



**TÜRKİYE SİNAİ KALKINMA BANKASI  
ANONİM ŞİRKETİ  
AND ITS SUBSIDIARIES**

Condensed Consolidated Interim  
Financial Statements  
As at and for the Six-Month Period Ended  
30 June 2014  
With Independent Auditors' Report on Review of  
Condensed Consolidated Interim  
Financial Information

Akis Bağımsız Denetim ve Serbest  
Muhasebeci Mali Müşavirlik  
Anonim Şirketi

10 October 2014

*This report contains 1 page of independent auditors' report on review of condensed consolidated interim financial information and 21 pages of condensed consolidated interim financial information.*

## **Türkiye Sınai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries**

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**Akis Bağımsız Denetim ve Serbest  
Muhasebeci Mali Müşavirlik A.Ş.**

Kavacık Rüzgarlı Bahçe Mah.  
Kavak Sok. No: 29  
Beykoz 34805 İstanbul

Telephone +90 (216) 681 90 00  
Fax +90 (216) 681 90 90  
Internet www.kpmg.com.tr

**INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED CONSOLIDATED  
INTERIM FINANCIAL INFORMATION**

To the Board of Directors of  
Türkiye Sınai Kalkınma Bankası Anonim Şirketi

*Introduction*

We have reviewed the accompanying condensed consolidated statement of financial position of Türkiye Sınai Kalkınma Bankası Anonim Şirketi ("the Bank") and its subsidiaries ("the Group") as at 30 June 2014, the condensed consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 ("IAS 34") *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

*Scope of review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at and for the six-month period ended 30 June 2014 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

*KPMG Akis Bağımsız Denetim ve SMMM A.Ş.*

10 October 2014  
İstanbul, Turkey

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2014**

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

<b>ASSETS</b>	<b>Notes</b>	<b>30 June 2014</b>	<b>31 December 2013</b>
Cash and cash equivalents		25	107
Balances with central bank		12,133	78,155
Reserve deposits at central bank		395,589	266,778
Loans and advances to banks		441,143	421,304
Interbank money market placements		384,410	50
Funds lent under repurchase agreements		4	-
Financial assets at fair value through profit or loss		72,970	60,248
- <i>Trading assets</i>		27,136	19,561
- <i>Derivative assets</i>	7	45,834	40,687
Loans and advances to customers		9,527,926	9,060,422
Investment securities		3,002,437	2,976,196
- <i>Available for sale investment securities</i>		3,002,437	2,976,196
Investments in equity-accounted investees		246,533	234,988
Goodwill		383	383
Property and equipment		26,345	24,567
Investment property		229,842	222,295
Intangible assets		1,188	1,245
Other assets		71,248	80,746
Deferred tax assets		1,209	14,977
<b>Total assets</b>		<b>14,413,385</b>	<b>13,442,461</b>

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2014**

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

<b>LIABILITIES</b>	<b>Notes</b>	<b>30 June 2014</b>	<b>31 December 2013</b>
Obligations under repurchase agreements		1,959,927	1,604,891
Derivative liabilities	7	37,675	57,857
Funds borrowed		9,472,241	9,125,037
Payables to stock exchange money market		249,552	251,313
Current account of loan customers		37,640	5,954
Taxes and dues payable		4,871	4,522
Employee benefits		13,589	15,272
Corporate tax liability		39,246	18,137
Provisions		22,190	2,183
Other liabilities		90,520	83,165
Subordinated loan		105,859	106,759
<b>Total liabilities</b>		<b>12,033,310</b>	<b>11,275,090</b>
<b>EQUITY</b>			
Share capital			
Nominal paid in capital		1,500,000	1,300,000
Inflation adjustment to capital		13,563	13,563
Total capital		1,513,563	1,313,563
Share premium		406	388
Legal reserves		176,232	158,911
Fair value reserve		80,424	4,040
Retained earnings		539,291	614,984
<b>Total equity attributable to equity holders of the Bank</b>		<b>2,309,916</b>	<b>2,091,886</b>
Non-controlling interests		70,159	75,485
<b>Total equity</b>		<b>2,380,075</b>	<b>2,167,371</b>
<b>Total liabilities and equity</b>		<b>14,413,385</b>	<b>13,442,461</b>
<b>Commitments and contingencies</b>	6	<b>10,633,114</b>	<b>9,931,690</b>

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND**  
**OTHER COMPREHENSIVE INCOME**  
**FOR THE INTERIM PERIOD ENDED 30 JUNE 2014**

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

	Notes	1 January – 30 June 2014	1 January – 30 June 2013
Interest income			
Interest income on loans		239,200	184,636
Interest on money market placements		7,264	3,494
Interest income on securities		146,339	106,296
Interest income on deposits at banks		6,805	12,299
Interest income on finance leases		51	174
Other interest income		91	108
<b>Total interest income</b>		<b>399,750</b>	<b>307,007</b>
Interest expenses			
Interest expense on obligations under repurchase agreements and money market borrowings		(77,211)	(34,280)
Interest expense on funds borrowed and subordinated loan		(54,445)	(42,869)
Other interest expenses		(17)	(19)
<b>Total interest expense</b>		<b>(131,673)</b>	<b>(77,168)</b>
<b>Net interest income</b>		<b>268,077</b>	<b>229,839</b>
Fee and commission income		16,022	17,012
Fee and commission expense		(2,204)	(1,373)
<b>Net fee and commission income</b>		<b>13,818</b>	<b>15,639</b>
Securities trading income / (losses), net		182	5,261
Derivative trading income / (losses), net		12,251	(943)
Foreign exchange gains / (losses), net		17,677	(8,566)
<b>Net trading income</b>		<b>30,110</b>	<b>(4,248)</b>
Net impairment loss on financial assets		(28,873)	(2,468)
<b>Net operating income after impairment losses</b>		<b>283,132</b>	<b>238,762</b>
Other operating income		20,004	12,836
Other operating expenses		(64,562)	(53,261)
Dividend income		11,850	13,493
Share of profit of equity-accounted investees		14,769	13,189
<b>Profit before income tax</b>		<b>265,193</b>	<b>225,019</b>
Income tax expense		(52,917)	(37,987)
<b>Profit for the period</b>		<b>212,276</b>	<b>187,032</b>
<b>Profit attributable to:</b>			
Equity holders of the Bank		211,236	188,203
Non-controlling interests		1,040	(1,171)
<b>Profit for the period</b>		<b>212,276</b>	<b>187,032</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share		0.1415	0.1247

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND**  
**OTHER COMPREHENSIVE INCOME**  
**FOR THE INTERIM PERIOD ENDED 30 JUNE 2014**

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

	Notes	1 January – 30 June 2014	1 January – 30 June 2013
<b>Other comprehensive income</b>			
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Net change in fair value of available for sale financial assets		99,841	(126,664)
Net change in fair value of available for sale financial assets transferred to profit or loss		(73)	4,795
Non-controlling interest share on fair value change in subsidiaries		(3,409)	(3,387)
Related tax		(19,976)	24,020
<b>Other comprehensive income for the year, net of tax</b>		<b>76,383</b>	<b>(101,236)</b>
<b>Total comprehensive income for the year</b>		<b>288,659</b>	<b>85,796</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Bank		287,620	86,964
Non-controlling interests		1,039	(1,168)
<b>Total comprehensive income for the period</b>		<b>288,659</b>	<b>85,796</b>

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE INTERIM PERIOD ENDED 30 JUNE 2014**

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

	Attributable to equity holders of the Bank							Non-controlling interests	Total equity	
	Notes	Share capital	Inflation adjustment to capital	Share premium	Legal reserves	Fair value reserve	Retained earnings			Total
Balance at 1 January 2013		1,100,000	13,563	388	125,628	133,754	572,240	1,945,573	84,227	2,029,800
Total comprehensive income for the year										
Profit for the period		-	-	-	-	-	188,203	188,203	(1,171)	187,032
Other comprehensive income		-	-	-	-	(101,239)	-	(101,239)	3	(101,236)
Total comprehensive income for the period		-	-	-	-	(101,239)	188,203	86,964	(1,168)	85,796
Transactions with owners, recognized directly in equity										
Capital increase		200,000	-	-	-	-	(200,000)	-	-	-
Dividend distribution		-	-	-	-	-	(67,296)	(67,296)	-	(67,296)
Transfer to legal reserves		-	-	-	33,392	-	(33,392)	-	-	-
Other		-	-	-	(109)	-	-	(109)	-	(109)
Total contributions by and distributions		200,000	-	-	33,283	-	(300,688)	(67,405)	-	(67,405)
Balance at 30 June 2013		1,300,000	13,563	388	158,911	32,515	459,755	1,965,132	83,059	2,048,191

The accompanying notes form an integral part of these condensed consolidated interim financial statements.



**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE INTERIM PERIOD ENDED 30 JUNE 2014**

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

	Attributable to equity holders of the Bank							Non-controlling interests	Total equity	
	Notes	Share capital	Inflation adjustment to capital	Share premium	Legal reserves	Fair value reserve	Retained earnings			Total
Balance at 1 January 2014		1,300,000	13,563	388	158,911	4,040	614,984	2,091,886	75,485	2,167,371
Total comprehensive income for the year										
Profit for the period		-	-	-	-	-	211,236	211,236	1,040	212,276
Other comprehensive income		-	-	-	-	76,384	-	76,384	(1)	76,383
Total comprehensive income for the period		-	-	-	-	76,384	211,236	287,620	1,039	288,659
Transactions with owners, recognized directly in equity										
Capital increase		200,000	-	-	-	-	(200,000)	-	-	-
Dividend distribution		-	-	-	-	-	(72,581)	(72,581)	-	(72,581)
Transfer to legal reserves		-	-	-	17,319	-	(17,319)	-	11	11
Total contributions by and distributions		200,000	-	-	17,319	-	(289,900)	(72,581)	11	(72,570)
Changes in ownership interests										
Acquisition of non-controlling interests without a change in control		-	-	18	2	-	2,971	2,991	(6,376)	(3,385)
Total changes in ownership interests		-	-	18	2	-	2,971	2,991	(6,376)	(3,385)
Total transactions with owners of the Company		200,000	-	18	17,321	-	(286,929)	(69,590)	(6,365)	(75,955)
Balance at 30 June 2014		1,500,000	13,563	406	176,232	80,424	539,291	2,309,916	70,159	2,380,075

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE INTERIM PERIOD ENDED 30 JUNE 2014**

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

	<b>30 June 2014</b>	<b>30 June 2013</b>
<b>Cash flows from operating activities:</b>		
Profit for the period	212,276	187,032
<i>Adjustments for:</i>		
Net interest income	(268,077)	(229,839)
Depreciation of property and equipment	1,390	1,262
Amortisation of intangible assets	401	194
Net impairment losses on loans and advances	285	(6,698)
Reserve for employee severance indemnity	1,495	801
Provision for unused vacations	1,168	964
Provision for bonus payments	3,570	3,288
Share of profit of equity-accounted investees	(14,769)	(13,189)
Income tax expense	52,917	(37,987)
Gain / (loss) on sale of property and equipment	(10)	(33)
Unrealized gains	141,754	10,108
Non-controlling interests	(1,040)	1,171
<b>Operating profit before changes in operating assets / liabilities</b>	<b>131,360</b>	<b>(82,926)</b>
<b>Changes in operating assets and liabilities:</b>		
Change in loans and leasing receivables	(788,215)	(287,838)
Change in other assets	30,565	(14,831)
Change in other creditors, taxes and liabilities	429,644	286,557
	<b>(196,446)</b>	<b>(99,038)</b>
Interest received	258,836	411,261
Interest paid	(127,773)	(79,973)
Income taxes paid	(77,233)	(47,601)
Indemnities paid	(1,320)	(645)
Bonus paid	(6,596)	(6,527)
Dividends received	10,259	7,556
<b>Net cash used in operating activities</b>	<b>(140,473)</b>	<b>185,033</b>
<b>Cash flows from investing activities:</b>		
Reserve requirements with the Central Bank	(128,811)	(82,034)
Change in trading securities	(9,316)	(12,252)
Change in available for sale investment securities	91,906	36,032
Purchases of property and equipment and investment property	(14,469)	(7,382)
Sale of property and equipment	2,592	1,134
Purchase of intangible assets	(228)	(137)
<b>Net cash used in investing activities</b>	<b>(58,326)</b>	<b>(64,639)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from funds borrowed	1,020,657	514,175
Repayment of funds borrowed	(413,160)	(300,119)
Dividends paid	(72,581)	(67,296)
<b>Net cash provided from financing activities</b>	<b>534,916</b>	<b>146,760</b>
<b>Net decrease in cash and cash equivalents</b>	<b>336,117</b>	<b>267,154</b>
<b>Cash and cash equivalents at 1 January</b>	<b>498,267</b>	<b>466,659</b>
Effect of exchange rate fluctuations on cash and cash equivalents held	(120)	3,676
<b>Cash and cash equivalents at 30 June</b>	<b>834,264</b>	<b>737,489</b>

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**AS AT AND FOR THE PERIOD ENDED 30 JUNE 2014**

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

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**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**AS AT AND FOR THE PERIOD ENDED 30 JUNE 2014**

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

**1. REPORTING ENTITY**

Türkiye Sınai Kalkınma Bankası AŞ (“TSKB” or the “Bank”) was established on 31 May 1950 with the support of the World Bank and the cooperation of the Government of the Republic of Turkey, the Central Bank of Turkey and the leading Turkish commercial banks of Turkey. TSKB is the first investment and development bank of Turkey. TSKB is operating with the mission of providing assistance to private sector enterprises in all sectors of the economy primarily in the industrial sector, encouraging and assisting the participation of private and foreign capital incorporations established and to be established in Turkey, and assisting the development of the capital markets in Turkey. TSKB and Sınai Yatırım Bankası AŞ (“SYB”), sister bank with similar mission, were merged pursuant to the decisions of the respective shareholders as sanctioned by the Banking Regulation and Supervision Agency (“BRSA”) decision no: 659 dated 27 March 2002, in accordance with Article 18 of the Banking Act no: 4389. The registered office of the Bank is at Meclisi Mebusan Cad. 81 Fındıklı, Istanbul, Turkey.

The Bank and its subsidiaries are hereafter referred to as the “Group”.

TSKB started its journey in 1950 financing the private sector investments in Turkey and today it provides loans and project finance with the goal of sustainable development to corporations in different fields. As a leader in meeting the long term finance needs of the private sector, TSKB also continues to offer solutions with respect to the newest needs and client demands. Furthermore, through offering the equity shares of such companies to the public, TSKB has been a significant milestone in this field and thus assumed a prominent and vital role in fostering the development of capital markets. The main shareholders of TSKB are T. İş Bankası Group and T. Vakıflar Bankası T.A.O. with the percentages of 50.00% and 8.38%, respectively (31 December 2013: 50.00% and 8.38%, respectively). The Bank’s shares are traded in Borsa Istanbul (“BIST”).

The Bank has opened two branches in Izmir and Ankara in April 2006 to enhance marketing and valuation operations.

The consolidated financial statements of the Bank as at and for the period ended 30 June 2014 are available upon request from the Bank’s registered office and website.

**Information about the consolidated subsidiaries and associates**

**Yatırım Finansman Menkul Değerler AŞ**

Yatırım Finansman Menkul Değerler AŞ was established and registered with Istanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. The company’s objective is to perform capital market operations specified in the Company’s main contract in accordance with the Capital Markets Board (“CMB”) and the related legislation. The company was merged with TSKB Menkul Değerler AŞ on 29 December 2006.

**TSKB Gayrimenkul Yatırım Ortaklığı AŞ**

The core business of TSKB Gayrimenkul Yatırım Ortaklığı AŞ (“TSKB GYO”) is real estate trust to construct and develop a portfolio of properties and invest in capital market instruments linked to properties. The company was established on 3 February 2006. The company’s shares are traded in BIST since April 2010.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**AS AT AND FOR THE PERIOD ENDED 30 JUNE 2014**

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

**1. REPORTING ENTITY (continued)**

**Information about the consolidated subsidiaries and associates (continued)**

**İş Finansal Kiralama AŞ**

İş Finansal Kiralama AŞ was established on 8 February 1988 and it has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company started its leasing operations in July 1998. The direct share of Türkiye Sınai Kalkınma Bankası AŞ is 28.56%. The company's headquarters is located at Istanbul/Turkey.

**İş Faktoring AŞ**

İş Faktoring AŞ was incorporated in Turkey on 4 July 1993 and started its operations in October 1993 and is conducting its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company's main operation is domestic and export factoring transactions. Its parent company is İş Finansal Kiralama AŞ with 78.23% shareholding. The direct share of Türkiye Sınai Kalkınma Bankası AŞ is 21.75%. The company's headquarters is located at Istanbul/Turkey.

**İş Girişim Sermayesi Yatırım Ortaklığı AŞ**

The principal business of İş Girişim Sermayesi Yatırım Ortaklığı AŞ is to make long-term investments in existing companies in Turkey or to be established in Turkey, having a development potential and are in need of financing. The direct share of Türkiye Sınai Kalkınma Bankası AŞ is 16.67%. The company's headquarters is located at Istanbul/Turkey.

**2. BASIS OF PREPARATION**

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards.

The Bank and its subsidiaries operating in Turkey maintain their books of account and prepare their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), Capital Markets Board of Turkey, the Turkish Commercial Code and tax legislation.

The accompanying condensed consolidated financial statements were authorized for issue by the Bank management on 10 October 2014.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**AS AT AND FOR THE PERIOD ENDED 30 JUNE 2014**

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

**3. USE OF JUDGEMENTS AND ESTIMATES**

In preparing these interim financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2013.

**Measurement of fair values**

The Group has an established control framework with respect to the measurement of fair values. This includes a team that has overall responsibility for overseeing all significant fair value measurement including Level 3 fair values, and reports directly to the management.

The team regularly reviews significant unobservable inputs and valuation adjustments. If third party information such as broker quotes or pricing services, is used to measure fair values, then the team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to Audit Committee.

When measuring the fair value, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 8 financial instruments.

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
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**4. OPERATING SEGMENTS**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Group is currently organized into two operating divisions – “banking” and “stock brokerage and other”. These divisions are the basis on which the Group reports its primary segment information.

Principal activities of the Group are as follows:

Banking: investment and development bank with all corporate and commercial banking activities excluding accepting customer deposits.

Stock brokerage and other: intermediary stock brokerage activities, portfolio management and investment management and real estate investment trust activities.

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**4. OPERATING SEGMENTS (continued)**

<b>CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 30 June 2014)</b>	<b>Banking</b>	<b>Stock brokerage and other</b>	<b>Combined</b>	<b>Eliminations</b>	<b>Total</b>
Interest income	391,965	12,403	404,368	(4,618)	399,750
Interest expense	(113,334)	(22,957)	(136,291)	4,618	(131,673)
<b>Net interest income</b>	<b>278,631</b>	<b>(10,554)</b>	<b>268,077</b>	<b>-</b>	<b>268,077</b>
Net fee and commission income	4,782	9,036	13,818	-	13,818
Net securities trading income / (loss)	(388)	570	182	-	182
Net derivative trading income / (loss)	8,639	3,612	12,251	-	12,251
Net foreign currency gains / (losses)	5,546	12,131	17,677	-	17,677
Net impairment loss on financial assets	(28,464)	(409)	(28,873)	-	(28,873)
<b>Net operating income after impairment losses</b>	<b>268,746</b>	<b>14,386</b>	<b>283,132</b>	<b>-</b>	<b>283,132</b>
Other operating income	14,191	9,396	23,587	(3,583)	20,004
Other operating expenses	(46,566)	(21,260)	(67,826)	3,264	(64,562)
Dividend income	12,887	2,691	15,578	(3,728)	11,850
Share of profit of equity-accounted investees	14,769	-	14,769	-	14,769
<b>Profit before income tax</b>	<b>264,027</b>	<b>5,213</b>	<b>269,240</b>	<b>(4,047)</b>	<b>265,193</b>



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**4. OPERATING SEGMENTS (continued)**

<b>CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 30 June 2013)</b>	<b>Banking</b>	<b>Stock brokerage and other</b>	<b>Combined</b>	<b>Eliminations</b>	<b>Total</b>
Interest income	295,690	14,530	310,220	(3,213)	307,007
Interest expense	(67,329)	(13,052)	(80,381)	3,213	(77,168)
<b>Net interest income</b>	<b>228,361</b>	<b>1,478</b>	<b>229,839</b>	<b>-</b>	<b>229,839</b>
Net fee and commission income	3,987	11,652	15,639	-	15,639
Net securities trading income / (loss)	5,088	173	5,261	-	5,261
Net derivative trading income / (loss)	(146)	(797)	(943)	-	(943)
Net foreign currency gains / (losses)	(4,712)	(3,854)	(8,566)	-	(8,566)
Net impairment loss on financial assets	(2,140)	(328)	(2,468)	-	(2,468)
<b>Net operating income after impairment losses</b>	<b>230,438</b>	<b>8,324</b>	<b>238,762</b>	<b>-</b>	<b>238,762</b>
Other operating income	7,936	8,733	16,669	(3,833)	12,836
Other operating expenses	(37,737)	(19,032)	(56,769)	3,508	(53,261)
Dividend income	28,093	2,180	30,273	(16,780)	13,493
Share of profit of equity-accounted investees	13,189	-	13,189	-	13,189
<b>Profit before income tax</b>	<b>241,919</b>	<b>205</b>	<b>242,124</b>	<b>(17,105)</b>	<b>225,019</b>

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**4. OPERATING SEGMENTS (continued)**

<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	<b>Banking</b>	<b>Stock brokerage and other</b>	<b>Combined</b>	<b>Eliminations</b>	<b>Total</b>
<b><u>At 30 June 2014</u></b>					
<b>Total assets</b>	<b>13,936,664</b>	<b>869,485</b>	<b>14,806,149</b>	<b>(392,764)</b>	<b>14,413,385</b>
<b>Total liabilities</b>	<b>11,642,093</b>	<b>582,449</b>	<b>12,224,542</b>	<b>(191,232)</b>	<b>12,033,310</b>
Equity before net profit & non-controlling interests	2,098,257	281,796	2,380,053	(281,373)	2,098,680
Net profit attributable to equity holders of the Bank	196,314	5,240	201,554	9,682	211,236
Non-controlling interests	-	-	-	70,159	70,159
<b>Total equity</b>	<b>2,294,571</b>	<b>287,036</b>	<b>2,581,607</b>	<b>(201,532)</b>	<b>2,380,075</b>
<b>Total liabilities and equity</b>	<b>13,936,664</b>	<b>869,485</b>	<b>14,806,149</b>	<b>(392,764)</b>	<b>14,413,385</b>
<b><u>At 31 December 2013</u></b>					
<b>Total assets</b>	<b>12,963,171</b>	<b>861,144</b>	<b>13,824,315</b>	<b>(381,854)</b>	<b>13,442,461</b>
<b>Total liabilities</b>	<b>10,872,142</b>	<b>579,331</b>	<b>11,451,473</b>	<b>(176,383)</b>	<b>11,275,090</b>
Equity before net profit & non-controlling interests	1,724,437	303,335	2,027,772	(278,816)	1,748,956
Net profit attributable to equity holders of the Bank	366,592	(21,522)	345,070	(2,140)	342,930
Non-controlling interests	-	-	-	75,485	75,485
<b>Total equity</b>	<b>2,091,029</b>	<b>281,813</b>	<b>2,372,842</b>	<b>(205,471)</b>	<b>2,167,371</b>
<b>Total liabilities and equity</b>	<b>12,963,171</b>	<b>861,144</b>	<b>13,824,315</b>	<b>(381,854)</b>	<b>13,442,461</b>

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**5. RELATED PARTIES**

For the purposes of the accompanying condensed consolidated financial statements, shareholders of the Group and related companies, consolidated and non-consolidated equity participations and related companies, directors and key management personnel together with their families and related companies are referred to as "Related Parties" in this report. During the conduct of its business the Group had various significant transactions and balances with Related Parties during the year.

The accompanying condensed consolidated financial statements include the following balances due from or due to related parties:

	<b>30 June 2014</b>	<b>31 December 2013</b>
<b><u>Balances with related parties</u></b>		
Loans and advances to customers	150,232	177,187
Non-cash loans	117,676	117,675
Loans and advances to banks	89,049	113,975
Available for sale investment securities	39,951	48,013
Other assets	350	-
Other liabilities	189	21
	<b>1 January- 30 June 2014</b>	<b>1 January- 30 June 2013</b>
<b><u>Transactions with related parties</u></b>		
Interest income	5,495	3,884
Interest expense	-	(17)
Dividend income	11,850	13,493
Share of profit of equity-accounted investees	14,769	13,189
Foreign exchange gain (loss), net	(1,804)	6,692
Net fee and commission income / (expense), net	278	288
Other income	92	776

**Compensation of Key Management Personnel of the Group**

Benefits provided to key management personnel in the current period amount to TL 8,212 (30 June 2013: TL 6,652).

**6. COMMITMENTS AND CONTINGENCIES**

	<b>30 June 2014</b>	<b>31 December 2013</b>
Swap and forward agreements	5,104,369	4,358,819
Revocable and irrevocable commitments	2,929,688	3,314,691
Option agreements	1,085,918	804,760
Letters of guarantee	945,008	1,015,387
Letters of credit	493,368	438,033
Precious metal swap	74,763	-
	<b>10,633,114</b>	<b>9,931,690</b>

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**6. COMMITMENTS AND CONTINGENCIES (continued)**

**Fiduciary Activities**

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in the accompanying consolidated financial statements.

As at 30 June 2014, the Group manages 6 mutual funds (31 December 2013: 8) which were established under the regulations of the CMB. In accordance with these regulations and the charters of the funds, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

The nominal values of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 2,986,494 as at 30 June 2014 (31 December 2013: TL 3,319,792). As at 30 June 2014, securities at custody with market value amounted to TL 2,806,535 (31 December 2013: TL 2,659,676).

**Securities Blocked and Letters of Guarantee Given to Borsa Istanbul (BIST) as Collateral for Trading on Markets**

As at 30 June 2014, according to the general requirements of the BIST, letters of guarantee amounting to TL 24,304 (31 December 2013: TL 24,409) had been obtained from various local banks and were provided to BIST for bond and stock market transactions. Also, as at 30 June 2014 there are letters of guarantee were given to the CMB amounting TL 2,102 (31 December 2013: TL 2,102).

The Group's trading securities given as collateral or blocked amounted to TL 4,112 at the reporting date (31 December 2013: TL 8,674).

**Litigations**

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

There are 31 legal cases against the Group which are amounting to TL 964 as of the reporting date (31 December 2013: TL 855, 22 legal cases).

Tax Audit Committee inspectors made an investigation for the years 2008-2011 about the payments made by the Bank and employees to "Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" ("the Foundation") established in accordance with the decisions of the Turkish Commercial Law and the Civil Law as made to all foundations in the sector. According to this investigation it has been communicated that the amount the Bank is obliged to pay is a benefit in the nature of fee for the members of the Foundation worked at the time of payment, the amount the Foundation members are obliged to pay should not be deducted from the basis of fee; accordingly tax audit report was issued with the claim that it should be taken penalized income tax surcharge / penalized stamp duty deducted from allowance and total amount of TL 17,325 tax penalty notice relating to period in question to the Bank relying on this report. The Bank assesses that the Bank's practice is in compliance with the legislation and there is no legal basis for the tax administration's suspended assessments, therefore, lawsuits have been filed against the subjected assessments in various tax courts in Istanbul, Ankara and Izmir. Some of the lawsuits are decided favourable, remaining of lawsuits are decided unfavourable by the tax courts of first instance.

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**6. COMMITMENTS AND CONTINGENCIES (continued)**

**Litigations (continued)**

On the other hand, appeal and objection have been requested by the Bank against the decision of the court with respect to the Bank and by the administration against the decision of the court with respect to the administration and completion of appeal process is waited. Accordingly, as of 30 June 2014, the Bank has provided provisions amounting TL 22,130 in the financial statements in accordance with the decisions made against the Bank by tax courts of first instance.

The tax and penalty notices related to the decision of the tax court of first instance against the Bank are accrued by the administration depending on the legal process and on 31 July 2014, the Bank has realized the payments.

There are lawsuits about the Pendorya Mall, investment property of TSKB GYO, mainly relating to cancellation of the license of construction. There has not been a significant progress in these lawsuits in 2014. The Group management does not expect a conclusion that may affect the financial statements significantly, therefore the accompanying interim financial statements do not include probable effects of these lawsuits.

**Other**

The Group's 1 head office and 14 branches, including branches of subsidiaries, are subject to operational leasing. Additionally, 18 cars are within the context of operational leasing (31 December 2013: 1 head office, 15 branches and 24 cars are subject to operational leasing). The Group has no liability for operational leases as of the reporting date.

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**7. DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>30 June 2014 Assets</b>	<b>30 June 2014 Liabilities</b>	<b>31 December 2013 Assets</b>	<b>31 December 2013 Liabilities</b>
Currency swaps	16,908	(6,366)	6,229	(13,165)
Options	17,476	(17,412)	22,202	(22,848)
Foreign currency forward contracts	233	(103)	2,796	(11,489)
Interest rate swaps	11,217	(10,725)	9,460	(10,355)
Precious metal swap	-	(3,069)	-	-
	<b>45,834</b>	<b>(37,675)</b>	<b>40,687</b>	<b>(57,857)</b>

The Group is party to a variety of foreign currency forward contracts, swaps and options in the management of its exchange rate exposures. The instruments are primarily denominated in TL, USD and Euro.

At the reporting date, the total notional amounts of outstanding derivatives to which the Group is committed are as follows:

	<b>30 June 2014</b>	<b>31 December 2013</b>
Forward foreign exchange contracts – buy	44,045	294,481
Forward foreign exchange contracts – sell	43,860	302,823
Currency swaps – buy	1,209,473	622,897
Currency swaps – sell	1,129,603	628,598
Interest rate swaps – buy	1,338,694	1,255,010
Interest rate swaps – sell	1,338,694	1,255,010
Currency option – buy	541,107	392,786
Currency option – sell	536,703	393,484
Interest option – buy	4,054	9,245
Interest option – sell	4,054	9,245
Precious metal swap	74,763	-

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**8. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Based on the fair value hierarchy, the Group's financial assets and liabilities are categorized as follow:

<b>30 June 2014</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial Assets</b>				
<b>Trading assets</b>	<b>27,136</b>	<b>27,136</b>	-	-
<i>Government bonds and Treasury bills</i>	16,190	16,190	-	-
<i>Equity shares</i>	709	709	-	-
<i>Mutual funds</i>	162	162	-	-
<i>Debt securities issued by corporations</i>	10,075	10,075	-	-
<b>Derivative assets</b>	<b>45,834</b>	-	<b>45,834</b>	-
<b>Available for sale investment securities</b>	<b>3,002,437</b>	<b>2,172,721</b>	<b>807,976</b>	<b>21,740</b>
<i>Government bonds and Treasury bills</i>	2,122,607	2,122,607	-	-
<i>Eurobonds</i>	339,904	-	339,904	-
<i>Equity shares</i>	32,457	10,717	-	21,740
<i>Debt securities issued by corporations</i>	507,469	39,397	468,072	-
<b>Financial Liabilities</b>				
<b>Derivative liabilities</b>	<b>37,675</b>	-	<b>37,675</b>	-
<b>31 December 2013</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial Assets</b>				
<b>Trading assets</b>	<b>19,561</b>	<b>19,561</b>	-	-
<i>Government bonds and Treasury bills</i>	8,717	8,717	-	-
<i>Equity shares</i>	988	988	-	-
<i>Mutual funds</i>	209	209	-	-
<i>Debt securities issued by corporations</i>	9,647	9,647	-	-
<b>Derivative assets</b>	<b>40,687</b>	-	<b>40,687</b>	-
<b>Available for sale investment securities</b>	<b>2,976,196</b>	<b>2,125,024</b>	<b>807,834</b>	<b>43,338</b>
<i>Government bonds and Treasury bills</i>	1,996,493	1,996,493	-	-
<i>Eurobonds</i>	332,811	-	332,811	-
<i>Equity shares</i>	54,167	10,829	-	43,338
<i>Debt securities issued by corporations</i>	592,725	117,702	475,023	-
<b>Financial Liabilities</b>				
<b>Derivative liabilities</b>	<b>57,857</b>	-	<b>57,857</b>	-

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**9. EARNINGS PER SHARE**

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of shares outstanding during the period concerned.

A summary of the weighted average number of shares outstanding for the interim periods ended 30 June 2014 and 30 June 2013 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	<b>1 January – 30 June 2014</b>	<b>1 January – 30 June 2013</b>
Number of shares outstanding at 1 January	1,300,000,000	1,100,000,000
<i>New shares issued</i>		
Conversion of existing reserves <sup>(*)</sup>	200,000,000	200,000,000
<b>Number of shares outstanding at the period end</b>	<b>1,500,000,000</b>	<b>1,300,000,000</b>
<b>Weighted average number of shares during the period <sup>(*)</sup></b>	<b>1,500,000,000</b>	<b>1,500,000,000</b>
Net profit (TL)	212,276	187,032
<b>Basic and diluted earnings per share (in full TL)</b>	<b>0.1415</b>	<b>0.1247</b>

<sup>(\*)</sup> Capital increase is made through internal resources and prior period's earnings per share figure are revised by using the number of shares subsequent to the capital increase.

**10. EVENTS AFTER THE REPORTING PERIOD**

The Parent Bank has obtained bonus shares amounting to TL 10,636 with share capital increase of İş Finansal Kiralama A.Ş. amounting to TL 37,138 on 3 July 2014.

The Capital Markets Board approved the issuance certificate with respect to the bonds and/or similar debt instruments at a maximum amount of USD 750 million or equivalent, contemplated to be issued by the Bank outside of Turkey on 23 September 2014.

**11. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2013.