



**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 2015  
With Independent Auditors' Report on Review of  
Condensed Consolidated Interim  
Financial Information**

29 July 2015

*This report contains 1 page of independent auditors' report on review of condensed consolidated interim financial information and 24 pages of condensed consolidated interim financial information.*

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

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## **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 (collectively refer to as "the Group") as at 30 June 2015, the condensed consolidated statements 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 2015 is not prepared, in all material respects, in accordance with IAS 34 "*Interim Financial Reporting*".

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.  
A member of KPMG International Cooperative

Erdal Tıkmak  
Partner  
29 July 2015  
İstanbul, TÜRKİYE

**TÜRKİYE SİNAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2015**

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

| <b>ASSETS</b>   | <b>Notes</b> | <b>30 June<br/>2015</b> | <b>31 December<br/>2014</b> |
|---|--------------|-------------------------|-----------------------------|
| Cash and cash equivalents                             |              | 17                      | 14                          |
| Balances with central bank                            | 8            | 7,493                   | 34,612                      |
| Reserve deposits at central bank                      | 8            | 618,017                 | 473,168                     |
| Loans and advances to banks                           |              | 536,596                 | 503,981                     |
| Interbank money market placements                     |              | 771,209                 | 104,913                     |
| Funds lent under repurchase agreements                |              | 183                     | 293                         |
| Financial assets at fair value through profit or loss |              | 160,338                 | 95,417                      |
| - <i>Trading assets</i>                               |              | 35,874                  | 20,543                      |
| - <i>Derivative assets</i>                            | 9            | 124,464                 | 74,874                      |
| Loans and advances to customers                       | 10           | 12,740,068              | 10,852,263                  |
| Investment securities                                 |              | 3,693,737               | 3,520,426                   |
| - <i>Available for sale investment securities</i>     | 11           | 3,693,737               | 3,520,426                   |
| Derivatives used for hedging purposes                 |              | 2,419                   | -                           |
| Investments in equity-accounted investees             |              | 273,783                 | 261,745                     |
| Goodwill  |              | 383                     | 383                         |
| Property and equipment                                |              | 29,382                  | 26,619                      |
| Investment property                                   |              | 237,170                 | 224,090                     |
| Intangible assets                                     |              | 981                     | 1,169                       |
| Other assets  |              | 189,372                 | 93,259                      |
| Deferred tax assets                                   |              | 6,113                   | 8,940                       |
| <b>Total assets</b>                                   |              | <b>19,267,261</b>       | <b>16,201,292</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 2015**

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

| <b>LIABILITIES</b>   | <b>Notes</b> | <b>30 June<br/>2015</b> | <b>31 December<br/>2014</b> |
|--|--------------|-------------------------|-----------------------------|
| Obligations under repurchase agreements                        |              | 2,011,350               | 2,162,494                   |
| Derivative liabilities   | 9            | 121,645                 | 63,576                      |
| Funds borrowed   |              | 12,002,826              | 10,151,582                  |
| Debts securities issued  |              | 1,880,320               | 813,824                     |
| Payables to stock exchange money market                        |              | 248,044                 | 110,219                     |
| Current account of loan customers                              |              | 92,971                  | 39,081                      |
| Derivatives used for hedging purposes                          |              | 10,832                  | -                           |
| Taxes and dues payable   |              | 5,579                   | 5,332                       |
| Employee benefits  |              | 15,936                  | 17,377                      |
| Corporate tax liability  |              | 15,902                  | 32,390                      |
| Provisions   |              | 768                     | 61                          |
| Other liabilities  |              | 99,400                  | 88,689                      |
| Subordinated loan  |              | 134,707                 | 116,065                     |
| <b>Total liabilities</b>                                       |              | <b>16,640,280</b>       | <b>13,600,690</b>           |
| <b>EQUITY</b>  |              |                         |                             |
| Share capital  |              |                         |                             |
| Nominal paid in capital  |              | 1,750,000               | 1,500,000                   |
| Inflation adjustment to capital                                |              | 13,552                  | 13,563                      |
| Total capital  | 13           | 1,763,552               | 1,513,563                   |
| Share premium  |              | 419                     | 413                         |
| Legal reserves   |              | 195,538                 | 176,231                     |
| Fair value reserve   |              | 12,903                  | 118,002                     |
| Retained earnings  |              | 593,197                 | 724,940                     |
| <b>Total equity attributable to equity holders of the Bank</b> |              | <b>2,565,609</b>        | <b>2,533,149</b>            |
| Non-controlling interests                                      |              | 61,372                  | 67,453                      |
| <b>Total equity</b>  |              | <b>2,626,981</b>        | <b>2,600,602</b>            |
| <b>Total liabilities and equity</b>                            |              | <b>19,267,261</b>       | <b>16,201,292</b>           |
| <b>Commitments and contingencies</b>                           | 7            | <b>22,318,621</b>       | <b>14,361,130</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 SIX-MONTH PERIOD ENDED 30 JUNE 2015**

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

|   | Notes | 1 January –<br>30 June 2015 | 1 January –<br>30 June 2014 |
|---|-------|-----------------------------|-----------------------------|
| Interest income   |       |                             |                             |
| Interest income on loans  |       | 315,342                     | 239,200                     |
| Interest on money market placements   |       | 26,470                      | 7,264                       |
| Interest income on securities   |       | 158,594                     | 146,339                     |
| Interest income on deposits at banks  |       | 8,427                       | 6,805                       |
| Interest income on finance leases   |       | 1                           | 51                          |
| Interest income on reserve deposits at central banks  |       | 257                         | -                           |
| Other interest income   |       | 100                         | 91                          |
| <b>Total interest income</b>  |       | <b>509,191</b>              | <b>399,750</b>              |
| Interest expenses   |       |                             |                             |
| Interest expense on obligations under repurchase agreements and money market borrowings       |       | (101,003)                   | (77,211)                    |
| Interest expense on funds borrowed and subordinated loan                                      |       | (89,325)                    | (54,445)                    |
| Interest expense on debt securities issued  |       | (36,268)                    | -                           |
| Other interest expenses   |       | (69)                        | (17)                        |
| <b>Total interest expense</b>   |       | <b>(226,665)</b>            | <b>(131,673)</b>            |
| <b>Net interest income</b>  |       | <b>282,526</b>              | <b>268,077</b>              |
| Fee and commission income   |       | 16,451                      | 16,022                      |
| Fee and commission expense  |       | (2,433)                     | (2,204)                     |
| <b>Net fee and commission income</b>  |       | <b>14,018</b>               | <b>13,818</b>               |
| Securities trading income / (losses), net   |       | 6,419                       | 182                         |
| Derivative trading income / (losses), net   |       | (87,428)                    | 12,251                      |
| Foreign exchange gains / (losses), net  |       | 78,869                      | 17,677                      |
| <b>Net trading income</b>   |       | <b>(2,140)</b>              | <b>30,110</b>               |
| Net impairment loss on financial assets   |       | (13,015)                    | (28,873)                    |
| <b>Net operating income after impairment losses</b>   |       | <b>281,389</b>              | <b>283,132</b>              |
| Other operating income  |       | 21,620                      | 20,004                      |
| Other operating expenses  |       | (71,703)                    | (64,562)                    |
| Dividend income   |       | 10,175                      | 11,850                      |
| Share of profit of equity-accounted investees   |       | 18,038                      | 14,769                      |
| <b>Profit before income tax</b>   |       | <b>259,519</b>              | <b>265,193</b>              |
| Income tax expense  |       | (46,729)                    | (52,917)                    |
| <b>Profit for the period</b>  |       | <b>212,790</b>              | <b>212,276</b>              |
| <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                               |       | (130,775)                   | 99,841                      |
| Net change in fair value of available for sale financial assets transferred to profit or loss |       | 7,696                       | (73)                        |
| Non-controlling interest share on fair value change in subsidiaries                           |       | (6,339)                     | (3,409)                     |
| Related tax   |       | 24,319                      | (19,976)                    |
| <b>Other comprehensive income for the year, net of tax</b>                                    |       | <b>(105,099)</b>            | <b>76,383</b>               |
| <b>Total comprehensive income for the year</b>  |       | <b>107,691</b>              | <b>288,659</b>              |
| <b>Total comprehensive income attributable to:</b>  |       |                             |                             |
| Equity holders of the Bank  |       | 111,426                     | 287,620                     |
| Non-controlling interests   |       | (3,735)                     | 1,039                       |
| <b>Total comprehensive income for the period</b>  |       | <b>107,691</b>              | <b>288,659</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 SIX-MONTH PERIOD ENDED 30 JUNE 2015**

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

|                                | <b>1 January –<br/>30 June 2015</b> | <b>1 January –<br/>30 June 2014</b> |
|--------------------------------|-------------------------------------|-------------------------------------|
| <b>Profit attributable to:</b> |                                     |                                     |
| Equity holders of the Bank     | 216,525                             | 211,236                             |
| Non-controlling interests      | (3,735)                             | 1,040                               |
| <b>Profit for the period</b>   | <b>212,790</b>                      | <b>212,276</b>                      |
| <b>Earnings per share</b>      |                                     |                                     |
| Basic earnings per share       | 0.1216                              | 0.1213                              |

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 SIX-MONTH PERIOD ENDED 30 JUNE 2015**

*(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 CHANGES IN EQUITY**  
**FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2015**

*(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 2015  |  | 1,500,000     | 13,563                          | 413           | 176,231        | 118,002            | 724,940           | 2,533,149                 | 67,453       | 2,600,602 |
| Total comprehensive income for the year                              |  |               |                                 |               |                |                    |                   |                           |              |           |
| Profit for the period  |  | -             | -                               | -             | -              | -                  | 216,525           | 216,525                   | (3,735)      | 212,790   |
| Other comprehensive income   |  | -             | -                               | -             | -              | (105,099)          | -                 | (105,099)                 | -            | (105,099) |
| Total comprehensive income for the period                            |  |               |                                 |               |                | (105,099)          | 216,525           | 111,426                   | (3,735)      | 107,691   |
| Transactions with owners, recognized directly in equity              |  |               |                                 |               |                |                    |                   |                           |              |           |
| Capital increase   |  | 250,000       |                                 |               |                |                    | (250,000)         | -                         | -            | -         |
| Dividend distribution  |  | -             | -                               | -             | -              | -                  | (80,262)          | (80,262)                  | -            | (80,262)  |
| Transfer to legal reserves   |  | -             |                                 |               | 19,305         | -                  | (19,305)          | -                         | -            | -         |
| Total contributions by and distributions                             |  | 250,000       | -                               | -             | 19,305         | -                  | (349,567)         | (80,262)                  | -            | (80,262)  |
| Changes in ownership interests                                       |  |               |                                 |               |                |                    |                   |                           |              |           |
| Acquisition of non-controlling interests without a change in control |  | -             | (11)                            | 6             | 2              | -                  | 1,299             | 1,296                     | (2,346)      | (1,050)   |
| Total changes in ownership interests                                 |  | -             | (11)                            | 6             | 2              | -                  | 1,299             | 1,296                     | (2,346)      | (1,050)   |
| Total transactions with owners of the Company                        |  | 250,000       | (11)                            | 6             | 19,307         | -                  | (348,268)         | (78,966)                  | (2,346)      | (81,312)  |
| Balance at 30 June 2015  |  | 1,750,000     | 13,552                          | 419           | 195,538        | 12,903             | 593,197           | 2,565,609                 | 61,372       | 2,626,981 |

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 2015**

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

|  | <b>30 June<br/>2015</b> | <b>30 June<br/>2014</b> |
|--|-------------------------|-------------------------|
| <b>Cash flows from operating activities:</b>                             |                         |                         |
| Profit for the period  | 212,790                 | 212,276                 |
| <i>Adjustments for:</i>  |                         |                         |
| Net interest income  | (282,526)               | (268,077)               |
| Depreciation of property and equipment                                   | 1,793                   | 1,390                   |
| Amortisation of intangible assets  | 295                     | 401                     |
| Net impairment losses on loans and advances                              | 9,651                   | 285                     |
| Reserve for employee severance indemnity                                 | 736                     | 1,495                   |
| Provision for unused vacations   | 1,227                   | 1,168                   |
| Provision for bonus payments   | 3,615                   | 3,570                   |
| Share of profit of equity-accounted investees                            | (18,038)                | (14,769)                |
| Income tax expense   | 46,729                  | 52,917                  |
| Gain / (loss) on sale of property and equipment                          | (53)                    | (10)                    |
| Unrealized gains   | 162,449                 | 141,754                 |
| Non-controlling interests  | 3,735                   | (1,040)                 |
| <b>Operating profit before changes in operating assets / liabilities</b> | <b>142,403</b>          | <b>131,360</b>          |
| <b>Changes in operating assets and liabilities:</b>                      |                         |                         |
| Change in loans and leasing receivables                                  | (861,034)               | (788,215)               |
| Change in other assets   | (108,203)               | 30,565                  |
| Change in reserve requirements with the Central Bank                     | (144,849)               | (128,811)               |
| Change in other creditors, taxes and liabilities                         | 41,694                  | 429,644                 |
| Bonus paid   | (7,019)                 | (6,596)                 |
| Change in trading securities   | (15,634)                | (9,316)                 |
| Change in equity participations  | (340)                   | -                       |
|  | <b>(952,982)</b>        | <b>(341,369)</b>        |
| Interest received  | 508,697                 | 258,836                 |
| Interest paid  | (207,053)               | (127,773)               |
| Income taxes paid  | (35,436)                | (77,233)                |
| Indemnities paid   |                         | (1,320)                 |
| Dividends received   | 10,175                  | 10,259                  |
| <b>Net cash used in operating activities</b>                             | <b>(676,599)</b>        | <b>(278,600)</b>        |
| <b>Cash flows from investing activities:</b>                             |                         |                         |
| Change in available for sale investment securities                       | (367,878)               | 91,906                  |
| Purchases of property and equipment and investment property              | (20,937)                | (14,469)                |
| Sale of property and equipment   | 4,767                   | 2,592                   |
| Purchase of intangible assets  | (343)                   | (228)                   |
| <b>Net cash used in investing activities</b>                             | <b>(384,391)</b>        | <b>79,801</b>           |
| <b>Cash flows from financing activities:</b>                             |                         |                         |
| Proceeds from funds borrowed   | 1,627,727               | 1,020,657               |
| Repayment of funds borrowed  | (773,432)               | (413,160)               |
| Proceeds from debt securities issued                                     | 927,430                 | -                       |
| Dividends paid   | (80,262)                | (72,581)                |
| <b>Net cash provided from financing activities</b>                       | <b>1,701,463</b>        | <b>534,916</b>          |
| <b>Net decrease in cash and cash equivalents</b>                         | <b>640,473</b>          | <b>336,117</b>          |
| <b>Cash and cash equivalents at 1 January</b>                            | <b>642,972</b>          | <b>498,267</b>          |
| Effect of exchange rate fluctuations on cash and cash equivalents held   | 28,861                  | (120)                   |
| <b>Cash and cash equivalents at 30 June</b>                              | <b>1,312,306</b>        | <b>834,264</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 2015**

*(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 2015**

*(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 hereinafter referred to as the “Group”.

TSKB started its activities 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 2014: 50.00% and 8.38%, respectively). The Bank’s 39.6% 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 condensed consolidated interim financial statements of the Bank as at and for the period ended 30 June 2015 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. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 95,78%. The company’s headquarters is located at Istanbul/Turkey.

**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. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 59,00%. The company’s headquarters is located at Istanbul/Turkey.

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**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% and the share of Türkiye İş Bankası A.Ş. is 27,79%. 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% in which the share of İş Yatırım Menkul Değerler A.Ş. is 29,01%. The company's headquarters is located at Istanbul/Turkey.

**2. BASIS OF ACCOUNTING**

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 29 July 2015.

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**3. USE OF JUDGEMENTS AND ESTIMATES**

In preparing these condensed consolidated 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 2014.

**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 4 financial instruments.

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**4. FINANCIAL INSTRUMENTS**

***Carrying amounts and fair values***

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| Financial assets                                       | Carrying amount       |                                    |                   | Fair value       |                  |               |                  |
|--|-----------------------|------------------------------------|-------------------|------------------|------------------|---------------|------------------|
|  | Loans and receivables | Investments, including derivatives | Total             | Level 1          | Level 2          | Level 3       | Total            |
| <b>30 June 2015</b>                                    |                       |                                    |                   |                  |                  |               |                  |
| Due from banks (including central banks)               | 1,162,106             | -                                  | 1,162,106         | -                | -                | -             | -                |
| Financial assets at fair value through profit or loss: |                       |                                    |                   |                  |                  |               |                  |
| -Trading securities                                    | -                     | 35,874                             | 35,874            | 35,874           | -                | -             | 35,874           |
| -Derivative financial instruments                      | -                     | 124,464                            | 124,464           | -                | 124,464          | -             | 124,464          |
| Loans and advances                                     | 12,740,068            | -                                  | 12,740,068        | -                | -                | -             | -                |
| Investment securities:                                 |                       |                                    |                   |                  |                  |               |                  |
| -Available-for-sale investment securities              | -                     | 3,693,737                          | 3,693,737         | 2,442,424        | 1,224,097        | 27,216        | 3,693,737        |
| Derivatives used for hedging purposes                  | -                     | 2,419                              | 2,419             | -                | 2,419            | -             | 2,419            |
|  | <b>13,902,174</b>     | <b>3,856,494</b>                   | <b>17,758,668</b> | <b>2,478,298</b> | <b>1,350,980</b> | <b>27,216</b> | <b>3,856,494</b> |
| <b>31 December 2014</b>                                |                       |                                    |                   |                  |                  |               |                  |
| Due from banks (including central banks)               | 1,011,761             | -                                  | 1,011,761         | -                | -                | -             | -                |
| Financial assets at fair value through profit or loss: |                       |                                    |                   |                  |                  |               |                  |
| -Trading securities                                    | -                     | 20,543                             | 20,543            | 20,543           | -                | -             | 20,543           |
| -Derivative financial instruments                      | -                     | 74,874                             | 74,874            | -                | 74,874           | -             | 74,874           |
| Loans and advances                                     | 10,852,263            | -                                  | 10,852,263        | -                | -                | -             | -                |
| Investment securities:                                 |                       |                                    |                   |                  |                  |               |                  |
| -Available-for-sale investment securities              | -                     | 3,520,426                          | 3,520,426         | 2,569,696        | 923,763          | 26,967        | 3,520,426        |
|  | <b>11,864,024</b>     | <b>3,615,843</b>                   | <b>15,479,867</b> | <b>2,590,239</b> | <b>998,637</b>   | <b>26,967</b> | <b>3,615,843</b> |

The reconciliation from the beginning balances to ending balances for fair value measurements in Level 3 for the six month period ended 30 June 2015 and 30 June 2014 is as follows:

|                                      | <b>30 June 2015</b> | <b>30 June 2014</b> |
|--------------------------------------|---------------------|---------------------|
| Balance at the beginning of the year | 26,967              | 43,338              |
| Purchases                            | 249                 | -                   |
| Redemption or sales                  | -                   | (21,539)            |
| <b>Closing balance</b>               | <b>27,216</b>       | <b>21,799</b>       |

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**4. FINANCIAL INSTRUMENTS (continued)**

*Carrying amounts and fair values (continued)*

|   | Carrying amount      |                |                   | Fair value |                |         |                |
|---|----------------------|----------------|-------------------|------------|----------------|---------|----------------|
|   | Loans and borrowings | Derivatives    | Total             | Level 1    | Level 2        | Level 3 | Total          |
| <b>Financial liabilities</b>            |                      |                |                   |            |                |         |                |
| <b>30 June 2015</b>                     |                      |                |                   |            |                |         |                |
| Obligations under repurchase agreements | 2,011,350            | -              | 2,011,350         | -          | -              | -       | -              |
| Funds borrowed and subordinated loans   | 12,137,533           | -              | 12,137,533        | -          | -              | -       | -              |
| Payables to stock exchange money market | 248,044              | -              | 248,044           | -          | -              | -       | -              |
| Derivative financial instruments        | -                    | 121,645        | 121,645           | -          | 121,645        | -       | 121,645        |
| Debt securities issued                  | 1,880,320            | -              | 1,880,320         | -          | -              | -       | -              |
| Derivatives used for hedging purposes   | -                    | 10,832         | 10,832            | -          | 10,832         | -       | 10,832         |
|   | <b>16,277,247</b>    | <b>132,477</b> | <b>16,409,724</b> | <b>-</b>   | <b>132,477</b> |         | <b>132,477</b> |
| <b>31 December 2014</b>                 |                      |                |                   |            |                |         |                |
| Obligations under repurchase agreements | 2,162,494            | -              | 2,162,494         | -          | -              | -       | -              |
| Funds borrowed and subordinated loan    | 10,267,647           | -              | 10,267,647        | -          | -              | -       | -              |
| Payables to stock exchange money market | 110,219              | -              | 110,219           | -          | -              | -       | -              |
| Derivative financial instruments        | -                    | 63,576         | 63,576            | -          | 63,576         | -       | 63,576         |
| Debt securities issued                  | 813,824              | -              | 813,824           | -          | -              | -       | -              |
|   | <b>13,354,184</b>    | <b>63,576</b>  | <b>13,417,760</b> | <b>-</b>   | <b>63,576</b>  |         | <b>63,576</b>  |



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**5. 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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**5. OPERATING SEGMENTS** *(continued)*

| <b>CONSOLIDATED STATEMENT OF PROFIT<br/>OR LOSS<br/>(1 January – 30 June 2015)</b> | <b>Banking</b> | <b>Stock<br/>brokerage<br/>and other</b> | <b>Combined</b> | <b>Eliminations</b> | <b>Total</b>   |
|--|----------------|--|-----------------|---------------------|----------------|
| Interest income  | 499,887        | 12,770                                   | 512,657         | (3,466)             | 509,191        |
| Interest expense   | (204,896)      | (25,235)                                 | (230,131)       | 3,466               | (226,665)      |
| <b>Net interest income</b>   | <b>294,991</b> | <b>(12,465)</b>                          | <b>282,526</b>  | <b>-</b>            | <b>282,526</b> |
| Net fee and commission income  | 4,532          | 9,486                                    | 14,018          | -                   | 14,018         |
| Net securities trading income / (loss)   | 6,193          | 226                                      | 6,419           | -                   | 6,419          |
| Net derivative trading income / (loss)   | (83,945)       | (3,483)                                  | (87,428)        | -                   | (87,428)       |
| Net foreign currency gains / (losses)  | 72,953         | 5,916                                    | 78,869          | -                   | 78,869         |
| Net impairment loss on financial assets  | (12,543)       | (472)                                    | (13,015)        | -                   | (13,015)       |
| <b>Net operating income after impairment losses</b>                                | <b>282,181</b> | <b>(792)</b>                             | <b>281,389</b>  | <b>-</b>            | <b>281,389</b> |
| Other operating income   | 16,788         | 8,698                                    | 25,486          | (3,866)             | 21,620         |
| Other operating expenses   | (52,578)       | (22,673)                                 | (75,251)        | 3,548               | (71,703)       |
| Dividend income  | 33,605         | 1,798                                    | 35,403          | (25,228)            | 10,175         |
| Share of profit of equity-accounted investees                                      | 18,038         | -  | 18,038          | -                   | 18,038         |
| <b>Profit before income tax</b>  | <b>298,034</b> | <b>(12,969)</b>                          | <b>285,065</b>  | <b>(25,546)</b>     | <b>259,519</b> |

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**5. OPERATING SEGMENTS** *(continued)*

| <b>CONSOLIDATED STATEMENT OF PROFIT<br/>OR LOSS<br/>(1 January – 30 June 2014)</b> | <b>Banking</b> | <b>Stock<br/>brokerage<br/>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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**5. OPERATING SEGMENTS** *(continued)*

| <b>CONSOLIDATED<br/>STATEMENT OF FINANCIAL POSITION</b> | <b>Banking</b>    | <b>Stock<br/>brokerage<br/>and other</b> | <b>Combined</b>   | <b>Eliminations</b> | <b>Total</b>      |
|---|-------------------|--|-------------------|---------------------|-------------------|
| <b><u>At 30 June 2015</u></b>                           |                   |  |                   |                     |                   |
| <b>Total assets</b>                                     | <b>18,775,513</b> | <b>833,409</b>                           | <b>19,608,922</b> | <b>(341,661)</b>    | <b>19,267,261</b> |
| <b>Total liabilities</b>                                | <b>16,195,186</b> | <b>559,818</b>                           | <b>16,755,004</b> | <b>(114,724)</b>    | <b>16,640,280</b> |
| Equity before net profit & non-controlling interests    | 2,347,387         | 286,233                                  | 2,633,620         | (284,536)           | 2,349,084         |
| Net profit attributable to equity holders of the Bank   | 232,940           | (12,642)                                 | 220,298           | (3,773)             | 216,525           |
| Non-controlling interests                               | -                 | -  | -                 | 61,372              | 61,372            |
| <b>Total equity</b>                                     | <b>2,580,327</b>  | <b>273,591</b>                           | <b>2,853,918</b>  | <b>(226,937)</b>    | <b>2,626,981</b>  |
| <b>Total liabilities and equity</b>                     | <b>18,775,513</b> | <b>833,409</b>                           | <b>19,608,922</b> | <b>(341,661)</b>    | <b>19,267,261</b> |
| <b><u>At 31 December 2014</u></b>                       |                   |  |                   |                     |                   |
| <b>Total assets</b>                                     | <b>15,730,635</b> | <b>870,026</b>                           | <b>16,600,661</b> | <b>(399,369)</b>    | <b>16,201,292</b> |
| <b>Total liabilities</b>                                | <b>13,204,434</b> | <b>583,577</b>                           | <b>13,788,011</b> | <b>(187,321)</b>    | <b>13,600,690</b> |
| Equity before net profit & non-controlling interests    | 2,131,792         | 285,116                                  | 2,416,908         | (279,661)           | 2,137,247         |
| Net profit attributable to equity holders of the Bank   | 394,409           | 1,333                                    | 395,742           | 160                 | 395,902           |
| Non-controlling interests                               | -                 | -  | -                 | 67,453              | 67,453            |
| <b>Total equity</b>                                     | <b>2,526,201</b>  | <b>286,449</b>                           | <b>2,812,650</b>  | <b>(212,048)</b>    | <b>2,600,602</b>  |
| <b>Total liabilities and equity</b>                     | <b>15,730,635</b> | <b>870,026</b>                           | <b>16,600,661</b> | <b>(399,369)</b>    | <b>16,201,292</b> |

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**6. RELATED PARTIES**

For the purposes of the accompanying condensed consolidated interim 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<br/>2015</b>                | <b>31 December<br/>2014</b>            |
|---|--|--|
| <b><u>Balances with related parties</u></b>     |  |  |
| Loans and advances to customers                 | 236,035                                | 198,904                                |
| Non-cash loans                                  | 117,734                                | 117,676                                |
| Loans and advances to banks                     | 67,165                                 | 73,946                                 |
| Available for sale investment securities        | 21,321                                 | 38,807                                 |
| Other assets                                    | 10                                     | -                                      |
| Other liabilities                               | 45                                     | 4                                      |
|   | <b>1 January-<br/>30 June<br/>2015</b> | <b>1 January-<br/>30 June<br/>2014</b> |
| <b><u>Transactions with related parties</u></b> |  |  |
| Interest income                                 | 4,291                                  | 5,495                                  |
| Dividend income                                 | 10,175                                 | 11,850                                 |
| Share of profit of equity-accounted investees   | 18,038                                 | 14,769                                 |
| Foreign exchange gain / (loss), net             | 20,459                                 | (1,804)                                |
| Net fee and commission income / (expense), net  | 455                                    | 278                                    |
| Other income                                    | 154                                    | 92                                     |

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

Benefits provided to key management personnel in the current period amount to TL 7,676 (30 June 2014: TL 8,212).

**7. COMMITMENTS AND CONTINGENCIES**

|  | <b>30 June<br/>2015</b> | <b>31 December<br/>2014</b> |
|--|-------------------------|-----------------------------|
| Swap and forward agreements                  | 9,635,099               | 7,999,655                   |
| Revocable and irrevocable commitments        | 4,467,059               | 3,346,798                   |
| Derivative financial instruments for hedging | 4,333,500               | -                           |
| Letters of guarantee                         | 1,035,408               | 956,972                     |
| Option agreements                            | 1,726,501               | 1,486,931                   |
| Letters of credit                            | 485,638                 | 496,097                     |
| Other commitments                            | 488,365                 | 74,677                      |
| Bank acceptances                             | 147,051                 | -                           |
|  | <b>22,318,621</b>       | <b>14,361,130</b>           |

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**7. 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.

The nominal values of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 3,551,596 as at 30 June 2015 (31 December 2014: TL 3,669,853). As at 30 June 2015, securities at custody with market value amounted to TL 3,538,785 (31 December 2014: TL 4,701,738).

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

As at 30 June 2015, according to the general requirements of the BIST, letters of guarantee amounting to TL 27,739 (31 December 2014: TL 25,518) had been obtained from various local banks and were provided to BIST for bond and stock market transactions. Also, as at 30 June 2015 there are letters of guarantee were given to the CMB amounting TL 2,102 (31 December 2014: TL 2,102).

The Group's trading securities given as collateral or blocked amounted to TL 4,067 at the reporting date (31 December 2014: TL 7,878).

**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.

TL 6,020 of provision has been recorded for 46 legal cases against the Group as of the reporting date (31 December 2014: TL 1.162 of provision for 32 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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**7. COMMITMENTS AND CONTINGENCIES (continued)**

**Litigations (continued)**

Some of the lawsuits are decided favourable, remaining of lawsuits are decided unfavourable by the tax courts of first instance. On the other hand, appeal and objection have been requested by the Parent Bank against the decision of the Court with respect to the Parent Bank and by the administration against the decision of the Court with respect to the administration and completion of appeal process is waited. The tax and penalty notices related to the decision of the tax court of first instance against the Parent Bank are accrued by administration depending on legal process and as of 31 July 2014 the Parent Bank has made total payments amounting to TL 22.091.

A similar case has been submitted to the Constitutional Court (AYM) in the form of individual remedies by the main shareholder of the parent Bank in relation to the parent Bank's liabilities to pay, the Constitutional Court gave the decision with court file number 2014/6192. According to court decision published in the Official Gazette dated 21 February 2015 and numbered 29274, the assessments against the parent Bank was contrary to the principle of legality and the Parent Bank's property rights has been violated. This decision is considered to be a precedent for the parent Bank and an amount of TL 12.750 corresponding to the portion that the parent Bank was obliged to pay for the related period is recognised as income in the current period.

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

**Other**

The Group's head office and 13 branches, including branches of subsidiaries, are subject to operational leasing. Additionally, 30 cars are within the context of operational leasing (31 December 2014: 1 head office, 13 branches and 29 cars are subject to operational leasing). The Group has no liability for operational leases as of the reporting date.

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**8. BALANCES WITH CENTRAL BANK**

As at 30 June 2015 Balances with Central Bank include restricted reserve deposits amounting to TL 618,017 (31 December 2014: TL 473,168) at the Central Bank of Turkey and unrestricted reserve deposits amounting to TL 7,493 (31 December 2014: TL 34,612).

As per the Communiqué numbered 2005/1 “Reserve Deposits” of the Central Bank of the Republic of Turkey (“CBRT”), banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. Reserves are calculated and set aside every two weeks on Fridays for 14-day periods. In accordance with the related communiqué, as of 5 November 2014 interest amount is paid for reserve. In accordance with the regulation issued at 27 January 2015, CBRT has began to collect monthly commissions over daily balances of Two Days Notice Deposit Accounts and Required Reserves held in the foreign currencies, to be valid from 1 February 2015.

**9. DERIVATIVE FINANCIAL INSTRUMENTS**

|                                    | <b>30 June<br/>2015</b> | <b>30 June<br/>2015</b> | <b>31 December<br/>2014</b> | <b>31 December<br/>2014</b> |
|------------------------------------|-------------------------|-------------------------|-----------------------------|-----------------------------|
|                                    | <b>Assets</b>           | <b>Liabilities</b>      | <b>Assets</b>               | <b>Liabilities</b>          |
| Currency swaps                     | 57,036                  | (58,390)                | 38,980                      | (30,169)                    |
| Options                            | 46,154                  | (48,382)                | 21,156                      | (20,935)                    |
| Foreign currency forward contracts | 2,577                   | (2,289)                 | 119                         | (333)                       |
| Interest rate swaps (*)            | 18,308                  | (23,420)                | 14,619                      | (12,139)                    |
| Precious metal swap                | 2,808                   | -                       | -                           | -                           |
|                                    | <b>126,883</b>          | <b>(132,477)</b>        | <b>74,874</b>               | <b>(63,576)</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<br/>2015</b> | <b>31 December<br/>2014</b> |
|---|-------------------------|-----------------------------|
| Forward foreign exchange contracts – buy  | 251,709                 | 24,884                      |
| Forward foreign exchange contracts – sell | 250,914                 | 24,862                      |
| Currency swaps – buy                      | 2,307,572               | 1,425,455                   |
| Currency swaps – sell                     | 2,216,788               | 1,351,494                   |
| Interest rate swaps – buy (*)             | 4,470,808               | 2,586,480                   |
| Interest rate swaps – sell (*)            | 4,470,808               | 2,586,480                   |
| Currency option – buy                     | 865,099                 | 744,518                     |
| Currency option – sell                    | 861,402                 | 742,413                     |
| Precious metal swap                       | 91,324                  | 74,677                      |
| Swaption                                  | 397,041                 | -                           |

(\*) The bank has derivative financial instruments for hedging purposes amounting TL 4,333,500. As of June 2015, net loss from these transactions is TL 8,413 and this amount is associated with income statements (31 December 2014: none).



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**10. LOANS AND ADVANCES TO CUSTOMERS**

|  | <b>30 June<br/>2015</b> | <b>31 December<br/>2014</b> |
|--|-------------------------|-----------------------------|
| Short-term and current portion of long term loans      | 629,470                 | 1,319,972                   |
| Long-term loans  | 12,091,465              | 9,546,886                   |
| <b>Total performing loans</b>                          | <b>12,720,935</b>       | <b>10,866,858</b>           |
| Non-performing loans                                   | 61,817                  | 18,438                      |
| <b>Total loans</b>                                     | <b>12,782,752</b>       | <b>10,885,296</b>           |
| Less: Specific reserve for impairment losses on loans  | (8,819)                 | (6,895)                     |
| Less: Portfolio reserve for impairment losses on loans | (33,865)                | (26,138)                    |
| <b>Total loans</b>                                     | <b>12,740,068</b>       | <b>10,852,263</b>           |

Movements in the reserve for impairment losses on loans for the six-month period ended 30 June 2015 and 2014 are as follows:

|   | <b>1 January –<br/>30 June<br/>2015</b> | <b>1 January –<br/>30 June<br/>2014</b> |
|---|---|---|
| Specific reserve for cash loans:                    |   |   |
| As at 1 January                                     | 6,895                                   | 5,466                                   |
| Charge for the period                               | 2,782                                   | 1,077                                   |
| Reserve released and write offs                     | (858)                                   | (792)                                   |
|   | <b>8,819</b>                            | <b>5,751</b>                            |
| Portfolio reserve for cash loans:                   |   |   |
| As at 1 January                                     | 26,138                                  | 24,939                                  |
| Charge for the period                               | 7,727                                   | 770                                     |
|   | <b>33,865</b>                           | <b>24,169</b>                           |
| <b>Total reserve for impairment losses on loans</b> | <b>42,684</b>                           | <b>29,920</b>                           |

**11. INVESTMENT SECURITIES**

*Available-for-sale investment securities*

At 30 June 2015 and 31 December 2014, available for sale securities portfolio comprised the following:

|   | <b>30 June<br/>2015</b> | <b>31 December<br/>2014</b> |
|---|-------------------------|-----------------------------|
| Government bonds and treasury bills in TL | 2,363,186               | 2,491,044                   |
| Debt securities issued by corporations    | 384,596                 | 460,786                     |
| Eurobonds                                 | 908,626                 | 530,019                     |
| Equity shares                             | 37,329                  | 38,577                      |
| <b>Total</b>                              | <b>3,693,737</b>        | <b>3,520,426</b>            |

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**12. INCOME TAXES**

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 30 June 2015 (31 December 2014: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the period. The Group's consolidated effective tax rate in respect of continuing operations as at and for the six-month period ended 30 June 2015 is 18 % (30 June 2014: 20 %).

**13. SHARE CAPITAL**

|                               | <b>30 June 2015</b> | <b>31 December 2014</b> |
|-------------------------------|---------------------|-------------------------|
| TL 1 (in full TL), par value  | 1,500,000           | 1,300,000               |
| Share increase                | 250,000             | 200,000                 |
| <b>Total number of shares</b> | <b>1,750,000</b>    | <b>1,500,000</b>        |
| Paid-in capital               | 1,750,000           | 1,500,000               |
| Inflation restatement effect  | 13,552              | 13,563                  |
| <b>Shared capital issued</b>  | <b>1,763,552</b>    | <b>1,513,563</b>        |

**14. 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 2015 and 30 June 2014 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

|  | <b>1 January –<br/>30 June<br/>2015</b> | <b>1 January –<br/>30 June<br/>2014</b> |
|--|---|---|
| Number of shares outstanding at 1 January                      | 1,500,000,000                           | 1,300,000,000                           |
| <i>New shares issued</i>                                       |   |   |
| Conversion of existing reserves (*)                            | 250,000,000                             | 200,000,000                             |
| <b>Number of shares outstanding at the period end</b>          | <b>1,750,000,000</b>                    | <b>1,500,000,000</b>                    |
| <b>Weighted average number of shares during the period (*)</b> | <b>1,750,000,000</b>                    | <b>1,500,000,000</b>                    |
| Net profit (TL)  | 212,790                                 | 212,276                                 |
| <b>Basic earnings per share (in full TL)</b>                   | <b>0.1216</b>                           | <b>0.1213</b>                           |

(\*) 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.

There is no dilution of shares as of 30 June 2015.

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**15. EVENTS AFTER THE REPORTING PERIOD**

In accordance with the banks Board of Directors meeting dated 27 August 2015, it has been resolved that, the Parent Bank shall participate fund titled Turkish Growth and Innovation Fund with commitment amounting to EUR 20,000,000.

**16. 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 2014 except for the reclassification within the cash flows as follows:

TL 128,811 of "Reserve requirements with the Central Bank" and TL 9,316 of "Change in trading securities" which were presented under investing activities for the interim period ended 30 June 2014, are reclassified in operating activities for the interim period ended 30 June 2015.

The Group has applied hedge accounting as explained below after 31 December 2014.

**Derivative instruments for hedging purposes**

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

After 1 January 2015, The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

These hedging relationships are discussed below.

**Fair value hedges**

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and OCI as the hedged item).

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.