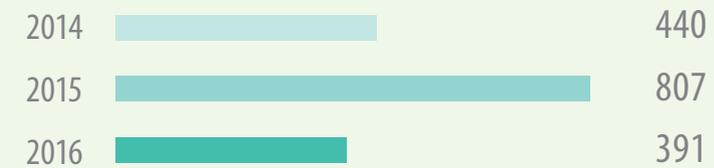
## Paper Consumption (kg)



## tCO<sub>2</sub>e Emissions



## tCO<sub>2</sub>e Emissions Scope 1

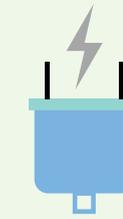


## tCO<sub>2</sub>e Emissions Scope 2

2014, 2015, 2016 0\*

\* Since TSKB uses renewable energy in all of its service buildings, its carbon emission is zero.

## tCO<sub>2</sub>e Emissions Scope 3



## Electricity Consumption (kWh) / m<sup>2</sup>

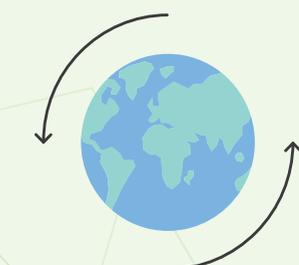


## Water Consumption (m<sup>3</sup>) / Staff



## Recycled Waste (tons)

Glass, Plastic, Paper





### ZERO CARBON BANKING AT TSKB

The increasing importance of climate change stipulates transition to a low carbon economy to ensure a sustainable world. Displaying awareness on the matter, TSKB followed the rising trends around the world to launch carbon neutral - zero carbon banking project in 2008.

What does being carbon neutral mean when TSKB's perspective is considered?

- > Measuring carbon emissions
- > Designing strategies and projects to mitigate carbon emissions
- > Offsetting emissions
- > Contributing to capacity development on the matter within and outside the organization

TSKB'S carbon footprint has been measured since 2006. It was reviewed in 2008 by an independent consulting company and the Bank consequently launched its zero-carbon project after the consulting company issued its report. Strategic mitigation goals covering 2009-2010 were established to reduce consumption in terms of lighting, energy and business trips, which are all sources of emission. As of 2009, the Bank started to procure electric power from renewable energy resources. This project was launched at a time when the threshold for being a free consumer was similar to the level of consumption by producers in the industry and emphasizes the vision and priorities of TSKB.

The Bank aims to transpose its carbon neutral approach within the organization to all social projects it launches, raise public awareness on reducing climate change and carbon footprint and improve recognition on the matter.

- > In addition, TSKB purchased Gold Standard Carbon Certificates for around 3,500 tons in the last 3 years to offset emissions from banking operations. Such efforts reduce 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.
- > TSKB aims to install carbon neutral awareness to its stakeholders and offsets their carbon footprint generated in one year and presents them a zero-carbon certificate as a new year gift. To this end, about 15,000 tons of carbon were offset in the last three years.

- > In 2016, the offsetting of the carbon footprint of TSKB Career Workshop, TSKB's management trainee recruitment program, started. All carbon footprint - about 20 tons - from transport and accommodation was offset during a 3-day event held at a hotel close to Istanbul and attended by around 50 students from various cities.
- > The Bank sponsors a concert every year at IKSVM Music Festival and offsets the carbon footprint of about 15 tons from transports of artists and audience. This has enabled TSKB to launch Turkey's first zero carbon concert.

### PAPERLESS TSKB

TSKB has adopted a principle of developing paperless business practices to protect resources and runs various practices to reduce paper consumption at different departments.

Recruitment practices are developed based on an infrastructure project in order to make recruitment processes more efficient. The "Kariyer IN" module, a platform to apply for vacancies from within the Bank, will enable a fully digital application process for vacancies.

Training assessment surveys are taken manually from participants after training events and then stored accordingly. In 2016, the practice of completing and safekeeping such surveys on the system was launched.



# Intellectual Capital

*TSKB's understanding of development banking, its integrated structure and expert team positively distinguishes the Bank. It has unified financial analysis, technical expertise and economic vision in its business model thanks to development banking responsibility.*

## **ASSESSMENT AND ANALYSIS POWER**

TSKB's business model dates back to its foundation years. TSKB which has amalgamated **financial, economic and technical analysis** to single business model has realised many firsts thanks to its competitive edge. Separation of credit assessment, marketing and lending operations to establish a balance of power helped create a strong credit assessment and lending culture and a robust loan portfolio. The active role of the Bank's economic research, financial analysis and engineering departments in the assessment process enables the Bank to handle credit assessment processes not only in terms of financial risks but also from a holistic and sustainable project perspective, thereby reinforcing the mission to "stand by those who produce the future in terms of **producing without consuming the future**".

The ability of the Bank's strong engineering infrastructure to rapidly cater to technical needs, its competence to establish a sectoral infrastructure and vision through economic research and the amalgamation of all these advantages with a robust financial analysis power all set the foundations of the Bank's

intellectual capacity and integrated model of doing business. The expert staff gets involved in TSKB's lending processes and creates value for the Bank and its customers through the consulting services it offers.

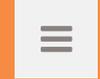
## **CHANNELLING SECTORAL EXPERIENCE AND PROJECTIONS AS PER NEEDS: FROM ENERGY EFFICIENCY TO RESOURCE EFFICIENCY**

Joining the power of the finance sector to guide the business world and shape loans with its own expertise, TSKB launched the energy efficiency funding in 2009. Thematic loans extended to TSKB by development financial institutions played an active role in this launch. TSKB first developed its own capacity and then designed a tailored road map by bringing together international best practices and trainings by international organizations with the energy efficiency perspective of the Turkish industry.

Through its ability to develop thematic loans and its elevated environmental/sustainability awareness that non-energy resources are also essential for a sustainable world, TSKB expanded the efficiency notion to resource efficiency in 2012. In terms of the orientation towards resource

efficiency, the Bank's engineering and economic perspective and anticipation were influential. The Bank drafted a resource efficiency survey report on the matter and shared it with its stakeholders on its website.

Funding energy and resource efficiency projects also helps the sustainable development of the country and the world and therefore supports the Sustainable Development Goals.



### SECTOR-SPECIFIC REPORTS AND THEMATIC WORK

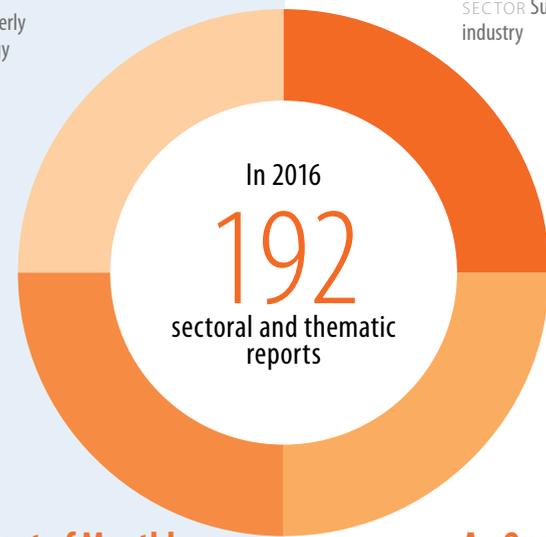
TSKB shares the sectoral and technical expertise and know-how of its Economic Research Department internally through reports, presentations and assessment notes; externally through sectoral reports, monthly sectoral assessments and thematic work for sectoral representatives and customers..

- > Growth
- > Domestic Propensity to Save
- > Industrial and Incentives Policies
- > Sector-Specific Policies
- > Development Banking
- > Cement
- > Iron & Steel
- > Food
- > Construction
- > Chemistry
- > Logistics
- > Metals and Machinery
- > Textiles
- > Tourism

are the areas for which sectoral and thematic reports as well as information notes are prepared.

### Quarterly Assessment for Power Sector

PERIOD Quarterly  
SECTOR Energy



### Assessment of Monthly Electric Power Consumption

PERIOD Monthly  
SECTOR Energy

### From Wheels to Chips

PERIOD Monthly  
SECTOR Sub-sectors of manufacturing industry

### An Overview of Sectors

PERIOD Semi-annual (April and November)  
SECTOR Economic outlook+assessment and expectations for 26 sectors

## Green / Sustainable Bond

Funding for environment, energy efficiency, renewable energy, social projects and resource efficiency extended since the start of 2000s enabled TSKB to establish a strong sustainable finance portfolio. The Bank's sustainable banking vision crowned by international awards as well as the environmental and social methodology it applies has jointly set a rich infrastructure and intellectual know-how for the institution. Availing itself of this valuable know-how, TSKB broke another new ground in 2016. The Bank emerged as the first issuer of Green /Sustainable Bond in Turkey and CEEMEA (Central and Eastern Europe, Middle East and Africa).

TSKB's bond issue which received great demand from international markets adds sustainability to the qualities of a known green bond. The proceeds of the bonds can be used to finance projects towards societal value in addition to green projects. Projects to be financed from Green / Sustainable bond include but are not limited to renewable energy, energy and resource efficiency, zero carbon transportation projects, health and education, power transmission lines and ports.

Date Issued  
May 18, 2016

Amount  
USD 300 million

Maturity  
5 years

MS+ Spread  
387.5 points

317 corporate investors on international markets  
USD 4 billion demand



Covering Turkey, Eastern and Central Europe, Middle East and Africa  
First Green Bond Issue of the region (CEEMEA)

Breakdown of incoming requests  
44% UK  
39% Continental Europe  
9% U.S. off-shore funds  
8% Asia and Middle East

Largest demand in bond issuances by financial institutions in Turkey  
13 times

First Turkish financial institution issue priced with negative new issue premium



International Financing Review IFR 2016 "RI Bond of the Year" Award



Global Capital "EMEA Green/SRI Bond Deal of the Year" Award

**BUSINESS MODEL AND PROCESSES**

TSKB positively distinguishes itself in the sector with its development and investment banking focused unique business model and strong financial indicators. As a bank that integrated economic, social and environmental sustainability approach to its business model at an early stage, TSKB's all business processes are continuously monitored and improved in line with strategic plan and enterprise architecture.

"Future Vision" Programme that was initiated in 2016 has laid the base of a development and transition path with inclusion of all staff to extend the Bank's current success to 5-10-20 years ahead. In this perspective, numerous development and upgrade projects have been identified under different subjects from strategy to operational efficiency, loan processes to technology. Projects are expected to go live in a 2-year period.

2016 was a year that focused on process improvement and efficiency projects that will support growth targets and increase customer satisfaction and service quality. Significant improvements were observed at credit, APEX banking and procurement processes. Work on transforming corporate performance to staff targets and its measurement and increasing compliance targets are aimed at increased efficiency.

2017 plans include but are not limited to projects under Future Vision; activities on increasing internal and external customer satisfaction and service quality, improving management and decision support reporting processes and legal compliance come forth.

**DIGITAL COMMUNICATIONS**

TSKB offers efficient knowledge flow on banking processes to its stakeholders via mobile and digital banking applications through digital platforms.

As a bank that has its shares publicly traded, TSKB shares all corporate information and news on social media channels in addition to its website with all its stakeholders.

 [www.tskb.com.tr](http://www.tskb.com.tr)

 /TSKB\_Turkey

 /TSKB.Turkiye.Sinai.Kalkinma.Bankasi

 /tskb\_tr

 /TSKB | Türkiye Sinai Kalkınma Bankası

**CALCULATING TURKEY'S CARBON EMISSION FACTOR**

In order to report renewable energy funding results based on carbon dioxide reduction and performance indicators, TSKB calculated Turkey's emission factor for its own internal use. Starting from 2009, this emission factor is required to calculate and report carbon reductions in renewable energy and energy efficiency investments. TSKB's expert staff and intellectual human resources have guided and shaped the calculation of the emission factor.

**ERET results for 2016**

		COMPANY	PROJECT
HIGH RISK	A	6%	4%
MIDDLE SENSITIVE RISK	B+	17%	11%
MIDDLE RISK	B-	51%	61%
LOW RISK	C	26%	24%

**RESPONSIBLE BANKING WITH ERET**

Determining the potential environmental and social risks and impacts that could arise in the implementation of projects bears special importance. According to the result additional measures for investors as well as monitoring responsibilities specific to the Bank might arise. TSKB which enjoys a specialized banking culture business model has undertaken another leading practice on the matter.

Developed to neutralize the difference in competence and experience among experts in the environmental and social risk appraisal of a project, to ensure the implementation of a consistent and standardized methodology, and to conduct performance assessment through cause and effect relations, ERET Environmental Risk Evaluation Tool was first designed in 2005 and has been implemented gradually since then. Starting from 2007, 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 it 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. The Bank's ERET model satisfies such need. 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.

The model conducts an assessment with 5 x 45 questions 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 TSKB 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.

Environmental rating methodology for ERET Model is continuously reviewed by TSKB teams, and the weights of high risk issues in the calculation process are increased in line with the changing

conditions, thus highlighting the risky issues.

Annual evaluation results are publicly reported on the website.

This model has been a very strong tool that TSKB uses for the effective management of environmental and social risks. It allows for inclusion of environmental and social risks in the project evaluation process and enables TSKB to establish a deep intellectual 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.

**MEETING STAKEHOLDERS' EXPECTATIONS THROUGH ENVIRONMENTAL AND SOCIAL EVALUATION**

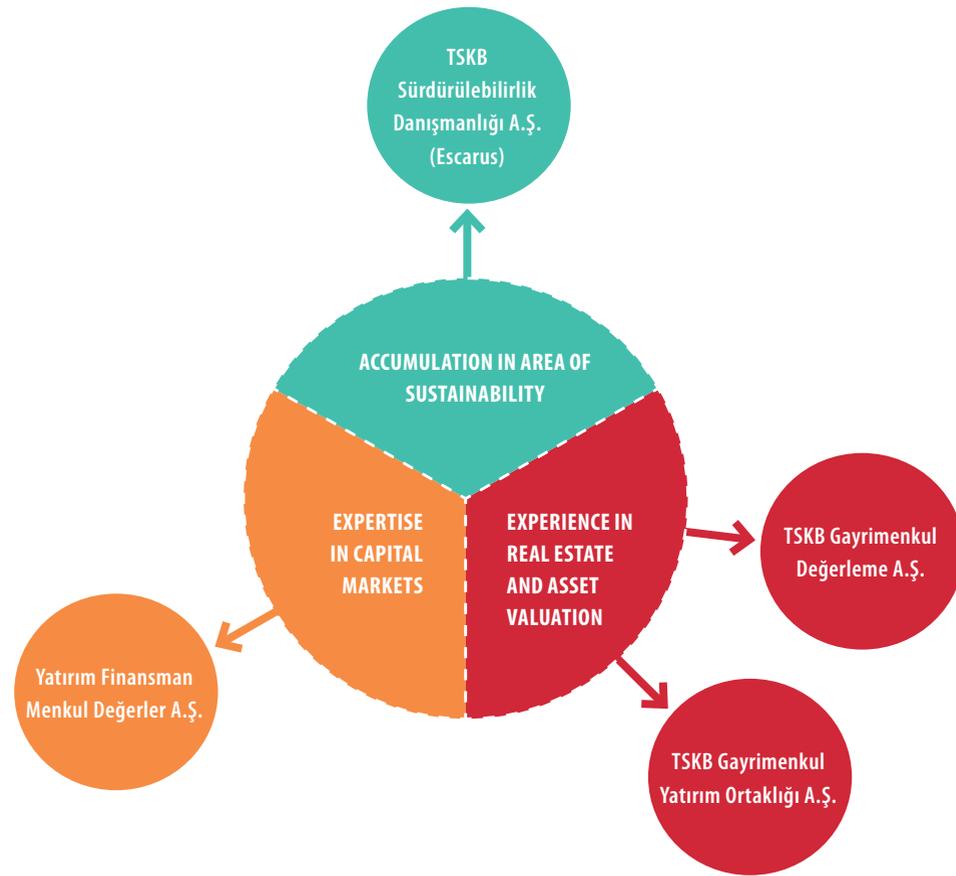
TSKB has set a precedent for other organizations as the first bank to implement the environmental evaluation model in lending processes through the sustainable banking approach it has adopted since the beginning of 2000s. TSKB includes environmental and social risks in lending and decision-making processes and contributes to raising awareness of its clients on sustainability via on-the-job practices and by the society via social responsibility projects and innovative efforts such as Çevreciyiz web portal. Such endeavours have enabled TSKB to enjoy a brand name as Turkey's leading bank in sustainability.

### POWER OF SUBSIDIARIES WITH DIFFERENT EXPERTISE

TSKB established affiliates by joining the power of sectoral and thematic know-how it has accumulated so far with the needs of the Turkish business world and makes a concrete contribution to Turkey's sustainable growth.

Together with its affiliates, TSKB aims to offer a holistic structure to complement and support its operations.

The Bank offers much needed package services to its customers through the power of its affiliates and creates new examples of cooperation via this channel. The synergy created by the affiliates allows TSKB to access and address a wider audience. This has enabled the Bank to use its affiliates to touch customers having differing needs in addition to Development Banking.



#### YATIRIM FİNANSMAN MENKUL DEĞERLER A.Ş. (YATIRIM FİNANSMAN SECURITIES)

Yatırım Finansman Menkul Değerler A.Ş. (Yatırım Finansman), Turkey's first brokerage house, was founded on October 15, 1976 by 13 major banks led by İşbank and TSKB. Having a strong and widespread service network around the country, Yatırım Finansman offers reliable, high quality and fast brokerage services to individual and corporate investors all around Turkey and the world.

TSKB has a participation share of 95.78% at Yatırım Finansman, which had equity of TL 71.8 million and assets of TL 820 million as of 2016 year-end.

As of end 2016, Yatırım Finansman stands out among brokerage houses with 10 service points in Turkey's major cities and has customer assets worth more than TL 3.2 billion, while raising the service bar in the sector continuously. At 2015 year-end, its portfolio management size stood at 332 million before exceeding 507 million by the end of 2016.

#### TSKB GAYRİMENKUL DEĞERLEME A.Ş. (TSKB REAL ESTATE APPRAISAL COMPANY)

The company was founded in 2002 to provide real estate appraisal services. The basis of its know-how is TSKB's experience in real estate, machinery and equipment appraisal accumulated in more than half a century.

TSKB Gayrimenkul Değerleme A.Ş. was one of the very first companies to be included in the list of real estate appraisal companies by the Capital Markets Board of Turkey in 2003 and to be entitled to provide services in the field of "Appraisal of Real Estate, Real Estate Projects or Rights and Benefits Related to a Real Estate" in line with the Resolution No. 3469 of 17.12.2009 by the Banking Regulation and Supervision Agency. Additionally, the company was awarded the RICS License by the Royal Institute of Chartered Surveyors (RICS), which offers international service assurance, to become one of the leading Turkish companies delivering services with three licenses.

Breaking new ground in Turkey in 2012 and launching "green building" services, a key concept in sustainability, TSKB Gayrimenkul Değerleme A.Ş. offers "Green Building Appraisal" and "Green Value Analysis at the Best and Highest Use" services through its appraisal and valuation experts holding LEED Green Associate certificates.

In 2015, TSKB Gayrimenkul Değerleme A.Ş. was given the "Best Real Estate Appraisal Company in Turkey" award under "Consultancy" category by the UK's Euromoney as a result of the survey and voting widely participated by companies operating in various areas of the real estate sector in Turkey. This award was bestowed upon the company after Euromoney's own research among appraisal, leasing and consultancy firms serving in the real estate sector in Turkey. TSKB Gayrimenkul Değerleme A.Ş. was further awarded by the same entity as the "Best Real Estate Consultant in Turkey" and the "Best Real Estate Appraisal Company in Turkey" under the "Real Estate Consultancy" category in 2008 and 2014 while it was awarded as the "Best Real Estate Consultant in Turkey" in 2005.

In addition to its head office in Istanbul, TSKB Gayrimenkul Değerleme A.Ş. has branches in Ankara, Izmir, Bursa, Adana, Antalya, Diyarbakir and Trabzon, and the number of reports the company prepared was in the region of 40,000 as of 2016 year-end.

#### TSKB GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş. (TSKB REIT)

Established in 2006, TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. (TSKB REIT) is driven by the Bank's 66-year corporate know-how and experience. Fuelled by the know-how, expertise and corporate approaches of TSKB, its main shareholder, TSKB REIT seeks to provide investors with a solid and reliable real estate portfolio.

TSKB REIT was established with an initial capital of TL 10 million. The size of the company's assets reached TL 438 million through the investments it made and the gross leasable area under its management rose to 66,000 m<sup>2</sup> from 3,000 m<sup>2</sup> as of December 31, 2016.

#### TSKB SÜRDÜRÜLEBİLİRLİK DANIŞMANLIĞI A.Ş. – ESCARUS (TSKB SUSTAINABILITY CONSULTANCY)

Escarus was founded in 2011 to offer TSKB's technical infrastructure and expertise in relation to environment and sustainability in Turkey and abroad and operates with a vision to be the leading consultancy firm in Turkey's sustainable development. The company delivers consultancy services in areas such as sustainability strategy, operational efficiency, technical due diligence, climate change and sustainable finance and delivers innovative and leading solutions via its expert staff.



# Manufactured Capital

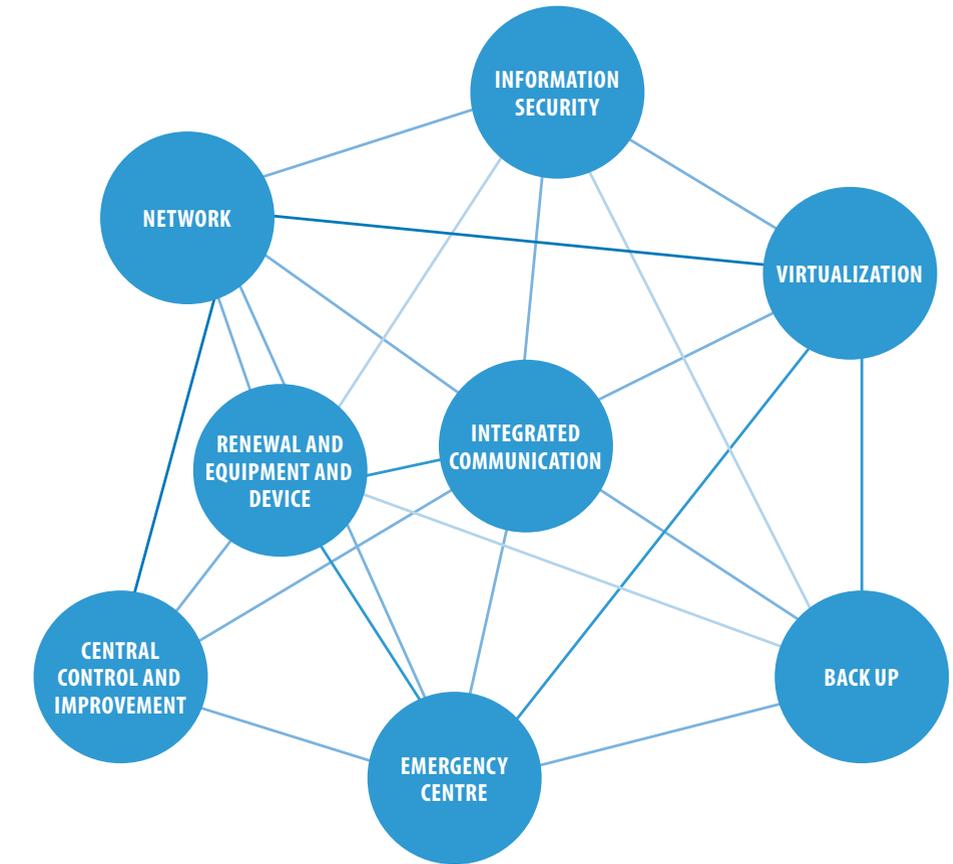
## Information Technologies Infrastructure

TSKB considers the internal needs and dynamics of the organization as well as its customers and persistently updates its IT infrastructure.

Improvements at IT emergency centre conducted in 2016 within this purpose ensures business continuity and helps the Bank fulfil its responsibilities towards its stakeholders uninterruptedly.

On-line visual calls with video conference has increased mobile productivity, and decreased Bank's carbon emissions by optimizing business travel. Improvements in virtualization platform and information safety applications resulted in efficiency increase while precautions against cyber risks were realized.

In addition, renewal of staff computers and devices, data security applications, centrally monitoring of devices and applications in terms of capacity and performance, and improvements at back up processes has contributed to speed and performance of work processes.



**In 2017, investments will continue to be made to ensure all work processes are run in a safe, fast and high quality manner via the realization of most up to date applications in work continuity, data security, web infrastructure and mobile communication areas.**

## TSKB Campus

TSKB operates at its head office in Istanbul and has branches in Ankara and Izmir. The Bank does not need a branch infrastructure unlike the financial institutions offering personal banking services.

The compact campus of the Bank located in Findikli-Istanbul enables it to deliver consolidated and effective development banking services at one single location.

TSKB shares the same building with its subsidiaries, Yatırım Finansman (Head Office), Real Estate Appraisal (Head Office), REIT and Escarus, reinforcing the understanding to offer integrated and complementary services. The Bank's logistical services are offered to subsidiary staff in addition to Bank staff, therefore increasing cooperation and synergy, additionally creating resource savings and contribution to natural capital.

The buildings hosting TSKB since 1970s have been renovated in 2015 to create a healthier, more efficient and ergonomic work environment.

Employee satisfaction target has been the top priority in the realized infrastructure improvements and renovations.

- > Making more use of day light
- > Lighting
- > Heat and sound insulation
- > Compliance with OHS regulation
- > Open office
- > Increasing the number of meeting rooms
- > Renovation of the conference hall
- > Enlarging the gym
- > Renovation of the cafeteria

**Projects are planned in 2017 to take place on space applications at the working environment to increase corporate brand perception and internalization of common values. Other applications to increase staff motivation and common work culture will also be on the agenda.**





# Social Capital

**TSKB strengthens its vision of being the “pioneer bank in Turkey’s sustainable development” to its relations with stakeholders as well. The Bank gives great importance to be in a sustainable dialogue with all stakeholder groups by building different communication platforms. Feedback received from stakeholders hold light to various topics such as identifying TSKB’s strategic priorities, creating relevant policies, business model and social responsibility projects.**



# Social Responsibility Projects

*Social responsibility projects TSKB runs under the sustainable banking concept mainly on climate change & energy and carbon management focus on raising awareness on environmental issues that pose a risk to world's future, especially among business world and universities*

## Digital Platforms

Believing in the importance of digital platforms as the fastest and most efficient means of communication with stakeholders, TSKB put into practice web portals with different themes to increase the awareness on sustainability.

Cevreciyiz.com is the pioneer among these channels, becoming live in 2007 and having reached 50,000 followers on social media channels. The website provides reference for many aspects such as sustainability, energy efficiency, environmental-friendly design, and alternative energy sources; and shares innovative news articles from the world such as eco-friendly production and consumption trends and green agriculture. Cevreciyiz.com continues its broadcast with the target of being a channel that will inspire its follower for a better future.

TSKB shares its experience on sustainability finance, through different portals. tskbenerjiverimliligi.com which became live in 2011 continues to be an important resource on energy efficiency. In addition, www.kaynakverimliligi.com web portal became live in February 2016, aiming to increase awareness on resource efficiency.

## "Sustainable" Support to Culture and Arts

### ZERO CARBON CONCERT

TSKB contributes to the development of culture and arts of the country by supporting the concerts in Music Festival organized by Istanbul Foundation for Culture and Arts (IKSV) since 1990. As the first zero-carbon bank in Turkey, TSKB led the way to a new practice since 2014 by offsetting the carbon emissions from transportation of artists and audience to these concerts by Gold Standard Carbon Credits from an institution investing on clean energy.

In addition, TSKB utilizes opportunities to increase awareness on fight against climate change. With this perspective, the Bank joins the Earth Hour led by the World Wildlife Fund (WWF), a practice adopted world-wide to raise interest on climate change.

## Zero Carbon in Social Responsibility Projects

- › FIRST ZERO CARBON CONCERT OF IKSV MUSIC FESTIVAL
- › OFFSETTING THE CARBON FOOTPRINT OF CAREER WORKSHOP, TSKB'S RECRUITMENT PROGRAM
- › HOLDING ZERO CARBON CONFERENCES AND ORGANIZATIONS
- › OFFSETTING THE INDIVIDUAL CARBON FOOTPRINTS OF CUSTOMERS AND BUSINESS PARTNERS EVERY YEAR WITH GOLD CARBON CREDITS

*Cevreciyiz.com where topics such as sustainability, energy efficiency, energy-friendly design, alternative energy sources, have reached 50,000 followers on social media.*

 /cevreciyiz

 /TSKB.cevreciyiz

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### TSKB SUPPORT FOR EXCAVATIONS AT THE ANCIENT CITY OF PATARA

TSKB 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. (Bottle and Glass Factories Inc.).

Patara was the capital of the Lycian League and Province and is located near Kalkan town of Kaş, Antalya and is a magnificent archaeological site with a well-preserved amphitheatre, assembly, temple, horrea (storage structures), stadium, bath and churches. It houses unique monuments such as the "Lighthouse" and "Stadiusmus Patarensis" as well as a social complex dating back to 1905 that served as the first Ottoman Radio and Telegram Station.



# Sharing Experience and Cooperation

## Sustainability Workshops

*TSKB shares its experience on sustainability through its support to numerous organizations via sponsorships, organizations and speakers. These events help the Bank reach a large group from university students to academics, from sector specialist to decision makers.*

TSKB holds Sustainability Workshops since 2012 with university students who will shape tomorrow's business world offering them the chance to develop their first sustainability-themed projects as the first literacy program on sustainability. During these workshops conducted with Escarus, Bank's subsidiary offering sustainability consulting services, university students, academics and private sector representatives get together and solve a case study with a specific methodology. Students form different teams prepare different case studies, each team led by experienced participants from private sector, and project results are discussed, evaluating data and methods.

WORKSHOP 1  
**Carbon Footprint**  
Boğaziçi and Sabancı Universities, 2012

WORKSHOP 2  
**Energy Efficiency**  
Boğaziçi and Sabancı Universities, 2013

WORKSHOP 3  
**Renewable Energy**  
METU, 2014

WORKSHOP 4  
**Energy Efficiency**  
Bilkent University at the Efficiency Conference by the Republic of Turkey Ministry of Science, Industry and Technology, 2015

WORKSHOP 5  
**Renewable Energy**  
Koç University, 2016

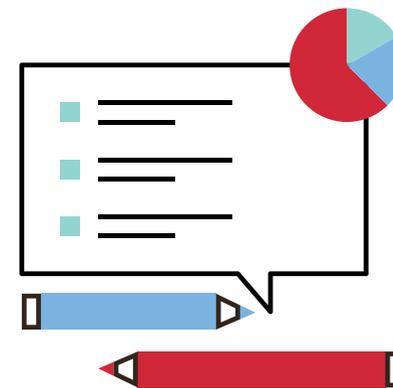
With Sustainability Workshops

200  
Participants

24  
Sector Participants

9  
Academics

9  
Keynote speakers  
(public sector, private sector, development financial institutions etc.)



### STRONG EMPLOYER BRAND FOR UNIVERSITIES

A "Strong Employer Brand" plays an important role in the recruitment of workforce, TSKB's most valuable asset. In this perspective, through academic cooperation – which holds importance – course content on development and investment banking topics is prepared.

Between 2012 and 2016, a total of 30 courses were delivered in 8 universities and 24 speakers were provided to the courses.

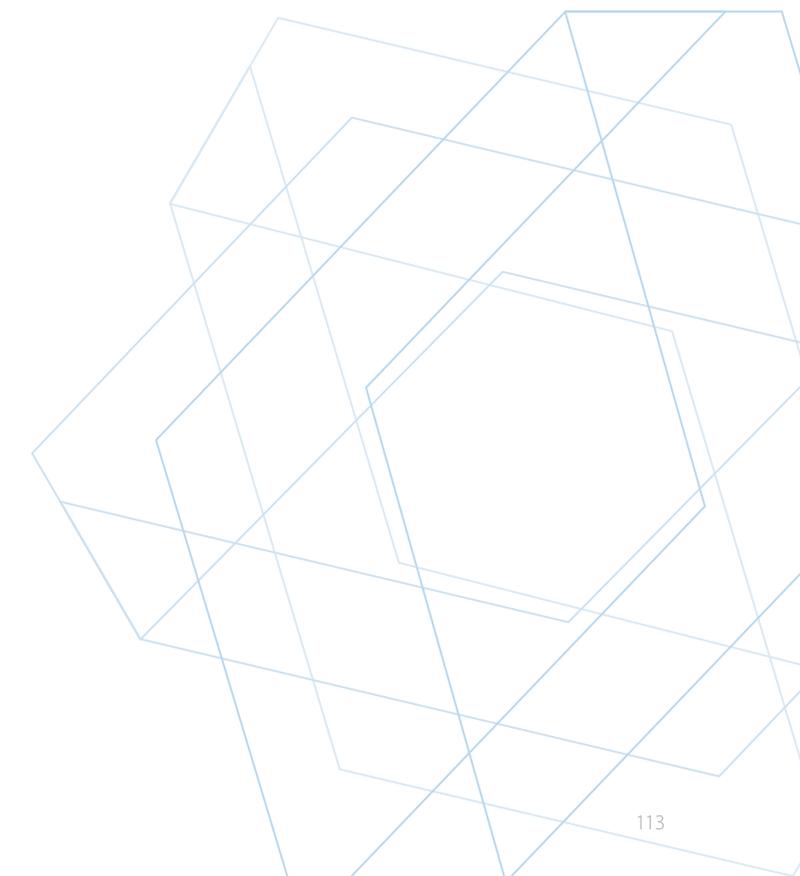
Comprising of TSKB MTs, "TSKB University Ambassadors" team actively gets involved in the Bank's promotional events at university campuses. Furthermore, young talents are sought via Student Clubs, Career Centres at universities, career fairs and talks on economy.

### SHARING EXPERIENCE WITH THE BUSINESS WORLD

Sector events hold importance for TSKB to reach a wide stakeholder mass and share its experience on sustainability. TSKB reflects its perspective in different sector events as speaker, trainer or sponsor.

TSKB's effort on these topics is not limited to Turkey only. TSKB staff shares Bank's expertise in the international arena via capacity building training and speaker

position in global summits. TSKB managers participated at the 22<sup>nd</sup> United Nations Climate Change Conference of Parties (COP22) as speakers in six different panels, sharing their experience on various subjects from renewable energy investments in Turkey to green bond.



# Long-Term Relations with Stakeholders

## Membership Relations

TSKB shares its experience through domestic and international memberships that it deems relevant to its operations and goals and attaches importance to mutual sharing of experience, thus assuming active roles within the initiatives it is a member of.

TSKB supports its activities at the associations it is a member of through various working groups. To this end, the Bank joins special working groups at organizations and associations such as DEİK, TUSIAD, TBB, Global Compact and SKD. Some of these activities are provided below:

- > United Nations Global Compact - Sustainable Banking and Finance Working Group
- > Chair of TBB Working Group on the Role of the Financial Sector in Sustainable Growth
- > Multiple working groups at TUSIAD including but not limited to Environment and Climate Change, Energy, Industrial Transformation and Sustainable Development
- > Membership to Energy Business Council of the Foreign Economic Relations Board (DEİK)
- > Various working groups of SKD- Business World and Sustainable Development Association such as Sustainable Finance, Energy, Cyclical Economy, Female Employment and Equal Opportunity

### INTERNATIONAL 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
- > ADFIMI - ASSOCIATION OF NATIONAL DEVELOPMENT FINANCE INSTITUTIONS IN MEMBER COUNTRIES OF THE ISLAMIC DEVELOPMENT BANK
- > IIF - INSTITUTE OF INTERNATIONAL FINANCE
- > ICC - INTERNATIONAL CHAMBER OF COMMERCE
- > LTIC - LONG-TERM INVESTORS CLUB
- > IDFC - INTERNATIONAL DEVELOPMENT FINANCE CLUB
- > ELTI - EUROPEAN LONG-TERM INVESTORS ASSOCIATION

### NATIONAL INITIATIVES

- > TBB - BANKS ASSOCIATION OF TURKEY
- > TKYD - CORPORATE GOVERNANCE ASSOCIATION OF TURKEY
- > TSPAKB - ASSOCIATION OF CAPITAL MARKET INTERMEDIARY INSTITUTIONS OF TURKEY
- > DEİK - FOREIGN ECONOMIC RELATIONS BOARD
- > TUSIAD - TURKISH INDUSTRY AND BUSINESS ASSOCIATION
- > GRF - GLOBAL RELATIONS FORUM
- > SKD - SUSTAINABLE DEVELOPMENT ASSOCIATION
- > IKSIV - ISTANBUL FOUNDATION FOR CULTURE AND ARTS
- > ASSOCIATION OF MONEY MANAGERS
- > ASSOCIATION OF RISK MANAGERS
- > ERTA - INTEGRATED REPORTING NETWORK TURKEY

As part of some of its memberships, TSKB holds positions such as the Chair of Working Group and shares its experience with other players in the sector.

TSKB's national and international memberships contribute on two separate dimensions: Work performed under memberships contributes to corporate image and promotion, supports the building of internal capacity and awareness raising, and facilitates access to various stakeholders. TSKB's memberships - specifically those organizations and initiatives to which TSKB is the first member from Turkey - simultaneously promotes Turkey on a wide range of platforms and increases Turkey's awareness on such areas.

## Cooperation with public institutions

**Through its good relations with policy makers and public institutions and its power to provide independent opinions,** TSKB;

- > contributes to the country's economy and development
- > provides independent opinions from private to public sector
- > serves as a bridge between private sector and public sector
- > creates diversity of funds for economic development
- > contributes to the development of the market / legislation work
- > offers an opportunity for reputation, truth and promotion.

## Library

TSKB Library has been serving the society since 1971 with an archive of almost 12,000 books. As a specialty library, it provides its users - specifically university students - with sector-specific reports and research results of the Bank as well as national and international literature.

## Supporting women's participation in economic activities: WEPs

TSKB believes women's active participation in economic activities is essential. In March 2015, the Bank signed the Women's Empowerment Principles reflect its support for gender equality and equal opportunities in the business world and carried the issue to an international platform. The most significant international initiative by the UN Women and the United Nations Global Compact, Women's Empowerment Principles aims to empower women in any international dimension, chiefly in healthcare, security, education and development.

In line with this policy, a funding of EUR 100 million was secured from the French Development Agency at the end of 2016 to improve the occupational health and safety conditions for women.

# TSKB in Future





## Uninterrupted support to the country's development

From the day it was founded, TSKB has been aiming to increase the support it provides to sustainable growth of Turkey's economy through its development and investment banking services.

The Bank will be attentive to provide innovative solutions on areas which will be important for our country and business world in the future – including energy, efficiency, environment and employment- and to create new themes to help support development of these sectors in line with the growth and development targets of the country.

## Financing climate-friendly investments

TSKB will continue to put importance on climate change as a priority in new themes in line with the Paris Agreement drafted after COP 21 meetings in 2015 and UN SDG published same year. In this respect, it will help support climate friendly sustainable growth of the country via funds received from development finance institutions. Diversification of projects supported with these resources in line with targets and priority areas specified in the 10<sup>th</sup> Development Plan and relevant strategic documents will play an important role in this target.

## Effective Risk management

TSKB will maintain to apply risk management policies on all sources it will secure and minimize risks for the flow back of funds provided to investors. For this purpose, it will continue to asses all financial sectoral risks of all projects it finances in line with its successful risk policies to maintain the existing low non-performing loans ratio.

## Qualified investment banking solutions

TSKB will continue to offer alternative solutions to companies within its sustainable growth targets through its corporate finance and consultancy services such as public offering, trading of bonds, mergers and acquisitions. The Bank will contribute to the sustainable growth of capital markets which is an indispensable part of economic development by its maintaining its perspective to encourage and support companies.

## Carrying forward competitive and knowledge producing banking performance

TSKB, experiencing one of its most successful periods in terms of both financial performance and support to development, is aware of the need to develop and carry its competitive and knowledge-producing banking performance for the development of the country. The Bank's human resource, which constitutes the foundation for its success from past to future and is the Bank's greatest asset, will continue to be the biggest advantage for the Bank to utilize new opportunities and manage all kinds of risk starting with financial, sectoral, credit and market risks.

## Development in harmony with Stakeholders

TSKB will continue to develop its services, understanding of banking and its reflexes for the future in line with stakeholder expectations whilst getting strength from corporate ability, strong capital structure and expert human resources.

# TSKB's 2017 Targets and Expectations

Financial Expectations (Bank Only) %

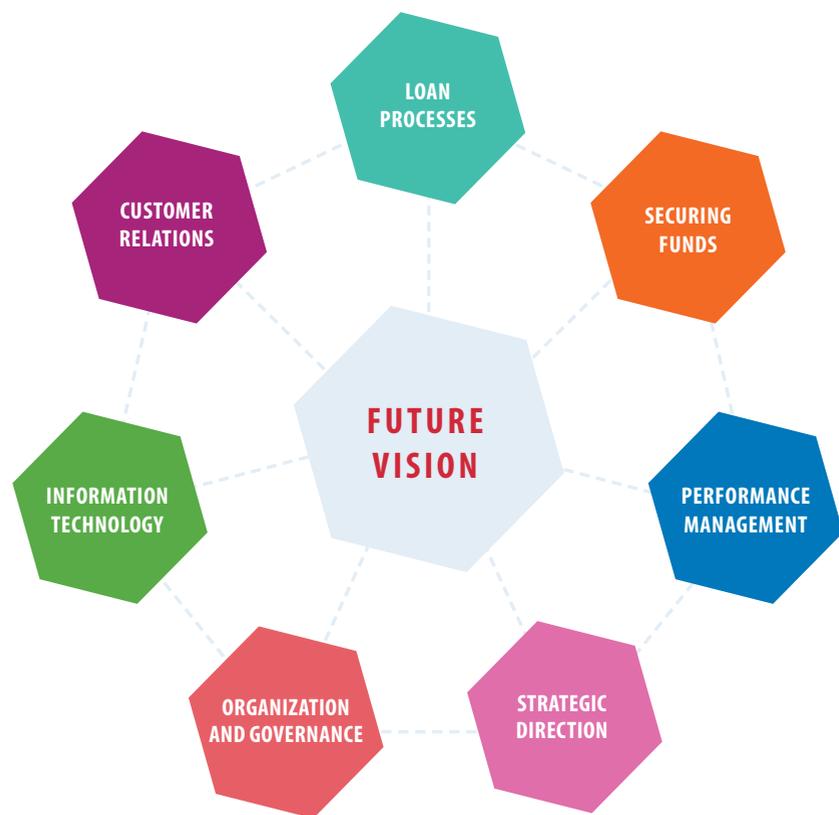
	2016 TARGETS	2016 REALIZATION	2017 TARGETS
FX Adjusted Loan Growth	12	8.2	10-13
Loans/Assets Ratio	68	72 ✓	70
Net Interest Income Growth	-	16.4	>12
Net Fees and Commissions Growth	30	-25	>20
Net Interest Margin	~3.9	3.5	>3.5
Return on Equity	17-18	17.6 ✓	17-18
Return on Assets	~2.1	2.1 ✓	~2.0
Cost/Income Ratio	15-16	15 ✓	15-16
OPEX Growth	13	14 ✓	13
Capital Adequacy Ratio	15	14.3 ✓	>14
NPL Ratio	0.3	0.3 ✓	<0.5
Leverage Ratio	8x	8.2x ✓	~8x

# Future Vision Programme

**IN 2016, EFFORTS TO PREPARE THE BANK FOR THE FUTURE,** review and develop the business model and ways of doing business and seek new business models gave way to a transformation project called “Future Vision” towards planning the medium and long-term future of the Bank through collaborative wisdom.

Under the project, the current status of TSKB was delved into the areas where room for improvement was identified, the required measures were determined, a detailed action plan was drafted and work was started towards implementation.

Improvements regarding organizational structure, performance management and funding management are among the already-available outputs of the project Future Vision. This project will equip the entire organizational structure and processes of the Bank with the flexibility and dynamism to meet stakeholder expectations in the future.



## Consultancy Services

During the transformation process, a new organizational structure that ensured integration across all business areas was adopted first. This new structure has brought along full integration in all operational areas as well as a more effective and complementary working style. Furthermore, an organization towards turning TSKB’s technical and economic know-how into consultancy operations is targeted. It is expected that the contributions of this organizational structure will be observed from 2017 onwards.

## Efficient Customer Management

Established in 2017, a “Customer Management Department” and a “Customer Management Committee” will help devise integrated marketing strategies for all banking products and engage in customer-based planning and monitoring. Monitoring efforts for collectively evaluating all products and services of TSKB and its subsidiaries on a customer basis, determining potentials and turning them into sales will be coordinated. Increasing TSKB’s customer, product and operational diversity is the main goal.

## Provision and Management of Funds

It is decided that a Funding Management Committee be established to enrich TSKB’s relations with the institutions it obtains long-term funding from and systematically manage efforts for securing a diverse range of funds for different themes and for increasing the number of fund providing institutions .

It is expected that funding diversity and depth will be attained as a result of planning work to be overseen and guided by the Customer Management Department and the Funding Management Committee.

## Performance Management

Measurable key performance indicators are set for all employees within the framework of a comprehensive revision to accurately evaluate the current performance of employees who will shape the future of TSKB and the new system will be launched with the start of the new year. It is expected that the current performance measurement system will be upgraded globally and in consideration of stakeholder expectations and this will enhance employee quality and motivation. Furthermore, there are plans to implement a systematic rotation program within the Bank.



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TSKB Sustainability Consultancy Company - Escarus has provided consultancy services to TSKB in the preparation of 2016 Integrated Report.

